Independent auditor’s report

To the shareholders of City Lodge Hotels Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

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 (the Company) and its subsidiaries (together the Group) as at 30 June 2022, and its consolidated and separate financial performance and its 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.

What we have audited

City Lodge Hotels Limited’s consolidated and separate financial statements set out on pages 142 to 200 comprise:

- the consolidated and separate statements of financial position as at 30 June 2022;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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.

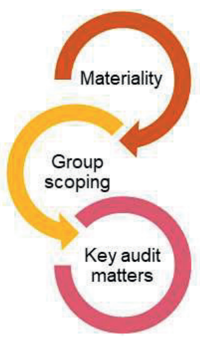
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group 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)*.

Our audit approach

Overview

<table>
<tr><td rowspan="3">
</td>
<td>Overall group materiality
• R22.8 million, which represents 5% of the 5 year average absolute consolidated profit/loss before taxation.</td></tr>
<tr><td>Group audit scope
• The Group has a portfolio of hotels operating in South Africa and other African countries.
• In total there were 20 components identified within the Group.
• We performed full scope audits, in accordance with determined materiality, on the 2 significant components in terms of their financial significance and risk to the Group’s results.
• In addition to the 2 full scope audits we performed an audit of specific account balances or classes of transactions on 3 components in order to ensure that we obtained sufficient coverage of other specific consolidated line items in the consolidated financial statements.
• The remaining 15 components are not considered to be significant to the Group and analytical review procedures have been performed on these components.</td></tr>
<tr><td>Key audit matter
• Impairment assessment of Property, plant and equipment and Right-of-use assets.</td></tr>
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R22.8 million
How we determined it	5% of the 5 year average absolute consolidated profit/loss before taxation.
Rationale for the materiality benchmark applied	We chose the 5 year average absolute consolidated profit/loss before taxation as the benchmark because, in our view, profit/loss before taxation is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The average consolidated profit/loss before taxation of the past five years was used due to the performance of the Group being volatile over the past five years as a result of the impact of COVID-19 in the preceding 2 years and therefore a five year average normalises the impact of this. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group has hotel operations in South Africa and other African countries. In addition, the Group has centralised functions, property holding companies and investment holding companies domiciled in South Africa.

The consolidated financial statements are a consolidation of 20 components which comprise the Group's operating businesses, investment holding companies, property holding companies and centralised functions. An analysis was performed, taking into account the contributions of individual components to total consolidated revenue, total consolidated profit/loss before taxation, total consolidated assets and total consolidated liabilities, in order to determine the group audit scope.

This scoping included consideration of financially significant components based on their contribution to total consolidated revenue, total consolidated profit/loss before taxation, total consolidated assets and total consolidated liabilities of the Group, risk characteristics of the respective component, as well as taking into consideration sufficiency of work performed over material line items in the financial statements.

We performed full scope audits, in accordance with determined materiality, on two components which were deemed to be significant components in terms of their financial significance to the Group results and risk. An audit of specific account balances or classes of transactions was performed on three components in order to ensure that we obtained sufficient coverage of other specific consolidated line items in the consolidated financial statements. The remaining fifteen components were not considered to be significant to the Group and analytical review procedures have been performed on these components.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditors from other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

A combination of procedures were performed, including issuing detailed group audit instructions, a review of component auditor's working papers and reporting between the group engagement team and component auditors. Various calls and discussions throughout the planning, execution and completion phases of the audit were held with all reporting components.

Further audit procedures were performed by the group audit engagement team, including substantive procedures over the consolidation process. The work performed at operational levels, as well as the procedures performed at the group level, provided us with sufficient evidence to express an opinion on the consolidated financial statements as a whole.

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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of Property, plant and equipment and Right-of-use assets	Our audit addressed this key audit matter as follows:
This key audit matter relates to the consolidated and separate financial statements. The Group and Company's total assets includes property, plant and equipment (PPE) and right-of-use ("ROU") assets. PPE constitutes those assets owned by the Group and Company while ROU assets relate to those assets leased by the Group and Company. ROU assets relate to land and/or buildings leased by the Group and Company. As at 30 June 2022, the carrying value of the Group and Company's PPE amounted to R1.6 billion and R1.1 billion respectively, against which an impairment loss of R67.9 million in respect of buildings and a reversal of a previously recognised impairment in respect of furniture and equipment amounting to R4.4 million. As it relates to ROU assets, the Group and Company has recognised ROU assets amounting to R1 billion and R947 million respectively, against which an impairment reversal of R120 million and R84.5 million was recognised. At the end of each reporting period, the Group and Company review the carrying amounts of its cash-generating units (CGUs) to determine whether there are any indications of impairment. For purposes of impairment testing, each hotel was assessed as an individual CGU. The Group and Company assessed the carrying amounts of PPE and ROU assets for impairment/ impairment reversals following the ongoing impact of Covid-19 as well as the increased risk and inflation caused by the global geo-political tensions during the financial year. The recoverable amount of the respective CGUs was determined as the higher of value-in-use (VIU) and fair value less cost of disposal (FVLCD). A discounted cash flow model (DCF) was applied by projecting cash flows over a five-year period. In determining the cash flows for established and newer hotels, the Group and Company applied significant judgement in determining the occupancy levels of the hotels, room rates, operating expenses. Furthermore, significant judgement is applied in determining the terminal growth rates and discount rates.	We assessed whether there were any impairment indicators for all items of PPE and ROU assets in terms of International Accounting Standard 36, Impairment of Assets (IAS 36), based on our knowledge of the entity, discussions with management and by considering the actual to budget performance for each CGU. No other indicators were identified that were not already identified by management. We assessed management's definition and composition of a CGU by comparing it to the principles contained in IAS 36 to confirm that each individual hotel meets the definition of a CGU. No material exceptions were noted. We obtained an understanding and evaluated management's budgeting process (which formed the basis for the cash flows used in the DCF) which included controls in relation to the following: • setting, reviewing and approval of budgets by the Group; and • approval of budgets by the Board of Directors. We assessed the reliability of the Group and Company's budgeting process , by comparing the prior period budgeted results to actual results. We further compared post year-end budgeted information to post year-end actual results to understand management's ability to follow a robust budgeting process that results in credible budgets, and evaluated differences noted against underlying documentation and explanations obtained from management. Where the budgeted numbers significantly differed from actuals we obtained corroboration from management which we agreed was a reasonable explanation and consistent with other explanations and evidence obtained during the audit. We tested the mathematical accuracy of the discounted cash flow model and made use of our valuations expertise to assess the discounted cash flow model's compliance with market practice and the applicable requirements of IAS 36. We did not note any aspect which required further consideration.

Key audit matter	How our audit addressed the key audit matter

The impairment assessment of PPE and ROU assets is considered to be a matter of most significance to our current year audit of the consolidated and separate financial statements due to:
 	
• the significant judgements made by management in determining the cash flows, terminal growth rates and discount rates;
• the magnitude of the carrying amounts of the Group and Company's PPE and ROU assets in relation to the consolidated and separate financial statements; and
• the magnitude of the impairment losses and reversals recognised in the consolidated and separate statements against the PPE and ROU assets.
• These matters are disclosed in the following notes to the consolidated and separate financial statements:
• Accounting policies: Significant judgements and estimates – Impairment of property, plant and equipment and right-of-use assets;
• Note 2: Property, plant and equipment; and
• Note 3: Right-of-use assets.
	For the base year (financial year 2023), we agreed the cash flow forecasts to the budget approved by the Board of Directors.
	
	We tested the reasonableness of the assumptions applied by management in their base year as well as future years by performing the following procedures:
	
	• Discussions with management to understand the basis for the assumptions used in respect of the cash flows and corroborated their explanations by evaluating:
	  • the current and past performance of the CGU including the time that will be required for the CGU to achieve pre-COVID-19 levels;
	  • the consistency with external market and industry data; and
	  • the corroboration of strategic initiatives with evidence obtained from independent sources and in other areas of the audit.
	• We assessed the reasonableness of the occupancy percentages and rates applied in management's revenue forecasts to historical actual trends.
	• We assessed the capital expenditure and working capital movements applied by management in the DCF by agreeing this to historical actual trends.
	
	Based on our procedures performed above, we found the assumptions applied by management to be reasonable.
	
	Making use of our valuations expertise, the reasonableness of the terminal growth rates was assessed by comparing the terminal growth rates to long term growth rates obtained from independent sources. The growth rates used by management were accepted as comparable.
	
	We utilised our valuation expertise to independently calculate a discount rate taking into account independently obtained data such as the cost of debt, cost of leases, risk free rates in the market, market risk premiums adjusted for specific risks relating to the relevant CGUs, debt-equity ratios as well as the beta of comparable companies. This was compared to the discount rates used by management.
	
	After we further applied these independently sourced and calculated inputs, we identified that the discount rate originally used in the forecasts was not within our estimated range. We discussed this with management and they revised their forecasts and inputs as a result.
	
	We assessed the reasonableness of the discount rates, terminal growth rates and net cash flows by performing a sensitivity analysis to determine the impact that a change in discount rates, terminal growth rates and net cash flows would have on the discounted cash flow analysis and the resultant recoverable amount. We compared the results of our sensitivity analysis to management's impairment results in order to identify those CGUs considered sensitive to a change in assumptions for disclosure purposes. We did not note any aspects requiring further consideration.

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 2022”, which includes the Directors’ report, the Report of the audit committee and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the 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 identified above 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.[1]

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the 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 the 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’s and the 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 Company to cease to continue as a going concern.
- 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.

[1] *The examination of controls over the maintenance and integrity of the Group’s website is beyond the scope of the audit of the financial statements. Accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken 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 PricewaterhouseCoopers Inc. has been the auditor of City Lodge Hotels Limited for 1 year.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: AM Motaung
Registered Auditor
Johannesburg, South Africa
31 October 2022