

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## Nature of business

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

## Financial results

Group loss before taxation for the year amounted to R582.7 million (2019 profit before tax: R307.0 million) while consolidated headline earnings totalled a loss of R142.1 million (-388.1 cents per share, diluted) compared with headline earnings of R205.3 million (560.4 cents per share, diluted) for the previous year. Net asset value per share decreased to 1 549.5 cents from 3 017.3 cents in the prior year. Net tangible asset value per share, also decreased in the current year to 1 393.0 cents (2019: 2 866 cents).

On a normalised basis, the consolidated headline earnings totalled a loss of R78.8 million (-181.1 cents per share, diluted), consolidated normalised headline earnings loss excluding the effects of first time implementation of IFRS 16 *Leases* totalled R11.4 million (-26.3 cents per share, diluted) compared with normalised headline earnings excluding the effects of implementation of IFRS 16 *Leases* of R267.1 million (613.4 cents per share, diluted) for the previous year.

The company's interest in its subsidiaries' loss after taxation amounted to R268.6 million (2019 profit after taxation: R13.3 million).

## Interest-bearing borrowings

During 2015, the group was granted an approved facility of R1 140 million to be utilised in funding the group's expansion with final repayment due five years after each initial drawdown. During the year, the group refinanced the R450 million interest-bearing borrowings, due for repayment by the end of 2020, to the end of 2022, at an improved interest rate. An additional amount of R90 million (2019: R210 million) was utilised during the year, increasing the amount due to R750 million. Further details are included in note 12.

## Dividends

An interim dividend of 153.0 cents per share (2019: 229.0 cents) was declared on 19 February 2020, payable to ordinary shareholders registered on 16 March 2020. Having regard to the impact of COVID-19 on the group's operations and the minimal revenue earned since the declaration of the national state of disaster in South Africa on the 15 March 2020, the board has determined that no final dividend shall be declared and paid in respect of the year ended 30 June 2020. A final dividend of 137.0 cents per share was declared in the prior year.

## Share capital

There was no change in the authorised share capital of the company during the year under review.

No share capital was issued during the year (2019: nil shares) as reflected in note 10.

## The City Lodge 10th anniversary employees' share trust

At a general meeting of shareholders on 18 December 1995, a share scheme was created for all employees other than those employees who participate in the City Lodge executive employee share incentive scheme. The company issued 1 000 000 new ordinary shares to the trust which were funded by means of an interest-free loan from the company for an amount of R34 million.

The following distributions were made in terms of the scheme:

Distribution date	Shares per employee	Total shares
December 1995	30	15 420
November 2005	55	38 445
November 2006	138	88 734
November 2007	214	137 388
November 2010	48	36 336
November 2012	80	72 960
November 2013	69	61 846
November 2015	25	22 800
November 2016	19	17 575
November 2018	3	2 850
		<b>494 354</b>

In applying IFRS 9 *Financial Instruments: recognition and measurement*, the carrying value of the loan in the company is R12.0 million based on impairment adjustment to the closing share price at year end (2019: R34.0 million).

## Subsidiaries

Details relating to interest in subsidiaries are included in note 4.

## Directorate and secretary

The directors in office during the year under review were: A W Dooley (resigned 9 March 2020), D Nathoo (appointed 9 March 2020), G G Huysamer, F W J Kilbourn, S Marutlulle, N Medupe, S G Morris, B T Ngcuka (chairman), V M Rague, L G Siddo, A C Widegger and K I M Shongwe (resigned 7 November 2019).

In terms of the memorandum of incorporation, Mr B T Ngcuka, Ms N Medupe, and Mr G G Huysamer retire at the forthcoming annual general meeting but are eligible and available for re-election.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## Directors' interest

The directors' individual interest in the ordinary share capital of the company at 30 June were as follows:

	Direct		Beneficial	
	2020	2019	2020	2019
G G Huysamer	–	–	–	–
F W J Kilbourn <sup>Δ</sup>	17 000	17 000	15 583	17 500
S Marutlulle	–	–	–	–
N Medupe	–	–	–	–
S G Morris	–	–	–	–
B T Ngcuka	–	–	444 521*	444 521*
V M Rague	–	–	–	–
A W Dooley (resigned 9 March 2020)	–	14 716	–	–
K I M Shongwe (resigned 7 November 2019)	–	–	–	–
L G Siddo	4 680	2 245	–	–
D Nathoo (appointed 9 March 2020)	–	–	–	–
A C Widegger	216 497	209 293	–	–
<b>Total</b>	<b>238 177</b>	<b>243 254</b>	<b>460 104</b>	<b>462 021</b>

\* B T Ngcuka's indirect shareholding reflects this proportionate share of the 2 556 185 shares owned by Vuwa Investments Proprietary Limited, which shares were funded by way of a loan secured by a guarantee.

<sup>Δ</sup> F W J Kilbourn's direct holding and 5 383 of his indirect holding is pledged as security for a facility. The balance of the indirect holding is unencumbered.

Directors were interested in nil (2019: nil) options to acquire ordinary shares in the company at 30 June 2020 under the executive share incentive scheme. This scheme has been replaced by the share appreciation rights scheme, the deferred bonus plan and the restricted share plan. Details of awards held by individual directors are included in note 21.

Directors' interests have changed between the reporting date and the date of issue of this Integrated Report, as directors who owned shares at the record date exercised their rights for additional shares during the rights offer, which completed on 21 August 2020.

The directors' individual interest in the ordinary share capital of the company at 22 October 2020 was as follows:

	Direct	Indirect
G G Huysamer	–	–
F W J Kilbourn	238 000	218 162
S Marutlulle	–	–
N Medupe	–	–
S G Morris	–	–
B T Ngcuka*	–	2 461 891
V M Rague	–	–
A W Dooley (resigned 9 March 2020)	–	–
K I M Shongwe (resigned 7 November 2019)	–	–
L G Siddo	65 520	–
D Nathoo (appointed 9 March 2020)	–	–
A C Widegger	3 030 958	–
<b>Total</b>	<b>3 334 478</b>	<b>2 680 053</b>

\* B T Ngcuka indirectly holds shares in the company by virtue of him owning 17.39% of the shares in Vuwa Investments Proprietary Limited (Vuwa). Vuwa in turn holds 100% of the Vuwa Hotels (RF) Proprietary Limited (Vuwa SPV), which now holds 2.32% of the shares in the company.

## Going concern

The group has incurred a net loss for the year ended 30 June 2020 of R486.6 million (2019: profit of R205.5 million) primarily due to minimal revenues in the last quarter following the commencement of the South African national lockdown on 27 March 2020 and similar lockdown measures in the other countries in which the group operates, impairment losses on property, plant and equipment and right-of-use assets of R488.4 million, and deferred tax assets R47.1 million (2019: Rnil) due to the impact of COVID-19 on the cash flow forecasts, and the recognition of IFRS 16 Leases interest expense and depreciation net of previously recognised lease expenses of R67.4 million, net of tax. As at 30 June 2020, the group has a net cash and cash equivalents overdraft of R19.0 million, and the current liabilities exceeded its current assets by R788.9 million relating primarily to financial commitments in respect of the BEE preference shares and accrued dividend liabilities and BEE interest-bearing borrowings amounting to R752.2 million which are due for repayment by 31 January 2021.

The directors recognise the going concern challenges and have addressed these through actions taken to ensure sufficient liquidity to meet its obligations and to counteract the expected losses resulting from the impact of COVID-19 on the group's operations. These are listed in note 33.

The directors have performed a cash flow forecast and have satisfied themselves that the company and its subsidiaries are in a sound financial position and that they have access to sufficient cash and borrowing facilities to meet their foreseeable cash requirements.

The directors therefore considered it appropriate to adopt the going concern basis in preparing the group and company's financial statements.