# ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

## Reporting entities

City Lodge Hotels Limited (the company) is a company domiciled in South Africa. The group financial statements as at and for the year ended 30 June 2020 comprise the company and its subsidiaries (together referred to as the group).

The group owns and operates high-quality, affordable hotels targeted at the business community and leisure traveller.

Where reference is made to 'group', it should be interpreted as company, where the context requires and unless otherwise stated.

## Basis of preparation

**Functional and presentation currency**

These financial statements are presented in Rand, which is the company's functional and group's presentation currency, rounded to the nearest thousand unless indicated otherwise.

**Basis of measurement**

These financial statements are prepared on the historical cost basis.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements, in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is in relation to the following:

- Leases (notes 2 and 16)
- Measurement of share-based payments (note 26)
- Measurement of deferred tax assets and liabilities (note 6)
- Impairment of property, plant and equipment and right-of-use assets (notes 1 and 2)
- Impairment of goodwill (note 3).

**Statement of compliance**

The group and company financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board, the Listings Requirements of JSE Limited, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. These group and company financial statements were authorised for issue by the board of directors on 12 November 2020.

## Significant accounting policies

The accounting policies set out on the following pages have been applied consistently by all group entities to all periods presented in these financial statements, except as indicated otherwise in the case of new and amended standards adopted by the group.

**New and amended standards adopted by the group**

The group adopted all the new revised or amended accounting pronouncements as issued by the IASB which were effective from 1 July 2019, the most significant accounting pronouncement for the group being IFRS 16 *Leases*.

The group has applied IFRS 16 *Leases* and adopted the modified retrospective approach. The comparative information has therefore not been restated and continues to be reported under IAS 17 *Leases*, as permitted under the specific transition provisions of the standard.

No adjustments were made to the opening retained earnings. On transition, the straight-lining accrued liability was off-set against the right-of-use asset. No other pronouncements had a material impact on the group.

**IFRS 16 *Leases***

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 *Leases* replaces the previous lease standard, IAS 17 *Leases*, and related interpretations.

Under IAS 17 *Leases*, the group accounted for operating leases by charging lease payments to profit or loss on a straight-line basis over the initial period of the lease. The group had no finance leases as at 1 July 2019.

IFRS 16 *Leases* has one model for lessees which results in leases previously classified as operating leases and recorded off-balance sheet being capitalised on the statement of financial position, requiring a right-of-use asset and a lease liability to be recognised. At 1 July 2019, the group raised right-of-use assets of R1.3 billion, and lease liabilities of R1.4 billion.

**Measurement of right-of-use assets**

The right-of-use assets recognised at lease commencement includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated using the straight line method over the lease term. In addition, the right-of-use assets is periodically assessed for impairments, and reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

# ACCOUNTING POLICIES CONTINUED

## FOR THE YEAR ENDED 30 JUNE 2020

**Measurement of lease liabilities**
The lease liabilities are initially measured at the present value of the lease payments to be made over the lease term, discounted using the rate implicit in the lease or, if that rate is not readily determinable, the group's incremental borrowing rate. Lease payments included in the measurement of the lease liabilities comprises fixed payments, including in-substance fixed payments.

Lease payments are allocated between principal and finance cost. The finance costs are charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

As part of the modified retrospective approach, the group has elected to apply the practical expedient, which allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics. The group has applied the recognition exemptions for short-term leases (leases which have a lease term of 12 months or less) and leases of low-value items.

Some property leases contain variable payment terms that are linked to gross revenue. These payments are recognised in profit and loss in the period in which the conditions that trigger those payments occurs.

**Modification of leases**
When the group modifies the terms of the lease or reassesses the estimates without increasing the scope of the lease, that results in changes to future payments, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. An equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term.

**Adoption of IFRS 16 *Leases***
On adoption of IFRS 16 *Leases*, the group and company's right-of-use assets for property leases were measured on the modified retrospective approach. All right-of use assets were measured at the amount equal to the lease liability, adjusted by any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019.

| | GROUP | COMPANY |
|---|---|---|
| **R000** | **1 July 2019** | **1 July 2019** |
| Lease liability recognised | 1 389 607 | 1 181 551 |
| Accrued lease payments | (78 899) | (58 106) |
| **Right-of-use asset recognised under IFRS 16 *Leases*** | **1 310 708** | **1 123 445** |

On adoption of IFRS 16 *Leases*, the group recognised lease liabilities measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The group's respective weighted average incremental borrowing rate applied to these lease liabilities on 1 July 2019 was 9.125%.

Reconciliation of outstanding commitments under non-cancellable operating lease agreements to the lease liability recognised:

| | GROUP | COMPANY |
|---|---|---|
| **R000** | **1 July 2019** | **1 July 2019** |
| Operating lease commitments disclosed as at 30 June 2019 | 960 471 | 706 507 |
| Discounting adjustments using the respective incremental borrowing rates | 429 136 | 475 044 |
| **Lease liability recognised under IFRS 16 *Leases* as at 1 July 2019** | **1 389 607** | **1 181 551** |
| Of which: | | |
| Current lease liabilities | 16 537 | 16 036 |
| Non-current lease liabilities | 1 373 070 | 1 165 515 |
| | **1 389 607** | **1 181 551** |

**Impact for the year ended 30 June 2020**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| **R000** | **30 June 2020** | **30 June 2019** | **30 June 2020** | **30 June 2019** |
| *Effect of the statement of financial position* | | | | |
| Operating lease accrual | **–** | (78 899) | **–** | (58 106) |
| Right-of-use assets (net of impairments) | **985 014** | | **874 775** | |
| Lease liability | **(1 388 440)** | | **(1 167 770)** | |

The following amounts have been included in the statement of profit or loss relating to leases:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| R000 | Year ended 30 June 2020 | Year ended 30 June 2019 | Year ended 30 June 2020 | Year ended 30 June 2019 |
| Depreciation – right-of-use assets | 92 302 | | 80 806 | |
| Impairment of right-of-use assets | 242 889 | | 167 864 | |
| Interest expense – leases | 117 214 | | 97 908 | |
| Lease-related expenses recognised due to the implementation of IFRS 16 *Leases* | 452 405 | | 346 578 | |
| Had the group accounted for leases under IAS 17 *Leases* property rentals would have amounted to | (116 202) | (116 135) | (111 596) | (128 692) |
| **Effect on profit before tax for the year had there been no change in the accounting policy** | 336 203 | | 234 982 | |

**Practical expedients applied by the group on transition**
The group applied the practical expedient per IFRS 16 *Leases* in that the IFRS 16 *Leases* definition of a lease would only be applied to assess whether contracts entered into after the date of initial application (1 July 2019) are, or contain, leases, and electing not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made by applying IAS 17 *Lease* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. Hence, all contracts previously assessed not to contain leases were not reassessed.

The group also applied the following expedients on transition:

- Recognition exemptions for short-term leases (a lease that at the commencement date, has a lease term of 12 months or less)
- Recognition exemptions for leases of low-value items (mainly small items of office equipment and furniture)
- Relied on its existing onerous lease contract assessments as an alternative to performing impairment reviews on right-of-use assets as at 1 July 2019.

**Significant judgements and estimates**
The preparation of the consolidated and separate financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience, consideration of market predictions at these unprecedented time and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, in addition to information about impairments set out in note 1 and going concern set out in note 35, information about significant areas of estimation, uncertainty and critical judgements, in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is in relation to the following:

**Leases**
***Determining the respective discount rate***
Management has considered the group's incremental borrowing rate of 9.125%, as the appropriate discount rate applied at the adoption of IFRS 16 *Leases*.

***Determining the lease terms***
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The extension options (or periods after termination options) have been considered and where certain, one lease renewal period has been included in the lease term. All future cash outflows have been included in the lease liability. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

***Determining the low-value leases***
In determining the low-value leases, management assessed the value of the underlying individual assets at the original date of acquisition and whether they would individually have a material impact on the statement of financial position. Low value assets comprise IT equipment and small items of furniture.

**Measurement of share-based payments**
***Equity-settled share appreciation right scheme and equity-settled 10th anniversary employee share plan***
The group uses an independent valuation expert to conduct bi-annual reviews of the equity-settled share appreciation rights scheme and equity-settled 10th anniversary employee share plan, and adjusts for any employee forfeitures and terminations. Refer to note 26 for valuation methodology applied.

# ACCOUNTING POLICIES CONTINUED

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**Measurement of deferred tax assets and liabilities**
The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the reporting date. The group reviews the recoverability of deferred tax assets annually. These calculations require use of estimates as referenced in note 6 of the consolidated and separate financial statements.

**Impairment of property, plant and equipment and right-of-use assets**
The group tests property, plant and equipment and right-of-use assets when there is an indicator of an impairment in accordance with the accounting policy. The recoverable amounts of the assets have been determined based on the higher of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates as disclosed in note 1 of the consolidated and separate financial statements.

**Impairment of goodwill**
The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of CGUs have been determined based on the higher of fair value less costs to sell and the value-in-use calculations. These calculations require use of estimates as disclosed in note 3 of the consolidated and separate financial statements.

**Basis of consolidation**
The group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and liabilities assumed. For a business combination achieved in stages, the pre-existing equity interest in the acquiree is measured at fair value at the acquisition date. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Investments in subsidiaries are carried at cost less accumulated impairment adjustments in the company's separate financial statements.

**Subsidiaries**
Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

**Goodwill**
Goodwill represents the excess of the costs of acquisition over the group's interest in the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities of the acquired entity at the date of acquisition and if a business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree.

Goodwill is stated at cost less accumulated impairment losses and is reviewed for impairment on an annual basis. Any impairment identified is recognised immediately in profit or loss and is not reversed.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. Each of those CGUs is identified in accordance with the basis on which the businesses are managed and according to the differing risk and reward profiles.

**Foreign transactions and balances**
The financial statements for each group company have been prepared on the basis that transactions in foreign currencies are recorded in their functional currency at the rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date with the resultant translation differences being credited or charged to profit or loss.

**Foreign subsidiaries – translation**
One-off items in the statement of comprehensive income and cash flow statements of foreign subsidiaries expressed in currencies other than the South African rand are translated to South African rand at the rates of exchange prevailing on the day of the transaction. All other items are translated at average rates of exchange for the relevant reporting period. Assets and liabilities of these undertakings are translated at closing rates of exchange at each reporting date. All translation exchange differences arising on the retranslation of opening net assets together with differences between statement of comprehensive income translated at average and closing rates are recognised as a separate component of other comprehensive income. For these purposes net assets include loans between group companies that form part of the net investment, for which settlement is neither planned nor likely to occur in the foreseeable future and is either denominated in the functional currency of the parent or the foreign entity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**Structured entities**
The group has established a number of structured entities for the purposes of the BEE transaction. The group does not have any direct or indirect shareholdings in these entities. The group has guaranteed the funding of the structured entities and as such is deemed to control these structured entities resulting in the incorporation of the structured entities into the company and group financial statements.

**Transactions eliminated on consolidation**
Intragroup transactions and balances, and any unrealised income or expenses arising from intragroup transactions, are eliminated in preparing the group financial statements.

**Property, plant and equipment**
***Owned assets***
Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets

includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Where significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Freehold land is stated at cost and is not depreciated. Freehold and leasehold buildings are stated at cost and depreciated over periods of up to 50 years as deemed appropriate to reduce carrying values to estimated residual values over their useful lives. Buildings under construction are not depreciated.

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognised. All other costs are recognised in profit or loss as an expense as incurred.

Borrowing costs incurred on funds raised to erect hotel buildings (qualifying assets) are capitalised up to the date that the activities necessary to prepare the hotel for its intended use are substantially complete.

Government grants are recognised when there is reasonable assurance that they will be received and the group will comply with the conditions associated with the grant. Such grants are deducted from the cost of the asset.

Depreciation is charged to profit or loss to write off the cost of the asset to its estimated residual value on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Depreciation commences the month following acquisition. The estimated useful lives are currently as follows:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Furniture and equipment | Three to five years |

Leasehold improvements are written off over the initial period of the lease.

The residual values, depreciation methods, and useful lives are reassessed annually.

Gains or losses arising on the disposal of property, plant and equipment are included in profit or loss.

**Leases –** *applicable from 1 July 2019*
As explained in the new and amended standards adopted by the group, with effect from 1 July 2019 the group changed its accounting policy for leases where the group is the lessee. The accounting policy is described below and the impact of the change in the 'new and amended standards adopted by the group' section of the accounting policies.

***As a lessee***
The group recognises right-of-use assets and corresponding lease liabilities on the balance sheet for leases at the date at which the leased asset is available for use by the group. Each lease payment is allocated between liability and interest expense. The interest expense is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment. The right-of-use asset is depreciated over the shorter of the assets useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease terms are negotiated on an individuals basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date, less any lease incentive received.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the group uses its respective incremental borrowing rates. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments). In-substance fixed payments are variable lease payments that depend on an index or a rate are initially measured using the index or rate as at the commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Contracts may contain both lease and non-lease components. For leases of property for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

The group has no residual value guarantees.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly small items of office equipment and furniture.

**Leases –** *applicable before 1 July 2019*
***Operating leases as lessee***
Leases, where the lessor retains the risk and rewards of ownership of the underlying asset, are classified as operating leases.

Operating lease payments are expensed in profit or loss on a straight-line basis over the period of the leases. Other contingent operating lease payments are charged against profit or loss as they are incurred.

**Intangible assets**
Internally developed trademarks are not recognised. Expenditure to enhance and maintain such trademarks is charged in full against profit or loss.

Expenditure on research activities is recognised in profit or loss as incurred.

Software development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits

# ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, software development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss.

The estimated useful lives are as follows:

| | |
|---|---|
| Software development costs | Five to 10 years |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**Impairments**

***Non-financial assets***

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate or estimated using a price to earnings ratio that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Pre-opening expenses**

Pre-opening expenses of new hotels are charged directly against profit or loss as incurred.

**Inventories**

Inventory is stated at the lower of cost and net realisable value, on a first-in first-out basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

**Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current taxation comprises taxation payable calculated on the basis of the expected taxable income for the year, using the taxation rates enacted or substantively enacted at the reporting date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the reporting date. Deferred taxation is recognised in profit or loss except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income in which case it is recognised in equity or other comprehensive income, or a business combination that is an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in equity or other comprehensive income in which case it is recognised directly in equity or other comprehensive income.

Deferred taxation is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit
- differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused taxation losses and deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Dividend withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012.

The company withholds dividend tax on behalf of its shareholders on dividends declared. Amounts withheld are not recognised as part of the company's tax charge, but rather as part of the dividend paid, recognised directly in equity.

**Financial instruments**
***Recognition and initial measurement***
Trade receivables are initially recognised when they are originated. All other financial assets and liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

***Classification and subsequent measurement***
On initial recognition, a financial asset is classified as measured at amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows
- its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

***Impairment***
The group has elected to apply the simplified version of the expected credit loss model permitted by IFRS 9 in respect of trade receivables, which involves assessing lifetime credit losses on all balances. The balance of the group's financial assets measured at amortised cost are loans receivable and cash and cash equivalents to which the general model is applied.

***Cash and cash equivalents***
Cash and cash equivalents are measured at amortised cost, using the effective interest method.

***Derecognition***
Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the group's obligations expire or are discharged or cancelled. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

***Non-derivative financial liabilities***
The group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated as fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified as amortised cost or fair value through profit or loss (FVTPL). A financial liability is classified as at FVTPL if is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains or losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense, foreign exchange gains or losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Interest expense is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the amortised cost of the financial liability.

***Offset***
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Share capital and equity**
Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**BEE investment and incentive scheme shares**
Ordinary shares held by the BEE structured entities and under the long-term incentive scheme for employees are treated as treasury shares.

**Preference shares**
Preference share capital is classified as a liability as it is redeemable on a specific date or at the option of the shareholders and as the dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

**Provisions**
Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

**Revenue from contracts with customers**
Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled, in exchange for transferring goods or services to a customer. The group recognises revenue when it transfers control over a good or service to a customer.

The group recognises revenue from the following major sources:
- Accommodation
- Food and beverage
- Other revenue

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The transaction price is recorded as revenue when the performance obligations are satisfied.

***Accommodation*** – the performance obligation is met when the accommodation service is complete. As such revenue is recognised at a point in time.

***Food and beverage*** – the revenue is recognised at a point in time when the food and/or beverage is delivered to and accepted by the customer.

***Other revenue*** – the revenue is recognised at a point in time. This comprises ancillary services and revenue is recognised once the service is complete.

Customer payment terms utilising an incidental credit facility are within 30 days of statement.

Customers who purchase the group's services may join the group's customer loyalty programme and earn points that are redeemable against future purchases of the group's accommodation and related services. The points accumulate and expire after a period of three years. The group allocates a portion of the consideration received to loyalty points based on standalone selling prices. The amount allocated to the loyalty programme is deferred and is recognised as revenue when loyalty points are redeemed. When estimating standalone selling prices of the loyalty points, the group takes into account the expected redemption rate and the timing of such redemptions based on historical usage and forfeiture rates. The deferred revenue is recognised as contract liabilities, included in trade and other payables.

**Interest income and expense**

Interest income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Interest expenses comprise interest expense on borrowings, dividends on preference shares classified as liabilities and unwinding of discounts on provisions. All borrowing costs, not directly attributable to the acquisition, construction or production of qualifying assets, are recognised in profit or loss using the effective interest method.

**Employee benefits**

***Short-term employee benefits***

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The liability for employee entitlements to salaries, bonuses and annual leave represent the amounts which the group has a present obligation to pay as a result of employees' services provided to the reporting date. The liability has been calculated at undiscounted amounts based on current salary rates.

**Retirement benefits**

***Defined-contribution plans***

Contributions to defined-contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

**Share-based payment transactions**

The share incentive schemes allow certain employees to acquire shares of the company.

The fair value of rights granted are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the rights. The fair value of the rights granted is measured using the stated models, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share rights that vest, as well as for the number of share rights that is expected to vest in future, except where forfeiture is due only to share prices not achieving the threshold for vesting.

The fair value of restricted share plan shares granted are recognised as an employee expense over the period during which the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted in the case of forfeiture due to termination of employment prior to vesting.

Share-based payment arrangements in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the group.

**Earnings per share**

The group presents basic, diluted and normalised earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding, excluding shares held by the BEE structured entities, during the period.

Diluted EPS is determined by dividing profit for the year by the weighted average number of ordinary shares outstanding, excluding shares held by the BEE structured entities, plus all potential dilutive ordinary shares, which comprise share options granted to employees.

Headline earnings per share is calculated in terms of circular 1/2019, and previous years have been calculated in terms of circular 4/2018.

**Operating segments**

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision-maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.