INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CITY LODGE HOTELS LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of City Lodge Hotels Limited (the group and company) set out on pages 115 to 158, which comprise the statements of financial position at 30 June 2020, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, accounting policies, notes to the financial statements and segment analysis.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of City Lodge Hotels Limited at 30 June 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).* We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue from contracts with customers

(Applicable to the consolidated and separate financial statements)

Refer to note 19 as well as revenue recognition accounting policy on page 121.

Key audit matter	How the matter was addressed in our audit
Due to the nature of the business of providing accommodation, the volume of transactions are high and controls is consequently important to ensure the appropriate recognition of revenue. Revenue is a key performance measure which would create an incentive for revenue to be recognised before the performance obligations have been fulfilled in terms of the recognition requirements of IFRS 15 *Revenue from Contracts with Customers.* Revenue for the year for accommodation, food and beverage amounts to R1 159 million for the group and R1 047 million for the company. Due to the risk associated with the recognition of revenue from contracts with customers and the significant work required from the audit team, revenue recognition was considered to be a key audit matter in our audit of the consolidated and separate financial statements.	Our audit work included the following: • We considered the appropriateness of the group's and company's revenue recognition accounting policies in accordance with IFRS 15 *Revenue from Contracts with Customers*; • We performed predictive analytical procedures over the accommodation, food and beverage revenue streams and compared our expectations to the actual revenue recorded and where the differences were outside our expected ranges, we investigated these differences; • For a sample of revenue transactions selected close to year end and after year end, inspected source documents to ensure the transactions were recorded in the correct period; • We vouched a sample of revenue transactions which had not been settled by year end to subsequent receipt from customers or registration cards to verify the appropriateness of the revenue recorded; • We tested a sample of revenue throughout the year by agreeing a sample of invoices to receipts from customers or registration cards to verify the existence and accuracy of the revenue recorded; and • We evaluated the appropriateness of the disclosures in the financial statements as well as the accounting policies to ensure they are in line with IFRS 15 *Revenue from Contracts with Customers.*

Valuation of property, plant and equipment and right-of-use assets
(Applicable to the consolidated and separate financial statements)

Refer to note 1 and 2 as well as the property, plant and equipment and leases accounting policies on page 118 and page 119

Key audit matter	How the matter was addressed in our audit
The group and the company have property, plant and equipment ("PPE"), which comprises primarily of hotel buildings, and right-of-use assets relating to leases for hotels in the countries the group and company operate in. As at 30 June 2020 the group's and company's carrying amount of PPE amounted to R2 510 million and R1 279 million respectively after recognition of an impairment loss of R245 million and R29 million respectively. As at that date, the group's and company's carrying amount relating to right-of-use assets amounted to R985 million and R875 million respectively after recognition of an impairment loss of R243 million and R168 million respectively. Due to the significant impact COVID-19 has had on the group and company's operations, when most of the hotels were closed due to strict lockdown protocols implemented in each of the countries where the group and company operates, an impairment assessment was required to be performed for the PPE and right-of-use assets. Determining the recoverable amount for each hotel requires management to make significant assumptions regarding revenue growth (room rates and occupancies), terminal growth rates and discount rates applied to future cash flows and also the fair value less costs to sell of hotels where the carrying amount could be recoverable through sale rather than through use. Given the complexities involved and the judgements applied, the assessment of these assets for impairment was considered to be a key audit matter.	Our audit work included the following: • We assessed whether the individual hotels comprised individual cash generating units (CGUs); • We evaluated whether the model used by the directors to determine the value in use of the individual CGUs, complied with the requirements of IAS 36 – *Impairment of Assets*; • We engaged our valuation specialists to review the principles of the model and assumptions used to determine the discount rates, terminal growth rates and forecast cash flows; • We challenged the future projected cash flows, including the revenue, operating results and terminal growth rates to determine whether they were reasonable and supportable, given the current macro-economic climate and expected future performance of the CGUs. Historical performance was used to assess reasonableness of the forecasts where the occupancy and trading levels are presumed to return to pre-COVID-19 levels; • We compared the key assumptions to sensitivity analyses to determine the impact on the carrying amounts; • For new hotels and hotels where the carrying amount could not be recovered through use, we assessed the appropriateness of the fair value less cost to sell, with reference to recent comparable sales transactions for similar assets; and • We evaluated the appropriateness of disclosures in the financial statements as well as the accounting policies to ensure they are in line with the requirements of IAS 36 – *Impairment of Assets*.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key judgements applied in going concern assessment
(Applicable to the consolidated and separate financial statements)

Refer to note 35

Key audit matter	How the matter was addressed in our audit
The global impact of COVID-19 has resulted in an unprecedented increased level of economic uncertainty. This uncertainty has an impact on the projection of future cash flows of the group and company. Assessing the impact of COVID-19 on the appropriateness of the going concern assumption used in the preparation of the consolidated and separate financial statements required considerable focus and time by management, the directors and auditors. In addition, the existing long-term borrowings relating to the BEE entities consolidated into the group of R752.2 million are due and payable by 31 January 2021 and has consequently been disclosed as current liabilities. Current liabilities significantly exceed current assets for both the group and company at 30 June 2020. Subsequent to year end the company negotiated an additional bridging loan facility of R200 million with the groups bankers. Repayment of the amount utilised, was due and payable upon the successful completion of the rights offer, amounting to R1.2 billion. The rights offer was concluded subsequent to year end as disclosed in note 33. The directors have considered whether developments subsequent to the reporting date have any implications on the adoption of the going concern assumption by evaluating the impact the current uncertainties have on the group's and company's capital and liquidity position. The directors have concluded that the going concern basis of accounting is appropriate and in reaching their conclusions, they have taken into consideration the latest information, including assumptions and judgements about forward-looking economic scenarios. The judgements applied by the directors in reaching their going concern conclusion are disclosed in note 35 to the consolidated and separate financial statements. Concluding on the appropriateness of the use of the going concern assumption, including assessing whether a material uncertainty exists related to going concern, was considered to be a key audit matter in our audit of the consolidated and separate financial statements.	We considered the impact of the uncertainties arising from COVID-19 on the group and company when assessing the future cash flows and judgements applied in concluding on the going concern assumption. In evaluating the director's judgements in determining whether there are any material uncertainties which may significantly cast doubt on the group's and company's ability to continue as going concerns, the following was performed: We assessed the operational disruptions resulting from the COVID-19 pandemic and the resulting lockdown in various jurisdictions in which the group and company operate and understood the actions taken by management and the directors to mitigate the impact of the COVID-19 pandemic and lockdown on the group and company's operations. We assessed the reliability of the directors' revised cash flow forecasts for the 12 months from date of approval of these consolidated and separate financial statements and critically challenged the key inputs into these forecasts including the following: • Amount of, and availability of, financing facilities including inspecting the new arrangement in respect of the additional bridging loan facility secured subsequent to year end of R200 million; • Reasonableness of projected monthly revenue and monthly cash collections; • Reasonableness of cost saving initiatives proposed as disclosed in note 33; • Assessment of compliance with banking covenants in future and impact of any potential breaches, including reviewing correspondence where the waiver of borrowing covenants for both the June 2020 and December 2020 measurement periods were given as disclosed in note 34; and • Assessing the impact of the completion of a rights offer of R1.2 billion on the future liquidity of the group and company. We evaluated the appropriateness of the disclosures in note 35 to the consolidated and separate financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled “City Lodge Hotel Group Integrated Report 2020”, which includes the Certificate by the company secretary, Report of the audit committee and the Directors’ report as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s and company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT CONTINUED

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be though to bear on our independence and where applicable actions take to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of City Lodge Hotels Limited for 34 years.

KPMG Inc.
Registered Auditor

Per Dwight Thompson
Chartered Accountant (SA)

Registered Auditor
Director
13 November 2020

KPMG Crescent
85 Empire Road
Parktown
Johannesburg
2193