Commentary

Trading levels during the first six months of the 2023 financial year have been encouraging with occupancy increasing to 46.0% from 21.9% in the prior comparative period and the group returning to profitability with adjusted headline earnings of R17 million and free cash flow of R191 million from continuing operations.

South African system-wide room sales averaged 83% of pre-Covid-19 levels over the interim period, showing improvement across all regions and market segments, including leisure, government, corporates and groups and conferencing. During October 2022, the group achieved an occupancy of 59.2% across its owned hotel portfolio, the first time this level has been reached since March 2020 when the group initiated the deactivation of the majority of its portfolio in response to government regulation aimed at minimising the impact of the pandemic. The lifting of all remaining Covid-19 protocols by Health Minister, Joe Phaahla in June 2022 was a significant milestone and signalled the group's transition from survival to recovery.

An area where we have not seen the same improvement in activity levels is from the transient business traveller. We believe that this is a function of the depressed local economy and businesses holding back on travel spend.

So while we are pleased by the recent upward trend in trading and anticipate a return to normalised travel patterns, we acknowledge that it will take time for the economy to recover and it requires policy certainty from government and solutions to the country's ongoing energy crisis. The continuous load shedding has a significant impact on the group's operating costs and in the first six months of the 2023 financial year, the group has spent R13 million on diesel in our owned units alone. In comparison to the R1 million spent on diesel in the prior comparative six-month period, the combination of load shedding and increasing fuel prices is clearly harmful.

We will continue to manage cash flow and liquidity closely as the country faces rising food and fuel prices and increasing interest rates, which not only affects the group, but also our guests. With travel budgets reduced to save costs and individuals preserving disposable income in a rising interest rate environment, the increasing cost of transport due to rising fuel prices is a travel deterrent, particularly for international and corporate travel, which are the two segments missing from the group's recovery to pre-Covid-19 levels.

A promising development in the interim period has been that key hospitality events are back on the calendar, including the Mining Indaba held in Cape Town as well as the Africa Travel Indaba held in Durban, both in early May 2022. While the attendance volumes were around 75% of pre-Covid-19 levels and, as a result, there was less opportunity to yield rates, we are encouraged that international guests are increasingly comfortable travelling to South Africa. This continuing trend could signal a much better summer season in Cape Town for the 2023 financial year than what was experienced in the 2022 financial year when the

Omicron variant and South Africa's subsequent placement on the UK's red list effectively eliminated foreign in-bound travel to the region.

Having successfully hosted the Castle Lager Lions Series tour to South Africa in July 2021, the group continues to benefit from sporting events including the recent Welsh rugby tour to South Africa during July 2022 enjoyed by spectators across the country. In addition, the Rugby World Cup Sevens tournament was hosted in Cape Town in September 2022 and while this was a short three-day event, it did create excitement among South Africans and increased the country's visibility to international markets. Thanks to the group's distribution and ability to coordinate large sporting events, SA Rugby has renewed its long-standing partnership with Southern Sun for another five years, extending the group's association with SA Rugby and the Springboks to three decades.

Table 1: South African system-wide portfolio – trend in sale of rooms[2]

Months	April	May	June	July	August	September	October
Total rooms – system-wide FY23	191 463	210 446	194 208	220 972	212 627	246 402	267 721
Total rooms – system-wide FY22	117 952	112 361	93 117	55 280	100 693	138 941	167 967
Total rooms – system-wide FY21	–	–	9 687	20 117	33 710	66 268	88 370
Total rooms – system-wide FY20	239 377	237 090	251 186	262 886	263 352	288 360	286 017
FY23 as % of FY20[1]	80	89	77	84	81	85	94

[1] *The appropriate comparative to assess the group's progress towards normalised trading levels is FY20 as this year reflects system-wide rooms sold pre-Covid-19.*

[2] *The data in this table is indicative only, excludes externally managed rooms and has not been adjusted for changes in the hotel portfolio.*

Corporate activity

On 26 May 2022, the group announced two transactions, which, if successfully implemented, will materially reduce the group's gearing levels by some R900 million (depending on the US$/ZAR exchange rate) and strengthen our balance sheet so that we can maximise benefits from the recovery in trading.

The first of these transactions is the conclusion of the separation agreement with the Tsogo Sun Gaming Limited group (TSG), which gave TSG the right to terminate (on one months' notice) the various management and licencing agreements in respect of 15 hotels owned by TSG, for a once-off payment of R399 million (Separation Payment). The group also concluded a hotel properties and businesses acquisition agreement with TSG to acquire the Southern Sun Mbombela and StayEasy Mbombela hotels, which are important for the group's distribution in the Mpumalanga province, for an aggregate purchase consideration of R142 million. This transaction was approved at a Southern Sun shareholder meeting held on 18 August 2022 and implemented effective on 30 September 2022 with net proceeds of R248 million received on the same day. To date, management contracts over seven of the 15 hotels have been terminated, being the hotels at the Silverstar Casino, Gold Reef City Casino and Montecasino precincts. For further details refer to note 6.

At the same meeting, shareholders approved the group's name change to Southern Sun, the final step in our rebranding. Southern Sun is a well-known brand with more than 50 years of heritage and, having navigated the worst of the pandemic, the transaction with TSG presented the ideal opportunity to re-establish ourselves as the leading hospitality group in southern Africa and create excitement and optimism among our employees, suppliers and guests, all of whom have supported us throughout the past two years and have embraced the rebranding as a natural fit for the group.

The second transaction announced by the group was that its wholly owned subsidiary Southern Sun Africa (SSA) had entered into a Sale Agreement with Kasada Albatross Holding (the Purchaser), which is a subsidiary of Kasada Hospitality Fund LP. In terms of the Sale Agreement, the group committed to disposing of its entire 75.55% shareholding and shareholder loan claims in Ikoyi Hotels Limited (Ikoyi) which owns the group's Southern Sun Ikoyi hotel in Ikoyi, Nigeria (collectively, Ikoyi Hotels Disposal).

The aggregate disposal consideration per the agreement is US$30 million, comprising US$29 million for the shares and US$1 million for the shareholder loan claims, subject to customary working capital adjustments. In addition, the successful implementation of the disposal would result in the reduction of the group's US dollar-denominated debt (USD debt) through the deconsolidation of Ikoyi's external debt of US$13 million.

The Ikoyi Hotels Disposal is subject to the fulfilment (or waiver) of various conditions precedent, including the approval of the Federal Competition and Consumer Protection Commission in Nigeria and for the Purchaser to release the group from its guarantee obligations in respect of the external debt of Ikoyi. The Federal Competition and Consumer Protection Commission in Nigeria approved the transaction on 13 September 2022 and the group received the Certificate of Capital Importation from the Central Bank of Nigeria on 10 November 2022. The group continues to follow up on its release from the guarantee obligations in respect of the Ikoyi external debt, which is the only remaining condition still outstanding. For further information regarding the implications of the Ikoyi Hotel Disposal on the group, refer to notes 11 and 12. Given the status of the transaction, Ikoyi was classified as available for sale and disclosed as a discontinued operation. Refer to note 13 for further information.

Review of operations

Overall, the group's trading results have improved significantly from the prior comparative period, however, this is in the context of 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 (KZN) and Gauteng both of which occurred in the prior period.

Total income from continuing operations for the interim period ended 30 September 2022 of R2.5 billion (2021: R919 million) ended R1.6 billion above the prior period with a R794 million and R325 million increase in hotel rooms' revenue and food and beverage revenue respectively. Other revenue ended R405 million above the prior period at R528 million and apart from the overall improvement in trading levels with management fee, conferencing, parking and spa income all increasing compared to the prior period, other revenue also includes the Separation Payment received on implementation of the transaction with TSG (refer to the *Corporate Activity* section) as per IFRS 15.

In addition, other revenue for the prior six months includes R63 million of contractual Covid-19-related revenue which did not recur in the current interim period. The group generated Ebitdar from continuing operations of R449 million (2021: R139 million which includes net business interruption insurance proceeds of R162 million), a R310 million increase on the prior period and equating to an Ebitdar margin of 21.6% (if the Separation Payment is excluded from total income). Excluding the proceeds of R390 million (excludes the amount receivable relating to Southern Sun Hemingways (refer to note 6)) received from TSG, the group generated cash of R206 million over the six-month period at an average room rate (ARR) of R1 164 and 46.0% occupancy, highlighting the impact of the cost restructuring undertaken over the past two years.

The management activities of the South African hotels, net of group corporate office costs, generated Ebitdar of R70 million (2021: R145 million) for the period. Excluding the insurance proceeds attributable to the South African hotel division of R179 million (R150 million net of provision raised) in the prior period, this performance results from a R55 million increase in internal and external management fee income due to improved trading levels, the release of R25 million (2021: Rnil) from the SunRands provision and increased central cost expenses of R5 million.

Rental income from investment properties of R58 million (2021: R7 million) relates to the five remaining investment properties not operated or managed by the group, four of which are hotels managed by third parties and the fifth is the Sandton Eye retail property. On a like-for-like basis and excluding the Garden Court Victoria Junction hotel that transferred to owner-occupied property, plant and equipment in October 2021, rental income improved by R55 million compared to a R3 million rental income in the prior period which reflects the improvement in trading, particularly at the Birchwood Hotel and Conference Centre and the Radisson Blu Waterfront Hotel.

The ***Trading income – Westin and Gautrain*** segment which reflects the trading performance of The Westin Cape Town and Radisson Blu Gautrain Hotel, generated revenue of R177 million (2021: R46 million) and Ebitdar of R38 million (2021 loss: R25 million) for the period ended 30 September 2022. At The Westin Cape Town, the recovery in the corporate and groups segments resulted in Ebitdar of R33 million (2021 Ebitdar loss: R17 million) for the six months to September 2022. The Radisson Blu Gautrain Hotel which is largely dependent on corporate travel and small groups, recorded Ebitdar of R5 million (2021 Ebitdar loss: R8 million) for the six months to September 2022.

Overall, revenue generated by the ***internally managed*** South African hotel portfolio owned and leased by the group for the six months was R1.6 billion (2021: R762 million). This includes revenue from the Sandton Consortium hotels of R221 million (2021: R75 million).

All regions performed well relative to the prior period, given the impact of the Delta variant of Covid-19 and the rioting in KZN between June and July 2021. Various rugby tournaments and government events along with the African Travel Indaba and the Mining Indaba in May 2022, made a significant contribution during the period, with the ***Coastal region*** generating revenue and Ebitdar of R844 million (2021: R412 million) and R137 million (2021 Ebitdar: R23 million) respectively, due to continued support from domestic leisure, sport and government business.

The corporate segment has been the slowest to return to pre-Covid-19 levels and as a result, the ***inland region*** has lagged behind other regions in terms of recovery, particularly in Gauteng. Outlying hotels recovered as government activity increases in the lead-up to elections, while the Rosebank node continued to struggle with little recovery in corporate travel. Despite this, government and groups and conferencing business made a considerable contribution, particularly in the outlying nodes, and this region recorded revenue of R649 million (2021: R251 million) and Ebitdar of R93 million (2021 Ebitdar loss: R17 million) for the six months ended 30 September 2022.

The ***other segment*** which includes the timeshare and SUN1 portfolios, generated revenue of R145 million (2021: R99 million) and Ebitdar of R22 million (2021 Ebitdar: R7 million). While the SUN1 portfolio continues to experience depressed occupancy levels due to its reliance on transient business travel, the timeshare portfolio has continued to perform well due to its leisure-focused offering, benefiting from domestic clientele.

Total revenue for the continuing operations in the ***offshore*** division of hotels of R178 million (2021: R89 million) for the six-month period largely relates to the Southern Sun Maputo, Mozambique which benefited mainly from oil and gas-related business; and Paradise Sun thanks to support from the European market. Trading at the Southern Sun, the Ridge in Zambia was muted due to its reliance on corporate travel from South Africa with much of the demand directed to the outlying mining regions as opposed to the city. In response to these dynamics, expenses have been tightly controlled. In the owned offshore portfolio only the Southern Sun Dar es Salaam, Tanzania remains closed, however, conditions in-country have improved, and the group continues to monitor levels of demand for an indication that re-opening the hotel would be feasible. The continuing operations of the offshore division generated Ebitdar of R31 million (2021 Ebitdar loss: R1 million, which included R12 million insurance proceeds).

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

For the six months ended 30 September	2022	2021
Occupancy (%)	**46.0**	21.9
Average room rate (R)	**1 164**	999
RevPar (R)	**535**	219
Rooms available ('000)^	**2 538**	2 507
Rooms sold ('000)	**1 168**	549
Rooms revenue (Rm)*	**1 359**	548

^ The increase in rooms available relates to the transfer of the Garden Court Victoria Junction with effect from October 2021, which moved from investment properties to owner-occupied property, plant and equipment.

** Trading statistics have not been adjusted to exclude discontinued operations and rooms revenue is the total revenue generated from continuing and discontinued operations.*

Property and equipment rental expense of R63 million (2021: R9 million) represents the variable portion of lease payments including the impact of rent concessions in the prior period and modifications. Excluding the impact of IFRS 16, the group incurred cash rent of R131 million for the six-month period compared to R72 million in the prior comparative period.

Exceptional gains for the period of R377 million (2021 loss: R3 million) relate to the Separation Payment received on implementation of the transaction with TSG (refer to the *Corporate Activity* section) net of losses on disposal of property, plant and equipment, trademark impairments and transaction costs totalling R22 million.

Management has assessed the fair value of the group's investment properties by reviewing the cash flow forecasts for the period FY24 to FY28, which we believe adequately reflect cash flows generated by the underlying hotels for the years ending March 2023 to March 2025 as the recovery in trading levels unfolds and normalises. In addition, various technical inputs were reviewed including the 10Y bond yield which has increased from 9.5% at 31 March 2022 to 10.9% as at 30 September 2022. Based on these factors, management is of the view that the increased cash flows generated from FY23 to FY25 as a result of the recovery in trading are offset by the increase in discount rate caused by the increase in the 10Y bond yield. Accordingly, management's assessment is that the values of investment properties, goodwill and property, plant and equipment are fairly stated at 30 September 2022 and no fair value adjustments, additional impairments or impairment reversals are required. The valuations of investment properties and impairment assessments of goodwill and property, plant and equipment, will be revised at year end to take into account any changes in the technical inputs and the impact that changing conditions may have on the estimated future cash flows. For further analysis, refer to notes 3 and 4.

Net finance costs of R175 million (2021: R175 million) includes interest on capitalised leases of R63 million (2021: R64 million) and have remained flat despite increasing interest rates. Given increasing cash generation over the period under review, the group reduced interest-bearing debt by R630 million, offsetting the impact of rising interest rates.

The share of profit from associates and joint ventures of R27 million (2021: R6 million) increased by R21 million, R11 million of which relates to fair value adjustments on interest rate hedges. The base can be attributable to improving trading conditions. Hotel trading in the UK has recovered quickly, particularly in the regional markets.

The income tax expense for the period of R97 million (2021 credit: R54 million) relates mainly to the tax raised on the Separation Payment received from TSG as well as increased trading levels during the first six months of the year. The group's operating subsidiaries remain in assessed loss positions although much of the loss has been utilised by the gain relating to the Separation Payment from TSG. Deferred income tax assets amounting to R218 million have been recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Group adjusted headline profit from continuing operations for the interim period at R17 million (2021 loss: R161 million) has improved by R178 million. The adjustments include the reversal of the post-tax and non-controlling interest impacts of the exceptional gains noted above. The weighted average number of shares in issue has remained unchanged from the prior period and the resultant adjusted headline earnings per share from continuing operations is 1.2 cents (2021 loss: 10.9 cents).

Net cash generated from operations for the interim period of R658 million (2021: R65 million) comprises profit before interest and income tax of R570 million (2021 loss: R52 million) and includes the Separation Payment received from TSG of R390 million and adjusted for non-cash movements of R359 million (2021: R228 million), decrease in working capital of R99 million (2021 increase: R63 million), net finance costs of R172 million (2021: R175 million) and income tax paid of R14 million (2021: R3 million). Cash flows utilised in investment activities of R191 million (2021: R14 million) consisted mainly of the acquisition cost of R142 million for the Southern Sun and StayEasy Mbombela hotels paid to TSG as well as maintenance capital expenditure of R34 million. Interest-bearing debt net of cash at 30 September 2022 totalled R2.5 billion, which is R315 million less than the 31 March 2022 balance of R2.8 billion.

Funding capacity and covenants

Lenders have been very supportive of the group and as previously reported, approved the covenant waivers for September 2022 on the basis that the rolling negative Ebitda (earnings before interest, income tax, depreciation, amortisation, IFRS 16 rent adjustments, share-based payment expense and exceptional items) threshold at company level be reduced to between R326 million (June 2022 measurement period) and R243 million (September 2022 measurement period). In addition, the group must maintain a minimum liquidity level of R625 million including available facilities and cash on hand and revised covenants continue to be measured on a quarterly basis. The terms of the revised waiver relating to an event of default remain unchanged, i.e. 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 group met these covenant requirements for the measurement periods ended 30 June 2022 and 30 September 2022.

In March 2022, the group extended debt facilities and corporate bonds maturing prior to 31 March 2023 by 12 months to ensure that solvency requirements were met and that the group could meet its obligations. Of these extended debt facilities, a R500 million term loan maturing on 31 August 2023 has been reclassified to short-term borrowings. As a consequence of the Ikoyi Hotels Disposal, the Ikoyi debt of US$13 million (R231 million) has been reclassified to liabilities held for sale. Refer to note 13 for further details. The group is currently in the process of refinancing its debt package to simplify the structure, further extend the tenure and reintroduce normalised covenants. The leverage ratio and interest cover ratio for the initial covenant measurement period ending 31 March 2023, were set at less than 4.5 and greater than 2.0, respectively. In addition, the group is required to maintain a minimum liquidity level of R500 million until 31 March 2023. Based on the cash flow forecasts prepared by management (refer to note 3.1.2) and available facility headroom, there is no reason to believe that these covenants will not be met. Refer to note 11 for further details on the refinancing.

Going concern

The condensed unaudited consolidated interim financial statements are prepared on the 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. Refer to note 12 for further details.

As at 30 September 2022, the group has net cash and cash equivalents of R510 million, net of bank overdrafts (2021: R489 million). The group has R3.0 billion (2021: R3.5 billion) of gross interest-bearing debt (excluding capitalised lease liabilities) and access to R2.1 billion in undrawn facilities to meet its obligations as they become due.

In preparing the cash flow forecasts utilised to assess going concern, the group's recovery from the impact of the Covid-19 pandemic was considered. Given the uncertainty around the length of time it would take for levels to recover to pre-Covid-19 levels, management incorporated a 5% 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 of the company (directors) has assessed the cash flow forecasts together with the other actions taken or proposed by management and is of the view that the group has sufficient liquidity to meet its obligations over the next 12 months.

Prospects

In the short term, the group remains optimistic that trading levels will continue to improve throughout the summer season. Having recently completed our SunBreaks campaign, some interesting trends were highlighted. Sale bookings for Cape Town exceeded 2019 levels which we believe is due to the cost of flights – guests are booking early to secure cheaper flight prices. Sale bookings for KZN, however, were below 2019 levels and indicated that there is still a trend towards shorter lead-time bookings, particularly where holiday destinations are closer and travel costs are affordable.

In the medium term and in the face of inflationary cost pressures, the group will continue to focus on maintaining the cost efficiencies that were achieved through the restructuring that took place in response to the pandemic. As cash generation improves, the intention is to complete certain of the refurbishment projects that were placed on hold, particularly at flagship properties so that we avoid downtime during high-demand periods.

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 have not declared an interim cash dividend for the six-months ended 30 September 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 11 of these condensed unaudited consolidated interim financial statements, which are non-adjusting events and have no impact on the results for the six months ended 30 September 2022.

Presentation

Shareholders are advised that a presentation on the results for the six months ended 30 September 2022 will be held on Friday, 25 November 2022 at 10:00 via Microsoft Teams, and those wishing to join can find the link to the presentation on the company's website at **www.southernsun.com/investors**.

M von Aulock	**L McDonald**
Chief Executive Officer	*Chief Financial Officer*

24 November 2022