The interim period under review was marred by the severe third wave of Covid-19 infections during June and July 2021 which resulted in level 4 lockdown restrictions, the highest instituted since the beginning of the pandemic, aimed at controlling further spread and managing hospitalisations. The banning of alcohol sales as well as domestic leisure travel to and from Gauteng, fuelled by general fear among travellers of contracting the highly contagious Delta variant, negatively impacted trading in all regions setting the group’s recovery back significantly. A further setback was the violent protests and civil unrest in both Gauteng, but most materially for the group, in KwaZulu-Natal (KZN). The KZN region and specifically Durban had been the group’s best performing region throughout the pandemic and the impact of the violence on the confidence of travellers was pronounced. Having achieved its highest level of system-wide room sales since the beginning of the pandemic at 117,952 rooms in April 2021, the group’s room sales dropped to 55,280 in July 2021. This negative impact on sentiment and further delays and disruption to the vaccination rollout has meant that the recovery in the corporate and international travel markets has been further delayed with many corporates only expected to return to their offices in January 2022.

The success of the group’s Covid-19 response during the first and second waves of infection meant that it was well placed to respond to the third wave and more stringent restrictions. Drawing on its ability to quickly deactivate hotels and by converting payroll costs to being more variable in nature during the restructuring, the group was able to reduce payroll costs in the most affected regions being Gauteng and Cape Town. The UIF TERS (Temporary Employer/Employee Relief Scheme) has been of great assistance in alleviating the cash flow burden on both the company and its employees while hotels have been closed or operating at low occupancy levels. The group has processed R112 million (2020: R127 million) in grants over the period.

The group suffered no property damage as a result of the protests in KZN and Gauteng, however, delivery of food and other supplies to properties in the affected areas was interrupted. We are grateful for the dedication and determination shown by our employees, some of whom travelled to work in the midst of the violence and remained at their hotels for the week in order to secure food supplies and ensure that guests, many of whom could not return home, were comfortable and safe.
Thanks to the group’s distribution and ability to co-ordinate 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. Total owned revenue from the tour and included in Other revenue was R64 million. Once again, this tour involved hotel management and employees staying in-house in the bio-bubble for weeks at a time, working long hours and catering to complicated tournament requirements. Another testament to our people who go above-and-beyond to serve our guests and for this, we thank them.

A further positive impact on the results for the six months was the collection of the gross insurance proceeds from the business interruption cover of R177 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 third wave subsided and restrictions were relaxed, trading activity has consistently increased and in October 2021, the group achieved its highest room sales since the pandemic began, supported by the government, sports, groups and conferencing, and domestic leisure segments. In order for the group to return to normalised pre-Covid trading levels, the international and corporate segments need to return. The removal of South Africa from the United Kingdom’s red list, which is one of the group’s key source markets, is a welcome step in the right direction and while there have been signs of increased international and corporate activity, particularly in Cape Town, higher volumes of long lead time tourist groups and the relaxation of corporate travel restrictions are only expected in the latter half of the 2022 calendar year.

South African system-wide portfolio – trend in sale of rooms

<table>
<thead>
<tr>
<th>Months</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total rooms – system-wide 2021 (FY22)</td>
<td>117 952</td>
<td>112 361</td>
<td>93 117</td>
<td>55 280</td>
<td>100 693</td>
<td>138 941</td>
<td>167 967</td>
</tr>
<tr>
<td>Total rooms – system-wide 2020 (FY21)</td>
<td>–</td>
<td>–</td>
<td>9 687</td>
<td>20 117</td>
<td>33 710</td>
<td>66 268</td>
<td>88 370</td>
</tr>
<tr>
<td>Total rooms – system-wide 2019 (FY20)</td>
<td>239 377</td>
<td>237 090</td>
<td>251 186</td>
<td>262 886</td>
<td>263 352</td>
<td>288 360</td>
<td>286 017</td>
</tr>
<tr>
<td>FY22 as % of FY20¹</td>
<td>49%</td>
<td>47%</td>
<td>37%</td>
<td>21%</td>
<td>38%</td>
<td>48%</td>
<td>59%</td>
</tr>
</tbody>
</table>

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.
Review of operations

Total income for the six months ended 30 September 2021 of R959 million (2020: R335 million) ended R624 million above the prior year with a R427 million and R210 million increase in hotel rooms’ revenue and food and beverage revenue respectively. Other revenue decreased by R16 million to R124 million (2020: R140 million) and in the current year included revenue relating to the Castle Lager Lions Series tour of R64 million (2020: Covid-19-related income of R117 million relating to hotels used as quarantine and isolation facilities as well as the Premier Soccer League bio-bubble).

Trading for the group’s South African hotels for the six months recorded system-wide (including owned and managed hotels but excluding externally managed hotels) revenue per available room (RevPar) of R238 (2020: R54) due to a 18.5 percentage points (pp) increase in occupancies from the prior period to 23.9% (2020: 5.4%) and a slight increase in average room rate to R996 (2020: R994). Occupancy for the current and comparative six-month period 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 R145 million (2020 loss: R51 million) for the period. This performance results from a R35 million increase in internal and external management fee income due to improved trading levels, net insurance proceeds in the South African hotel division of R148 million and central office cost savings of R13 million.

Rental income (net of costs) from investment properties of R7 million (2020: R3 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, The Hazyview Sun, The Edward, Radisson Blu Gautrain, Southern Sun The Marine and Mount Grace Hotel and Spa) rental income improved by R18 million from a loss of R11 million in the six months to September 2020 which reflects the improvement in trading largely from government, corporate groups and conferencing segments in the current period.

Following Hospitality’s acquisition of controlling interests in associates during October and November 2020 which operate The Westin and Radisson Blu Gautrain hotels, a new segment has been introduced (Trading income – HPF) which reflects the trading performance of these hotels. For the six months ended 30 September 2021, this segment generated revenue of R46 million (2020: Rnil) and Ebitdar losses of R25 million (2020: Rnil). This is largely due to these hotels being 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.
Overall, revenue generated by the internally managed South African hotel portfolio owned and leased by the group for the six months was R762 million (2020: R264 million). This includes revenue from the Sandton Consortium hotels of R75 million and a Rnil impact on Ebitdar due to the lease concession that remains in place until trading normalises.

All regions performed well in this six-month period relative to the prior comparative period, given the extended hard lockdowns between April and June 2020. Sporting events made a significant contribution during the first half of the year, with the KZN region generating revenue and Ebitdar of R210 million and R19 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 R202 million and R4 million respectively for the six-month period, supported due to accommodation provided to students stranded by the fires in Cape Town during April 2021 and the Cape Town leg of the Castle Lager Lions Series tour. The inland region was hard-hit by the third wave of infections and the negative sentiment caused by the violent protests, particularly in Gauteng, following the ban on leisure travel from the province. As a result, this region recorded revenue of R251 million and an Ebitdar loss of R17 million for the six months to 30 September 2021. The other segment fared slightly better, generating revenue of R99 million and posting an Ebitdar profit of R7 million. The Sun1 portfolio managed to break even at Ebitdar level for the six months and consequently the performance of the segment is entirely attributable to the Resorts portfolio which has performed well throughout the Covid-19 pandemic due to its leisure-focused offering, benefiting from domestic clientele.

The internally managed segment recorded Ebitdar of R13 million (2020 loss: R126 million) for the six months ended 30 September 2021. Ebitdar includes losses of R6 million (2020: Rnil) relating to The Mount Grace Hotel and Spa, The Hazyview Sun, The Edward and Southern Sun The Marine which were externally managed in the prior financial period.

Total revenue for the offshore division of hotels of R129 million (2020: R41 million) for the six months largely relates to the Southern Sun Maputo, Mozambique which was the only owned hotel in the offshore portfolio that traded throughout the lockdown period, and the Southern Sun Ikoyi, Nigeria which has benefited from domestic leisure and business travel in the region. 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 R5 million (2020 loss: R32 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>For the six months ended 30 September</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy (%)*</td>
<td>21.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Average room rate (R)</td>
<td>999</td>
<td>1 007</td>
</tr>
<tr>
<td>RevPar (R)</td>
<td>219</td>
<td>53</td>
</tr>
<tr>
<td>Rooms available (’000)</td>
<td>2 507</td>
<td>2 299</td>
</tr>
<tr>
<td>Rooms sold (’000)</td>
<td>549</td>
<td>121</td>
</tr>
<tr>
<td>Rooms revenue (Rm)</td>
<td>548</td>
<td>121</td>
</tr>
</tbody>
</table>

* Occupancy for the current and prior periods is expressed as a percentage of total rooms available irrespective of whether the hotel traded or not.

^ The increase in rooms available relates to the transfer of the HPF properties to internally managed and the inclusion of The Westin and Radisson Blu Gautrain as part of the group’s owned portfolio.

Property and equipment rental expense of R9 million (2020 income: R13 million) represents the variable portion of lease payments including the impact of rent concessions. With effect from 1 April 2021 the majority of these rent concessions have fallen away and leases have reverted back to their original terms. Excluding the impact of IFRS 16, the group incurred cash rent of R72 million in the current six-month period compared to R51 million in the prior comparative period.

Exceptional gains for the period of Rnil (2020 gain: R250 million) relates mainly to restructuring costs of R2 million (2020: R10 million) and losses on disposal of property, plant and equipment of R1 million (2020: Rnil) offset by the group’s share of associates’ exceptional items of R3 million (2020: R90 million). The increase in the group’s share of associates’ exceptional items compared to the prior comparative period mainly relates to the group’s share of fair value losses on investment properties owned by IHL (International Hotel Properties Limited). The prior comparative period also includes the profit on the sale of the group’s 50% investment in the Maia Luxury Resort and Spa (Maia) of R355 million, offset by transaction costs of R5 million and pre-opening costs of R4 million. Management has assessed the fair value of the group’s investment properties and assessed goodwill and property, plant and equipment for impairment by reviewing the cash flow forecasts (refer to note 3.1 Basis of preparation of cash flow forecasts), which we believe still adequately reflect the negative impact of Covid-19 on cash flows generated by the underlying hotels for the financial years ending March 2022 and March 2023; as well as various technical inputs including the 10Y bond yield which has declined from 9.5% in March 2021 to 9.2% as at 30 September 2021.
The third wave of Covid-19 infections and the slow vaccination rollouts both locally and globally are clear indications that recovery in the group’s trading to pre-Covid levels will extend beyond FY22 and into FY23. The majority of the quantum of the FY21 impairments related to management’s downward revision of cash flow forecasts in FY23 to reflect the sustained negative impact of Covid-19 and increased in-country risk assessments that have had a material impact on discount rates applied to the group’s hotels in African territories. Based on current trading levels and taking into account management’s assessment of the impact of a potential fourth wave of infections and fluctuations in-country risk assessments due to inflationary pressures, no significant changes are required to the current cash flow forecasts. For further analysis, refer to notes 3 and 4.

Based on these factors, management is of the view that the values of investment properties, goodwill and property, plant and equipment are fairly stated at 30 September 2021 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.

Net finance costs of R178 million (2020: R184 million) includes interest on capitalised leases under IFRS 16 of R64 million (2020: R65 million) and excluding this impact, have decreased by R5 million. The group accessed R100 million of its South African facilities at a favourable exchange rate (R13.56) in order to further reduce offshore debt balances and foreign exchange exposure to the US Dollar-denominated debt.

The share of profit from associates and joint ventures of R6 million (2020 loss: R109 million) increased by R115 million, mainly due to the group’s share of fair value losses on investment properties owned by IHL of R90 million in the prior comparative period. In addition, the group’s share of trading profits (excluding exceptional items) of R3 million increased by R22 million from the prior period loss of R19 million. Hotel trading in the UK has recovered quickly following the successful rollout of their vaccination programme and confidence returning to the travel market.

The income tax credit for the period of R54 million (2020 credit: R91 million) has reduced by R37 million, mainly due to the tax expense of R44 million raised on the insurance proceeds received during August 2021. The group remains in an assessed loss position and deferred income tax assets amounting to R353 million have been recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Losses attributable to non-controlling interests of R6 million (2020 loss: R70 million) has improved by R64 million. This mainly relates to losses incurred by Hospitality in the prior year. Tsogo Sun
Hotels’ has successfully acquired all the Hospitality shares in issue, reducing non-controlling interest from 40.8% to nil as from 10 March 2021.

Group adjusted headline losses for the period at R162 million (2020 loss: R426 million) has improved by R264 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 increased as a result of the acquisition of all Hospitality shares in issue in exchange for 417 million shares in Tsogo Sun Hotels and the resultant adjusted headline loss per share recorded is 11.0 cents (2020 loss: 39.1 cents).


**Funding capacity and covenants**

The group’s liquidity and access to facilities are of paramount importance and, as previously reported, revised covenants were introduced at Tsogo Sun Hotels’ level which establishes a maximum rolling 12-month negative Ebitda (Earnings before interest, income tax, depreciation, amortisation, IFRS 16 rent adjustments, long-term incentives and exceptional items) level. In addition, 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. During the period under review, these covenants were measured quarterly at June 2021 and September 2021 and Tsogo Sun Hotels comfortably met the minimum Ebitda and liquidity thresholds on both occasions. At Hospitality level, lenders introduced a minimum liquidity covenant of R125 million including available facilities and cash on hand during the prior year. Similarly, Hospitality has met these minimum liquidity requirements.

The lenders to both Tsogo Sun Hotels and Hospitality have been very supportive of the group during this challenging period and have approved the covenant waivers for March 2022 on the basis that the rolling negative Ebitdar threshold at Tsogo Sun Hotels’ level be reduced to between R412 million (December 2021 measurement...
and R330 million (March 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.

In order to assess asset fair values, impairments and the group’s ability to continue as a going concern, management prepared detailed five-year cash flow forecasts. Based on the Covid-19 interventions already implemented and the forecasts that indicate some recovery in the corporate, conferencing and international segments during the 2022 calendar year, once the vaccine rollout has stabilised and any potential fourth wave of Covid-19 infections has passed, management believes that the company should meet these revised covenant levels.

**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.

As at 30 September 2021, the group has net cash and cash equivalents of R489 million, net of bank overdrafts (2020: R379 million). The group has R3.524 billion (2020: R3.385 billion) of interest-bearing debt (excluding capitalised lease liabilities) and access to R1.326 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 in order to stress test the group’s going-concern assumption. Even after incorporating this contingency, the group is able to 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 and to counteract the expected losses that may result from the Covid-19 impact on the group’s operations in the next financial year.

**Prospects**

While we are encouraged by the recent upward trend in trading, we are acutely aware that we are still trading at only 50% of system-wide rooms sold prior to Covid-19 and at occupancies far below the group’s long-term average. It is clear that Covid-19 will remain with us for the foreseeable future and the only way to return to some form of normality is to ensure that the majority of the South
Commentary continued

African adult population is vaccinated. For the hospitality industry in particular, 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. Unnecessary regulation and limitations on travel is an impediment to our recovery and our view is that provided an adult is fully vaccinated; they should be allowed to travel internationally. The group continues to encourage our employees to get vaccinated and we maintain the highest levels of Covid-19 health protocols at all of our properties as evidenced by the successful sporting events we have hosted during the pandemic. Until the international and corporate markets return and demand levels normalise, the group continues to focus on cash preservation and liquidity to continue trading through the pandemic and to protect the livelihoods of the many stakeholders who depend on Tsogo Sun Hotels – from our employees and suppliers to our communities and investors.

Dividend
The directors considered it prudent to retain cash resources in order to ensure that the group is able to navigate this pandemic and 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 2021.

Events occurring after 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 10 of these condensed unaudited consolidated financial statements, which are non-adjusting events and have no impact on the interim results for the six months ended 30 September 2021.

Presentation
Shareholders are advised that a presentation to analysts and investors which provides additional analysis will be available on the group’s website at www.tsogosun.com/investors/results-presentations in due course. Any questions on the presentation can be e-mailed to companysecretaryTGO@tsogosun.com.

M von Aulock
Chief Executive Officer
24 November 2021

L McDonald
Chief Financial Officer