The results presented in this integrated annual report reflect the impact of restrictions during the third wave of Covid-19, and violent protests in Gauteng and KwaZulu-Natal, as well as the group’s recovery of revenue shortfall through insurance proceeds and the easing of travel bans.
ANNUAL REVIEW
The 2022 financial year comprised two very distinct halves. In the first half of the year the group had to contend with the Delta wave of Covid-19 infections which was accompanied by provincial travel restrictions and alcohol bans, as well as the civil unrest and violent protests in KwaZulu-Natal and Gauteng. In contrast to this difficult operating environment, trading levels rebounded in the second half of the year once travel restrictions eased, global vaccination levels increased and travelers felt more confident to move.

There were some highlights during the first six months of FY22. Thanks to the group’s distribution and ability to coordinate large sporting events, we were able to secure rights as the sole accommodation provider for the Castle Lager Lions Series tour to South Africa, the timing of which was ideal, as it offset some of the revenue shortfall in July. A further positive impact on the results for the first half of the year was the collection of the gross insurance proceeds, predominantly relating to business interruption cover, of R191 million during August 2021. These once-off gains played a vital role in improving the group’s liquidity position after the third wave and violent protests.

As the Delta wave subsided and restrictions were relaxed, trading activity increased during the second half of the year, with the group averaging 60% of pre-Covid-19 system-wide room sales, due to support from the government, sports, groups and conferencing, and domestic leisure segments. This momentum was interrupted by the fourth wave of Covid-19 infections caused by the Omicron variant which resulted in South Africa again being placed on the United Kingdom’s red list on 26 November 2021 followed by other countries implementing travel restrictions on South Africa. Despite being removed from the red list relatively quickly, the damage to foreign inbound travel (FIT) for the summer season had been done. Thanks to South Africans being unable to travel abroad, the negative impact on December trading levels, particularly in the Western Cape, was less pronounced with international leisure travel being replaced by domestic leisure travel to some extent.

As it became clear that Omicron was milder than previous variants, booking pace improved and the group sold 231 587 rooms in March 2022, marking the first month where the group achieved over 200 000 room sales in South Africa since February 2020.

Contributing to this fourth quarter performance was strong support from government groups and various union elective conferences. In addition, various sporting events as well as buoyant domestic leisure travel over the public holidays in March, boosted results. The group generated Ebitdar (Earnings before interest, income tax, depreciation, amortisation, rent and related IFRS 16 rent adjustment, long-term incentives and exceptional items) of R445 million (75% of total group Ebitdar) and cash flow of R180 million (69% of total cash flow) during the second half of the year, reducing the group’s net debt level to R2.8 billion (2021: R3.1 billion) for the year ended 31 March 2022.

<table>
<thead>
<tr>
<th>Month</th>
<th>FY22 Actual</th>
<th>Percentage of FY20 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>117,952</td>
<td>49%</td>
</tr>
<tr>
<td>May</td>
<td>112,361</td>
<td>47%</td>
</tr>
<tr>
<td>Jun</td>
<td>93,117</td>
<td>37%</td>
</tr>
<tr>
<td>Jul</td>
<td>55,280</td>
<td>21%</td>
</tr>
<tr>
<td>Aug</td>
<td>100,683</td>
<td>38%</td>
</tr>
<tr>
<td>Sep</td>
<td>138,941</td>
<td>48%</td>
</tr>
<tr>
<td>Oct</td>
<td>167,967</td>
<td>59%</td>
</tr>
<tr>
<td>Nov</td>
<td>175,978</td>
<td>61%</td>
</tr>
<tr>
<td>Dec</td>
<td>175,724</td>
<td>68%</td>
</tr>
<tr>
<td>Jan</td>
<td>139,902</td>
<td>62%</td>
</tr>
<tr>
<td>Feb</td>
<td>178,849</td>
<td>68%</td>
</tr>
<tr>
<td>Mar</td>
<td>231,587</td>
<td>150%</td>
</tr>
</tbody>
</table>
Total income for the year ended 31 March 2022 of R2.7 billion (2021: R1.2 billion) was R1.5 billion above the prior year with a R1 billion and R462 million increase in revenue from hotel rooms, and food and beverage, respectively. Other revenue decreased by R3 million to R246 million (2021: R249 million), including contractual Covid-19-related revenue of R63 million (2021: R125 million) from hotels used as quarantine and isolation facilities as well as sporting bio-bubbles.
The group generated Ebitdar of R590 million (2021 Ebitdar loss: R177 million), a R767 million increase on the prior year, equating to an Ebitdar margin of 21.8%. Excluding insurance proceeds of R191 million received during the year, the group generated cash of R70 million at a 14.7% margin and 30.6% occupancy, highlighting the impact of the cost restructuring undertaken over the past two years.

Segmental analysis for the year ended 31 March 2022 (Rm)

Property and equipment rental expense of R16 million (2021 income: R9 million) represents the variable portion of lease payments, including the impact of rent concessions. With effect from 1 April 2021, most rent concessions ceased and leases reverted to their original terms. Excluding the impact of IFRS 16, the group incurred cash rent of R144 million in the year compared to R106 million in the prior comparative period.

Exceptional losses for the period of R44 million (2021 loss: R80 million) relate mainly to restructuring costs of R4 million (2021: R36 million), property, plant and equipment impairments of R94 million (2021: R237 million), offset by fair value gains on the revaluation of externally managed investment properties in HPF of R55 million (2021 fair value loss: R99 million). The prior year also included the R355 million profit on the sale of the group’s 50% investment in United Resorts and Hotel Limited, which owns the Maia Luxury Resort & Spa.

Net finance costs of R358 million (2021: R346 million) includes interest on capitalised leases of R128 million (2021: R128 million), which have increased by R12 million due to rising interest rates. The group accessed R100 million of its South African facilities at a favourable exchange rate (R13.56) to further reduce offshore debt balances and foreign exchange exposure to the US Dollar-denominated debt.
Chief Financial Officer’s review continued

Note 6
SHARE OF PROFITS FROM ASSOCIATES AND JOINT VENTURES

The share of profits from associates and joint ventures of R26 million (2021 loss: R128 million) increased by R154 million, mainly due to the group’s share of fair value losses on investment properties owned by International Hotel Properties Limited (IHL) of R100 million in the prior comparative period. The group’s share of trading profits (excluding exceptional items) of R15 million increased by R40 million from the prior year loss of R25 million. Hotel trading in the UK has recovered quickly, particularly in the regional markets.

Note 7
INCOME TAX

The income tax credit for the year of R8 million (2021 credit: R148 million) reduced by R140 million, mainly due to the tax expense of R52 million raised on the insurance proceeds received in August 2021 as well as increased trading levels in the second half of the year. The group’s operating subsidiaries remain in assessed loss positions and deferred income tax assets amounting to R298 million have been recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Note 8
ATTRIBUTABLE LOSS

<table>
<thead>
<tr>
<th></th>
<th>2022 Gross Rm</th>
<th>2022 Net of tax Rm</th>
<th>2021 Gross Rm</th>
<th>2021 Net of tax Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable loss¹</td>
<td>(156)</td>
<td>(96)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>94</td>
<td>89</td>
<td>237</td>
<td>236</td>
</tr>
<tr>
<td>Fair value adjustment of investment property</td>
<td>(55)</td>
<td>(43)</td>
<td>99</td>
<td>83</td>
</tr>
<tr>
<td>Impairments of investments in associates</td>
<td>–</td>
<td>–</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>–</td>
<td>–</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Gain on disposal of investment in MAIA</td>
<td>–</td>
<td>–</td>
<td>(355)</td>
<td>(355)</td>
</tr>
<tr>
<td>Tax effect of rate change</td>
<td>–</td>
<td>(1)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Share of associates¹ (IHL) headline earnings adjustment</td>
<td>(11)</td>
<td>(11)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total non-controlling interest effects of adjustments</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Headline loss¹</td>
<td>(121)</td>
<td>(783)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average number of shares in issue (millions)</td>
<td>1 478</td>
<td>1 233</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted headline loss per share (cents)</td>
<td>(8.2)</td>
<td>(63.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headline loss¹</td>
<td>(121)</td>
<td>(783)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction costs</td>
<td>–</td>
<td>–</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Restructuring costs (including termination benefits)</td>
<td>4</td>
<td>3</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Pre-opening expenses</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Impairment of inventory</td>
<td>–</td>
<td>–</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Tax effects of HPF ceasing to be a REIT</td>
<td>–</td>
<td>–</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>Share of associates¹ exceptional items</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Adjusted headline loss¹</td>
<td>(118)</td>
<td>(633)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average number of shares in issue (millions)</td>
<td>1 478</td>
<td>1 233</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted adjusted headline loss per share (cents)</td>
<td>(8.0)</td>
<td>(51.4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ These performance measures include the after-tax impact of insurance proceeds received during the year of R139 million.
LIQUIDITY, FUNDING CAPACITY AND COVENANTS

Revised covenants introduced at company level establish a maximum rolling 12-month negative Ebitda level. The required minimum liquidity level of R500 million includes available facilities and cash on hand. Default will occur if the Ebitda and liquidity covenants are breached in one of the measurement periods or the Ebitda covenant is breached for two consecutive measurement periods.

During the year, these covenants were measured quarterly and the company comfortably met the minimum Ebitda and liquidity thresholds on all occasions. HPF lenders introduced a minimum liquidity covenant of R125 million, including available facilities and cash on hand. HPF met this minimum liquidity requirement.

Lenders were supportive of the group during this challenging period. They approved the covenant waivers for September 2022 on the basis that the rolling negative Ebitda threshold at company level is reduced to between R326 million (June 2022 measurement period) and R243 million (September 2022 measurement period) and that revised covenants are measured quarterly. The terms of the revised waiver relating to an event of default remain the same as above.

To assess asset fair values, property, plant and equipment, and goodwill impairments, as well as the group’s ability to continue as a going concern, management prepared detailed five-year cash flow forecasts (for further detail, refer to notes 17 and 50 of the annual financial statements).

Improved trading levels and forecasts indicate some recovery in the corporate, conferencing and international segments during the 2022 calendar year. Now that the fifth wave of Covid-19 infections has passed, related Covid-19 regulations have been completely removed and based on current trading levels, management believes the company should meet revised covenant levels.

The group extended debt facilities and corporate bonds maturing prior to 31 March 2023 by 12 months to ensure that solvency requirements are met and that the group can meet its obligations as they become due:
- For HPF, note 11 maturing on 31 March 2023 (R600 million) was replaced with note 14 on the same terms and conditions maturing on 31 March 2024.
- A term loan (R500 million fully utilised facility maturing on 31 August 2022) and a revolving credit facility (R500 million facility maturing on 19 December 2022 of which R200 million was utilised at 31 March 2022) were extended on the same terms and conditions to 31 August 2023 and 19 December 2023 respectively.
- The company extended its R600 million facility of which R200 million was utilised at 31 March 2022 on the same terms and conditions to 31 March 2025.
- Terms were agreed with lenders to refinance the US$2 million (R27 million) facilities and extend the maturity date to 31 March 2025.

The group will therefore be able to refinance and simplify its funding package structure timeously during FY23.

### Interest-bearing debt (IBD) net of cash at 31 March 2022 (Rm)

<table>
<thead>
<tr>
<th></th>
<th>FY22</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>External debt – offshore (US Dollar-based)</td>
<td>667</td>
<td>750</td>
</tr>
<tr>
<td>External debt (Rand-based)</td>
<td>2 831</td>
<td>2 730</td>
</tr>
<tr>
<td>Pre-paid borrowing costs</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Gross IBD</strong></td>
<td>3 495</td>
<td>3 476</td>
</tr>
<tr>
<td>Cash on hand – South Africa hotels</td>
<td>(584)</td>
<td>(365)</td>
</tr>
<tr>
<td>Cash on hand – offshore hotels</td>
<td>(81)</td>
<td>(42)</td>
</tr>
<tr>
<td><strong>Net IBD</strong></td>
<td>2 830</td>
<td>3 069</td>
</tr>
<tr>
<td>Analysed as South Africa hotels</td>
<td>2 244</td>
<td>2 363</td>
</tr>
<tr>
<td>Hotels offshore</td>
<td>586</td>
<td>706</td>
</tr>
</tbody>
</table>

On 23 February 2022, Global Credit Ratings downgraded Hospitality’s long and short-term credit ratings to BB+(ZA)/B(ZA). Concurrently, the ratings assigned to the Senior Secured Notes issued by HPF have been downgraded to A-(ZA)(EL) from A(ZA)(EL). The outlook on these ratings has been maintained on Rating Watch Negative. The HPF downgrade reflects the uncertain environment in which it operates as income remains constrained due to prolonged industry recovery.
GOING CONCERN
The consolidated annual financial statements are prepared on a going-concern basis. Based on the cash flow forecasts, available cash resources and the other measures the group has taken, or plans to take, as detailed herein, management believes that the group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner.

As at 31 March 2022, the group has net cash and cash equivalents of R665 million, net of bank overdrafts (2021: R407 million). The group has R3.5 billion (2021: R3.5 billion) of gross IBD (excluding capitalised lease liabilities) and access to R1.3 billion in undrawn facilities to meet its obligations as they become due.

In preparing the cash flow forecasts utilised to assess going concern, the impact of the Covid-19 pandemic on the group’s operations and liquidity was considered. Given the uncertainty around trading levels, management incorporated a 10% revenue contingency into the forecasts. This contingency cannot be attributed to any division but has been incorporated at group level to stress test the group’s going-concern assumption. Even after incorporating this contingency, the group can meet its debt obligations.

The board of directors has assessed the cash flow forecasts together with the other actions taken or proposed by management and believes that the group has sufficient liquidity to meet its obligations and counteract any adverse effects that Covid-19 may have on the group’s operations in the next financial year.

DIVIDEND
The directors considered it prudent to retain cash resources to ensure that the group can meet its obligations until trading normalises. In line with the conditions of the covenant waivers received from lenders, the directors did not declare a final cash dividend for the year ended 31 March 2022.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE
The directors are not aware of any other matter or circumstance arising since the balance sheet date and the date of this report other than the matters disclosed in note 44 of the consolidated annual financial statements, which are non-adjusting events and do not impact the results for the year ended 31 March 2022.

APPRECIATION
I am grateful for everyone’s efforts in preparing this report. Your tireless dedication and support are appreciated, particularly under the tremendous challenges we overcame in the past financial year.

Laurelle McDonald
Chief Financial Officer (CFO)
29 July 2022
The environment in which we operate

While these hotels inevitably experience financial distress, the room stock once built does not exit the market, and it can take a substantial period of time for demand to catch up to supply. Given the impact that Covid-19 has had on the industry, it is unlikely, but not impossible, that significant new room stock will be brought to market in the medium term while demand recovers.

Following the first democratic elections in 1994, the demand for hotel rooms grew rapidly and rooms sold by the group grew by an average of more than 6% per annum between 1994 and 1999. The market responded to this demand with the construction of new hotels and until 2008, demand growth continued to exceed the growth in supply with occupancies and average room rates continuing to rise.

During 2008, the impact of the global recession constrained demand but construction of new hotels continued until the 2010 FIFA World Cup™ since these projects were already in progress. Market occupancies fell from 74% in 2007 to 58% in 2011, due to the combination of constrained demand and increased supply. Demand subsequently improved, and with minimal growth in hotel supply, market occupancies showed recovery from 2011 but stagnated and have ranged between 61% and 65% from 2012 to 2020. The devastating impact of the Covid-19 pandemic and the recovery in the second half of the 2022 financial year is best illustrated in the graph below which reflects rooms sold by the group in South Africa since 1994 and the occupancies achieved:

![South Africa system-wide portfolio – rooms sold since 1994](image-url)
The environment in which we operate continued

Political, social, labour and economic conditions in South Africa or regionally could adversely affect our businesses.

Declines in demand for our services due to general economic conditions could negatively impact our business by decreasing income and profitability.

In order for the group to compete effectively with other consumer options our operations must deliver a quality experience at a price that our customers are willing to pay.

The development and maintenance of our systems require ongoing investment by the group.

The environmental focus areas are the reduction of consumption, preservation of the environment and the responsible management of the supply chain and waste.

As a multinational business, Southern Sun is subject to a wide range of legislation, which is monitored on an ongoing basis.

The chart below shows the group’s overall portfolio share relative to the STR Global statistics for South Africa since the global financial crisis. Given the disruption to the market caused by Covid-19 with many hotels being closed for part or all of the year and a number of participants simply not submitting data to STR Global, the chart has not been updated to include data for 2021 and 2022 as it is not comparable to prior periods.

Note: Movement in rooms available is a combination of new rooms stock and new sign up to STR Global.
Given the historic long-term growth of demand in the industry as the economy grows, we expect the market to rebalance in the medium term.

Over this time the overall formal market has grown by some 41% from approximately 38,272 rooms in 2009 to 53,916 rooms in March 2020 immediately prior to the lockdown. This does not include the proliferation of accommodation that does not participate in STR. It can be assumed that nearly all smaller hotels and guest houses would not participate, and it further excludes the proliferation of Airbnb product in the market. Our share, including the exposure we receive through third-party operated hotels in Hospitality, remains around 30% of the formal market.

Despite this large increase in available rooms stock, over a difficult time in the South African economy, occupancies up to 2020 have been higher than they were at the height of the financial crisis in 2010. The advent of the Covid-19 pandemic coupled with the recent unrest and rioting in several provinces in South Africa will mean a period of significant oversupply.

However, given the historic long-term growth of demand in the industry as the economy grows, we expect the market to rebalance in the medium term.

Trading in most African cities outside South Africa where Southern Sun operates remained remarkably resilient through the economic recession mainly due to limited supply of good quality hotels. Trading between the 2015 and 2019 financial years was, however, significantly impacted by the Ebola pandemic, security concerns and more recently a weaker market attributable to the negative impact of lower commodity prices and the resultant weakening of local currencies. In the medium term it is expected that many African countries will experience strong economic growth, which will drive the demand for, and supply of, new hotels, but in the short term difficult trading conditions will continue as these countries grapple with the impact of Covid-19. The markets are small and the addition of a new hotel has a more significant impact on the market.

### Hotels SA occupancy

<table>
<thead>
<tr>
<th>Year</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>58%</td>
</tr>
<tr>
<td>2012</td>
<td>61%</td>
</tr>
<tr>
<td>2018</td>
<td>65%</td>
</tr>
<tr>
<td>2021</td>
<td>13%</td>
</tr>
<tr>
<td>2022</td>
<td>33%</td>
</tr>
</tbody>
</table>
The environment in which we operate continued

**POLITICAL**

Although Southern Sun operates primarily in South Africa, it also has operations in Mozambique, Nigeria, the Seychelles, Tanzania, the United Arab Emirates and Zambia. Political, social, labour and economic conditions in South Africa or regionally could adversely affect our businesses.

The group is based in and derives the vast majority of its income from operations in South Africa. As such, the political conditions in South Africa have a significant influence on our business. South Africa faces many challenges in improving levels of social and economic development among its people. To the extent these challenges are not overcome, there may be a negative impact on the South African economy and, in turn, the group’s results of operations.

This has more recently become apparent with the social unrest, rioting and opportunistic looting that unfolded in a number of provinces during the month of July 2021. The impact of this devastation has been seen in the short term, specifically in KwaZulu-Natal including the impact thereof on the country’s economy; international travellers, potentially making them reluctant to travel to South Africa and domestic travel, which is likely to reduce.

There has also been regional political instability in some of the countries surrounding South Africa. The potential for resulting political instability in the region could negatively affect the South African economy and political environment, which, in turn, could have a material adverse effect on the group’s operations, profitability, cash flows and financial condition.

**TECHNOLOGICAL**

The group’s businesses demand the use of technology and systems for property management, brand assurance and compliance, procurement, reservation systems, surveillance, operation of our customer reward programme, booking of hotel accommodation by current and future customers, search engine optimisation and guest amenities. The development and maintenance of these technologies require ongoing investment by the group.

Technology trends most relevant to our industry being:

- Availability of robust broadband
- Advanced and secure mobile functionality for transacting and communication (customers and operational staff)
- Integrated tools to ensure customers are rewarded equitably based on spend/value
- Improving staff productivity and reducing costs
- More cost-effective IT business models
- Protecting the personal information of our guests, employees, suppliers and associates

**SOCIO-CULTURAL**

The group must continually refresh its product offering to cater to consumer preferences. In order for the group to compete effectively with other consumer options for leisure and entertainment activities, as well as other hotel and leisure providers, our operations must deliver a quality experience at a price that our customers are willing to pay. The experience must also cater to various changing consumer preferences in the market. Consumer preferences range from technological preferences (such as the increased utilisation of mobile devices and social media) to the look and feel of the physical product, the location of buildings, concepts of restaurants and bar offerings and types of entertainment and travel patterns.
Demand for our hotels is linked to the performance of the general economy and is sensitive to business, government and personal discretionary spending levels. Decreased global or regional demand for our products and services can be especially pronounced during periods of economic contraction or low levels of economic growth, and the recovery in the hotel industry may lag overall economic improvement.

The group’s reliance on the corporate and government markets as core components of its customer base makes it particularly sensitive to economic conditions that cause declines in travel by those groups. Declines in demand for our services due to general economic conditions could negatively impact our business by decreasing the income and profitability.

The group has a high concentration of hotels in particular urban centres. While this strategy helps to ensure that we can service a large number of travellers in these key markets, from budget to luxury, it also increases our sensitivity to adverse conditions affecting travel to such areas. Any events or developments that reduce the demand for our services in these core urban centres could negatively impact our business.

In addition, many of the expenses associated with the hotel business, including personnel costs, interest, rent, property taxes, insurance, and utilities, are relatively fixed. During a period of overall economic weakness, any failure by the group to meaningfully reduce these costs as demand for our rooms decreases may have a material adverse effect on our operations, profitability, cash flows and financial condition.

The group still faces several challenges: the war in the Ukraine, rising inflation and potential future Covid-19 waves. While the group has limited exposure to the Eastern Bloc markets in terms of revenue generation, the war’s impact on global food and fuel pricing has an effect not only on the group but on 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 major travel deterrent, particularly for international and corporate travel which are the two segments missing from the group’s recovery to pre-Covid-19 levels. For the hospitality industry, ease and affordability of travel is of paramount importance as is the safety and confidence of tourists once they reach our shores and stay in our hotels.

Rising global inflation does not have a significant impact on the group in the short term particularly when combined with a weak Rand which makes South Africa a cheaper destination for foreign visitors. Local and global inflation, along with a weaker Rand, will impact our capex such as imported machinery and equipment but this is a longer-term capex impact and the group is not spending significant capex at this stage while we recover from the impact of Covid-19.
Our business has a low environmental impact due to the service nature of the hotel industry. The fact that we operate predominantly in urban areas, further reduces the biodiversity impact. The main environmental impacts of the group are the consumption of energy and water, the production of waste and travel of guests to our properties.

Although customer choices are not yet significantly impacted by environmental policies, behavioural changes are being driven by social responsibility. The environmental focus areas are the reduction of consumption through innovative physical property and behavioural changes and the responsible management of the supply chain and waste.

The greater challenges to the hotel industry currently are the rising utility costs and uncertainty surrounding the supply of energy and, particularly, the future supply of water. Administered costs have seen a sustained above-inflation increase over the past number of years. These include property rates, and the cost of heat, light and power. While we have undertaken numerous steps to reduce our electricity and water consumption by employing efficient operating methodologies, the price per unit of these utilities has increased dramatically and is worsened by the requirement to fund generating capacity (diesel generators) during load shedding. Municipalities have come under increasing pressure to raise independent funding and this has led to substantially higher property rates being imposed on the group’s portfolio.

As a multinational business, Southern Sun is subject to a wide range of legislation, which is monitored on an ongoing basis. Any breach of compliance with this legislation could result in fines or sanctions that affect our profitability and may have adverse reputational consequences.

**B-BBEE**

Under the laws, codes and regulations promulgated by the South African government to promote B-BBEE, the government awards procurement contracts, quotas, licences, permits and other rights based on numerous factors, including the B-BBEE status of applicants. We are committed to complying with these requirements, which are designed to redress historical social and economic inequalities and ensure socioeconomic stability in South Africa. A company’s B-BBEE status is an important factor considered by government and other public bodies in awarding contracts and may influence relationships with customers or suppliers as it contributes to their B-BBEE status. Given that government travellers comprise a core segment of our revenues, our B-BBEE contributor status is important in securing this business.

**Tax legislation**

Changes in tax legislations across the jurisdictions of operation could adversely affect net results for future periods and affect the group’s business, financial condition and results of operations. South Africa has a stable tax environment and the tax administration system is advanced and transparent in many aspects. Other jurisdictions of operation, including Zambia, Mozambique, Nigeria and the Seychelles have differing tax legislation by which the group must additionally abide.

**Health and safety legislation**

Current legislation in South Africa imposes significant health and safety regulations on the group’s operations which will continue in the post-Covid-19 environment. Health and safety is ingrained in our culture and we have a high standard of compliance in this area.

**Consumer privacy and data protection legislation**

The group is subject to regulation under the General Data Protection Regulation (GDPR) and Protection of Personal Information Act, 4 of 2013 (POPIA) regarding the use of customers’ personal and credit card data and the protection of such data from cyber theft. The group receives and processes large amounts of sensitive personal customer data (including name, address, bank details and credit card details) as part of its business and as a result must comply with strict data protection and privacy laws in the jurisdictions where we operate.
Our key stakeholders

We create value through our relationships with our stakeholders. Building trust, mutual respect and credibility with them is vital to our long-term sustainability.

We have taken our stakeholders’ views into account in formulating our strategic priorities and report content.

During the Covid-19 pandemic, the group has continued to focus on the protection of the livelihoods of our many stakeholders and amidst the changing circumstances, we continue to remain in close communication with our lenders, employees, trading partners, suppliers, tenants and landlords in order to arrive at mutually sustainable operating solutions to the challenges presented by these extraordinarily difficult times.

An overview of our key stakeholder groups, their interests and concerns and how we engage with them is provided in the table below.

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Why it is important for us to engage</th>
<th>How we engage with our stakeholders</th>
<th>Our stakeholders key interests</th>
<th>Associated strategic priorities</th>
</tr>
</thead>
</table>
| Investors and funding institutions | Investors and funding institutions are the providers of capital necessary for our growth and we need transparent communication and to understand potential concerns | • JSE news services  
• Media releases and published results  
• Integrated annual reports and financial statements  
• Annual general meetings  
• Dedicated analyst and investor presentations  
• One-on-one meetings  
• Southern Sun’s website | • The recovery of the business, following the severe impact of the Covid-19 pandemic  
• Sustainable growth and returns on investment  
• Covenant requirements  
• Dividends  
• Risks and opportunities of expansion  
• Transparent executive remuneration  
• Corporate governance and ethics  
• Liquidity and gearing  
• Security of tenure over properties  
• Independence of the board | |
| Government and regulatory bodies | Government provides us with our licence to trade and the enabling regulatory framework within which to operate and we need to ensure compliance and understand the broader economic, social and environmental issues | • Establish constructive relationships  
• Comment on developments in legislation  
• Participate in forums  
• Written responses in consultation processes  
• Presentations and feedback sessions  
• Regulatory surveillance, reporting and interaction  
• Membership of industry bodies, eg the Tourism Business Council of South Africa (TBCSA), the South African Tourism Board (SATB) and the Federated Hospitality Association of Southern Africa (Fedhasa) | • Taxation revenues  
• Compliance with legislation  
• Job creation  
• Investment in public and tourism infrastructure  
• Investment in disadvantaged communities  
• Advancing transformation  
• Social impacts  
• Reduction in energy and water consumption | |
<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Why it is important for us to engage</th>
<th>How we engage with our stakeholders</th>
<th>Our stakeholders key interests</th>
<th>Associated strategic priorities</th>
</tr>
</thead>
</table>
| Guests                            | We need to understand our guests’ needs, perceptions and behaviours in order to deliver experiences relevant to them, thereby enhancing our brand value and driving revenue | • Satisfaction surveys  
• Rewards programmes  
• Customer relationship managers  
• Call centres  
• Website and social media engagement | • Quality product  
• Consistent quality experience  
• Simpler and quicker to deal with us  
• Value offerings  
• Long-term security of supply  
• Recognition for loyalty  
• Safety and security | ![PRODUCT RELEVANCE TO CUSTOMER EXPERIENCE](PAGE 55) |
| Communities                       | Engagement assists us to focus our efforts on empowering local communities which contributes to our long-term viability | • Events and sponsorships  
• Website and social media engagement  
• Corporate social investment initiatives  
• Employee volunteering | • Investment in disadvantaged communities  
• Employment opportunities  
• Sponsorships | ![DELIVER TO OUR BENEFICIARIES](PAGE 47) |
| Employees                         | Our employees are core to delivering our guest experiences and we need to understand their needs, challenges and aspirations and for them to be aligned with our strategy | • Communication from executives  
• Internal communications and posters  
• Induction programmes  
• Ongoing training and education  
• Employee surveys  
• Performance management programmes  
• Anti-fraud, ethics and corruption hotline  
• Trade union representative meetings  
• Employee engagement programme Southern Sun Hallmarks | • Job security  
• Engagement  
• Performance management  
• Clear understanding of reward structures  
• Health and safety performance  
• Access to HIV counselling and wellness programmes  
• Career planning and skills development | ![SKILLED HUMAN RESOURCES](PAGE 60) |
| Suppliers, tenants and business partners | Our suppliers, tenants and business partners enable us to deliver consistent guest experiences | • One-on-one meetings  
• Tender and procurement processes  
• Anti-fraud, ethics and corruption hotline  
• Supplier forums and showcases | • Timely payment and favourable terms  
• Fair treatment  
• B-BBEE compliance | ![DELIVER TO OUR BENEFICIARIES](PAGE 47) |

Interactions with our stakeholders are based on our strategic objectives, included on page 10, which guide our behaviour ensuring our stakeholders know what to expect from us.
In addition to providing exceptional experiences to our customers, the group generates direct and indirect financial benefits for our stakeholders including:

- returns for our shareholders and funding institutions;
- substantial income tax, value added tax (VAT), employees’ tax and property rates and taxes to national and provincial government;
- corporate social investment (CSI) in our communities;
- employment within the communities we serve;
- sustainable business for our national and local business partners and suppliers which creates wealth and additional employment; and
- continuous investment to maintain and expand our portfolio of properties.

A substantial portion of the wealth generated by the group is spent with/distributed to black economically empowered businesses, previously disadvantaged individuals and government, the value of which for the year ended March 2022 is set out below:

### Value added to black economically empowered businesses, previously disadvantaged individuals and government for the year ended 31 March 2022 (Rm)

<table>
<thead>
<tr>
<th>Paid to black economically empowered businesses for materials and services*</th>
<th>Funding institutions*</th>
<th>Employees¹</th>
<th>Corporate social investment*</th>
<th>Taxation and property taxes</th>
<th>Shareholders*</th>
<th>Paid to black economically empowered businesses for capital expenditure*</th>
<th>Total black economically empowered businesses, PDIs and government contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>737</td>
<td>283</td>
<td>522</td>
<td>9</td>
<td>213</td>
<td>--</td>
<td>17</td>
<td>1 781</td>
</tr>
</tbody>
</table>

* As per the Department of Trade and Industry tourism sector code.

¹ Net pay to employees with employees’ tax included in taxation.

### Value added for the year ended 31 March 2022 (Rm)

<table>
<thead>
<tr>
<th>Cash derived from revenue</th>
<th>Dividends and interest received</th>
<th>Paid to suppliers for materials and services</th>
<th>Total cash value added</th>
<th>Funding institutions</th>
<th>Employees¹</th>
<th>Corporate and social investment¹</th>
<th>Taxation and property taxes</th>
<th>Shareholders</th>
<th>Net cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 708</td>
<td>15</td>
<td>(1 863)</td>
<td>771</td>
<td>(244)</td>
<td>(698)</td>
<td>(11)</td>
<td>(213)</td>
<td>--</td>
<td>(396)</td>
</tr>
</tbody>
</table>

¹ Net pay to employees with employees’ tax included in taxation.
Our material risks and opportunities

The matters included in our integrated annual report are principally aimed at providers of financial capital in order to support their financial capital allocation assessments.

However, the interests of the providers of financial capital are largely aligned with other key stakeholders because they are also focused on the creation of value over the long term.

**DETERMINATION OF MATERIALITY**

In determining which matters are material for disclosure in our integrated annual report, we have considered whether the matter substantively affects, or has the potential to substantively affect, our strategy, our business model or the forms of capital we utilise and ultimately our ability to create value over time.

The assessment of the magnitude of the impact and the likelihood of the occurrence of the group’s top risks and opportunities informed the identification and prioritisation of the material matters for inclusion in the integrated annual report.

The identified matters were compared with those being reported by organisations in the same or similar industries to ensure that relevant matters were not excluded from the report.
MATERIAL RISKS AND OPPORTUNITIES

We evaluated and prioritised our material risks and opportunities, which are depicted in the heatmap below. The specific risks and opportunities within each risk landscape (in order of assessed residual risk), their potential impact and the group’s risk responses are noted on pages 40 to 45. Two principal risks from the prior year have been removed from the risk landscape:

- Covid-19 is no longer reflected as a separate risk, since the regulations around the pandemic have been repealed, infection numbers have declined and remain low. Long-term impacts of Covid-19 regulations such as reduced airlift capacity or the prolonged reduction in conferencing business have been addressed in the relevant principal risk.
- Adverse tax environment is no longer reflected as a separate risk but rather addressed under ‘Regulatory change and compliance’.

In addition, public liability risk has been included as a separate priority risk. Refer to page 44 for further details.

SOUTHERN SUN’S RISK AND OPPORTUNITY LANDSCAPE

For a detailed understanding of how we manage risk, please refer to page 74 of the governance report.
Our material risks and opportunities continued

### PRINCIPAL RISK LANDSCAPES

#### PORTFOLIO MANAGEMENT AND PRODUCT RELEVANCE

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensuring our products remain relevant to consumers in these uncertain times may require additional investment in customer experience intelligence through research and further refurbishment capex. As such, the group may be required to assume development risk to enhance or protect the value of its portfolio base</td>
<td>• Market research to timeously spot trends and respond accordingly</td>
</tr>
<tr>
<td>• Certain group hotel properties are subject to leases or management contracts without guaranteed renewal or successful renegotiation</td>
<td>• Overview of market and membership of various hospitality industry bodies to keep abreast with market movements and trends</td>
</tr>
<tr>
<td>• In response to the impact of Covid-19 the group undertook restructuring to significantly reduce costs. In conjunction with the fixed cost nature of the business, there is limited scope to convert more costs to a variable nature should there be further revenue disruption due to, for example, deep discounting in the market, price wars or being undercut as market participants attempt to recover post-Covid-19</td>
<td>• Social media interaction and monitoring</td>
</tr>
<tr>
<td>• Nodal shift remains a significant risk that requires active management and the quantification of unknown impairments</td>
<td>• Investment in facilities and maintenance capex to ensure product relevance and proper maintenance of equipment</td>
</tr>
<tr>
<td>• Major plant and equipment failures (lifts, transformers and/or switchgear, chillers, hot water plant) can disrupt operations for extended periods</td>
<td>• Active corporate citizenship</td>
</tr>
<tr>
<td>• In the absence of renewal options exercisable by the group, there can be no guarantee that all or any of the group’s leases and management contracts will be renewed upon their expiry. There can also be no guarantee that the terms of any leases or management contracts that are renewed will be as favourable to the group as the terms currently in place</td>
<td>• Employee volunteering in our communities</td>
</tr>
<tr>
<td></td>
<td>• Continuous engagement with hotel owners to secure contract renewals on attractive contractual terms</td>
</tr>
<tr>
<td></td>
<td>• Strong Manco with experienced management team and central resources</td>
</tr>
<tr>
<td></td>
<td>• Attractive management fee structure</td>
</tr>
</tbody>
</table>

**Associated strategic priorities**

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Satisfactory</td>
<td>Severe</td>
<td>Likely</td>
<td>■ Extreme</td>
</tr>
</tbody>
</table>

**Strategic objective:**
### MACROECONOMIC ENVIRONMENT

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our operations are concentrated in South Africa and are affected by the cyclical nature of the hospitality industry.</td>
<td>Revise strategic priorities and review the organisational structures to potentially divest from certain hotel assets or alternatively, bring in partners with capital to reduce the group’s exposure.</td>
</tr>
<tr>
<td>The perceived inability of government to improve the current depressed macroeconomic situation and the constrained growth in the country may lead to increased costs of funding, which leads to reduced income and lower profitability.</td>
<td>Consider further investment outside of South African borders to diversify revenue streams.</td>
</tr>
<tr>
<td>As was experienced during the Beta and Omicron waves of the Covid-19 pandemic, the loss of appeal of South Africa as travel destination due to Covid-19 variants or safety concerns including the rioting that took place in July 2021, had a detrimental impact on the local macroeconomic environment and by extension, on the revenue and profitability of the group.</td>
<td>Renewed and focused marketing to access untapped markets.</td>
</tr>
<tr>
<td>Constrained growth in government, corporate, international and conferencing markets will negatively impact trading.</td>
<td>Utilise rewards programme(s) to stimulate business.</td>
</tr>
<tr>
<td>International geopolitical events such as the war in the Ukraine, causing inflationary pressures due to the oil price increase resulting in travel becoming prohibitively costly.</td>
<td>Extensive expense management and staff furlough in order to minimise costs and protect margin in a low revenue growth environment.</td>
</tr>
<tr>
<td>Potential covenant breaches.</td>
<td>Covenant re-negotiation with lenders.</td>
</tr>
</tbody>
</table>

#### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncontrollable</td>
<td>Severe</td>
<td>Almost certain</td>
<td>Extreme</td>
</tr>
</tbody>
</table>

#### Strategic objective:

[Iconography: icons related to strategic objectives]
### CAPACITY AND MARKET ISSUES

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>The migration from office-based work to working-from-home during Covid-19 has meant a decline in the demand for office space leading developers to potentially convert non-viable office space into non-viable hotel supply, particularly in anticipation of the recovery in the travel and tourism industry over the short term.</td>
<td>Further focus on cost containment</td>
</tr>
<tr>
<td>A prolonged reduction in tourism supply or supply chain issues such as inbound airlift capacity not recovering as anticipated due to Covid-19 fears, a reduction in airline operators or concerns around travel given the Russia/Ukraine conflict.</td>
<td>Adequate insurance cover for business interruption and property damage.</td>
</tr>
<tr>
<td>The loss of an airport terminal building in major nodes due to fire damage, or major damage to national roads, could negatively impact domestic and/or international travel.</td>
<td>Continuous management of the group’s various booking channels including online travel agents and travel management companies to ensure that the group is maximising revenue per transaction.</td>
</tr>
<tr>
<td>An environmental catastrophe (earthquake, tsunami, fire) resulting in the total shutdown of a location and/or node, which would severely impact the group’s capacity for extended periods of time.</td>
<td>’à</td>
</tr>
</tbody>
</table>

#### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Severe</td>
<td>Possible</td>
<td>Extreme</td>
</tr>
</tbody>
</table>

Strategic objective:
### CRIME, SECURITY, HEALTH AND SAFETY

#### Specific risks we face
- Crime, security and health risks have increased due to the long-term impact of the Covid-19 pandemic. For example, major sporting or international events continue to be postponed or cancelled due to Covid-19 variants or security concerns.
- There is also an increased risk of financial fraud as guests and employees have been under financial pressure during the Covid-19 period.
- The occurrence of major violent incidents like the civil unrest in KwaZulu-Natal and Gauteng during mid-July 2021 can cause major infrastructure damage and limit our ability to trade.
- The possibility of hotel robberies and/or follow-home robberies.

#### Risk responses
- Physical security and surveillance procedures and crime intelligence.
- Coordination with the South African Police Service.
- Internal control frameworks and internal audit procedures.
- Stringent fire, life, safety and hygiene protocols, which are subject to self-audit and audits by risk managers, recorded through the ORMS system.

#### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Major</td>
<td>Possible</td>
<td>High</td>
</tr>
</tbody>
</table>

#### CYBER, IT AND INFORMATION MANAGEMENT

#### Specific risks we face
- Our operations, including online booking and hotel management systems, partially depend on our IT systems.
- The performance and reliability of these systems and the group’s technology are critical to its reputation and ability to attract, retain and service customers.
- Any disruption in the group’s ability to provide the use of its reservation system to customers, including as a result of software or hardware issues related to the reservation system or cyber attacks, could result in customer dissatisfaction and harm our reputation and business.
- Other risks include:
  - Sub-optimal online transacting
  - Hacking and hactivism
  - Social media risks, including abuse by staff
  - Loss of sensitive information
  - Denial of service attacks or ransomware

#### Risk responses
- Continuous maturity of and improvements made to the IT security ecosystem.
- Training of employees to identify potentially dangerous links and respond by alerting the IT security team.
- Payment and card industry standard compliance.
- POPI Act and GDPR compliance.
- Appointment of Information Security Officer.
- Review of online transaction opportunities and website rewrite.
- Backup IT systems for business critical systems generally in different geographies and restores tested bi-annually for core solutions.
- Continuous maintenance of hardware and databases to ensure warranties remain in order.
- Fail overs and manual procedures to support any possible information technology downtime limits impact on the guest and reputation.
- Increase IT auditing and assurance (internal and external).

#### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Significant</td>
<td>Possible</td>
<td>High</td>
</tr>
</tbody>
</table>

#### Strategic objective:
### HUMAN RESOURCES

#### Specific risks we face
- The group’s business is labour intensive and, therefore, its success largely depends on its ability to attract, train, motivate and retain a sufficient number of qualified and skilled employees to run its operations.
- If the group cannot attract and retain a sufficient number of qualified employees, its ability to effectively compete with its peers and its operations, profitability, cash flows and financial condition could be materially affected.
- Changes in labour legislation.
- Unrealistic expectations, social pressure and/or unresolved industrial relations issues, leading to violent strikes and unrest.
- Skills shortages in critical departments, including finance and IT due to the undesirability of the hospitality sector as an employer or poaching of employees seeking international opportunities and higher pay which the group is unable to match.

#### Risk responses
- Retention of employees through appropriate remuneration structures and employee benefits.
- Engaging with and empowering staff.
- Employee training and development with a focus on fast-tracking those with high-performance potential.
- Performance-driven culture.
- Focused employment equity strategy.
- Labour rate parity.

#### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Moderate</td>
<td>Possible</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

#### Strategic objective:

#### PUBLIC LIABILITY

#### Specific risks we face
- The nature of the group’s business means that it is responsible for the health and safety of numerous guests who stay in our hotels, attend conferences at our properties and dine in our F&B establishments.
- The group has excellent health and safety as well as property maintenance standards so while there is a risk of multiple claims should guests or employees be injured at one of our properties due to fire or food poisoning, this risk is lower down on the criticality scale.

#### Risk responses
- Physical security and surveillance procedures and crime intelligence.
- Coordination with the South African Police Service.
- Internal control frameworks and internal audit procedures.
- Adequate public liability insurance cover.
- Stringent fire, life, safety and hygiene protocols, which are subject to self-audit and audits by risk managers, recorded through the ORMS system.

#### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>Major</td>
<td>Likely</td>
<td>High</td>
</tr>
</tbody>
</table>

#### Strategic objective:
## 8 UNEQUAL AND COSTLY UTILITIES

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Service delivery, limited infrastructure investment and funding challenges at South Africa’s municipalities have compounded their capacity to supply water and electricity to ratepayers</td>
<td>• Electricity-efficient demand side management programme to reduce consumption</td>
</tr>
<tr>
<td>• Inconsistent water supply and unreliable electricity provision affect the operational capability of hotels to provide consistent services to guests</td>
<td>• Boreholes, desalination plants and solar capacity</td>
</tr>
<tr>
<td>• Municipalities and utility providers also increase rates, property taxes, water and electricity to fund their own shortfalls, placing an additional cost burden on the returns to shareholders</td>
<td>• Water handling and/or storage capacity for emergency supply</td>
</tr>
<tr>
<td></td>
<td>• Self-reliance on generators for emergency electrical supply</td>
</tr>
</tbody>
</table>

### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Major</td>
<td>Almost certain</td>
<td>High</td>
</tr>
</tbody>
</table>

### Strategic objective:

![Image](image-url)

## 9 REGULATORY CHANGE AND COMPLIANCE

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Policy uncertainty</td>
<td>• Submit comments to lawmakers through formal comment structures</td>
</tr>
<tr>
<td>• More aggressive regulatory authorities</td>
<td>• Robust compliance procedures</td>
</tr>
<tr>
<td>• Changing B-BBEE requirements</td>
<td>• Comprehensive B-BBEE programme</td>
</tr>
<tr>
<td>• Degradation of formal skills set</td>
<td>• Lodgement of appeals on assessments and property valuations</td>
</tr>
<tr>
<td>• Increased complexity of compliance, eg POPI Act, CPA and FICA</td>
<td>• Robust compliance procedures</td>
</tr>
<tr>
<td>• Visa regulations</td>
<td></td>
</tr>
<tr>
<td>• Aggressive tax authorities</td>
<td></td>
</tr>
<tr>
<td>• Increase in taxes, including VAT</td>
<td></td>
</tr>
<tr>
<td>• Increased rates and property taxes</td>
<td></td>
</tr>
</tbody>
</table>

### Associated strategic priorities

<table>
<thead>
<tr>
<th>Strength of risk response:</th>
<th>Magnitude of impact:</th>
<th>Likelihood of occurrence:</th>
<th>Risk rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Insignificant</td>
<td>Almost certain</td>
<td>High</td>
</tr>
</tbody>
</table>

### Strategic objective:

![Image](image-url)
Our strategy in action

**CSI OUTCOMES**

<table>
<thead>
<tr>
<th>Key pillars</th>
<th>Material risks</th>
</tr>
</thead>
</table>
| Delivering to our beneficiaries | • Regulatory change and compliance  
• Macroeconomic environment |
| Financial strength and durability | • Macroeconomic environment  
• Regulatory change and compliance  
• Local authority capability  
• Capacity  
• Missed opportunities  
• Crime, security, health and safety  
• Credit risk |
| Product relevance to customer experience | • Macroeconomic environment  
• Regulatory change and compliance  
• Local authority capability  
• Capacity  
• Missed opportunities  
• Crime, security, health and safety  
• Cyber, IT and information management |
| Regulated compliance | • Regulatory change and compliance  
• Capacity  
• Cyber, IT and information management  
• Crime, security, health and safety |
| Adequately skilled human resources | • Regulatory change and compliance  
• Human resources  
• Crime, security, health and safety  
• Cyber, IT and information management |
The nature of the HCI shareholding provides the bulk of our 62.4% broad-based empowered ownership. HCI has provided a stable shareholder base for several years, which has allowed the group to grow and leverage opportunities. The balance of the shareholding is diverse with adequate liquidity.

Community

The group is committed to supporting communities in need and we contribute a portion of our profits annually to charitable organisations, entrepreneurial development and natural environment conservation. We continue effectively harnessing our resources and experience to participate in initiatives aiming to positively impact the communities in which we operate, and as the business began to recover from the impacts of the Covid-19 lockdown in the latter part of the year, our community investment activities have gradually increased.

2022 performance

Shareholders

The nature of the HCI shareholding provides the bulk of our 62.4% broad-based empowered ownership. HCI has provided a stable shareholder base for several years, which has allowed the group to grow and leverage opportunities. The balance of the shareholding is diverse with adequate liquidity.

Community development

We support our local communities in education, health and welfare through in-kind contributions (such as venues, accommodation, food, linen, furniture and equipment). Over the past year, we supported 200 non-profit organisations, with our social investment amounting to R11 million in value. This represents 7.1 percentage points (pp) more than the tourism sector code target.

Enterprise and supplier development

Through the Southern Sun Entrepreneurs programme, we assist emerging enterprises with the potential to form part of our procurement pipeline. The programme provides a range of business benefits to 67 enterprises in various industries across South Africa. Some success stories of the businesses supported are documented in a series of short films entitled The Legacy Series, broadcast on etv and eNCA.

The value of our investment in enterprise and supplier development for the year was R2.9 million, which represents 0.4 pp more than the tourism sector code target. R0.6 million was allocated to enterprise development beneficiaries and R2.3 million to supplier development beneficiaries.
Southern Sun Volunteers
Through the Southern Sun Volunteers programme, employees participate in diverse community projects that range from assisting welfare shelters to organising beach clean-ups. During the year, Southern Sun Volunteers supported Mandela Day, Reach for a Dream Slipper Day, Casual Day, the CANSA Shavathon and several relief outreach efforts in the areas where our hotels are situated. Relief efforts were undertaken to assist vulnerable and affected communities in KwaZulu-Natal after the riots of 2021 and the floods experienced in the region in 2022. Volunteering included clean-ups, collections from hotels throughout the country and donations of food items, linen and towels to those in need.

Transformation
Southern Sun is committed to transformation and actively contributes to broad-based black empowerment through practices that facilitate positive change – from maintaining the diversity of our workforce to supporting emerging enterprises through our entrepreneurs programme. The group is a level 1 B-BBEE contributor, measured against the Department of Trade, Industry and Competition’s (DTIC) revised codes of good practice – tourism sector scorecard, and complies with the related guidelines.

An accredited economic empowerment rating agency performs the formal verification audits annually. The consolidated group results for the year ended 31 March were as follows:

<table>
<thead>
<tr>
<th>B-BBEE results</th>
<th>Target – tourism sector scorecard</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td></td>
<td>27</td>
<td>27.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Management and control</td>
<td></td>
<td>19</td>
<td>13.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Skills development</td>
<td></td>
<td>20</td>
<td>17.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Enterprise and supplier development</td>
<td></td>
<td>40</td>
<td>34.9</td>
<td>32.1</td>
</tr>
<tr>
<td>Socioeconomic development</td>
<td></td>
<td>5</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td>111</td>
<td>100.1</td>
<td>90.2</td>
</tr>
<tr>
<td>Rating level</td>
<td></td>
<td>Level 1</td>
<td>Level 3</td>
<td>Level 1</td>
</tr>
</tbody>
</table>

The group’s B-BBEE contributor status increased to level 1 with 135% procurement recognition status (2021: level 3 with 110% recognition status). We received 100.1 out of 111 available points on the tourism sector scorecard. Our black ownership is 62.4% and black women ownership is 34.2%.

Industry bodies
Southern Sun actively participates in business and industry bodies such as the Tourism Business Council of South Africa (TBCSA), the South African Tourism Board (SATB) and the Federated Hospitality Association of Southern Africa (Fedhasa). Our participation includes contributing management’s time, effort and intellect. The group also forms relationships with national and regional tourism associations.

Tenants
Delivering quality hospitality, dining and conferencing experiences is important to staying relevant in our market and satisfying our customers’ diverse requirements. With 113 tenants across Southern Sun’s properties, tenanting is a core focus area to ensure our guests have access to the best office, retail, restaurant and entertainment-related offerings. We arranged revised terms with some of the group’s tenants in response to the Covid-19 regulations.

These terms continue being assessed and adjusted in line with lockdown level fluctuations.

Suppliers
The group develops long-term, mutually beneficial relationships with suppliers of goods and services. Through these supplier relationships, many indirect jobs are created and wealth is generated in the economy.

A growing portion of our procurement is centrally managed. This allows for enhanced consistency in standards and pricing, and closer relationships with our suppliers. We ensure that, as far as practically and commercially possible, our operations procure products from local vendors.

The group encourages diversity in its commercial associations, particularly through involving black-empowered and local businesses, from whom we intentionally procure
through a focused procurement strategy. Verified total procurement spend on black economic empowered businesses amounted to R1 090 million during the year (2021: R698 million). The group's B-BBEE score for preferential procurement, measured in the enterprise and supplier development element, is 17.9 out of 25. Our focus areas are procurement from black women-owned businesses and further opportunities to establish and support enterprise and supplier development initiatives through procurement.

An additional procurement consideration is our suppliers’ environmental performance, which is part of our procurement criteria during the supplier selection process.

As Covid-19 restrictions were lifted and hotels began operating at better occupancies, many of the previously negotiated payment terms ceased. However, management continues to monitor the situation and arrangements are adjusted in accordance with the circumstances.

Third-party owners
The group leases hotel properties and manages hotel businesses on behalf of third-party owners where it does not own the property or the business. We currently manage 17 hotels in various casino precincts for Tsogo Sun Gaming (TSG).

As released on SENS on 26 May 2022, Southern Sun and the Tsogo Sun Gaming group reached an agreement to terminate the management agreements previously concluded in relation to 15 of the 17 TSG hotels, against payment of a termination fee. The remaining two hotels currently managed by the group, being the Southern Sun Emnotweni and StayEasy Emnotweni, are to be purchased by the company’s subsidiary, HPF. Further information can be found on page 165 of this report.

Environment
The group has a low environmental impact due to the service nature of the hotel industry. However, we are subject to the general impacts of climate change and make every effort to manage our hotels with due care and consideration for the environment.

Using natural resources, minimising carbon emissions and conscientiously disposing of waste is important for our long-term sustainability. We integrate environmental management practices into our core business strategy. Our environmental steering committee assesses and manages climate-related risks and opportunities to ensure the group’s conduct meets present needs while minimising the cost to future generations.

The group’s environmental policy is revised annually and published on southernsun.com with our stated commitment being to:

- ensure that, at all times, we identify, evaluate and comply with local, regional and national environmental laws and regulations applicable to our operations where we conduct business;
- continuously evaluate and manage our environmental risks, targets and objectives;
- actively seek to minimise pollution, emissions and effluents emanating from our operations;
- work towards minimising waste by reducing, reusing and recycling, and adopting a zero-waste policy;
- strive to reduce consumption of natural resources by using energy, gas and water responsibly, and identifying and implementing sustainable energy solutions;
- manage biodiversity through protecting flora, fauna and land associated with or impacted by our operations;
- communicate our policies and achievements openly and transparently to our stakeholders;
- collaborate with our suppliers and business partners to actively reduce the environmental impact of our business activities;
- continuously improve and innovate our environmental performance standards;
- annually report on our environmental performance; and
- provide support for the sustainable development of our communities.

To ensure we meet the objectives of our environmental policy, a property-specific environmental management system is in place at our hotels. The system focuses on energy, water, waste management and responsible procurement. It is holistically managed as part of the in-house Organisational Resilience Management Standard audit process, and is verified by the German quality body, DQS-UL Group. The group reports to the CDP and Water Disclosure Project as an HCI subsidiary.

Environmental impact overview
Total emissions and water consumption increased by 63% and 104% respectively since the previous year due to the progressive reactivation of the group’s entire portfolio in response to the relaxation of Covid-19 pandemic related lockdown measures and the resulting increase in demand for hotel accommodation. These increases should be read in the context of the two-year impact of the Covid-19 pandemic with the group initially deactivating its entire hotel portfolio in March 2020 and then slowly re-opening as regulations eased. The 2020 environmental impact data has been included in the emission measurement table to reflect pre-Covid-19 levels.
A phased re-opening of hotels as lockdown levels eased saw an increase in electricity consumption and water usage during the year.

Significant focus was placed on the opening of hotels in an energy efficient manner to reduce maximum demand levels and controllable expenditure.

**Scope and boundaries of emissions measurement**

Scope 1 and scope 2 emissions are reported for all businesses at properties owned or leased by the group, in South Africa and offshore, excluding tenant emissions. Tenant emissions, emissions at managed properties, emissions from outside laundry services and business travel emissions are reported in scope 3. Fugitive emissions, mainly from refrigerants, are not significant and there are no other emissions that are considered material.

97% of scope 1 and 2 emissions arise through the consumption of electricity and thus demand-side management of electrical consumption remains the area of focus in reducing emissions. 98% of the scope 3 emissions from tenants also arise from the consumption of electricity.

LPG and natural gas are primarily used for cooking with limited space heating and water heating. Diesel is utilised for back-up electrical generation.

**Emissions measurement**

<table>
<thead>
<tr>
<th>Total emissions (t(\text{CO}_2\text{e}))</th>
<th>2022</th>
<th>% change</th>
<th>2021 vs 2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrol and diesel (owned company vehicles)</td>
<td>148</td>
<td>93</td>
<td>60</td>
<td>230</td>
</tr>
<tr>
<td>Diesel consumed (owned businesses)</td>
<td>1 050</td>
<td>574</td>
<td>83</td>
<td>1 546</td>
</tr>
<tr>
<td>Liquefied petroleum gas (LPG) and natural gas usage (owned businesses)</td>
<td>1 347</td>
<td>686</td>
<td>96</td>
<td>2 179</td>
</tr>
<tr>
<td><strong>Scope 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy consumed (owned businesses)</td>
<td>65 510</td>
<td>41 509</td>
<td>58</td>
<td>83 187</td>
</tr>
<tr>
<td><strong>Scope 3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy consumed (tenants)</td>
<td>26 773</td>
<td>18 116</td>
<td>48</td>
<td>37 883</td>
</tr>
<tr>
<td>Energy consumed (managed properties)</td>
<td>15 156</td>
<td>7 490</td>
<td>102</td>
<td>14 229</td>
</tr>
<tr>
<td>Laundry services (outsourced)</td>
<td>10 564</td>
<td>5 717</td>
<td>85</td>
<td>16 273</td>
</tr>
<tr>
<td>Business travel</td>
<td>117</td>
<td>9</td>
<td>12</td>
<td>634</td>
</tr>
<tr>
<td><strong>Total emissions (t(\text{CO}_2\text{e}))</strong></td>
<td>120 665</td>
<td>74 194</td>
<td>63</td>
<td>156 161</td>
</tr>
</tbody>
</table>

**Electricity**

**Scope 2 emissions** at owned properties increased by 58% on the prior year to 65 510 t\(\text{CO}_2\text{e}\) due to the phased reactivation of the group’s hotels. Savings from ongoing energy-saving initiatives, the ability to deactivate major plants at the hotels, continuous energy management programmes, consumption measurement and behavioural change initiatives maximised efficiencies and contributed to the further reduction in electricity intensity consumption. The installation and use of energy-efficient equipment continues where practical.

**LPG and natural gas**: Scope 1 emissions from the consumption of LPG and natural gas increased by 96% to 1 347 t\(\text{CO}_2\text{e}\) due to the phased reactivation of the portfolio.

**Petrol and diesel – vehicles**: Scope 1 emissions from the consumption of petrol and diesel in company-owned vehicles increased by 60% to 148 t\(\text{CO}_2\text{e}\). Diesel – stationary: Scope 1 emissions from the consumption of diesel increased by 83% to 1 050 t\(\text{CO}_2\text{e}\) due to the phased reactivation of the portfolio and the impact of increased load shedding and supply interruptions during the year.

**Scope 3 emissions**: The 48% increase in scope 3 emissions from tenants at group properties is mainly due to the phased reactivation combined with ongoing savings initiatives. The increase in scope 3 emissions from properties managed by the group was 102%. Scope 3 emissions from outsourced laundry services (utilised at most hotels) was 85% up on prior year consumption. The increase in business travel related emissions is directly related to the increased trading activities.

**Water**

Although supply interruptions due to poor municipal infrastructure continue to increase and medium-term water shortages are probable, the group does not have material
company-specific water risks. The majority of the group’s properties are in urban areas and use potable water provided by local municipalities (82% of consumption). Two resort properties utilise surface water for irrigation and two resort properties are fully reliant on river water.

Water consumption at owned properties increased during the year by 104% to 1,072,000 kilolitres mainly due to the phased reactivation of the portfolio and improved measuring of water extraction from the river at Arabella Golf course.

Waste management
The group’s efforts to divert waste from landfill are in process at most properties through employee training and partnering with waste contractors committed to zero waste to landfill practices.

The trial project at various hotels with a system that uses a combination of enzymes and probiotics resulting in the diversion of a significant amount of food waste to composting was successfully completed and implemented at five units in Gauteng and will be rolled out across the remainder of the portfolio where appropriate.

In an effort to reduce single use plastic, the procurement policy has been amended to: increase package sizing at larger hotels thereby reducing the quantum of packaging; replace straws and stirrers with bio straws and wooden stirrers; utilise bio-degradable take-away cups and 100% recyclable guest supplies; and the use of glass instead of plastic, where possible.

A continued focus will be to engage tenants at properties to participate in the group’s waste reduction and diversion from landfill strategy.

Biodiversity
The majority of our hotels are in urban areas and not close to sensitive environments. There are seven hotels in rural environments where biodiversity management is more important. No new facilities were developed at these properties during the year. The properties have programmes in place to remove alien vegetation and, where applicable, this is replaced with indigenous plants.

Environmental education
As part of our efforts to be a good corporate citizen, we encourage local communities to adopt a responsible attitude towards using electricity and water and managing waste. The group also champions opportunities to inform people about the importance of reducing their environmental impact by organising clean-ups, tree planting and urban improvement projects through the Southern Sun Volunteers’ programme.

Looking ahead
Community development
We will continue supporting local communities in education, health and welfare through in-kind contributions and monitoring the impact thereof by tracking donations and measuring their benefits.

Enterprise and supplier development
The Southern Sun Entrepreneurs programme is well positioned to continue actively addressing the need for small business support and will continue serving beneficiaries in useful and innovative ways in the future. The basis for delivery of support will continue to make use of online platforms and technology.

Transformation
The group will continue prioritising transformation and endeavour to maintain its performance in the year ahead. This will be achieved through continuously focusing on all areas of the empowerment framework, with emphasis on maintaining workforce diversity and continuing to develop the skills of existing employees and of potential new employees from our communities.

Environment
Management attended a series of Johannesburg Stock Exchange (JSE) hosted Taskforce on Climate-related Financial Disclosure (TCFD) courses on climate-related financial reporting during the year under review as the group prepares to align with the TCFD in the coming year.

The focus will continue to be on ensuring the energy and water consumption management programmes remain in place to reduce consumption year on year wherever possible, excluding the impact of increased capacity or additional operations. Through environmental education, the group will continue encouraging stakeholders to take responsibility for their environmental impact and positively change their behaviour by communicating about topics such as climate change.

We are working towards minimising waste to landfill. Our focus during the prior year was on identifying partners who can assist in achieving this. We will continue working to understand our waste streams and identify those to be eliminated through our green purchasing policy, which is in progress. During the coming year, our attention will be on optimising separation at source in kitchens and bars through employee education and upgrading waste collection areas.
SOUTHERN SUN CITIZENSHIP

CARING ACROSS COMMUNITIES
Southern Sun supports our local communities in education, health and welfare through in-kind contributions. During the year, the group supported 200 charitable organisations and community-based initiatives.

SOUTHERN SUN ENVIRONMENT
Environmental responsibility is fundamental to Southern Sun’s philosophy of citizenship. We implement strict measures to reduce our environmental impact and conserve natural resources.

SOUTHERN SUN ENTREPRENEURS
The Southern Sun Entrepreneurs programme provides practical benefits and tools to business owners to help small enterprises become sustainable.

SOUTHERN SUN VOLUNTEERS
Through the Southern Sun Volunteers programme, employees participate in diverse community projects that range from assisting at welfare shelters to participating in beach clean-ups.
Net interest-bearing debt
Interest-bearing debt net of cash at 31 March 2022 totalled R2.8 billion, which is R239 million below the 31 March 2021 balance of R3.1 billion. It comprises free cash inflow of R223 million generated from operations after settling finance costs, taxation and maintenance capex and a currency translation loss of R3 million which was recognised on the US Dollar-denominated loans.

Interest rate and currency risk management
The group manages its interest rate risk by using floating-to-fixed interest rate swaps. Interest rate swaps have the economic effect of converting floating rate borrowings to fixed rates. Where the group raises long-term borrowings at floating rates, it swaps them into fixed rates in terms of group policy. Group policy requires that between 25% and 75% of its net borrowings (net borrowings = gross borrowings net of cash and cash equivalents) are to be in fixed rate instruments over a 12-month rolling period. Under the interest rate swaps, the group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to an agreed reference interest rate calculated on agreed notional principal amounts. The settlement dates coincide with the dates on which interest is payable on the underlying debt and settlement occurs on a net basis. As at 31 March 2022, 57% of combined group net debt was hedged through fixed interest rate swaps, allowing the group to benefit from the reduction in interest rates over the year on the unhedged portion. As a consequence, the weighted average effective interest rate for the year declined from 8.0% in 2021 to 7.2% in 2022.

The group is not exposed to significant foreign exchange risk in its offshore division as the functional currency (the currency in which cash flows are generated) matches the currency of the debt raised in those entities, being US Dollars. As a result, no forward cover contracts are required in respect of this debt and a natural hedge exists. There is, however, foreign currency risk exposure on the conversion of these US Dollar-denominated loans to Rand and while the group has not hedged this risk given that the cost to do so is prohibitive, the intention since listing has been to reduce the Dollar-denominated debt and the proceeds from the sale of Maia in the prior year has assisted in achieving this. Offshore cash at year end was held approximately 23% in US Dollar, 45% in Nigerian Naira and 6% in Mozambican Metical with 26% in other local currency deposits.
Funding capacity and covenants
The group’s liquidity and access to facilities are of paramount importance. As previously reported, lenders introduced revised covenants comprising Ebitda (Earnings before interest, income tax, depreciation, amortisation, IFRS 16 rent adjustments, long-term incentives and exceptional items – which definition is consistent with the funding agreements) and liquidity thresholds, measured quarterly. The revised covenants established a maximum rolling 12-month negative Ebitda level and a minimum liquidity level of R500 million is required, which includes available facilities and cash on hand. An event of default will occur if both the Ebitda and liquidity covenants are breached in one of the measurement periods or the Ebitda covenant is breached for two consecutive measurement periods. The company comfortably met the minimum Ebitda and liquidity thresholds for each quarterly measurement period in the 2022 financial year. As at 31 March 2022 headroom on the rolling 12-month Ebitda loss was R381 million and headroom on available facilities including cash on hand was R973 million. At Hospitality level, lenders introduced a minimum liquidity covenant of R125 million in the prior year including available facilities and cash on hand. Similarly, Hospitality has met these minimum liquidity requirements and as at 31 March 2022 liquidity headroom was R422 million.

Looking ahead
The lenders to both Southern Sun and Hospitality have been very supportive of the group during this challenging period and have approved the covenant waivers for September 2022 on the basis that the rolling negative Ebitda threshold at company level be reduced to between R326 million (June 2022 measurement period) and R243 million (September 2022 measurement period) and that revised covenants continue to be measured on a quarterly basis. The terms of the revised waiver relating to an event of default remain the same as described above. The company comfortably met the revised covenants for the June 2022 measurement period generating Ebitdar of R141 million for the rolling 12-month period ended 30 June 2022, equating to Ebitdar headroom of R467 million. Similarly, liquidity headroom at the company and Hospitality level was R1.0 billion and R414 million respectively.

As at 30 June 2022, the group had net cash and cash equivalents of R495 million, net of bank overdrafts. The group had R3.4 billion of interest-bearing debt (excluding capitalised lease liabilities) and access to R1.6 billion in undrawn facilities (excluding cash resources on hand) to meet its obligations as they become due.

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.
PRODUCTION RELEVANCE TO CUSTOMER EXPERIENCE

To provide the variety and quality of experiences our customers expect at the appropriate price points, we need to constantly monitor and invest in:

- physical product that caters to the customer, including hotel operating equipment, major and minor hotel refurbishments, and mind and mood infrastructure to enhance customer experience;
- technology that works for the customer and makes the product work, including guest facing and back of house hospitality systems for in-house facilities and reservations, channel and customer relationship management;
- accessibility that allows the customer to use the group’s products with minimal barriers to entry, including physical facilities like sufficient parking, accessibility for mobility impaired guests, easy access to reservation systems and personnel for trade and individual buyers, and easy access to information on the group’s products; and
- branding, which is critical to our customers’ perception of us.

### Key performance indicators

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards programme membership contribution to revenue</td>
<td>36%</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Guest satisfaction</td>
<td>84%</td>
<td>87%</td>
<td>88%</td>
</tr>
<tr>
<td>Hotel property brand audits – material deviations from brand standards</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Hygiene audits – significant issues noted</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Maintenance capital spend</td>
<td>R43 million</td>
<td>R46 million</td>
<td>R366 million</td>
</tr>
</tbody>
</table>

### 2022 performance

#### Product relevance

For us to deliver the experiences that our customers desire, it is important that our physical product and service delivery are easily accessible and relevant at appropriate price points; are consistent in standard and delivery; and provide a variety and quality of experiences that encourage repeat visits. Our customers’ expectations involve a range of deliverables that include the nature of our technology offerings, the quality of our physical products, where our hotels are located, the appeal of our restaurants, and our availability in response to travel patterns.

The group seeks to respond dynamically to changing trends, refreshing hotel offerings to reflect contemporary tastes and embracing new technologies to improve the customer experience. Therefore, we invest in regularly maintaining and refurbishing our properties to keep them attractive and relevant to our customers. We maintain a rolling five-year capex planning system to identify hotels requiring refurbishment as well as plant and infrastructure replacements.

We believe that our properties offer a superior experience compared to our peers and other leisure offerings. To preserve our market position and attract and retain new and existing guests to our hotels, we will continue our disciplined programme of investment to continuously refresh the offerings and decor of our facilities. No material deviations from the brand standards occurred during the year.

#### Product development

Developing hotel real estate is a critical component of the business and our plans for organic growth. In the five years prior to the Covid-19 pandemic, approximately R1.4 billion was invested in the refurbishment and maintenance of the group’s existing hotels, excluding the acquisition of new properties. However, as part of our Covid-19 action plan, the group suspended all capex with only emergency capex and repairs and maintenance considered in order to preserve cash.

The ability to develop and maintain relevant physical products is a key competency required in the business, and the selection of locations, hotel development and refurbishment and ongoing property maintenance are the core skills required. Key personnel are permanently employed to deliver these core skills that safeguard and mentor this knowledge. These skills are augmented by a network of experienced professionals in the major centres who have worked with the business over several years.
IT strategy, governance and decision making form part of a coordinated and integrated process across relevant business functions. IT decisions are taken in collaboration with the business operations based on the demands of the industry in which we operate. In most areas, we continue using industry-specific third-party packaged solutions. We also develop numerous in-house applications and integrations to differentiate our service offerings. We believe specialist suppliers are generally better equipped to conduct research and development and keep pace with industry changes and the rapid evolution of technology. However, we actively direct application development by participating in the process with our suppliers. This approach optimises our technology investment and allows us to concentrate on delivering IT services to our business functions. Due to continuous and responsible IT investment over the past few years, there are no legacy system issues. Our systems remain current and are fully supported by relevant vendors and/or in-house by our employees.

The core property management systems for our hotel front office and reservations environment remain stable and productive. The solution has just undergone an upgrade that enhances POPI/GDPR functionality and resolves some smaller operational issues. This has been successful.

The group’s digital platform (including but not limited to the newly re-launched southernsun.com) continues to enable better customer engagement, relationship and business management.

A cloud-based PABX (telephone solution) is being introduced as the traditional PABXs reach the end of their lifespans. This cloud-based solution supports the group’s efforts to minimise its environmental impact by replacing the old PABXs’ electricity consumption and footprint. The group will continue this roll-out as and when traditional PABXs reach the end of their lifespan.

We strengthened our cyber-security efforts with improved solutions and firewalls that include both internal and external protection layers. Further, we engaged a tier one third-party solution provider who manages the cyber-security operations centre (CSOC). Its focus includes management, detection, and response (MDR) services. This was extended to include vulnerability management.

Southern Sun brand portfolio management

As a leading hospitality company in southern Africa, our unique selling propositions of creating memorable experiences, providing quality products and delivering trusted service with flair are synonymous across the Southern Sun family of brands.

Shortly after the end of the financial year, the group rebranded to Southern Sun, a decision which has been well received by our employees, suppliers, guests, and other stakeholders since it was announced at the Africa Travel Indaba event in May of 2022 with the “Follow the SUN” campaign. In line with the rebranding, all digital and electronic documentation was updated with the Southern Sun branding.

Southern Sun’s hotel brand portfolio has remained unchanged, and our luxury, full service and economy segments continue to serve our guests with trusted offerings while the brand architecture continues to enable ease of decision making across our operations. Our investment in the sunburst also continues to pay off as it unites our family of brands and honours our rich heritage.

In October 2021, Marriott vacated the Protea Hotel by Marriott Victoria Junction. In February 2022, this hotel was successfully rebranded and re-opened as Garden Court Victoria Junction, and is now operated by Southern Sun.

Customer satisfaction

Our customers’ satisfaction is of utmost importance and we pay careful attention to their feedback, both when they are at our hotels and when they interact with us before and after their stays. We monitor website traffic, social media communications and online reviews to measure visibility and directly engage with customers. The overall guest satisfaction score from online third-party review sites during the year was 84% (2021: 87%). The decline is largely attributable to the observance of Covid-19 protocols over the past two years which has limited our ability to provide the full suite of services to our guests.
As part of the rebrand, we changed our website address from tsogosun.com to southernsun.com in April 2022. This process was seamless, and the user experience was not affected. During the year under review, southernsun.com received an average of 282 000 visits each month, which is up from 217 000 in the previous year. This increase in traffic was mainly due to the re-opening of the group’s hotels as Covid-19 restrictions eased. The group’s social media account names also changed during the rebrand and total social media platform following remained above 1 million.

Customer rewards programme
In line with the rebrand, the group’s rewards programme name changed to frequentGuest, which is synonymous to Southern Sun as an established rewards programme for loyal and regular guests. The programme structure in tiering and SunRands earning and redemption, and their validity, will remain unchanged. Benefits will be reviewed to align specifically to the Southern Sun hotel offering.

The Southern Sun frequentGuest programme with SunRands currency encourages relationships of mutual value with customers by giving SunRands benefits to members. The programme rewards frequent guests with benefits that can be converted into discounts on accommodation and meals, and provides the group with information about trends across our customer base, which enables us to improve our offerings and respond appropriately to the needs and expectations of our guests.

Southern Sun frequentGuest programme segmental analysis
At the end of the year, there were 99 386 active rewards programme members (2021: 59 540), which equates to a 36% revenue contribution (2021: 42%). The decrease in contribution is because most members are from the domestic market, and therefore the prior year percentage was higher than usual due to travel restrictions during the Covid-19 lockdown and a depressed international market. As such, current performance has normalised when compared with pre-Covid-19 performance in 2020, which was 37%.
Guest and employee safety
Southern Sun recognises that customers and employees’ health, safety and wellbeing are of paramount importance. We maintain the highest quality life safety equipment and compliance with procedures at all our facilities. Compliance with best practice in life safety, health, hygiene and fire protection is a non-negotiable element of our management systems.

Each property undergoes rigorous safety inspections as part of the Organisational Resilience Management Standard audit process, and deviations from the agreed standards, and incidents and events are reported and resolved.

All group hotels, including outsourced restaurants, undergo an independent audit every second or third month. The audit covers food safety practices and compliance to the group’s standard and legislated elements. It also includes temperature control, personal hygiene, good manufacturing practices, product traceability and storage, cleaning programmes and pest control. Audits are strictly unannounced and include surface swabs, hand swabs and food samples, which are selected at random during the audits and assessed for micro-biological quality. No significant issues were noted.

During the year under review, the group enforced strict Covid-19 health and safety protocols at all hotels to provide a safe environment for customers and employees. Special operating procedures and specific protective measures for guest and employee safety were strictly adhered to, with stringent Covid-19 protocols enforced and comprehensive training provided to employees in line with guidelines and hygiene policies of the World Health Organisation, the National Department of Health and the National Institute for Communicable Diseases.

Covid-19 safety protocols included (among other measures):
- wearing masks and enforcing social distancing;
- medical screening questionnaires;
- temperature screening (over 37.5°C undergo evaluation);
- hand sanitising at all entrances and exits;
- providing employees with personal protective equipment;
- maintaining intensified hygiene and cleanliness regimens; and
- strict food handling procedures.

Southern Sun has always maintained the highest standards of cleanliness and hygiene, and while all health regulations regarding Covid-19 were ended by the South African government with effect from 22 June 2022, the group will continue its commitment to exemplary health and safety standards to ensure the safety of our employees and guests.

Looking ahead
Customer rewards programmes
Benefits and rewards are continuously reviewed with current trading conditions in mind to ensure the programme remains relevant. Database growth, repeat visits and incremental spend will remain a core focus of the Southern Sun frequentGuest programme. Data profiling will also remain a priority to improve our understanding of customer behaviour and purchasing patterns. We will continue to pay particular attention to data protection, and alignment with local and international legislation and standards.

IT
We continue managing our current solutions to effectively operate our business while exploring future opportunities, with some initiatives being:
- following a successful pilot hotel, we will be implementing a new wide area network technology namely: SD-WAN (Software Defined WAN). This enhanced management support will reduce operational costs;
- further enhancing our cyber-security and continuously improving our maturity posture;
- maintaining the customer information system, which supports GDPR and POPIA requirements. Further, we will continue working on business and IT processes to ensure compliance. This will include various upgrades to ensure we remain on the most current supported versions;
- further adoption and migration of IT solutions to the cloud that enable improved security and meet legislation requirements. One such initiative is moving our electronic key locking software to the cloud to improve the management and cost effectiveness of the solution, while reducing our footprint within the hotel buildings;
- continuing with the strategy of PABX in the cloud and on-net telephone service to reduce telephony costs;
- enhancing our management of assets and deployment of technology patches; and
- enhancing our internal IT Call Centre solution to improve the experience for our business users and improve on turnaround times.
The South African regulatory environment continues to become more complex with the ongoing introduction of new legislation, rulings, practices and policies.

Legislation applicable to the group is identified by executive management. Processes are adopted and implemented, following presentation and approval thereof by the audit and risk committee, to ensure compliance. We rely on the collaboration of the integrated governance roles of Legal, Compliance, Risk and Internal Audit for an effective regulatory compliance function.

Our compliance management process is split between functions specific to hotels and functions undertaken at head office.

**Hotel level**
The general manager of each hotel ensures compliance with legislation specific to that property. This includes ensuring that the necessary licences, such as liquor licences and business licences are in place as well as ensuring that all health and hygiene, and fire, life and safety standards are being met.

Regular self-audits are undertaken at the hotels through the group’s Organisational Risk Management System (ORMS), which aligns with globally recognised standards, such as:

- ISO 14000 (Environment);
- OHSAS 18000 (Health and Safety);
- ISO 22000 (Food Safety and Hygiene);
- ISO 50000 (Energy Management);
- ISO 28000 (Security);
- BS 25999 (Business Continuity); and
- SANS1162 Standard on Responsible Tourism.

Any areas of low or non-compliance are flagged and followed up by the group’s risk managers and are also monitored by the Operational Director that oversees the property. The outcomes of ORMS audits are reported on quarterly to the audit and risk committee.

**Corporate**
The group has a robust risk management process that includes considering regulatory risks.

Southern Sun declares annually that it has met all the JSE’s continuing obligations to remain listed and that it has not fallen foul of the Companies Act. Members of the board and management declare annually that they have not knowingly caused the group to breach any laws or legislations applicable to it.

The group’s internal audit team assesses the adequacy and effectiveness of compliance processes, systems and structures. Weaknesses and associated risks are noted and recommendations are made to management and the board on corrective actions.

The processing and protection of all sensitive and personally identifiable information is a global priority, and we will be challenged by threats posed by the cyber underworld. With specific reference to POPIA and GDPR, the group revised its existing processes and platforms and implemented new processes to ensure compliance with legislation. We have engaged law firm, Michalsons to ensure that our employees are educated and receive continued training on privacy and data protection legislation. The group created a dedicated email address, privacy@southernsun.com, to which all matters concerning POPIA and GDPR are directed and dealt with speedily.
provide for monitoring and enforcement by regulatory bodies. HOFs are provided with updates and training, where applicable, as and when legislations relevant to the group are amended and changed. The audit and risk committee is updated with all material changes to legislation and regulations twice a year and the board is updated quarterly. Training is provided to board and committee members when applicable.

Southern Sun complies with all applicable legislation in all countries where it operates and, where possible, builds constructive relationships with regulatory bodies. There were no significant breaches of any legislation and no significant fines imposed during the year.

We do not sell a system or manufacture a physical product for resale. Every aspect of the business, from dining at the restaurants to the check-in and check-out at the front desk, requires interaction with people of the group. A pool of qualified, trained and talented people is required to deliver these experiences, supported by empowered management and relevant support services.

At corporate level, the group relies on executives and managers who can identify and manage both risks and opportunities and implement appropriate responses. These individuals need to apply long-term thinking and avoid quick and unsustainable fixes.

To attract and retain the appropriate talent pool, the group must ensure all aspects of the employee’s experience, including but not limited to, remuneration and incentivisation, are properly structured.
Employee engagement
During the first half of the year, employee engagement was predominantly focused on Covid-19 and building resilience considering the devastating impact of the pandemic on lives and livelihoods and on our industry. In the latter part of the year, with the group’s rebrand to Southern Sun, we focused on entrenching the group’s hallmark behaviour standards, which support the group’s employer brand and ensure that, as a service driven organisation, our people craft the intended experiences for guests. Southern Sun’s hallmark behaviour standards are to: be consistent; be present; and to have respect.

Employee wellness
Southern Sun seeks to find ways to help our employees manage their health. This past year, the focus was on providing information and support in response to the Covid-19 pandemic. The Tsogo Sun Group Medical Scheme had 1 341 employee members and 222 pensioner members at the end of the financial year. The scheme continued to regularly communicate with members and their beneficiaries to ensure that they received helpful information with the appropriate level of cover for their health needs.

Health and safety
The hospitality industry is a safe environment compared to many other industries. Our hotels undergo rigorous safety inspections as part of the Organisational Resilience Management Standard audit process, and deviations from the agreed standards, as well as incidents and events, are reported and resolved.

To safeguard employees’ health and safety, in the year under review, the group provided Covid-19 education, sanitising material and personal protective equipment, as well as compulsory screening of employees reporting for duty and limiting the number of them on duty at the same time.

No employee fatalities due to health and safety incidents occurred at any of our properties during the year.

The LTIFR increased to 1.30 (2021: 0.35) due to the re-opening of our hotels and more employees being on duty as lockdown levels eased during the year. This equates to the number of injuries that renders an employee unfit for duty for one shift or longer per 200 000 hours worked.

Unions
Southern Sun recognises the right to freedom of association of employees and we recognise that collective bargaining forms an integral part of labour relations. Of the 5 352 employees in the South African operations, 4 645 employees are eligible to join a union and 857 (18.4%) are members of a union. While collective bargaining agreements are in place, there were no wage negotiations for the improvement of terms and conditions of employment during the year, as most employees were on layoff agreements entered into either with various unions or individual employees.

We endeavour to maintain transparent and constructive relationships with our employees and encourage a culture of engagement in the business. In addition, the consistent approach we have applied in determining annual increases over many years, including during times of economic downturn, has resulted in a low level of industrial action over the past decade.
Our strategy in action  continued
SUSTAINABILITY STRATEGY IN ACTION  continued

Employment equity

The principles of empowerment and diversity are entrenched in Southern Sun’s ethos. Our employment equity is set out in the table below and includes South Africa only. It excludes the approximately 3,044 contractors employed by third-party service providers and 646 employees outside of South Africa.

Employment equity headcount

<table>
<thead>
<tr>
<th>Employees</th>
<th>South African male</th>
<th>South African female</th>
<th>Foreign nationals</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Indian</td>
<td>Coloured</td>
<td>White</td>
</tr>
<tr>
<td>Permanent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives and management</td>
<td>123</td>
<td>36</td>
<td>46</td>
<td>102</td>
</tr>
<tr>
<td>Supervisory and skilled</td>
<td>636</td>
<td>77</td>
<td>68</td>
<td>24</td>
</tr>
<tr>
<td>General</td>
<td>172</td>
<td>24</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Operative support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives and management</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Supervisory and skilled</td>
<td>327</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>General</td>
<td>629</td>
<td>20</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Total 2022</td>
<td>1 888</td>
<td>165</td>
<td>128</td>
<td>140</td>
</tr>
<tr>
<td>Total 2021</td>
<td>2 095</td>
<td>140</td>
<td>179</td>
<td>165</td>
</tr>
</tbody>
</table>

Permanent employees work full time or on a flexible roster according to business levels, and are guaranteed a minimum number of hours of work per month. Operational support staff (OSS) generally work on a flexible roster according to business levels and have no guaranteed hours.

We ensure our workforce reflects our focused employment equity philosophy. In this regard, the overall percentage of female employees is 55.5% of the workforce (2021: 54.9%) and the representation of black employees throughout the group is 93.7% (2021: 92.7%). In accordance with our management and control B-BBEE results measured against the National Black Economically Active Population demographic published by Stats SA, black representation is 20.0% at senior management level (2021: 25.8%), 45.7% at middle management level (2021: 53.8%) and 72.5% at junior management level (2021: 77.6%).

The main challenges in employment equity remain in the levels of executive management, senior management and black disabled employees. We will continue focusing on facilitating and fast tracking the development of our employees’ skills, enabling our development pipeline.

Looking ahead

Employee development

We will continue focusing on training our employees and equipping them with skills to improve performance and develop their careers by nurturing their leadership potential. In addition to face-to-face training, employees across all occupational levels can access training modules via Southern Sun’s online platform and receive certificates on completion of courses. Managers’ coaching remains a focus to ensure managers facilitate the growth of their employees to assist them to reach their full performance potential.
Growth in cash flow over time is generated through the optimal operation of the group’s capitals (organic growth), and building its tangible and intangible asset base through the development and acquisition of new businesses (inorganic growth). It is only with sustainable and growing cash flows that a business can hope to create value for the organisation, its stakeholders and society, and thereby achieve a multitude of additional benefits such as increased levels of employment and meaningful social contributions.

Growth Strategy in Action

We know that businesses are valued as the present value of the future cash flows that can be generated by their assets and other capitals. While all the capitals we use are required to generate value, we use growth in cash flow as the true measure of growth for our business over time.

<table>
<thead>
<tr>
<th>Key pillars</th>
<th>Material risks</th>
</tr>
</thead>
</table>
| **Free Cash Generated of** R223 million including pre-tax business interruption insurance proceeds of R191 million | • Macroeconomic environment  
• Crime, security, health and safety  
• Portfolio management and product relevance  
• Capacity  
• Local authority capability |
| **Investment Expenditure of** R Nil to preserve cash resources | • Missed opportunities |

* South African system-wide portfolio including managed properties.
Our strategy in action continued

SUSTAINABILITY STRATEGY IN ACTION continued

ORGANIC GROWTH
Hotels have high levels of operational gearing due to substantial levels of fixed operating costs. The major driver of long-term organic growth will arise from maximising the revenue generated from the group’s asset base in all macroeconomic circumstances.

Operational overheads must be reviewed and measured for efficiency and to ensure each Rand spent is either in support of the objective of sustainability or growth.

Segmental operating performance

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue 1</th>
<th>Ebitdar 2</th>
<th>Ebitdar margin</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2022 Rm</td>
<td>2021 Rm</td>
<td>2022 Rm</td>
</tr>
<tr>
<td>Manco</td>
<td>139</td>
<td>68</td>
<td>224</td>
</tr>
<tr>
<td>Rental income – HPF 6</td>
<td>68</td>
<td>27</td>
<td>68</td>
</tr>
<tr>
<td>Trading income – HPF 4</td>
<td>177</td>
<td>38</td>
<td>(7)</td>
</tr>
<tr>
<td>Internally managed 5</td>
<td>2 100</td>
<td>904</td>
<td>253</td>
</tr>
<tr>
<td>Coastal</td>
<td>1 167</td>
<td>429</td>
<td>197</td>
</tr>
<tr>
<td>Inland</td>
<td>697</td>
<td>334</td>
<td>13</td>
</tr>
<tr>
<td>Other</td>
<td>236</td>
<td>141</td>
<td>43</td>
</tr>
<tr>
<td>Offshore</td>
<td>318</td>
<td>135</td>
<td>52</td>
</tr>
<tr>
<td>Internal management fees 3</td>
<td>(94)</td>
<td>(34)</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>2 708</td>
<td>1 138</td>
<td>590</td>
</tr>
</tbody>
</table>

1 All revenue and income from hotel operations is derived from external customers. No one customer contributes more than 10% to the group’s total revenue.
2 Refer reconciliation of operating profit to Ebitdar in note 5 of the consolidated annual financial statements.
3 Included in Manco.
4 This segment reflects the trading performance of The Westin Cape Town and Radisson Blu Gautrain Hotel since the acquisition of their related operating/tenant companies in the prior financial year 1 October 2020 and 1 November 2020, respectively.
5 Trading relating to the Arabella Hotel, Golf & Spa, Mount Grace Hotel & Spa, Hazeyview Sun, The Edward and Southern Sun The Marine are included in the Internally managed segment as well as Garden Court Victoria Junction which moved from investment properties to owner-occupied property, plant and equipment during the year. Garden Court Victoria Junction was included in the Rental income – HPF segment in FY21 (2021: total rental income from the hotel was R6 million).
6 Following the group’s acquisition of 100% interest in Hospitality, and the decrease in rental income due to the decrease in externally managed properties, the CODM has changed the basis of review regarding property rates, taxes and other costs recovered from HPF. The CODM now reviews the Rental income – HPF segment before deducting property rates, taxes and other costs recovered from HPF. Had the segment been reviewed on a similar basis in 2021, the Rental income – HPF revenue and Ebitdar would have amounted to R52 million.
Operational review

Trading for the group’s South African hotels for the 12 months recorded system-wide (including owned and managed hotels but excluding externally managed hotels) revenue per available room (Revpar) of R341 (2021: R132) due to a 19.5 percentage points (pp) increase in occupancies from the prior period to 32.7% (2021: 13.2%) and a 3.8% increase in average room rates to R1 044 (2021: R1 006). Occupancy for the current and comparative year is expressed as a percentage of total rooms available irrespective of whether the hotel traded or not.

The management activities of the South African hotels, net of group corporate office costs, generated Ebitdar of R224 million (2021 loss: R27 million) for the year. This performance results from an R83 million increase in internal and external management fee income due to improved trading levels, insurance proceeds in the South African hotel division of R179 million and central office costs increases of R11 million.

Rental income from investment properties of R68 million (2021: R27 million) relates to the six remaining investment properties in Hospitality Property Fund Limited (Hospitality or HPF), five of which are hotels managed by third parties and the sixth is the Sandton Eye retail property. On a like-for-like basis and excluding the hotels that transferred to owner-occupied property, plant and equipment during the prior year (being The Westin Cape Town, Hazuyw Sun, The Edward, Radisson Blu Gautrain Hotel, Southern Sun The Marine and Mount Grace Hotel & Spa) rental income improved by R65 million from a loss of R2 million in the prior year which reflects the improvement in trading largely from government, corporate groups and conferencing segments in the current year. Marriott vacated the Protea Hotel Victoria Junction in mid-October 2021 following which the group opted to close the hotel given the lack of demand in Cape Town. The hotel reopened as a Garden Court in February 2022.

The trading income – HPF segment which reflects the trading performance of The Westin Cape Town and Radisson Blu Gautrain Hotel, generated revenue of R177 million (2021: R38 million) and Ebitdar losses of R7 million (2021 loss: R24 million) for the year ended 31 March 2022. FY21 results for the segment reflect six and five months’ trading from October 2020 and November 2020, respectively. The performance of these hotels in FY22 reflects their location in the Cape Town and Sandton nodes and their reliance on the international and corporate segments which suffered under the Covid-19 restrictions during the third wave of infections but recovered in the second half of the year. At The Westin Cape Town, the recovery in the corporate and groups segments during February and March 2022 exceeded expectations and converted an Ebitdar loss of R17 million for the six months to September 2021, to a profit of R3 million for the year ended 31 March 2022. The Radisson Blu Gautrain Hotel which is largely dependent on corporate travel and small groups, recorded an Ebitdar loss of R10 million for the year ended 31 March 2022, managing to reduce its Ebitdar loss to R2 million in the second half of the FY22 year compared to an Ebitdar loss of R8 million for the six months to September 2021.

Overall, revenue generated by the internally managed South African hotel portfolio owned and leased by the group for the year was R2.1 billion (2021: R904 million). This includes revenue from the Sandton Consortium hotels of R215 million (2021: R87 million). All regions performed well this year relative to the prior year, given the extended hard lockdowns between April and June 2020. Sporting and government events made a significant contribution during the year, with the KZN region generating revenue and Ebitdar of R595 million (2021: R244 million) and R124 million (2021 Ebitdar loss: R17 million) respectively, due to continued support from domestic leisure and government business as well as the National Indigenous Games Festival which was held in Durban during September 2021 as part of Heritage month. Similarly, revenue and Ebitdar from the Cape region was R572 million (2021: R185 million) and R73 million (2021 Ebitdar loss: R75 million) respectively for the year, supported by accommodation provided to students left stranded by the fires in Cape Town during April 2021, the Cape Town leg of the Castle Lager Lions Series tour, the opening of parliament as well as the Cricket SA T20 tournament in February 2022. The inland region was hard hit by the third wave of Covid-19 infections and the negative sentiment caused by the violent protests, particularly in Gauteng, following the ban on leisure travel from the province. Outlying hotels recovered as government activity increased over the second half of the year, while the Sandton node continued to struggle with little recovery in corporate travel.

Key performance indicators

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic income increase/(decrease)</td>
<td>R1 486 million</td>
<td>(R3 304 million)</td>
<td>(R134 million)</td>
</tr>
<tr>
<td>Organic Ebitdar increase/(decrease)</td>
<td>R567 million</td>
<td>(R1 436 million)</td>
<td>(R181 million)</td>
</tr>
<tr>
<td>Free cash generated/(utilised)</td>
<td>R223 million</td>
<td>(R446 million)</td>
<td>R484 million</td>
</tr>
<tr>
<td>Maintenance capex</td>
<td>R43 million</td>
<td>R46 million</td>
<td>R366 million</td>
</tr>
<tr>
<td>Adjusted HEPS per share increase/(reduction)</td>
<td>43.4 cents</td>
<td>(77.6 cents)</td>
<td>(11.7 cents)</td>
</tr>
</tbody>
</table>
As a result, this region recorded revenue of R697 million (2021: R334 million) and Ebitdar of R13 million (2021 Ebitdar loss: R56 million) for the year to 31 March 2022. The Other segment which includes the timeshare and SUN1 portfolios, generated revenue of R236 million (2021: R141 million) and Ebitdar of R43 million (2021: R17 million). While the SUN1 portfolio continues to experience depressed occupancy levels due to its reliance on transient business travel, the Resorts portfolio has continued to perform well throughout the Covid-19 pandemic due to its leisure-focused offering, benefiting from domestic clientele.

The Internally managed segment recorded Ebitdar of R253 million (2021 loss: R131 million) for the year ended 31 March 2022. Ebitdar includes profits of R3 million (2021 Ebitdar loss: R10 million) relating to Mount Grace Hotel & Spa, Hazyview Sun, The Edward, Southern Sun The Marine and Garden Court Victoria Junction which were externally managed for various periods of time in the prior financial period.

Total revenue for the offshore division of hotels of R318 million (2021: R135 million) for the year largely relates to the Southern Sun Maputo, Mozambique which was the only owned hotel in the offshore portfolio that traded throughout the lockdown period; the Southern Sun Ikoyi, Nigeria which has benefited from domestic leisure and business travel in the region; and Paradise Sun which received substantial demand for travel from the European market, as Covid-19 restrictions eased.

Zambia is reliant on corporate travel from South Africa and given the restrictions on international travel over the year, trading at the Southern Sun Ridgeway has remained muted since its opening in September 2020, and in response, expenses have been tightly controlled. In the owned offshore portfolio only the Southern Sun Dar es Salaam, Tanzania remains closed with Paradise Sun, Seychelles and the StayEasy Maputo, Mozambique having opened their doors in July 2021 and September 2021 respectively in response to easing of travel restrictions by the hotels’ source markets. The offshore division generated Ebitdar of R52 million (2021 loss: R22 million) which includes R12 million in insurance claims settled with Paradise Sun for business interruption and material damages caused by tidal waves in October 2019.

Combined South African and offshore hotel trading statistics, excluding hotels managed on behalf of third-party owners and those leased by third parties in Hospitality, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 March 2022</th>
<th>31 March 2021</th>
<th>31 March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>30.6%</td>
<td>12.2%</td>
<td>59.3%</td>
</tr>
<tr>
<td>Average room rate</td>
<td>R1 072</td>
<td>R1 019</td>
<td>R1 090</td>
</tr>
<tr>
<td>Revpar</td>
<td>R328</td>
<td>R124</td>
<td>R647</td>
</tr>
<tr>
<td>Rooms available</td>
<td>5 008 000</td>
<td>4 769 000</td>
<td>4 314 000</td>
</tr>
<tr>
<td>Rooms sold</td>
<td>1 530 000</td>
<td>582 000</td>
<td>2 560 000</td>
</tr>
<tr>
<td>Rooms revenue</td>
<td>R1 641 million</td>
<td>R593 million</td>
<td>R2 791 million</td>
</tr>
</tbody>
</table>

**Maintenance capital expenditure**

The group spent R43 million (2021: R46 million) on maintenance capex, largely on repairs to ensure that the hotels are able to continue operating optimally.

**Looking ahead**

The recovery in occupancies to pre-Covid-19 levels is only likely to occur once international inbound and corporate travel resumes.

We do feel that we have passed the significant milestone of moving from a state of survival to a period of recovery. Ultimately, the demand for travel should normalise and the resilience of local leisure and, to an extent, groups and conferencing business in recent quarters is encouraging.

A further promising development is that key hospitality events are back on the calendar, including the Mining Indaba held in Cape Town as well as 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 guests are increasingly comfortable to travel to South Africa and government’s decision to repeal Covid-19 health regulations should improve sentiment further. With rising global inflation and the weakness of the Rand, South Africa is an affordable and attractive travel destination and we look forward to a busy summer season in FY23.
INORGANIC GROWTH

Inorganic growth will be a combination of capacity increases in existing businesses, greenfield developments in new markets and acquisitions within the group’s core competencies. In all situations, disciplined due diligence and feasibility are critical to ensure the success of growth projects.

The propensity for growth projects to absorb financial and human resources must be carefully evaluated within the group’s capacity tolerances as these can impact some of the pillars of sustainability.

Investment activity expenditure

<table>
<thead>
<tr>
<th></th>
<th>31 March 2022</th>
<th>31 March 2021</th>
<th>31 March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Sun Pretoria</td>
<td>–</td>
<td>–</td>
<td>200</td>
</tr>
<tr>
<td>Riverside Conference Centre</td>
<td>–</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Investment activity expenditure</td>
<td>–</td>
<td>16</td>
<td>211</td>
</tr>
</tbody>
</table>

Looking ahead

In this constrained growth environment and with the group utilising available cash and debt facilities to fund operations while the economy recovers from the impact of Covid-19, inorganic growth is not our focus for the medium term.