Joint statement from the Chairman and Chief Executive Officer

Left: John Copelyn I *Non-executive Chairman*
Right: Marcel von Aulock I *Chief Executive Officer*

OPERATIONS

The focus of the year ended 31 March 2022 has been on strengthening the financial position of the group and on continuing with the measures necessary to protect cash reserves and ensure the group's sustainability as the Covid-19 pandemic persisted.

Throughout the pandemic, KwaZulu-Natal has been the group's best-performing region due to its appeal to the domestic leisure market thanks to its proximity and ease of accessibility from Gauteng, as well as the region's ability to provide accommodation along with conferencing facilities to government departments and sporting bodies needing to travel during the pandemic in order to function. This status was put to the test during 2022 with government implementing inter-provincial travel restrictions to curb the spread of the highly contagious Delta variant. An already difficult trading environment was worsened by the violent protests and civil unrest in Gauteng and, most materially for the group, in KwaZulu-Natal. Having barely recovered from the rioting and looting, heavy rainfall in the province during April 2022 caused extensive flooding and landslides.

The group suffered minimal damage to its properties following the riots and flooding in KwaZulu-Natal and while room sales did decline during these periods, the long-term damage to infrastructure is what is of most concern. We have worked closely with the eThekwini municipality to assist with the removal of debris and beach clean-up programmes and we are grateful that beaches in the region have safely re-opened as this will improve the perception of KwaZulu-Natal with travellers ahead of the summer season.

Encouragingly, trading levels, while still below our long-term averages and pre-Covid-19 levels, have shown continued improvement across all regions in South Africa as well as operational hotels offshore, and the group has generated positive free cash (after finance costs, tax and maintenance capex) since October 2021. Improved activity levels across all segments (including leisure, government, corporates and groups and conferencing) in conjunction with the substantial cost restructuring undertaken over the last two years, have contributed to this positive outcome, and we believe that we have transitioned from survival to a steady recovery.

The one area where we have not seen the same improvement in activity levels is from the transient traveller – a guest from a small business travelling to provide their service. We believe that this is a function of the depressed local economy and many of these businesses did not withstand the impact of Covid-19.

So while we are pleased by the recent upward trend in trading and anticipate a return to normalised travel patterns, we acknowledge that it will take time for the economy to recover and it requires policy certainty from government and solutions to the country's ongoing energy crisis. We will continue to manage cash flow and liquidity closely as the country faces rising food and fuel prices and increasing interest rates which not only affect the group, but also our guests. With travel budgets reduced to save costs and individuals preserving disposable income in a rising interest rate environment, the increasing cost of transport due to rising fuel prices is a travel deterrent, particularly for international and corporate travel.

As we prepare this report, South Africa has withstood the fifth wave of Covid-19 infections with minimal negative impact on the group, and the country has seen the subsequent lifting of all remaining Covid-19 protocols by Health Minister, Joe Phaahla. We welcome this development and consider it to be a significant milestone in the group's recovery from the devastating impact of the pandemic.

A promising development in the new financial year has been that key hospitality events are back on the calendar, including the Mining Indaba held in Cape Town as well as the Africa Travel Indaba held in Durban, both in early May 2022. While the attendance volumes were around 75% of pre-Covid-19 levels and, as a result, there was less opportunity to yield rates, we are encouraged that international guests are increasingly comfortable to travel to South Africa as this could signal a much better summer season in Cape Town for the 2023 financial year than what was experienced in the 2022 financial year when the Omicron variant and South Africa's subsequent placement on the UK's red list effectively eliminated foreign in-bound travel to the region.

Having successfully hosted the Castle Lager Lions Series tour to South Africa in July 2021, the group continues to benefit from sporting events post year end including the recently concluded Welsh rugby tour to South Africa enjoyed by spectators across the country. In addition, the Rugby World Cup Sevens tournament will be hosted in Cape Town in September 2022 and while this is a short three-day event, it does create excitement among South Africans and increases the country's visibility to international markets – with rising global inflation and the weakness of the Rand, South Africa is an affordable and attractive travel destination for foreign guests. Thanks to the group's distribution and ability to coordinate large sporting events, SA Rugby has renewed its long-standing partnership with Southern Sun for another five years, extending the group's association with SA Rugby and the Springboks to three decades.

Another much-anticipated event that has been reported is the potential for the South African Grand Prix to rejoin the Formula 1 race calendar in 2023, after almost 30 years. Formula 1 has millions of fans globally and being part of the annual calendar will put South Africa back on the global map as a sought-after travel destination.

CORPORATE ACTIVITY AND FUNDING

We have announced two transactions, which, if successfully implemented, will materially reduce the group's gearing levels by some R900 million (depending on the USD/ZAR exchange rate) and strengthen our balance sheet so that we can maximise benefits from the recovery in trading.

Subsequent to year end the group decided to dispose of its Southern Sun Ikoyi Hotel (Ikoyi) in Nigeria. The aggregate disposal consideration per the agreement is US$30.4 million, comprising US$29.1 million for the shares and US$1.3 million for the shareholder loan claims. The successful implementation of the disposal would result in the reduction of the group's US Dollar-denominated debt (offshore debt) through the deconsolidation of Ikoyi's external debt of US$12.8 million and provides the group with sufficient cash resources to offset offshore debt in Mozambique amounting to US$26.6 million, thereby eliminating the forex risk. The sale agreement also provides for the purchaser to release the group from its guarantee obligations in respect of the external debt of Ikoyi. The group continues to work on fulfilling the conditions precedent to the transaction, including the approval of the Federal Competition and Consumer Protection Commission in Nigeria.

The group also concluded a hotel properties and businesses acquisition agreement with the Tsogo Sun Gaming group (TSG) to acquire the two hotel properties and business assets of Southern Sun Emnotweni and StayEasy Emnotweni for an aggregate purchase consideration of R142 million. It further concluded a separation agreement with TSG for the termination of the various management and licensing agreements between them in respect of 15 hotels owned by TSG, for a termination fee of R399 million. The resulting net cash inflow to the group is R257 million along with ownership of the two Emnotweni hotels which are important for our distribution in the Mpumalanga province. We believe that the proceeds represent fair consideration for the termination of the management contracts and are beneficial to the group and its shareholders. The only remaining condition precedent to the implementation of the transaction is the approval of our shareholders at the general meeting scheduled for 18 August 2022.

At the same meeting, shareholders will also approve the group's name change to Southern Sun, the final step in our rebranding. Southern Sun is a well-known brand with more than 50 years of heritage and after the devastation caused by Covid-19, returning to that name is a natural fit for the group and has been embraced by our employees, guests and suppliers.

The group is multi-banked with exposure to all four major banks in South Africa, and the financiers have been greatly supportive of all of our efforts to date for which we are grateful. As at 31 March 2022, we had received waivers of our covenants on the various facilities to September 2022 and had available R2.0 billion in cash and unutilised facilities. Having successfully extended all group debt facilities expiring during FY23, management is currently engaging with lenders to refinance the group's debt package in order to simplify the structure, extend facility tenure and reintroduce normalised covenants which take into consideration that the group is still in the recovery phase after the impact of Covid-19.

APPRECIATION

Our sincere gratitude goes to the people of Southern Sun for what they have endured and contributed to the group over the past two years. We also want to thank the group's financiers and stakeholders for their continued support.

John Copelyn
Non-executive Chairman

Marcel von Aulock
Chief Executive Officer