

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The definitions and interpretations contained in the "Definitions and Interpretations" section commencing on page 7 of this Circular apply throughout this Circular including this cover page (unless the context indicates a contrary intention).

### Action required

1. This Circular is important and should be read with particular attention to the section entitled "Actions Required by Tsogo Shareholders" on page 2 of this Circular.
2. If you are in any doubt as to what action to take, please consult your Broker, CSDP, banker, accountant, legal advisor or other professional advisor immediately.
3. If you have disposed of all your Tsogo Shares, this Circular should be forwarded to the purchaser of such Tsogo Shares or to the Broker, CSDP, banker or other agent through whom the disposal was effected.

**Tsogo does not accept responsibility and will not be held liable for any action of, or omission by, any CSDP or Broker of any Tsogo Shareholder to notify such Tsogo Shareholder of the General Meeting and the transactions set out in this Circular.**



## CIRCULAR TO TSOGO SHAREHOLDERS

relating to:

- **the disposal of 100% of the issued share capital in Cassava and Listed, owners of the Casino Precinct Properties, to HPF; and**
- **the subscription by Tsogo for 1 196 362 000 HPF Shares;**

each of which constitutes a category one Related Party transaction in terms of the JSE Listings Requirements; and

- **the approval of the unbundling by Tsogo of its entire holding of HPF Shares to the Tsogo Shareholders, which will constitute the disposal of the greater part of the assets of Tsogo in terms of section 112 of the Companies Act and therefore requires the approval of the TRP and the approval of Shareholders by way of a special resolution, in compliance with section 115 of the Companies Act;**

and incorporating:

- **fairness opinions in respect of each of the transactions above;**
- **a notice convening the General Meeting; and**
- **a form of proxy for the General Meeting to be used by Certificated Shareholders and "Own-Name" Dematerialised Shareholders only.**

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### Corporate Advisor and Sponsor



### Corporate Law Advisors



### Independent Expert



### Independent Reporting Accountants



### Independent Property Valuer



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Date of issue: Friday, 21 September 2018

This Circular is available in English only and copies hereof may be obtained from the registered office of Tsogo at the address as set out in the "Corporate information and advisors" section of this Circular, during normal business hours on Business Days during the period from Friday, 21 September 2018 to Tuesday, 23 October 2018 (both days inclusive). A copy of this Circular will also be available on Tsogo's website ([www.tsogosun.com](http://www.tsogosun.com)).

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## CORPORATE INFORMATION AND ADVISORS

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### Directors

JA Copelyn\*\* (*Chairman*)  
J Booyesen (*Chief Executive Officer*)  
RB Huddy (*Chief Financial Officer*)  
MA Golding\*  
VE Mphande\*\*  
Y Shaik\*\*  
BA Mabuza\* (*Lead Independent Director*)  
MSI Gani\*  
JG Ngcobo\*

\* *Independent non-executive*

\*\* *Non-executive*

### Corporate advisor and sponsor

Investec Bank Limited  
(Registration number 1969/004763/06)  
100 Grayston Drive  
Sandton, 2196  
(PO Box 785700, Sandton, 2146)

### Transfer secretaries

Link Market Services South Africa Proprietary Limited  
(Registration number 2000/007239/07)  
13th Floor  
19 Ameshoff Street  
Braamfontein  
Johannesburg, 2001  
(PO Box 4844, Johannesburg, 2000)

### Independent reporting accountants

PricewaterhouseCoopers Inc.  
(Registration number 1998/012055/21)  
4 Lisbon Lane, Waterfall City, Jukskei View, 2090  
(Private Bag X36, Sunninghill, 2157)

### Company secretary and registered office

GD Tyrrell  
Tsogo Sun Holdings Limited  
(Registration number 1989/002108/06)  
Palazzo Towers East  
Montecasino Boulevard  
Fourways, 2055  
(Private Bag X200, Bryanston, 2021)

### Date and place of incorporation

12 April 1989, South Africa

### Corporate law advisors

Taback and Associates Proprietary Limited  
(Registration number 2000/010434/07)  
13 Eton Road  
Parktown, 2193  
(PO Box 3334, Houghton, 2041)

Werksmans Attorneys  
The Central  
96 Rivonia Road  
Sandton, 2196  
(Private Bag 10015, Sandton, 2146)

### Independent expert

PSG Capital Proprietary Limited  
(Registration number 2006/015817/07)  
1st Floor  
Ou Kollege Building  
35 Kerk Street  
Stellenbosch, 7600  
(PO Box 7403, Stellenbosch, 7599)

### Independent property valuer

Mills Fitchet  
(Registration number CK2000/020267/23)  
Suite SGI 10, Ground Floor  
Great Westerford  
240 Main Road, Rondebosch, 7725  
(PO Box 4442, Cape Town, 8000)

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## **CERTAIN FORWARD-LOOKING STATEMENTS**

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This Circular contains statements which are or may be, “forward-looking statements” which are prospective in nature. All statements, other than statements of historical fact are, or may be deemed to be, forward-looking statements, including, without limitation, those concerning strategy; the economic outlook for the hotel, gaming and entertainment industries; production; cash costs and other operating results; growth prospects and outlook for operations, individually or in the aggregate; liquidity, capital resources and expenditure and the outcome and consequences of any pending litigation proceedings. These forward-looking statements are not based on historical facts, but rather reflect current expectations concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as “believe”, “aim”, “expect”, “anticipate”, “intend”, “foresee”, “forecast”, “likely”, “should”, “planned”, “may”, “estimated”, “potential” or similar words and phrases.

Examples of forward-looking statements include statements regarding a future financial position or future profits, cash flows, corporate strategy, anticipated levels of growth, estimates of capital expenditures, acquisition strategy and expansion prospects, or future capital expenditure levels and other economic factors, such as, amongst other things, interest and exchange rates.

All these forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future, Tsogo cautions that forward-looking statements are not guarantees of future performance. Actual results, financial and operating conditions, liquidity and the developments within the industries in which Tsogo operates may differ materially from those made in, or suggested by, the forward-looking statements contained in this Circular.

All these forward-looking statements are based on estimates and assumptions, as regards Tsogo and made by Tsogo as communicated in publicly available documents by Tsogo, all of which are estimates and assumptions, although Tsogo believes them to be reasonable, are inherently uncertain. Such estimates, assumptions or statements may not eventuate. Many factors (including factors not yet known to Tsogo or not currently considered material) which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in those estimates, statements or assumptions.

Tsogo Shareholders should keep in mind that any forward-looking statements made in this Circular or elsewhere are applicable only at the date on which such forward-looking statements are made. New factors that could cause the business of the Tsogo Group not to develop as expected may emerge from time to time and it is not possible to predict all of them. The extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement are not known. Tsogo has no duty to, and does not intend to, update or revise the forward-looking statements contained in this Circular after the date of issue of this Circular, except as may be required by law.

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## **ACTIONS REQUIRED BY TSOGO SHAREHOLDERS**

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This Circular is important and requires your immediate attention.

Please take careful note of the following provisions regarding the action required by Tsogo Shareholders. If you are in any doubt as to what actions to take, please consult your Broker, CSDP, banker, attorney, accountant or other professional advisor immediately.

If you have disposed of all of your Tsogo Shares, this Circular should be handed to the purchaser of such Tsogo Shares or to the Broker, CSDP, banker, attorney or other agent through whom the disposal was effected.

The General Meeting, (notice of which is attached to and forms part of this Circular), will be held at Tsogo's head office, main boardroom, ground floor, Palazzo Towers East, Montecasino Boulevard, Fourways, South Africa at 12:00 on Tuesday, 23 October 2018 for the purposes of considering and, if deemed fit, passing, the resolutions required to authorise and approve the implementation of the Transaction and the Unbundling.

### **1. DEMATERIALIZED SHAREHOLDERS WHO ARE NOT OWN-NAME DEMATERIALIZED SHAREHOLDERS**

#### **1.1 Voting at the General Meeting**

- 1.1.1 Your Broker or CSDP should contact you to ascertain how you wish to cast your vote at the General Meeting and should thereafter cast your vote in accordance with your instructions.
- 1.1.2 If you have not been contacted by your Broker or CSDP, it is advisable for you to contact your Broker or CSDP and furnish it with your voting instructions.
- 1.1.3 If your Broker or CSDP does not obtain voting instructions from you, it will be obliged to vote in accordance with the instructions contained in the custody agreement concluded between you and your Broker or CSDP.
- 1.1.4 You must not complete the attached form of proxy.

#### **1.2 Attendance and representation at the General Meeting**

In accordance with the mandate between you and your Broker or CSDP, you must advise your Broker or CSDP if you wish to attend the General Meeting and if so, your Broker or CSDP will issue the necessary letter of representation to you to attend and vote at the General Meeting.

### **2. CERTIFICATED SHAREHOLDERS AND DEMATERIALIZED SHAREHOLDERS WHO ARE OWN-NAME DEMATERIALIZED SHAREHOLDERS**

#### **Voting and attendance at the General Meeting**

- 2.1 You may attend the General Meeting in person and may vote at the General Meeting.
- 2.2 Alternatively, you may appoint a proxy to represent you at the General Meeting by completing the attached Form of Proxy in accordance with the instructions contained therein. It is recommended that, for administrative purposes only, the Form of Proxy, duly completed, be returned to the Transfer Secretaries as soon as possible (preferably by Friday, 19 October 2018), but in any event, duly completed Forms of Proxy must be received by the Transfer Secretaries prior to the proxy exercising any of your rights as a Tsogo Shareholder at the General Meeting.

### **3. GENERAL**

#### **3.1 Voting procedure and quorum for the General Meeting**

- 3.1.1 Every Tsogo Shareholder present in person or represented by proxy and entitled to vote at the General Meeting, will, in his capacity as Tsogo Shareholder, on a show of hands, have only one vote irrespective of the number of shares he holds or represents. On a poll, every Tsogo Shareholder present in person or represented by proxy and entitled to vote at the General Meeting, will be entitled to one vote per Tsogo Share held by such Tsogo Shareholder.

- 3.1.2 The quorum for the General Meeting is at least three persons holding at least 25% of all voting rights that are entitled to be exercised on each resolution proposed to be passed at the General Meeting by Tsogo Shareholders present in person or represented by proxy at the General Meeting.

### 3.2 **Electronic participation in the General Meeting**

- 3.2.1 Tsogo Shareholders wishing to participate electronically in the General Meeting are required to deliver, by no later than 12:00 on Friday, 19 October 2018, a written notice to Tsogo (marked for the attention of Company secretary) indicating that they wish to participate via electronic communication in the General Meeting.
- 3.2.2 In order for the abovementioned notice to be valid it must contain (a) if the Tsogo Shareholder is an individual, a certified copy of his/her identity document and/or passport; (b) if the Tsogo Shareholder is not an individual, a certified copy of a resolution or letter of representation by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution or signed the relevant letter of representation. The letter of representation or resolution must set out who from the relevant entity is authorised to represent the entity at the General Meeting via electronic communication; (c) a valid e-mail address and/or facsimile number; and (d) confirmation of whether the Tsogo Shareholder wishes to vote via electronic communication.
- 3.2.3 Tsogo will use its reasonable endeavours to notify a Tsogo Shareholder wishing to participate in the General Meeting by way of electronic communication, of the relevant details through which the Tsogo Shareholder can participate via electronic communication, by no later than 24 hours before the commencement of the General Meeting.
- 3.2.4 Should a Tsogo Shareholder wish to participate in the General Meeting by way of electronic communication as mentioned above, such Tsogo Shareholder or his proxy will be required to dial-in to the dial-in facility on the date of the General Meeting. The dial-in facility will be linked to the venue at which the General Meeting will take place on the date of, from the time of commencement of, and for the duration of, the General Meeting. The dial-in facility will enable all persons to participate electronically in the General Meeting in this manner (and as contemplated in section 63(2) of the Companies Act), to communicate concurrently with each other without an intermediary and to participate reasonably effectively in the General Meeting. The costs of such participation will be for the Tsogo Shareholder's or proxy's own account.

### 3.3 **Dematerialisation of Certificated Shares**

If any Certificated Shareholder wishes to dematerialise its Tsogo Shares, such Certificated Shareholder should contact its Broker.

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## IMPORTANT DATES AND TIMES

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The definitions and interpretations commencing on page 7 of this Circular apply, *mutatis mutandis*, to this important dates and times section.

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**2018**

Notice record date, being the date on which a Tsogo Shareholder must be registered in the Register in order to be eligible to receive the Notice of General Meeting, on	Friday, 14 September
Circular incorporating the Notice of General Meeting posted to Tsogo Shareholders and released on SENS, on	Friday, 21 September
Last day to trade Tsogo Shares in order to be eligible to attend and participate in and vote at, the General Meeting (see note 2 below), on	Tuesday, 9 October
General Meeting record date, being the date on which a Tsogo Shareholder must be registered in the Register in order to be eligible to attend, participate in and vote at, the General Meeting, by the close of trade, on	Friday, 12 October
Written notice to participate electronically in the General Meeting to be delivered to Tsogo's offices (marked for the attention of the Company Secretary) by 12:00, on	Friday, 19 October
Forms of Proxy in respect of the General Meeting, to be lodged with the Transfer Secretaries as soon as possible for administrative purposes only, (preferably by Friday, 19 October 2018), but in any event before the proxy exercises any rights of the Tsogo Shareholder appointing the proxy, at the General Meeting, on	Tuesday, 23 October
General Meeting held at Tsogo's head office, main boardroom, Ground Floor, Palazzo Towers East, Montecasino Boulevard, Fourways, South Africa, at 12:00, on	Tuesday, 23 October
Results of the General Meeting published on SENS, on	Tuesday, 23 October
Results of General Meeting published in the press, on	Wednesday, 24 October

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### **If the Transaction and Unbundling is approved by Tsogo Shareholders a detailed timetable in relation to the Unbundling will be published on SENS in due course**

#### **Notes:**

- 1. The above dates and times are subject to amendment at the discretion of Tsogo. Any such amendment will be released on SENS and published in the South African press.*
- 2. Tsogo Shareholders should note that as transactions in Tsogo Shares are settled in the electronic settlement system used by Strate, settlement of trades takes place three Business Days after such trade. Therefore, Tsogo Shareholders who acquire Tsogo Shares after close of trade on Tuesday, 9 October 2018, will not be eligible to attend at, participate in and to vote at the General Meeting.*
- 3. All dates and times indicated above are South African Standard Times.*
- 4. If the General Meeting is adjourned or postponed, forms of proxy submitted in respect of the General Meeting will remain valid in respect of any adjournment or postponement thereof.*

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## DEFINITIONS AND INTERPRETATIONS

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In this Circular, unless otherwise stated or clearly indicated by the context, the words in the first column have the meanings stated opposite them in the second column, words in the singular include the plural and *vice versa*, words importing one gender include the other genders and references to a person include references to a body corporate and *vice versa*:

<b>“Akani-Egoli”</b>	Akani-Egoli Proprietary Limited (Registration number 1996/006917/07), a company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of Tsogo;
<b>“Blackrock Casino Precinct”</b>	collectively, the Blackrock Casino Precinct Property and the Buildings thereon, including the Blackrock casino, leisure and entertainment centre buildings and the Garden Court Blackrock hotel buildings;
<b>“Blackrock Casino Precinct Property”</b>	the immovable property described as Remaining Extent of Erf 15450 Newcastle, Registration Division HS, Province of KwaZulu-Natal situated at 100 Allen St, Newcastle Central, Newcastle;
<b>“Board”</b>	the board of Directors of Tsogo comprising those Directors whose names appear in the “Corporate Information and Advisors” section of this Circular;
<b>“Broker”</b>	any person registered as a “broking member (equities)” in terms of the Rules of the JSE made in accordance with the provisions of the Financial Markets Act;
<b>“Buildings”</b>	all buildings or improvements of whatsoever nature situated on the Casino Precinct Property in question, but specifically excluding the Operating Plant and the FF&E relating thereto, and for the sake of clarity, in the case of the Suncoast Casino Precinct, will include the buildings and improvements comprising the Suncoast Expansion;
<b>“Business Day”</b>	a day other than a Saturday, Sunday or official public holiday in South Africa;
<b>“Casino Precinct Properties”</b>	collectively, the Blackrock Casino Precinct Property, the Emnotweni Casino Precinct Property, the Gold Reef City Casino Precinct Property, the Montecasino Precinct Property, the Ridge Casino Precinct Property, the Silverstar Casino Precinct Property and the Suncoast Casino Precinct Property;
<b>“Casino Precincts”</b>	collectively, the Blackrock Casino Precinct, the Emnotweni Casino Precinct, the Gold Reef City Casino Precinct, the Montecasino Precinct, the Ridge Casino Precinct, the Silverstar Casino Precinct and the Suncoast Casino Precinct, as the context may require;
<b>“Cassava”</b>	Cassava Investments Proprietary Limited (Registration number 1997/020545/07), a company incorporated in accordance with the laws of South Africa and an indirect wholly-owned Subsidiary of Tsogo. Prior to the Tsogo Internal Restructure, Cassava owned The Ridge Casino Precinct and on conclusion of the Tsogo Internal Restructure, Cassava will also own the Blackrock Casino Precinct and Silverstar Casino Precinct;
<b>“Cassava Sellers”</b>	collectively, Silverstar, TSNEW and TSC;
<b>“Certificated Shareholders”</b>	Tsogo Shareholders who hold Certificated Shares;
<b>“Certificated Shares”</b>	Tsogo Shares, which have not been Dematerialised represented by a share certificate or other physical document of title;
<b>“Circular”</b>	this circular to Tsogo Shareholders, dated Friday, 21 September 2018, including the annexures hereto, the Notice of General Meeting and the Form of Proxy;
<b>“Companies Act”</b>	the Companies Act, 2008, as amended;

<b>“Corporate Advisor”</b>	Investec Bank Limited (Registration number 1969/004763/06), a public company, incorporated and registered in accordance with the laws of South Africa, details of which are contained in the “Corporate Information and Advisors” section of this Circular;
<b>“CSDP”</b>	a Central Securities Depository Participant, being a “participant” as defined in the Financial Markets Act;
<b>“Dematerialise”</b>	the process by which securities held in certificated form are converted to or held in electronic form as uncertificated securities and recorded as such in a sub-register of securities holders maintained by a CSDP and <b>“Dematerialised”</b> shall bear the corresponding meaning;
<b>“Dematerialised Shareholder”</b>	a Tsogo Shareholder who holds Dematerialised Shares;
<b>“Dematerialised Shares”</b>	Tsogo Shares which have been Dematerialised;
<b>“Directors”</b>	the directors of Tsogo whose names appear in the “Corporate Information and Advisors” section of this Circular;
<b>“Distribution Shares”</b>	the 1 538 354 565 HPF Shares (being Tsogo's entire holding of HPF Shares as at the First Distribution Record Date) to be distributed by Tsogo to Tsogo Shareholders pursuant to the Unbundling;
<b>“Effective Date”</b>	in relation to the Transaction, the effective date of the Transaction, which is expected to be on or about 1 March 2019;
<b>“Emnotweni Casino Precinct”</b>	collectively, the Emnotweni Casino Precinct Property and the Buildings situated thereon, including the Emnotweni casino, leisure and entertainment centre buildings, the Southern Sun Emnotweni hotel buildings and the StayEasy Emnotweni hotel buildings;
<b>“Emnotweni Casino Precinct Property”</b>	collectively, the immovable properties described as: <ul style="list-style-type: none"> <li>(i) Portion 1 of Erf 2 Riverside Mall, Township; Registration Division, J.T., The Province of Mpumalanga;</li> <li>(ii) Erf 4 Riverside Park Ext 1, Township; Registration Division, J.T., The Province of Mpumalanga;</li> <li>(iii) Portion 54 (a Portion of Portion 51) of the Farm Boschrand 283 (now known as the Township Riverside Park Extension 1) (including public places), and after a Certificate of Registered Title will be registered, the property will be known as Erf 3 Riverside Park Extension 1 Township, Registration Division J.T., Province of Mpumalanga; and</li> <li>(iv) Portion 53 (a Portion of Portion 48) of the Farm Boschrand 283 (now known as the Township of Riverside Park Extension 1) (including public places), and after a Certificate of Registered Title will be registered, the property will be known as Erf 5 Riverside Park Extension 1 Township, Registration Division J.T., Province of Mpumalanga,</li> </ul> situated at Government Blvd, Riverside Park, Nelspruit, Mpumalanga;
<b>“Executive Loan Scheme”</b>	the aggregate loan facility of R114 000 000 advanced by Tsogo to Messrs J Booysen, RB Huddy, FV Dlamini and GD Tyrrell (collectively, the “Executives”), on terms and conditions set out in the circular to Tsogo shareholders dated 7 July 2014, as more fully described in paragraph 18.2 of this Circular;
<b>“FF&amp;E”</b>	all or any furniture, fixtures, fittings and/or equipment of whatsoever nature pertaining to the Casino Precinct in question or any business/es conducted therefrom which do not accede to the Buildings and can be removed, including gaming machines, gaming tables, surveillance cameras and the like and excludes any of the Operating Plant;
<b>“Financial Markets Act”</b>	the Financial Markets Act, 2012, as amended;
<b>“First Distribution”</b>	the distribution of 918 069 783 HPF Shares by Tsogo to Tsogo Shareholders to be made in terms of paragraph 6.1.2.1 of this Circular;

<b>“First Distribution Completion Date”</b>	the date on which the First Distribution will be completed and the First Distribution shares are acquired by Tsogo Shareholders, registered as such on the First Distribution Record Date;
<b>“First Distribution Record Date”</b>	subject to the Unbundling Conditions Precedent being fulfilled (or where possible, waived), the date on which Tsogo Shareholders must be registered as such in the Register in order to participate in the First Distribution;
<b>“Form of Proxy”</b>	the form of proxy for use by Certificated Shareholders and Dematerialised Shareholders at the General Meeting;
<b>“General Meeting”</b>	the general meeting of Tsogo Shareholders to be held at Tsogo's head office, main boardroom, ground floor, Palazzo Towers East, Montecasino Boulevard, Fourways, South Africa at 12:00 on Tuesday, 23 October 2018, convened in terms of the Notice of General Meeting, including any adjournment or postponement thereof;
<b>“Gold Reef City Casino Precinct”</b>	collectively, the Gold Reef City Casino Precinct Property and the Buildings situated thereon, including the Gold Reef City casino, leisure and entertainment centre buildings and the Southern Sun Gold Reef City hotel buildings;
<b>“Gold Reef City Casino Precinct Property”</b>	collectively, the immovable properties described as: <ul style="list-style-type: none"> <li>(i) Erf 1211 Ormonde Ext 30 Township, Registration Division I.R., Province of Gauteng;</li> <li>(ii) Erf 1212 Ormonde Ext 30 Township, Registration Division I.R., Province of Gauteng; and</li> <li>(iii) Erf 412 Ormonde Ext 13 Township, Registration Division I.R., Province of Gauteng,</li> </ul> situated at Northern Parkway, Ormonde, Johannesburg South, Northern Parkway, Ormonde, Johannesburg South;
<b>“Gold Reef City Theme Park Property”</b>	collectively, the immovable properties described as: <ul style="list-style-type: none"> <li>(i) Remaining Extent of Erf 411 Ormonde Extension 13 Township, Registration Division I.R., Province of Gauteng;</li> <li>(ii) Remaining Extent of the Farm Ormonde 99, Registration Division I.R., Province of Gauteng;</li> <li>(iii) Portion 20 of the Farm Ormonde 99, Registration Division I.R., Province of Gauteng;</li> <li>(iv) Remaining Extent of Erf 1266 Ormonde Extension 34 Township, Registration Division I.R., Province of Gauteng;</li> <li>(v) Portion I of Erf 1266 Ormonde Extension 34 Township, Registration Division I.R., Province of Gauteng;</li> <li>(vi) Erf 1589 Ormonde Extension 13 Township, Registration Division I.R., Province of Gauteng;</li> <li>(vii) Erf 1225 Ormonde Extension 33 Township, Registration Division I.R., Province of Gauteng;</li> <li>(viii) Erf 1226 Ormonde Extension 33 Township, Registration Division I.R., Province of Gauteng; and</li> <li>(ix) Portion 77 of the Farm Ormonde 99, Registration Division I.R., Province of Gauteng,</li> </ul> situated at Northern Parkway, Ormonde, Johannesburg South;
<b>“Grabblebrook”</b>	Grabblebrook Proprietary Limited (Registration number 2013/088934/07), a company incorporated in accordance with the laws of South Africa and an indirect wholly-owned Subsidiary of Tsogo;
<b>“HCI”</b>	Hosken Consolidated Investments Limited (Registration number 1973/007111/06), a company incorporated in accordance with the laws of South Africa, being Tsogo's holding company and a Related Party;

<b>“Head Leases”</b>	collectively, the separate head leases entered into by Grapplebrook (as tenant) with (i) TSNEW (as landlord) in respect of the Blackrock Casino Precinct, (ii) Listed (as landlord) in respect of the Emnotweni Casino Precinct, (iii) Akani-Egoli (as landlord) in respect of the Gold Reef City Casino Precinct, (iv) TSC (as landlord) in respect of the Montecasino Precinct, (v) Cassava (as landlord) in respect of the Ridge Casino Precinct, (vi) Silverstar (as landlord) in respect of the Silverstar Casino Precinct and (vii) TSKZN (as landlord) in respect of the Suncoast Casino Precinct, as the context may require, as part of the Tsogo Internal Restructure;
<b>“Head-Lease Rental Aggregation Agreement”</b>	the casino precinct head-lease rental aggregation agreement (substantially in the form of the draft thereof annexed to the Sale and Subscription Agreement as Schedule 5) amongst TSNEW, Listed, Akani-Egoli, TSC, Cassava, Silverstar and TSKZN, as landlords of the Casino Precincts under the Head Leases, and Grapplebrook as tenant thereunder entered into as part of the Tsogo Internal Restructure, recording matters such as the aggregate rentals payable by Grapplebrook in respect of the Casino Precincts, the rental escalations applicable under the Head Leases and the aggregate rental review/reset provisions applicable to the Head Leases;
<b>“HPF” or “Hospitality”</b>	Hospitality Property Fund Limited (Registration number 2005/014211/06), a company incorporated in accordance with the laws of South Africa and a Subsidiary of Tsogo;
<b>“HPF Circular”</b>	the circular relating to the Transaction issued by HPF to its shareholders on Friday, 21 September 2018, a copy whereof is available on HPF’s website <a href="http://www.hpf.co.za">www.hpf.co.za</a> ;
<b>“HPF Properties”</b>	HPF Properties Proprietary Limited (Registration number 2005/020743/07), a company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of HPF;
<b>“HPF Group”</b>	HPF and its Subsidiaries from time to time;
<b>“HPF Internal Restructure”</b>	the internal restructuring to be undertaken by the HPF Group to be completed post the implementation of the Transaction, whereby beneficial ownership of all of the HPF Group properties (both casinos and hotels) will be vested in HPF Properties;
<b>“HPF Revised Listings Particulars”</b>	the revised listings particulars of HPF issued on Friday, 21 September 2018, a copy whereof is available on HPF’s website <a href="http://www.hpf.co.za">www.hpf.co.za</a> ;
<b>“HPF Shares”</b>	ordinary shares of no par value in the capital of HPF;
<b>“Income Tax Act”</b>	the Income Tax Act, 1962, as amended;
<b>“Independent Board”</b>	the independent board/committee of the Board comprising Mrs BA Mabuza, Mr VE Mphande and Mr JG Ngcobo, (being Directors who are considered by the Board to be independent Directors), established by the Board for the purposes of the Companies Act and the Companies Regulations and for the purposes of considering and, if deemed fit, approving the Unbundling and the Transaction, respectively;
<b>“Independent Expert”</b>	PSG Capital Proprietary Limited (Registration number 2006/015817/07), a company incorporated in accordance with the laws of South Africa, details of which are contained in the “Corporate Information and Advisors” section of this Circular;
<b>“Independent Expert’s Report”</b>	the report by the Independent Expert on the Transaction and the Unbundling in accordance with the terms of the Listings Requirements, the Companies Act and the Companies Regulations, a copy of which report is annexed to this Circular as <b>Annexure I</b> ;
<b>“Independent Property Valuer”</b>	Mills Fitchet (registration number CK2000/020267/23), a company incorporated in accordance with the laws of South Africa, details of which are contained in the “Corporate Information and Advisors” section of this Circular;
<b>“Independent Property Valuer’s Report”</b>	the summary valuation report on the Casino Precinct Properties by the Independent Property Valuer, a copy of which is annexed to this Circular as <b>Annexure 2</b> ;

<b>“Independent Reporting Accountants”</b>	PricewaterhouseCoopers Inc. (Registration number 1998/012055/21), registered auditors, a firm of Chartered Accountants (SA) and the independent reporting accountants to Tsogo (details of which firm are contained in the “Corporate Information and Advisors” section of this Circular) whose limited assurance report on the compilation of the <i>pro forma</i> financial information of Tsogo is annexed to this Circular as <b>Annexure 5</b> ;
<b>“JSE”</b>	JSE Limited (Registration number 2005/022959/06), a company incorporated in accordance with the laws of South Africa and licensed to operate an exchange under the Financial Markets Act;
<b>“Last Practicable Date”</b>	5 September 2018, being the last practicable date prior to the finalisation of this Circular;
<b>“LeaseCo”</b>	Grabblebrook;
<b>“Listed”</b>	Listed Investments Proprietary Limited (Registration number 1997/003059/07), a company incorporated in accordance with the laws of South Africa and an indirect wholly-owned Subsidiary of Tsogo. Prior to the Tsogo Internal Restructure, Listed owned the Emnotweni Casino Precinct and on conclusion of the Tsogo Internal Restructure, Listed will also own Gold Reef City Casino Precinct; Montecasino Precinct and the Suncoast Casino Precinct;
<b>“Listed Sellers”</b>	collectively, Akani-Egoli, TSKZN and TSC;
<b>“Listings Requirements”</b>	the Listings Requirements of the JSE as published by the JSE, from time to time;
<b>“Long Stop Date”</b>	the 60th day from and including the date of written notice, given by either Tsogo or HPF to the other Tsogo Group and HPF Group parties to the Sale and Subscription Agreement, requiring that those of the Transaction Conditions Precedent, which at the date of such notice have not been fulfilled or waived, be fulfilled, or where possible, waived, provided that no such notice may be given on or before 31 March 2019;
<b>“Merway”</b>	Merway Fifth Investments Proprietary Limited (Registration number 1991/006478/07), a company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of HPF, or any other wholly-owned Subsidiary of HPF nominated by HPF prior to the Second Fulfilment Date;
<b>“Micawber”</b>	Micawber 636 Proprietary Limited, a company register in accordance with the laws of South Africa under registration number 2007/025446/07, being a special purpose vehicle external to the Tsogo Group;
<b>“MOI”</b>	the memorandum of incorporation of Tsogo as at the date of this Circular;
<b>“Montecasino Precinct”</b>	collectively, the Montecasino Precinct Property and the Buildings situated thereon, including the Montecasino casino, leisure and entertainment centre buildings, the Palazzo hotel buildings, the Southern Sun Montecasino hotel buildings, the Sun Square Montecasino hotel buildings, the Teatro theatre buildings, the Bird Gardens buildings, the Palazzo Towers East office buildings, the Palazzo Towers West office buildings and the Pivot office buildings;
<b>“Montecasino Precinct Property”</b>	collectively, the immovable properties described as: <ul style="list-style-type: none"> <li>(i) Remaining Extent of Erf 475 Magaliessig Ext 37 Township;</li> <li>(ii) Erf 474 Magaliessig Ext 37 Township; and</li> <li>(iii) Section Numbers 1 to 5 as shown and more fully described on Sectional Plan Number SS 21/2012 in the scheme known as ONE MONTE in respect of the land and building or buildings situated at Magaliessig Extension 37 Township, Local Authority: City of Johannesburg Metropolitan Municipality, together with the respective undivided shares in the common property in the scheme apportioned to the said sections in accordance with the respective participation quotas as endorsed on the said sectional plan,</li> </ul> situated at Montecasino Boulevard, Fourways;

<b>“Monte Circle Property”</b>	collectively, the immovable properties described as: (i) Erf 502 Magaliessig Extension 64 Township, Registration Division I.Q., Province of Gauteng; (ii) Erf 503 Magaliessig Extension 71 Township, Registration Division I.Q., Province of Gauteng; (iii) Remaining Extent of Portion 109 (a Portion of Portion 49) of the Farm Witkoppen 194, Registration Division I.Q., Province of Gauteng; and (iv) Remaining Extent of Portion 185 (a Portion of Portion 40) of the Farm Witkoppen 194, Registration Division I.Q., Province of Gauteng, including all and any improvements thereon and situated at Montecasino Boulevard, Fourways;
<b>“Monte Place Property”</b>	collectively, the immovable properties described as: (i) Remaining Extent of Portion 40 (a Portion of Portion 7) of the Farm Witkoppen 194, Registration Division I.Q., Province of Gauteng; and (ii) Remaining Extent of Portion 230 of the Farm Witkoppen 194, Registration Division I.Q., Province of Gauteng, including all and any improvements thereon and situated at Montecasino Boulevard, Fourways;
<b>“Notice of General Meeting”</b>	the notice convening the General Meeting, enclosed with and forming part of this Circular;
<b>“Operating Plant”</b>	the fixed operating plant of the Casino Precinct in question which does not accede to the Casino Precinct Properties nor the Buildings and which is capable of being removed from the Buildings, being the lifts, the escalators, the fire protection plant (fireproofing, fire detecting and sprinkler systems), the Heating, Ventilation and the Air-conditioning plant, the Building Management System plant, the generator plant, the chiller plant, the waste processing plant, the water treatment plant, the borehole plant and the lighting plant, it being recorded that any movable items not referred to in the above list will not be considered as Operating Plant but as FF&E;
<b>“Palazzo Towers”</b>	the Palazzo Towers East and Palazzo Towers West office buildings on the Montecasino Precinct Property;
<b>“Purchase Consideration”</b>	the aggregate purchase consideration payable by Merway to the Cassava Sellers and the Listed Sellers for the Sale Shares, being the sum of R23 006 961 538. Additional details relating to the Sellers and consideration paid or payable to the Sellers is set out in <b>Annexure 9</b> of the HPF Revised Listings Particulars;
<b>“R” or “Rand”</b>	South African Rand, the lawful currency of South Africa;
<b>“Register”</b>	the securities register of Tsogo Shareholders maintained by Tsogo in terms of the Companies Act, including the register of Certificated Shareholders and the sub-registers of Dematerialised Shares maintained by the relevant CSDPs in accordance with the Companies Act;
<b>“REIT”</b>	a Real Estate Investment Trust which is an entity which receives REIT status both in terms of the Listings Requirements and qualifies as such in terms of the Income Tax Act;
<b>“Related Party”</b>	a “related party” as that term is defined in the Listings Requirements;
<b>“Sale and Subscription Agreement”</b>	the Sale of Shares and Subscription Agreement dated 9 July 2018, as amended by the addendum thereto dated 7 September 2018, amongst the Cassava Sellers, the Listed Sellers, Merway, Listed, Cassava, Tsogo and HPF, pursuant to which, <i>inter alia</i> , the Sellers will dispose of the Sale Shares to Merway and the Sellers will subscribe for the Subscription Shares;
<b>“Sale”</b>	the sale by the Sellers of the Sale Shares to Merway for the Purchase Consideration;
<b>“Sale Shares”</b>	collectively, the entire issued share capitals of Cassava and Listed;

<b>“Second Distribution”</b>	the distribution of 620 284 782 HPF Shares by Tsogo to Tsogo Shareholders to be made in terms of paragraph 6.1.2.2 of this Circular;
<b>“Second Distribution Completion Date”</b>	the date on which the Second Distribution will be completed and the Second Distribution shares are acquired by Tsogo Shareholders, registered as such on the Second Distribution Record Date;
<b>“Second Distribution Record Date”</b>	subject to the Unbundling Conditions Precedent being fulfilled (or where possible, waived), the date on which Tsogo Shareholders must be registered as such in the Register in order to participate in the Second Distribution;
<b>“Sellers”</b>	collectively, the Cassava Sellers and the Listed Sellers;
<b>“SENS”</b>	the Stock Exchange News Service of the JSE;
<b>“Silverstar”</b>	Silverstar Casino Proprietary Limited (Registration number 1995/000369/07), a company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of Tsogo;
<b>“Silverstar Casino Precinct”</b>	collectively, the Silverstar Casino Precinct Property and the Buildings situated thereon, including the Silverstar casino, leisure and entertainment centre buildings and the Southern Sun Silverstar hotel buildings;
<b>“Silverstar Casino Precinct Property”</b>	collectively, the immovable properties described as: <ul style="list-style-type: none"> <li>(i) Erf 642 Homes Haven Township, Registration Division I.Q., Mogale Local Municipality, Province of Gauteng;</li> <li>(ii) Erf 643 Homes Haven Township, Registration Division I.Q., Mogale Local Municipality, Province of Gauteng;</li> <li>(iii) Erf 644 Homes Haven Township, Registration Division I.Q., Mogale Local Municipality, Province of Gauteng;</li> <li>(iv) Erf 645 Homes Haven Township, Registration Division I.Q., Mogale Local Municipality, Province of Gauteng; and</li> <li>(v) Remaining Extent Portion 39 (a portion of Portion 6) of the Farm Roodekrans 183 Registration Division I.Q. Province of Gauteng, situated at R28, Krugersdorp, Muldersdrift, 1740;</li> </ul>
<b>“Sponsor”</b>	Investec Bank Limited (Registration number 1969/004763/06), a public company, incorporated and registered in accordance with the laws of South Africa, details of which are contained in the “Corporate Information and Advisors” section of this Circular;
<b>“South Africa”</b>	the Republic of South Africa;
<b>“Strate”</b>	Strate Proprietary Limited (Registration number 1998/022242/07), a company incorporated in accordance with the laws of South Africa, and a registered central securities depository responsible for the electronic custody and settlement system for transactions that take place on the JSE and off-market trades;
<b>“STT”</b>	securities transfer tax, levied in terms of the STT Act;
<b>“STT Act”</b>	the Securities Transfer Tax Act, 2007, as amended;
<b>“Subsidiary”</b>	a “subsidiary” as defined in the Companies Act;
<b>“Subscription”</b>	the application of a portion of the Purchase Consideration by the Sellers in subscribing for the Subscription Shares;
<b>“Subscription Shares”</b>	1 196 362 000 HPF Shares in the authorised but unissued capital of HPF, to be subscribed for by the Sellers for a subscription price of R12.50 per Subscription Share in terms of the Sale and Subscription Agreement, which Subscription Shares when issued, will constitute not less than 67.4% of the entire issued share capital of HPF at such time;

<b>“Suncoast Casino Precinct”</b>	collectively, the Suncoast Casino Precinct Property and the Buildings situated thereon, including the Suncoast casino, leisure and entertainment centre buildings, the Suncoast Towers buildings, the SunSquare Suncoast hotel buildings and the Suncoast Expansion;
<b>“Suncoast Casino Precinct Property”</b>	the immovable property described as Erf 12519 Durban, Registration Division FU, Province of KwaZulu-Natal, situated at Suncoast Boulevard, Durban;
<b>“Suncoast Expansion”</b>	the expansion of the Suncoast Casino Precinct currently in progress as provided for in the eThekweni Municipality approved plans, a copy of which plans have been initialled by Tsogo and HPF for identification purposes;
<b>“The Ridge Casino Precinct”</b>	collectively, The Ridge Casino Precinct Property and the Buildings situated thereon, including The Ridge casino, leisure and entertainment centre buildings, Southern Sun – The Ridge hotel buildings and the StayEasy Emalahleni hotel buildings;
<b>“The Ridge Casino Precinct Property”</b>	collectively, the immovable property described as: <ul style="list-style-type: none"> <li>(i) Remaining Extent of Erven 1713 and 1714 Del Judor Extension 26 Township, Registration Division J.S., Province of Mpumalanga;</li> <li>(ii) Portion 2 (A Portion of Portion 1) of Erf 1716 Del Judor Extension 27 Township, Registration Division J.S., Province of Mpumalanga; and</li> <li>(iii) Portion 3 (A Portion of Portion 1) of Erf 1716 Del Judor Extension 27 Township, Registration Division J.S., Province of Mpumalanga,</li> </ul> situated at Cnr N4 Highway & Mandela Street, Emalahleni;
<b>“Third Party Debt”</b>	R8 052 436 538 of Tsogo’s third party debt to be settled with the Purchase Consideration;
<b>“Transaction”</b>	collectively the Sale and the Subscription;
<b>“Transaction Conditions Precedent”</b>	the conditions precedent to which the Transaction is subject, details of which are contained in paragraph 7.1 of this Circular;
<b>“Transfer Secretaries”</b>	Link Market Services South Africa Proprietary Limited (Registration number 2000/007239/07), a company incorporated in accordance with the laws of South Africa, details of which are contained in the “Corporate Information and Advisors” section of this Circular;
<b>“TS”</b>	Tsogo Sun Proprietary Limited (Registration number 2002/026000/07,) a company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of Tsogo, being the treasury company of the Tsogo Group;
<b>“TSC”</b>	Tsogo Sun Casinos Proprietary Limited (Registration number 1995/012674/07), a company incorporated in accordance with the laws of South Africa and an indirect wholly-owned Subsidiary of Tsogo;
<b>“TSKZN”</b>	Tsogo Sun KwaZulu-Natal Proprietary Limited (Registration number 1997/014551/07) a company incorporated in accordance with the laws of South Africa and an indirect wholly-owned Subsidiary of Tsogo;
<b>“TSNEW”</b>	Tsogo Sun Newcastle Proprietary Limited (Registration number 1998/002723/07), a company incorporated in accordance with the laws of South Africa and an indirect wholly-owned Subsidiary of Tsogo;
<b>“Tsogo”</b>	Tsogo Sun Holdings Limited (Registration number 1989/002108/06), a company incorporated in accordance with the laws of South Africa and a Subsidiary of HCl. The major beneficial Tsogo Shareholders are set out in paragraph 16 of this Circular;
<b>“Tsogo Group”</b>	Tsogo and its Subsidiaries from time to time;
<b>“Tsogo Internal Restructure”</b>	the Tsogo Group internal restructuring which will result in the Casino Precinct Properties being owned by Cassava and Listed and being let to Grapplebrook;
<b>“Tsogo Shares”</b>	ordinary par value shares of R0.02 each in the share capital of Tsogo;

<b>“Tsogo Group Security Pool”</b>	all security interests (including mortgage bonds, guarantees, general notarial bonds, pledge of shares and cession of loans) granted in favour of Micawber and/or other persons providing funding or financial facilities or other financial accommodation or who/which otherwise qualifies as a creditor in respect of any Tsogo Group funding arrangement;
<b>“Tsogo Shareholders”</b>	the registered holders of Tsogo Shares appearing on the Register;
<b>“Tsogo Shareholding”</b>	a holding of Tsogo Shares by a Tsogo Shareholder;
<b>“Unbundling”</b>	the proposed distribution by Tsogo of its entire holding of HPF Shares, to Tsogo Shareholders, pursuant to the First Distribution and Second Distribution and <i>pro rata</i> to their respective Tsogo Shareholdings, the salient details of which are contained in paragraph 6 of this Circular;
<b>“Unbundling Conditions Precedent”</b>	the conditions precedent to which the Unbundling is subject, details of which are contained in paragraph 7.2 of this Circular; and
<b>“Withholding Tax Shares”</b>	that number of Distribution Shares (if any) withheld by Tsogo with respect to Tsogo Shareholder, as contemplated in paragraph 6.2.1.5 of this Circular.

## **Directors**

JA Copelyn\*\* (*Chairman*)  
J Booysen (*Chief Executive Officer*)  
RB Huddy (*Chief Financial Officer*)  
MA Golding\*  
VE Mphande\*\*  
Y Shaik\*\*  
BA Mabuza\* (*Lead Independent Director*)  
MSI Gani\*  
JG Ngcobo\*

\* Independent non-executive

\*\* Non-executive

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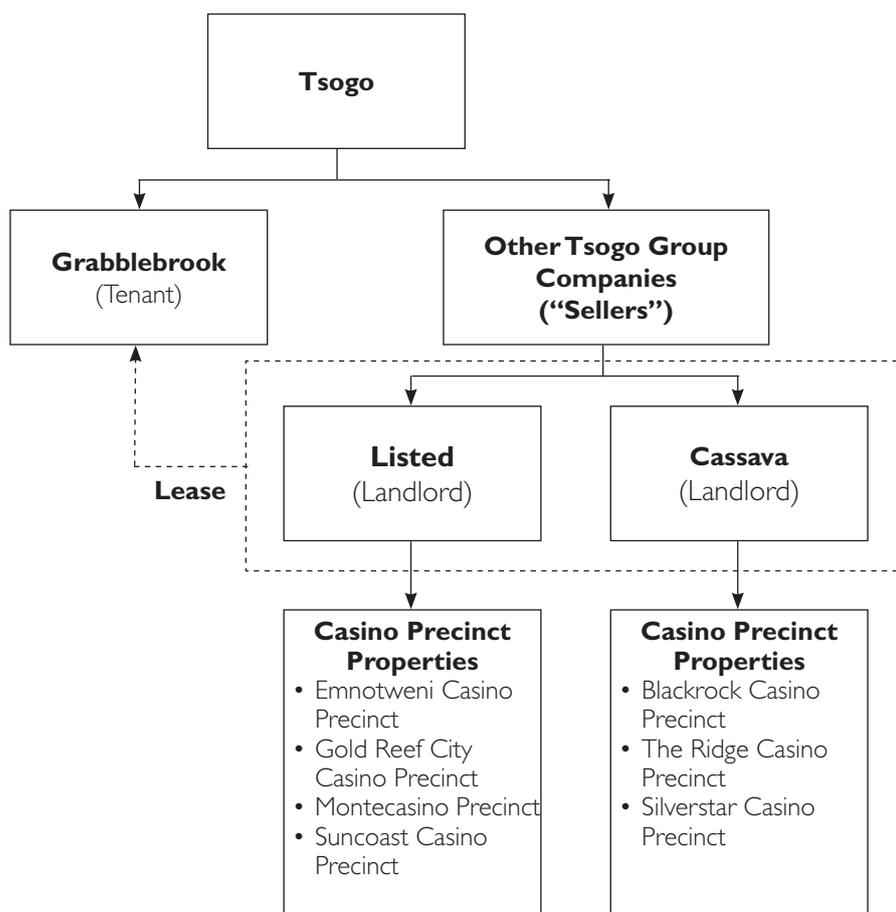
## **CIRCULAR TO TSOGO SHAREHOLDERS**

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### **I. INTRODUCTION**

- 1.1 Tsogo Shareholders are referred to the announcements released on SENS on 9 July 2018 and 7 September 2018, wherein it was announced that Tsogo intends to dispose of the Casino Precinct Properties to HPF and distribute to Tsogo Shareholders, its entire holding of HPF Shares (including the Subscription Shares) in terms of the Unbundling.
- 1.2 Prior to the disposal, Tsogo is undertaking an internal restructure which will result in:
  - 1.2.1 all of the Casino Precinct Properties being owned collectively by Cassava and Listed, two indirect wholly owned Subsidiaries of Tsogo; and
  - 1.2.2 each of the Casino Precinct Properties being let by Listed and Cassava to Grapplebrook, an indirect wholly owned Subsidiary of Tsogo, in terms of separate Head Leases read with the Head-Lease Rental Aggregation Agreement.
- 1.3 As at the Last Practicable Date, all of the agreements relating to the Tsogo Internal Restructure have been concluded by the parties thereto.
- 1.4 The Casino Precinct Properties include all buildings or improvements of whatsoever nature situated on the Casino Precinct Property in question, but specifically exclude the Operating Plant and the FF&E relating thereto. In order to efficiently operate the casinos Tsogo will retain ownership of the Operating Plant and FF&E for the duration of the Head Leases. Ownership of the Operating Plant will transfer to Listed and/or Cassava respectively for no consideration upon termination of the respective Head Lease. The full terms of the Head Leases and Head Lease Rental Aggregation Agreement are set out in paragraph 4.3 of this Circular.

## Tsogo abridged group structure post the Tsogo Internal Restructure



### **Note: All entities are indirect wholly owned subsidiaries of the Tsogo Group**

- 1.5 In order to effect the disposal of the Casino Precinct Properties, Tsogo Group companies have entered into the Sale and Subscription Agreement with HPF Group companies for the disposal by the Sellers (all being Tsogo Group Companies) to Merway, an HPF Group company of the entire issued share capital of both Cassava and Listed, for an aggregate purchase consideration of R23.01 billion.
- 1.6 In order to facilitate the Sale, the Sellers will apply the cash proceeds of the Sale in subscribing for 1 196 362 000 HPF Shares, in aggregate, at a subscription price of R12.50 per HPF Share (approximately R14.96 billion).
- 1.7 Subsequent to the implementation of the Sale and the Subscription and the HPF Internal Restructure, Tsogo will distribute to Tsogo Shareholders, its entire holding of HPF Shares (including the Subscription Shares) in terms of the Unbundling.
- 1.8 The purpose of this Circular is:
- 1.8.1 to provide Tsogo Shareholders with relevant information relating to the Sale and the Subscription, which are both classified as Category I and Related Party transactions for Tsogo, in terms of the Listings Requirements;
  - 1.8.2 to provide Tsogo Shareholders with relevant information relating to the Unbundling, which will constitute a disposal of the greater part of Tsogo's assets in terms of section 112 of the Companies Act; and
  - 1.8.3 to give notice convening the General Meeting in order to consider and, if deemed fit, pass the special and ordinary resolutions necessary to approve and implement the Transaction and the Unbundling.
- 1.9 As a result of the implementation of the Unbundling, Tsogo Shareholders will be entitled to exercise their "appraisal rights" in terms of section 164 of the Companies Act (details of which are contained in **Annexure II** to this Circular).
- 1.10 The Unbundling will constitute an "affected transaction" for the purposes of the Companies Act and will, accordingly be governed by, *inter alia*, the TRP.

## 2. CORPORATE GOVERNANCE

- 2.1 The Tsogo Internal Restructure contemplated in this Circular does not constitute a transaction or a Related Party agreement in terms of paragraphs 9 and 10 of the Listings Requirements. Accordingly, no shareholder vote or fairness opinion on the Tsogo Internal Restructure is required.
- 2.2 The Tsogo Internal Restructure, the Transaction, the HPF Internal Restructure and the Unbundling are inter-conditional. Hence, in order to provide Tsogo Shareholders with the information required to assess the Tsogo Internal Restructure and the Transaction as a whole, detailed information on the Tsogo Internal Restructure has been included in paragraph 4 of this Circular. In addition, copies of the Head Leases and the Head-Lease Rental Aggregation Agreement are available for inspection.
- 2.3 In determining the terms of the Head Leases and the Head-Lease Rental Aggregation Agreement, Tsogo management engaged with the chief executive officer of HPF and the independent directors of HPF as the terms of the Head-Leases directly impact the determination of the Purchase Consideration.
- 2.4 The Transaction is a Related Party agreement in terms of paragraph 10 of the Listings Requirements and, in order to implement the Transaction, the Transaction must be approved by an ordinary resolution of Tsogo Shareholders, other than HCI, TIHC Investments Proprietary Limited, Johnnic Holdings Management Services Proprietary Limited and Tsogo Investment Holding Company Proprietary Limited, which are associates of HPF in terms of the Listings Requirements. Accordingly, as the Tsogo Internal Restructure is conditional upon the Transaction being approved by Tsogo Shareholders, Tsogo cannot implement the Tsogo Internal Restructure without the approval of Tsogo's minority shareholders.
- 2.5 The Independent Expert has determined the Transaction to be fair to Tsogo Shareholders.
- 2.6 Finally, in accordance with section 75 of the Companies Act, Directors with a financial interest in HPF will recuse themselves from voting on the Transaction. Details of the Directors' financial interest in HPF are included in the HPF Circular.

## 3. RATIONALE

- 3.1 The Transaction is in line with the Board's strategy to restructure Tsogo into three separate and distinct operating divisions, being a property division, a gaming division and a hotel management division.
- 3.2 The Board anticipates that the separation of Tsogo into these three focused divisions (and separate listed entities) will unlock value and provide greater investment choice for Tsogo Shareholders. On conclusion of the Transaction, HPF is expected to own investment properties with a total fair market value of circa R35 billion.
- 3.3 Upon completion of the Transaction, Tsogo will hold 86.7% of the issued capital of HPF.
- 3.4 Post the implementation of the Transaction and the Unbundling, Tsogo Shareholders will hold:
  - 3.4.1 HPF Shares, which will provide stable and predictable distributions; and
  - 3.4.2 Tsogo Shares, which are more exposed to the risks and opportunities of the gaming industry and the South African macro-economic climate.

## 4. OVERVIEW OF THE CASINO PRECINCT PROPERTIES

- 4.1 Following the implementation of the Tsogo Internal Restructure and prior to the implementation of the Transaction, the Casino Precinct Properties will be owned by Cassava and Listed as follows:
  - 4.1.1 Blackrock Casino Precinct Property, The Ridge Casino Precinct Property and Silverstar Casino Precinct Property, by Cassava; and
  - 4.1.2 Emnotweni Casino Precinct Property, Gold Reef City Casino Precinct Property, Montecasino Precinct Property and Suncoast Casino Precinct Property, by Listed.
- 4.2 Each of the Casino Precinct Properties will be let by Listed and Cassava as landlord ("**Landlord**") to Grabblebrook as tenant ("**Leaseco**" or "**Tenant**") in terms of the separate Head Leases read with the Head-Lease Rental Aggregation Agreement. The rentals payable to Cassava and Listed are guaranteed by Tsogo.
- 4.3 The salient terms of the Head Leases and the Head-Lease Rental Aggregation Agreement are set out below:
  - 4.3.1 the Head Leases will permit the Tenant to sub-let each of the Casino Precinct Properties with the consent of the Landlord on substantially similar terms as the Head Lease concerned;

- 4.3.2 the Head Leases, which will be triple net leases, will be concluded for a fixed initial period enduring until 31 March 2023. Thereafter the Head Leases will continue indefinitely unless they are terminated by either the Landlord or the Tenant on 15 years' prior written notice to the other;
- 4.3.3 the initial aggregate base rental payable by the Tenant for the Casino Precinct Properties will be R1.94 billion per annum ("**Initial Aggregate Base Rental**"), one twelfth of which amount will be payable monthly in advance on the 1st Business Day of each month;
- 4.3.4 the Initial Aggregate Base Rental will escalate annually on the 1st day of April of each year by the percentage change in the consumer price index which is applicable for the preceding 12 months ("**Escalation Rate**") subject to the terms of a rental review referred to in paragraph 4.3.5 below;
- 4.3.5 on the 7th anniversary of 1 April 2018 (i.e. on 1 April 2025), and thereafter on each successive 5th anniversary of that date ("**Rental Review Date**"), the aggregate annual rental payable by the Tenant in terms of the Head Leases for the year commencing on such anniversary, will be reviewed by the Landlord and the Tenant ("**Head Lease Anniversary Rental Review**") and will be recalculated to be the lesser of:
- 4.3.5.1 an amount equal to the Initial Aggregate Base Rental escalated annually at the Escalation Rate on the 1st day of April of each year, irrespective of and disregarding any rental reset (upwards or downwards), as described in paragraphs 4.3.7 and 4.3.8 below) which has occurred during the period of the Head Leases ("**Aggregate Escalated Base Rental**"); and
- 4.3.5.2 an amount equal to 70% of the aggregate EBITDAR (earnings before interest, income tax, depreciation, amortisation, property rentals paid, long-term incentives and exceptional items and after deducting management fees and licence fees charged by companies within the Tsogo Group in respect of the Casino Precinct Properties) earned by the Tsogo Group in respect of the Casino Precinct Properties in respect of the year terminating on the day preceding the anniversary date concerned, escalated at the Escalation Rate on the anniversary date concerned ("**Head Lease Re-set**"); provided that:
- 4.3.5.2.1 the EBITDAR (as published by Tsogo in its annual financial statements) in respect of the Casino Precinct Properties will be prepared on the same basis and applying the same criteria as applied in years prior to the Effective Date; and
- 4.3.5.2.2 the proportion that the aggregate management and licence fees charged by companies within the Tsogo Group bears to the aggregate EBITDAR of all Casino Precinct Properties will not be increased after the Effective Date without the consent of the Landlord;
- 4.3.6 a schedule reflecting the current management and license fees charged by the relevant companies within the Tsogo Group has been referred to in the Head-Lease Lease Rental Aggregation Agreement, and has been included as a document made available for inspection;
- 4.3.7 if the amount calculated in terms of paragraph 4.3.5.2 above is less than the current Rental (escalated at the Escalation Rate), and the difference between the amounts is:
- 4.3.7.1 less than 2.5%, then the rental will not be adjusted nor reset downwards and instead the rental and the rental payable by the Tenant for the ensuing relevant five-year period shall be equal to the rental payable in the previous year escalated at the Escalation Rate; or
- 4.3.7.2 equal to or greater than 2.5%, then the rental will be adjusted and reset downwards in accordance with the resulting calculation and the rental payable by the Tenant for the ensuing relevant five-year period will be adjusted and reset downwards ("**Downwards Rental Reset**");

- 4.3.8 if:
- 4.3.8.1 on a Rental Review Date; or
  - 4.3.8.2 on the first anniversary of any Rental Review Date; or
  - 4.3.8.3 on the second anniversary of any Rental Review Date,
 

(irrespective of whether or not the review on any Rental Review Date resulted in a Downwards Rental Reset, a Head Lease upwards rental reset or a cure rental as contemplated in paragraph 4.3.12 below) and, if the then rental is less than the Aggregate Escalated Base Rental at such time, then the relevant parties will again review and recalculate the rental payable despite such review and recalculation procedure not coinciding with a review date (“**Extraordinary Rental Review**”). The rental calculation amount resulting from the Extraordinary Rental Review will only be implemented if it has the effect of increasing the rental upwards when compared with the rental payable in the last month immediately preceding the date of the Extraordinary Rental Review (“**Upwards Rental Review**”); provided that:

    - 4.3.8.3.1 the Upwards Rental Review will not have the effect of resulting in a rental greater than the Aggregate Escalated Base Rental for the same period;
    - 4.3.8.3.2 the Extraordinary Rental Review will only be used to implement an upwards rental reset and cannot be used to implement a Downwards Rental Reset; and
    - 4.3.8.3.3 an Extraordinary Rental Review and resulting upwards rental reset can be used and implemented consecutively in each of the two years in order to achieve an upwards rental reset, provided that the maximum aggregate rental payable for those two years may not be greater than an amount equal to the Aggregate Escalated Base Rental for the same two-year period;
- 4.3.9 subject to paragraph 4.3.12 below, in the event of a Downwards Rental Reset occurring on any two consecutive Rental Review Dates, the Landlord will be entitled, by giving five years’ written notice to the Tenant (which written notice will be subject to the Listings Requirements at that time), either to terminate:
- 4.3.9.1 all of the Head Leases and the Head-Lease Rental Aggregation Agreement in respect of all of the Casino Precincts; or
  - 4.3.9.2 the particular Head Lease/s in respect of the particular Casino Precinct/s whose performance was the cause of the second relevant Downwards Rental Reset;
- in which case such notice of termination must be received by the Tenant within a period of three months of the second of such Rental Review Dates in order to constitute a valid notice of termination. For the sake of clarity, the earliest that the Landlord will be entitled to give any such five years’ notice of termination will be on 1 April 2030;
- 4.3.10 should Tsogo re-acquire the particular Casino Precinct, the acquisition will be subject to the Listings Requirements at the time;
  - 4.3.11 if a particular Head Lease/s relating to a particular Casino Precinct/s is terminated in accordance with paragraph 4.3.9 above, then all calculations made in terms of paragraphs 4.3.5.2.1, 4.3.5.2.2 and 4.3.8 above, will be adjusted to exclude that particular Casino Precinct/s and the particular Head Lease as well as the rentals relating thereto, either future or retrospectively;
  - 4.3.12 notwithstanding the provisions of paragraph 4.3.9 above, the Tenant will have the right to waive any Head Lease downward re-set in respect of any Head Lease Anniversary Rental Review cycle, thereby preventing an early termination as contemplated in paragraph 4.3.9 above should it elect to make (and in fact makes), within a period of three weeks from date of the second of the relevant Head Lease downward re-set, payment for the ensuing year, of an aggregate annual rental which is equal to the aggregate annual rental that was paid in terms of the Head Lease for the year terminating on the day preceding the day upon which the Head Lease downward re-set would have been implemented, escalated at the Escalation Rate, instead of making payment of the Head Lease downward re-set amount that would have been implemented for the ensuing year, continuing to escalate annually thereafter in terms of paragraph 4.3.4 above until the occurrence of the next Head Lease Anniversary Rental Review;

- 4.3.13 the Tenant will be liable for all utility deposits and charges incurred or payable in respect of the Casino Precinct Properties;
- 4.3.14 the Tenant (or its nominee) may, at its own cost, make any alterations, renovations or additions to any of the developments on any of the Casino Precinct Properties ("**Improvements**") and may install any fixtures, fittings and equipment without the Landlord's consent;
- 4.3.15 where such alterations, renovations or additions to any of the developments on the Casino Precinct Properties are of a material nature (being an amount equal to half of the rental in respect of an individual Casino Precinct Property in any particular year ending 31 March) ("**Material Improvements**"), the Tenant (or its nominee) shall be obliged to offer the Landlord the opportunity to pay for such Material Improvements, together with an appropriate rental increase payable by the Tenant to the Landlord ("**Material Improvement Offer**"), subject to the Listings Requirements at the time. In the event that the Landlord fails to accept or decline or elects not to accept the Material Improvement Offer, then the Tenant (or its nominee) shall be entitled to effect the Material Improvements at its own cost or to make such Material Improvement Offer to a third party on terms no more favourable to those offered to the Landlord. Any earnings from the Improvements shall be included for the purpose of calculating the EBITDAR, whether or not such Improvements were paid for by the Tenant, the Landlord or by a third party;
- 4.3.16 subject to the aforesaid, prior to the expiration or termination of a Head Lease, the Tenant shall have the election to either remove all Material Improvements and reinstate the relevant Casino Precinct to substantially the same condition in which it was before the Material Improvement was effected, failing which all Improvements will be forfeited to the Landlord for no consideration. The Tenant (or its nominee) will be entitled to remove all FF&E upon termination of a Head Lease;
- 4.3.17 neither the Tenant nor any other Tsogo Group company, will:
  - 4.3.17.1 establish a casino within 25 kilometres of a particular Casino Precinct Property while continuing to operate a casino at that Casino Precinct Property; or
  - 4.3.17.2 procure that the casino operated by it at a Casino Precinct Property in a particular province, ceases to operate and is substantially relocated to premises other than at that Casino Precinct Property;
- 4.3.18 ownership in and to the Operating Plant and the FF&E will at all times remain with Tsogo. Tsogo will not remove the Operating Plant from the Casino Precinct Properties other than for the purposes of repairing it or replacing it. On termination of each Head Lease for any reason whatsoever, Tsogo will transfer ownership of the Operating Plant relating to the Casino Precinct Property, forming the subject of such Head Lease ("**Relevant Operating Plant**"), by way of constructive or physical delivery to the Landlord for no consideration. Tsogo warrants that it is the owner of the Relevant Operating Plant and that it will remain the owner of the Relevant Operating Plant throughout the term of the Head Lease and that the Relevant Operating Plant is and will at all times during the term of the Head Lease remain unencumbered in any way and that Tsogo will be able to give free and unencumbered ownership of the Relevant Operating Plant to the Landlord on termination of the Head Lease. In addition, on termination of a Head Lease for any reason whatsoever, Tsogo will cede to the Landlord all guarantees, warranties and/or undertakings which Tsogo may hold from time to time from any supplier or contractor in respect of the Relevant Operating Plant;
- 4.3.19 the Landlord will grant the Tenant a right of first refusal to acquire each of the Casino Precinct Properties of which the Landlord wishes to dispose, subject to compliance with the Listings Requirements; and
- 4.3.20 Tsogo undertakes to and in favour of HPF, not to dispose, either directly or indirectly, of any or all of (i) the Casino Precinct Properties' businesses and/or (ii) its interest in Grapplebrook, without the consent of HPF, which will not unreasonably be withheld.

## 5. SALIENT TERMS OF THE SALE AND THE SUBSCRIPTION

- 5.1 In terms of the Sale and Subscription Agreement, Merway will acquire the Sale Shares by way of an "intra group transaction" as provided for in section 45 of the Income Tax Act. Such acquisition will be effective from the date of the fulfilment or waiver, as the case may be, of the Transaction Conditions Precedent.
- 5.2 The Purchase Consideration was determined on the basis of the fair value of the Casino Precinct Properties being R23.01 billion, based on an agreed forward yield of 8.45%.

- 5.3 The Purchase Consideration will be settled by Merway on the Effective Date as follows:
  - 5.3.1 an amount of R3 169 700 000 will be paid in cash to the Cassava Sellers, *pro rata* to their respective shareholdings in Cassava; and
  - 5.3.2 an amount R19 837 261 538 will be paid in cash to the Listed Sellers, *pro rata* to their respective shareholdings in Listed.
- 5.4 On the Effective Date the Sellers will:
  - 5.4.1 subscribe for Subscription Shares at a subscription price of R12.50 per Subscription Share amounting to R14 954 525 000, which Subscription Shares when issued, will constitute not less than 67.4% of the entire issued share capital of HPF at such time; and
  - 5.4.2 settle the Third Party Debt with their respective portion of the balance of R8 052 436 538.
- 5.5 After the Effective Date, the entire holding of HPF Shares by the Sellers will be transferred to Tsogo.
- 5.6 Tsogo and HPF have agreed to warranties and indemnities that are standard for a transaction of the nature of the Sale and the Subscription.

## 6. UNBUNDLING

### 6.1 Implementation of the Unbundling

- 6.1.1 Subject to the Transaction, the HPF Internal Restructure and the transfer of the HPF Shares to Tsogo referred to in paragraph 5.5 of this Circular having been implemented, Tsogo will unbundle its entire holding of the HPF Shares to the Tsogo Shareholders.
- 6.1.2 The Unbundling will occur in two separate tranches:
  - 6.1.2.1 a distribution *in specie* of 918 069 783 HPF Shares ("**First Distribution**"), in the ratio of 0.86316 Distribution Shares for every Tsogo Share held on the First Distribution Record Date, such that Tsogo's Shareholding in HPF post the First Distribution will be 35%, but subject to the retention by Tsogo of the Withholding Tax Distribution Shares as contemplated in paragraph 6.2.1.5 of this Circular; and
  - 6.1.2.2 an unbundling in terms of section 46 of the Income Tax Act of the remaining 620 284 782 HPF Shares held by Tsogo ("**Second Distribution**"), in the ratio of 0.58318 Distribution Shares for every Tsogo Share held on the Second Distribution Record Date.
- 6.1.3 The First Distribution will be implemented on the First Distribution Completion Date, after the Unbundling Conditions Precedent shall have been fulfilled or waived, as the case may be, which date is anticipated to be 1 May 2019.
- 6.1.4 For purposes of the Unbundling, Tsogo Shareholders will receive their respective Distribution Shares in Dematerialised form only. Accordingly, all Certificated Shareholders wishing to receive their Distribution Shares in Dematerialised form must appoint a CSDP or a Broker, to receive such Distribution Shares on their behalf. Should a Certificated Shareholder not appoint a CSDP or Broker to receive Distribution Shares on its behalf, such Certificated Shareholder will be issued with a statement of allocation representing its Distribution Shares by the Transfer Secretaries. Such Certificated Shareholder can instruct the Transfer Secretaries to transfer its Distribution Shares represented in the statement of allocation to its appointed CSDP or Broker or can instruct the Transfer Secretaries to issue it with a share certificate in respect of its Distribution Shares, at any time following the Unbundling. If a Tsogo Shareholder is in any doubt as to what action it should take, it shall consult its Broker, CSDP, banker, attorney or other professional advisor.

### 6.2 Tax considerations

The following is a general description of certain aspects of South African tax considerations relating to the Unbundling as at the date of this Circular. It is not intended to be, nor should it be considered as legal or taxation advice. South African tax legislation is subject to frequent change and accordingly the comments as set out below may be subject to change, possibly with retrospective effect. Shareholders should consult their professional advisors with regard to the South African tax implications arising in respect of the Unbundling. Tsogo makes no representation and gives no warranty or undertaking, express or implied and accepts no responsibility for the accuracy or completeness of the information contained in this paragraph.

## 6.2.1 **First Distribution of Distribution Shares**

- 6.2.1.1 To the extent that the distribution of Distribution Shares by Tsogo to Tsogo Shareholders on the First Distribution Completion Date by way of the First Distribution constitutes a “dividend” as defined in the Income Tax Act, such distribution will be subject to South African income tax in the hands of each Shareholder, unless the dividend is exempt from South African income tax in terms of section 10(1)(k)(i) of the Income Tax Act. In terms of section 10(1)(k)(i) of the Income Tax Act, a dividend as defined in section 1 of the Income Tax Act, which is received by or accrues to any shareholder during any year of assessment, is exempt from income tax, subject to certain exclusions referred to in that section.
- 6.2.1.2 For purposes of the capital gains tax (“**CGT**”) provisions contained in the Eighth Schedule to the Income Tax Act, Tsogo Shareholders will be deemed to have acquired Distribution Shares distributed by way of the First Distribution on the First Distribution Completion Date for an amount of expenditure equal to the market value of such Distribution Shares on the First Distribution Completion Date, for purposes of determining the “base cost” (as such term is defined in paragraph 31 of the Eighth Schedule to the Income Tax Act) of the relevant Distribution Shares. The market value of the Distribution Shares forming the subject matter of the First Distribution will be announced on SENS.
- 6.2.1.3 Any Tsogo Shareholder who holds Distribution Shares acquired by way of the First Distribution as trading stock, will be deemed to have acquired such Distribution Shares at a cost equal to the market value of such Distribution Shares on the First Distribution Completion Date, for purposes of the trading stock provisions contained in the Income Tax Act.
- 6.2.1.4 The distribution of Distribution Shares by way of the First Distribution on the First Distribution Completion Date does not constitute a reduction of contributed tax capital and, it will thus constitute a “dividend” as defined in the Income Tax Act. The First Distribution will give rise to a liability for dividends tax in accordance with the Income Tax Act in the event that any beneficial owner of such Distribution Shares acquired by way of the First Distribution does not qualify for an exemption from the dividends tax.
- 6.2.1.5 In the event that any beneficial owner of Distribution Shares acquired by way of the First Distribution does not qualify for an exemption from the dividends tax, Tsogo will withhold the relevant Withholding Tax Shares in relation to a particular Tsogo Shareholder for the purpose of disposing of same, in order to make payment of such liability for dividends tax.
- 6.2.1.6 Tsogo Shareholders are advised to consult their professional advisors to ascertain whether the abovementioned provisions or any other provisions of the Income Tax Act will apply in relation to those Distribution Shares acquired by them by way of the First Distribution on the First Distribution Completion Date.
- 6.2.1.7 Tsogo Shareholders who are not a “resident” as defined in the Income Tax Act are advised to consult their professional advisors to ascertain the South African tax treatment and the tax treatment of those Distribution Shares acquired by them by way of the First Distribution on the First Distribution Completion Date in their country of residence, having regard to any applicable double taxation agreement between South Africa and their country of residence.

## 6.2.2 **Second Distribution of Distribution Shares**

- 6.2.2.1 The distribution of Distribution Shares by Tsogo to Tsogo Shareholders on the Second Distribution Completion Date by way of the Second Distribution constitutes a “dividend” as defined in the Income Tax Act and accordingly, such distribution will be subject to South African income tax in the hands of each Shareholder, unless the dividend is exempt from South African income tax in terms of section 10(1)(k)(i) of the Income Tax Act. In terms of section 10(1)(k)(i) of the Income Tax Act, a dividend as defined in section 1 of the Income Tax Act, which is received by or accrues to any shareholder during any year of assessment, is exempt from income tax, subject to certain exclusions referred to in that section.
- 6.2.2.2 In terms of sections 46(5) and 46(5A) of the Income Tax Act, the distribution of Distribution Shares by way of the Second Distribution must be disregarded in determining any liability for dividends tax and must also not be treated as a return of capital for the purposes of paragraph 76B of the Eighth Schedule to the Income Tax Act.

- 6.2.2.3 The distribution of Distribution Shares by way of the Second Distribution, will be disregarded by Tsogo in determining its taxable income or assessed loss in the tax year that the Second Distribution takes place. On the basis that Tsogo holds those Distribution Shares being distributed by way of the Second Distribution as capital assets, the distribution of Distribution Shares by way of the Second Distribution should not attract capital gains tax as levied in terms of the Eighth Schedule of the Income Tax Act.
- 6.2.2.4 In terms of section 46 of the Income Tax Act, each of the Tsogo Shareholders holding Tsogo Shares on the Second Distribution Completion Date must allocate a portion of the expenditure (being the base cost where the Tsogo Shares are held as capital assets, or the cost price where the Tsogo Shares are held as trading stock) and any market value (being the market value adopted as the valuation date value where the Tsogo Shares held as capital assets were acquired before 1 October 2001) attributable to the Tsogo Shares held by it to those Distribution Shares acquired by it by way of the Second Distribution in accordance with the apportionment ratio. Furthermore, each such holder of Tsogo Shares must reduce the expenditure and any market value attributable to its Tsogo Shares by the amount so allocated to those Distribution Shares acquired by it by way of the Second Distribution.
- 6.2.2.5 In terms of section 46 of the Income Tax Act, read with the South African Revenue Service's Binding General Ruling (Income Tax) 29 (Issue 2), the portion of the base cost (capital assets) or cost price (trading stock) of the Tsogo Shares that should be allocated to those Distribution Shares distributed to a Tsogo Shareholder by way of the Second Distribution is determined as the ratio of the closing price of HPF Shares on Last Day to Trade ("**LDT**") + 1 to the sum of the closing price of HPF Shares and Tsogo Shares on LDT + 1. The apportionment ratio will be communicated to the Tsogo Shareholders prior to the Second Distribution Completion Date. Tsogo will inform the Tsogo Shareholders of the apportionment ratio by way of an announcement to be released on SENS on the second business day after the LDT Date. This ratio must be used in the determination of any profits or losses derived on any future disposals of Tsogo Shares or those Distribution Shares acquired by it by way of the Second Distribution.
- 6.2.2.6 Tsogo Shareholders holding Tsogo Shares as trading stock will be deemed to acquire its proportional number of Distribution Shares acquired by way of the Second Distribution as trading stock. The expenditure to be allocated to those Distribution Shares acquired by way of the Second Distribution will be determined by applying the apportionment ratio to the cost price taken into account prior to the unbundling in respect of the Tsogo Shares for purposes of section 11(a), section 22(1), or section 22(2) of the Income Tax Act. The cost price of the Tsogo Shares held as trading stock must accordingly be reduced by the amount of expenditure so allocated to those Distribution Shares acquired by way of the Second Distribution. Tsogo Shareholders will be deemed to have incurred the expenditure allocated to those Distribution Shares acquired by way of the Second Distribution on the date on which the expenditure was incurred in respect of the Tsogo Shares.
- 6.2.2.7 Tsogo Shareholders holding Tsogo Shares as capital assets will be deemed to have acquired its proportional number of Distribution Shares acquired by way of the Second Distribution as capital assets. The expenditure or any market value to be allocated to those Distribution Shares acquired by way of the Second Distribution will be determined by applying the apportionment ratio to the base cost of the Tsogo Shares in the hands of the Tsogo Shareholders. The base cost of the Tsogo Shares held as capital assets must accordingly be reduced with the amount of expenditure or any market value so allocated to those Distribution Shares acquired by way of the Second Distribution. Tsogo Shareholders will be deemed to have incurred any expenditure so allocated to those Distribution Shares acquired by way of the Second Distribution on the date on which the expenditure was incurred in respect of the Tsogo Shares and such Distribution Shares must, other than for purposes of determining whether a share has been held for a period of at least three years for purposes of section 9C(2) of the Income Tax Act, be deemed to have been acquired by that shareholder on the same date as the shares held in Tsogo.
- 6.2.2.8 Tsogo Shareholders are advised to consult their professional advisors to ascertain whether the abovementioned provisions or any other provisions of the Income Tax Act will apply in relation to those Distribution Shares acquired by them by way of the Second Distribution on the Second Distribution Completion Date.

6.2.2.9 Tsogo Shareholders who are not a “resident” as defined in the Income Tax Act are advised to consult their professional advisors to ascertain the South African tax treatment and the tax treatment of the distribution of those Distribution Shares acquired by them by way of the Second Distribution on the Second Distribution Completion Date in their country of residence, having regard to any applicable double taxation agreement between South Africa and their country of residence.

### 6.2.3 **Securities Transfer Tax**

As the Distribution Shares constitute shares in a REIT, the transfer of the Distribution Shares from Tsogo to the Tsogo Shareholders, on both the First Distribution Record Date and the Second Distribution Record Date, is exempt from securities transfer tax in terms of section 8(1)(t) of the Securities Transfer Tax Act, No. 25 of 2007.

## 6.3 **Fractions**

Where a Tsogo Shareholder's entitlement to Distribution Shares in term of the Unbundling, calculated in accordance with the relevant ratios set out in paragraphs 6.1.2.1 and 6.1.2.2 of this Circular, gives rise to a fraction of a Distribution Share, such fraction will be rounded down to the nearest whole number, resulting in distributions of whole numbers of Distribution Shares only and a cash payment for the fraction arising. The value of such cash payment will be equal to the fraction of the weighted average traded price of an HPF Share on the Johannesburg Stock Exchange to be valued and announced in accordance with the Listings Requirements.

## 6.4 **Classification of the Unbundling for purposes of the Companies Act**

The Unbundling constitutes the disposal of a greater part of the assets of Tsogo in terms of Section 112 of the Companies Act and therefore requires the approval of the TRP as well as the approval of Tsogo Shareholders by way of a special resolution in terms of the provisions of section 115 of the Companies Act. The provisions of section 115 are set out in **Annexure II** to this Circular.

## 6.5 **Tsogo Shareholders' Appraisal Rights**

6.5.1 In terms of section 115(8) of the Companies Act, a Tsogo Shareholder is entitled to exercise its appraisal rights in terms of section 164 of the Companies Act (“**Appraisal Rights**”) in respect of the Unbundling.

6.5.2 Tsogo Shareholders who wish to exercise their Appraisal Rights in relation to the Unbundling are referred to the provisions of section 164 as set out in **Annexure II** to this Circular.

6.5.3 Should any Tsogo Shareholder exercise its Appraisal Rights, such Tsogo Shareholder will no longer be entitled to receive the Distribution Shares in terms of the Unbundling. Accordingly, the Distribution Shares which would otherwise have been distributed to such Tsogo Shareholder had it not exercised its Appraisal Rights, will be retained by Tsogo and may be sold by Tsogo, if it elects to do so.

## 7. **CONDITIONS PRECEDENT**

### 7.1 **Transaction Conditions Precedent**

The Transaction is subject to the fulfilment or waiver (where possible), as the case may be, by the Long Stop Date, of the following conditions precedent:

7.1.1 all of the agreements relating to the Tsogo Internal Restructure shall have been concluded by the parties thereto on substantially the same terms as those contained in the drafts of such agreements initialled by Tsogo and HPF;

7.1.2 the registration and transfer of those Casino Precinct Properties which are not already owned by Cassava or Listed, into the name of Cassava or Listed (as the case may be) shall have been effected in the relevant Deeds Registry;

7.1.3 the requisite majority of Tsogo Shareholders shall have passed the requisite resolutions (including those required by the Listings Requirements and the Companies Act) required to authorise and approve the Transaction and its implementation at the General Meeting;

- 7.1.4 the requisite majorities of Tsogo Shareholders and Directors shall have passed the necessary resolutions referred to in sections 45(3)(a)(ii) and 45(3)(b) of the Companies Act, authorising Tsogo to provide financial assistance to Grapplebrook and the Sellers in the form of the guarantee by Tsogo for the obligations of Grapplebrook in terms of the Head Leases;
- 7.1.5 the requisite majority of HPF shareholders shall have passed the requisite resolutions (including those required by the Listings Requirements and the Companies Act) required to authorise and approve the Transaction;
- 7.1.6 the Unbundling shall have been authorised by the Board (acting through the Independent Board appointed by the Board for this purpose) in accordance with section 46(1)(a)(ii) of the Companies Act, and the Listings Requirements, noting that it reasonably appears that Tsogo will satisfy the solvency and liquidity test immediately after completing the proposed distribution as contemplated in section 46(1)(b) of the Companies Act;
- 7.1.7 the requisite majority of Tsogo Shareholders shall have passed the requisite resolutions approving the disposal of the greater part of Tsogo's assets, by way of the Unbundling, in terms of sections 112 and 115 of the Companies Act at the General Meeting;
- 7.1.8 a TRP compliance certificate in accordance with section 119(4)(b) of the Companies Act shall have issued by the TRP to Tsogo in respect of the Unbundling;
- 7.1.9 during the time period prescribed in section 164(7) of the Companies Act, appraisal rights in terms of section 164 of the Companies Act are not exercised by dissenting Tsogo Shareholders holding more than 1% of the entire issued share capital of Tsogo at such time (or such higher percentage as the Board may determine);
- 7.1.10 HPF shall have confirmed in writing to Tsogo that HPF and its Subsidiaries will have concluded all the necessary funding agreements with their bankers to enable the advance to Merway of the funds required to cover the Purchase Consideration payable by Merway in terms of the Sale and Subscription Agreement; and
- 7.1.11 following receipt of written confirmation referred to in paragraph 7.1.10 of this Circular, Tsogo shall have confirmed in writing to HPF that both Cassava and Listed will be unconditionally released from all obligations furnished by them under the Tsogo Group Security Pool, and that the Casino Precinct Properties will be released from any guarantees, pledges and/or mortgage bonds furnished as security thereunder, against payment of the Purchase Consideration.

## 7.2 **Unbundling Conditions Precedent**

The Unbundling is subject to the fulfilment or waiver (where possible), as the case may be of the following conditions precedent:

- 7.2.1 the Transaction Conditions Precedent shall have been duly fulfilled and the Transaction shall have been implemented in accordance with its terms;
- 7.2.2 the transfer of the Subscription Shares by the Sellers to Tsogo shall have been implemented; and
- 7.2.3 the HPF Internal Restructure shall have been implemented in accordance with its terms and beneficial ownership of all of the HPF Group properties (both casino and hotels) will have vested in HPF Properties Proprietary Limited.

## 8. **OVERVIEW OF TSOGO**

### 8.1 **Overview**

- 8.1.1 The Tsogo Group is Southern Africa's premier gaming, hotel and entertainment group. The Tsogo Group holds and/or operates, either via ownership, leasing arrangements or management agreements a portfolio of 110 hotels comprising 18 752 hotel rooms across all sectors of the market, from luxury to budget.
- 8.1.2 Tsogo has operations in South Africa, Nigeria, Kenya, Tanzania, Zambia, Mozambique, the United Arab Emirates and the Seychelles with:
  - 8.1.2.1 14 gaming and entertainment destinations in seven provinces of South Africa;
  - 8.1.2.2 theatres, cinemas, restaurants and bars; and

- 8.1.2.3 over 320 operated conference and banqueting facilities, including the Sandton Convention Centre.
- 8.1.3 As per the circular to Tsogo Shareholders dated 20 March 2017 and effective November 2017, Tsogo acquired the South African gaming interests of Niveus (other than its sports betting and lottery interests) and its subsidiaries for a purchase consideration consisting of R1.7 billion in cash and R1.9 billion in shares and includes the following major businesses:
  - 8.1.3.1 Vukani Gaming Corporation Proprietary Limited ("**Vukani Gaming**") – Vukani Gaming and its subsidiaries are mainly engaged in offering limited pay-out machine ("**LPM**") gaming services and manages more than 5 800 LPMs at third-party sites throughout Southern Africa;
  - 8.1.3.2 Galaxy Gaming and Entertainment Proprietary Limited ("**Galaxy Gaming**") – Galaxy Gaming operates licensed bingo centres. Bingo is offered through electronic bingo terminals ("**EBT**") and paper bingo games at Galaxy Gaming's licensed bingo centres. Galaxy Gaming and its subsidiaries operate in excess of 3 300 EBTs and slot machines.
- 8.1.4 On 15 June 2018, Tsogo, through its wholly-owned Subsidiary, Tsogo Sun Alternative Gaming Investments Proprietary Limited, acquired the entire issued share capital of Niveus Invest I Proprietary Limited which owns 80% of the Grand Oasis Casino, Kuruman.

## 8.2 Prospects

The prospects of the Tsogo Group in general are as follows:

- 8.2.1 given the weak state of the South African economy and many of the commodity focused countries in which the Tsogo Group operates, trading is expected to remain under pressure;
- 8.2.2 growth will depend on how these economies perform going forward, including the impact of changes in commodity prices and the level of policy certainty that the government is able to achieve;
- 8.2.3 the Tsogo Group, nevertheless, remains highly cash generative and is confident in achieving attractive returns from the growth strategy once the macro-economic environment improves;
- 8.2.4 the Tsogo Group continues to implement a variety of projects and acquisitions including, the potential to bid for the relocation of one or two of the smaller casinos in the Western Cape to the Cape Metropole remains an opportunity for the group should the provincial authorities allow such a process. The Western Cape Provincial Treasury published a draft Bill and Regulations intended to permit the relocation of outlying casinos to within the Metropole;
- 8.2.5 furthermore, the Transaction and the Unbundling are in line with the Board's strategy announced on SENS on 31 May 2018 to restructure Tsogo into three separate and distinct operating divisions, being a property division (HPF), a gaming division (Tsogo) and a hotel management division (Southern Sun Hotels);
- 8.2.6 the Tsogo Group anticipates that the separation of Tsogo into these three focused divisions (and with the anticipated unbundling and listing of Southern Sun Hotels, three separate listed entities) will unlock value and provide greater investment choice for Tsogo Shareholders; and
- 8.2.7 on conclusion of the Transaction, the HPF Group is expected to own investment properties (including the Casino Precinct Properties) with a total fair market value of circa R35 billion.

## 8.3 Extracts of Historical Financial Information

- 8.3.1 Extracts from the audited consolidated financial information of Tsogo for the years ended 31 March 2016, 2017 and 2018 are set out in **Annexure 9** to this Circular.
- 8.3.2 There have been no material variations in the accounting policies of Tsogo subsequent to its latest published financial results for the year ended 31 March 2018.

## 9. OVERVIEW OF HPF

Tsogo Shareholders are referred to the HPF circular to its shareholders issued on the same date as the date on which this Circular is issued (“**HPF Circular**”) and the HPF Revised Listed Particulars for information regarding the nature of HPF’s business, its business and prospects after the Transaction and financial information relating to HPF. The HPF Circular and HPF Revised Listing Particulars is available on HPF’s website ([www.hpf.co.za](http://www.hpf.co.za)) and Tsogo’s website and has been posted on the same day as this Circular.

Extracts from the audited consolidated financial information of HPF for the years ended 31 March 2016, 2017 and 2018 are set out in **Annexure 10** to this Circular.

## 10. PRO FORMA FINANCIAL EFFECTS

- 10.1 The *pro forma* financial effects of the Transaction and the Unbundling are the responsibility of the Directors and have been prepared for illustrative purposes only to provide information about how the Transaction and the Unbundling may have affected Tsogo’s condensed consolidated income statement for the year ended 31 March 2018 had the Transaction and the Unbundling been undertaken at the commencement of the financial year, being 1 April 2017 and, in the case of Tsogo’s condensed consolidated balance sheet, had the Transaction and the Unbundling been undertaken on 31 March 2018. Due to their nature, the *pro forma* financial effects may not fairly present Tsogo’s financial position, changes in equity, and results of operations or cash flows after the implementation of the Transaction and the Unbundling.
- 10.2 The *pro forma* financial effects have been prepared in accordance with the Listings Requirements, the Guide on *Pro Forma* Financial Information issued by the South African Institute of Chartered Accountants using accounting policies that comply with International Financial Reporting Standards and that are consistent with those applied to the results of Tsogo for the year ended 31 March 2018.
- 10.3 The table below sets out the *pro forma* financial effects of the Transaction and the Unbundling:

	<b>Before</b> <sup>(1)</sup>	<b>Pro forma after the Transaction and the Unbundling</b> <sup>(2)</sup>	<b>% change</b>
Basic and diluted headline earnings per share (cents) <sup>(3)</sup>	198.3	1297.2	554.2
Basic and diluted headline earnings per share <sup>(3)</sup>	225.2	136.2	(39.5)
Basic and diluted adjusted headline earnings per share (cents) <sup>(3)</sup>	197.8	97.7	(50.6)
Net asset value per share (Rands) <sup>(3)</sup>	10.3	7.0	(31.8)
Net tangible asset value per share (Rands) <sup>(3)</sup>	4.1	3.5	(16.0)
Weighted average number of shares in issue (million)	994	994	–
Number of shares in issue (million)	1 059	1 059	–

### Notes:

1. The “Before” column is based on the published audited consolidated financial results of Tsogo for the period ended 31 March 2018.
2. The “Pro forma after the Transaction and the Unbundling” column reflects the impact of the *pro forma* adjustments on Tsogo as a consequence of the Transaction and the Unbundling.
3. The effects on earnings, diluted earnings, headline earnings, diluted headline earnings, adjusted headline earnings, adjusted diluted headline earnings per share are calculated on the basis that the Transaction and the Unbundling were effective 1 April 2017, while the effects on net asset value and net tangible asset value per share are calculated on the basis that the Transaction and the Unbundling were effective 31 March 2018 for purposes of presenting the *pro forma* financial effects thereof on Tsogo.
4. The detailed notes and assumptions to the financial effects are presented with the *pro forma* condensed consolidated balance sheet and the *pro forma* condensed consolidated income statement contained in **Annexure 4** to this Circular. The Independent Reporting Accountants’ limited assurance report on the *pro forma* financial information is included in **Annexure 5** to this Circular.

## 11. GENERAL MEETING

The General Meeting will be held at Tsogo’s head office, Main Boardroom, Ground Floor, Palazzo Towers East, Montecasino Boulevard, Fourways, South Africa at 12:00 on Tuesday, 23 October 2018, for the purposes of considering and, if deemed fit, passing with or without amendment, the resolutions as contained in the Notice of General Meeting.

## 12. MATERIAL CONTRACTS

- 12.1 In addition to the Transaction and the contracts relating to the acquisition of the gaming interests of Niveus referred to in paragraph 8.1.3 of this Circular, details of the material contracts entered into by the Tsogo Group within two years prior to the date of issue of this Circular are set out in **Annexure 8** to this Circular. Save for material contracts set out in **Annexure 8** to this Circular, there have been no restrictive funding arrangements or material contracts entered into by the Tsogo Group during the two years prior to the date of issue of this Circular other than in the ordinary course of business.
- 12.2 Save for the Sale of Shares and Subscription Agreement and Head -Lease Rental Aggregation Agreement there are no further material contracts in place with Cassava and Listed post implementation of the Transaction.
- 12.3 Details of HPF's material contracts are included in **Annexure 14** of the HPF Revised Listings Particulars.

## 13. MATERIAL LOANS

- 13.1 Details of the material loans made to the Tsogo Group are set out in **Annexure 3** to this Circular.
- 13.2 Overall, the quantum of the Tsogo Group's material loans will remain unchanged as a result of the Transaction. As a result of the Unbundling Tsogo Group's material loans will reduce from R12.67 billion to R2.67 billion.
- 13.3 Cassava and Listed have no material loans.
- 13.4 Details of HPF's material loans are included in **Annexure 13** of the HPF Revised Listings Particulars.

## 14. STATEMENT OF WORKING CAPITAL

- 14.1 The Directors, after considering the effect of the Transaction, are of the opinion that the working capital available to Tsogo will be sufficient for Tsogo's present requirements for at least the next 12 months from the date of issue of this Circular.
- 14.2 The Directors have authorised the Unbundling and Tsogo and the Tsogo Group have passed the "solvency and liquidity" test as contemplated in section 4 of the Companies Act, and there have been no material changes to the financial position of the Tsogo Group since that test was performed by the Directors.

## 15. SHARE CAPITAL OF TSOGO

The table below sets out the authorised and issued share capital of Tsogo before and after the Transaction.

	<b>Number of shares</b>
Authorised share capital:	
• ordinary shares of R0.02 each; and	1 200 000 000
• preference shares of no par value	20 000 000
Issued share capital – ordinary shares of R0.02 each (inclusive of 84 041 310 treasury shares)	1 147 657 784

## 16. MAJOR BENEFICIAL TSOGO SHAREHOLDERS

The following major beneficial Tsogo Shareholders, other than Directors, were, as at the Last Practicable Date, directly or indirectly, the beneficial owners of 5% or more of the issued share capital of Tsogo:

<b>Tsogo Shareholder</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital (net of treasury shares)</b>
HCI and its subsidiaries	501 648 213	47.2
Allan Gray	102 613 115	9.6
<b>Total</b>	<b>604 261 328</b>	<b>56.8</b>

## 17. MATERIAL CHANGES

- 17.1 There have been no material changes in the financial or trading position of Tsogo since the publication of Tsogo's audited results for the year ended 31 March 2018 up to and including the Last Practicable Date.
- 17.2 Save for the Tsogo Internal Restructure, there have been no material changes to the financial or trading position of Cassava and Listed since the publication of Tsogo's audited results for the year ended 31 March 2018 up to and including the Last Practicable Date.
- 17.3 Details of any material change relating to HPF are included in paragraph 17 of the HPF Circular.

## 18. DIRECTORS' REMUNERATION AND BENEFITS

- 18.1 The remuneration of the Directors will not be varied as a result of the Unbundling or the Transaction other than the unwinding of the Executive Loan Scheme as set out in paragraph 18.2 of this Circular.
- 18.2 Tsogo intends to restructure into three separate and distinct operating divisions, being a property division, a gaming division and a hotel management division. As a result, the Executives participating in the Executive Loan Scheme will ultimately gain exposure to shares in three separately listed companies, two of which will not employ them. In order to ensure that management of the property, gaming and hotel management divisions continue to be remunerated and incentivised based on performance metrics which are in line with creating shareholder value, the Executive Loan Scheme will be unwound. The participants in the Executive Loan Scheme have agreed with HCl to sell their 4 427 184 Tsogo Shares to HCl for R25.75 per share (which is the price at which the shares were originally acquired) on the Effective Date.

## 19. DIRECTORS' INTERESTS

- 19.1 The direct and indirect beneficial interests of the Directors' (and their associates), including Directors that have resigned during the last 18 months, in the share capital of Tsogo, as at the Last Practicable Date, are as follows:

	<b>Direct beneficial</b>	<b>Indirect beneficial</b>	<b>Associates</b>	<b>Percentage of issued share capital (net of treasury shares)</b>
<b>Executive Directors</b>				
J Booyesen	1 825 243	–	4 000	0.17
RB Huddy	1 048 543	–	–	0.10
<b>Non-Executive Director</b>				
JA Copelyn	–	1 973 836	–	0.19
<b>Total</b>	<b>2 873 786</b>	<b>1 973 836</b>	<b>4 000</b>	<b>0.46</b>

- 19.2 At the Last Practicable Date, none of the Directors, including Directors who have resigned in the 18 months prior to the Last Practicable Date, directly or indirectly had a material beneficial interest in transactions effected by Tsogo during the current or immediately preceding financial year, or during an earlier year in relation to any transactions concluded during that earlier year that remain in any respect outstanding or unperformed, other than as a result of their shareholdings in Tsogo as disclosed above.
- 19.3 There have been no changes in the Directors' interests in Tsogo Shares during the period from 31 March 2018 up to and including the Last Practicable Date.

## 20. INDEPENDENT EXPERT REPORT

### 20.1 Fairness opinion in respect of the Transaction

- 20.1.1 As HPF is a subsidiary of Tsogo, and HCl is a material Tsogo Shareholder, HPF is an associate of HCl and the Transaction constitutes a transaction with a Related Party of Tsogo in terms of paragraph 10.1(b)(vii) of the Listings Requirements. Accordingly, in terms of the Listings Requirements, Tsogo Shareholders are required to approve the Transaction by means of an ordinary resolution to be passed by Tsogo Shareholders (other than HCl, TIHC Investments Proprietary Limited, Johnnic Holdings Management Services Proprietary Limited and Tsogo Investment Holding Company Proprietary

Limited). In addition, a fairness opinion relating to the fairness of the terms and conditions of the each of the constituent parts of the Transaction (being the Sale and the Subscription) is required in terms of the Listings Requirements.

- 20.1.2 The Board has appointed the Independent Expert to provide the fairness opinion on the Transaction, which is contained in the Independent Expert's Report, **Annexure I** to this Circular.
- 20.1.3 The Independent Expert has advised that it has considered the terms and conditions of the Transaction and is of the opinion that the terms and conditions of the Transaction are fair to Tsogo Shareholders.

## 20.2 **Independent Expert Report in respect of the Unbundling**

- 20.2.1 The Independent Expert Report on the Unbundling, prepared in accordance with the provisions of the Companies Act and the Companies Regulations, is reproduced in **Annexure I** to this Circular.
- 20.2.2 Having considered the terms and conditions of the Unbundling and based on the conditions set out in the Independent Expert Report on the Unbundling, the Independent Expert has concluded that the terms and conditions of the Unbundling are both fair and reasonable to Tsogo Shareholders, as each of these terms is defined in the Companies Act.

## 21. **INDEPENDENT BOARD'S VIEWS ON THE UNBUNDLING**

- 21.1 In accordance with the Companies Regulations, the Board has appointed the Independent Board for the purpose of the Unbundling. The Independent Board has appointed the Independent Expert to prepare a report on the Unbundling.
- 21.2 The Independent Expert has determined that the Unbundling is fair and reasonable to Tsogo Shareholders, for the reasons and on the basis set out in the Independent Expert's Report.
- 21.3 The Independent Board, after due consideration of the Independent Expert's Report, has determined that it will place reliance on the valuations performed by the Independent Expert for the purposes of reaching its own opinion regarding the Unbundling, as contemplated in Regulation 110(3)(b) of the Companies Regulations.
- 21.4 The Independent Board is not aware of any factors which are difficult to quantify or are unquantifiable (as contemplated in Companies Regulation 110(6)) and has not taken any such factors into account, in forming its opinion.
- 21.5 The Independent Board, taking into account the Independent Expert's Report in relation to the Unbundling, has considered the terms and conditions of the Unbundling and is unanimously of the opinion that the terms and conditions thereof are fair and reasonable to Tsogo Shareholders. The Independent Board, accordingly, recommends that Tsogo Shareholders vote in favour of the resolutions to be considered at the General Meeting relating to the approval of the Unbundling.
- 21.6 As at the Last Practicable Date, the Independent Board had not received any offers, as defined in section 117(1)(f) of the Companies Act.
- 21.7 The Directors on the Independent Board, in their personal capacities, intend to vote any Tsogo Shares beneficially owned by them in favour of the resolutions to be considered at the General Meeting.

## 22. **DIRECTORS' RESPONSIBILITY STATEMENT**

### 22.1 **Responsibility statement in terms of the Listings Requirements**

The Directors whose names are given on the inside front cover of this Circular, collectively and individually accept full responsibility for the accuracy of the information in relation to Tsogo given in this Circular and certify that, to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in this Circular false or misleading, that all reasonable enquiries to ascertain such facts have been made and that this Circular contains all information required by law and the Listings Requirements.

### 22.2 **Responsibility statement of the Independent Board in terms of the Companies Regulations**

The Independent Board accepts responsibility for the information in relation to the Unbundling contained in this Circular and confirms that, to the best of its knowledge and belief, such information is true and that this Circular does not omit anything likely to affect the importance of such information.

## 23. OPINIONS AND RECOMMENDATIONS IN RELATION TO THE TRANSACTION

The Board has considered the terms and conditions of the Transaction and, taking into account the fairness opinion by the Independent Expert in relation to the Transaction, is of the opinion that the terms and conditions thereof are fair and reasonable to Tsogo Shareholders. Accordingly, the Board recommends to Tsogo Shareholders that they vote in favour of the resolutions to be considered at the General Meeting.

## 24. COSTS

The expenses (exclusive of VAT) that are estimated to be incurred by Tsogo for the Transaction and the Tsogo Internal Restructure are set out in the table below:

Description	Estimated amount (Rand)
Corporate adviser and sponsor – Investec Corporate Finance	2 000 000
Legal and other advisory fees – Tabacks	500 000
Legal, conveyancing and other advisory fees – Werksmans	5 000 000
Printing and related costs – Ince Proprietary Limited	53 500
Independent Expert's fees – PSG Capital	265 000
Independent Property Valuer's fees – Mills Fitchet	700 000
Independent Reporting Accountants' fees – PricewaterhouseCoopers Inc	1 100 000
Tax advice – PWC	3 000 000
JSE documentation fees	110 000
TRP approval fee	250 000
Contingency	56 500
<b>Total</b>	<b>13 035 000</b>

## 25. LITIGATION STATEMENT

There are no legal or arbitration proceedings, pending or threatened, of which Tsogo or any of its Subsidiaries (including Cassava and Listed) are aware, that may have or have had, in the 12-month period preceding the Last Practicable Date, a material effect on the financial position of Tsogo.

HPF's litigation statement is included in paragraph 19 of the HPF Circular.

## 26. EXCHANGE CONTROL REGULATIONS

The following is a summary of the Exchange Control Regulations, insofar as they have application to Tsogo Shareholders and is not a comprehensive statement of the Exchange Control Regulations. Tsogo Shareholders who are in any doubt as to the action to be taken should consult their professional advisors immediately.

### 26.1 Residents of the Common Monetary Area

For all Tsogo Shareholders whose addresses are within the Common Monetary Area and whose share certificates or other documents of title or accounts have not been restrictively endorsed in terms of the Exchange Control Regulations, the distribution *in specie* of the Distribution Shares will be freely made to Tsogo Shareholders.

### 26.2 Emigrants from the Common Monetary Area

#### 26.2.1 Certificated Shareholders

The share certificates for the Distribution Shares issued in favour of any emigrant Tsogo Shareholder pursuant to the Unbundling, will be restrictively endorsed "non-resident" and sent to the authorised dealer controlling such emigrant Tsogo Shareholder's blocked assets. In terms of the Exchange Control Regulations, such Distribution Shares are not freely transferable from the Common Monetary Area. The authorised dealer or its CSDP will ensure that all requirements of exchange control are adhered to in respect of their clients falling into this category of Tsogo Shareholder.

### 26.2.2 **Dematerialised Shareholders**

The Distribution Shares credited to the Tsogo Shareholder's account with his CSDP or Broker will be flagged "non-resident" and linked to the applicable emigrant blocked account in the books of the authorised dealer or authorised bank concerned. In terms of the Exchange Control Regulations, such Distribution Shares are not freely transferable from the Common Monetary Area. The CSDP or Broker will ensure that all exchange control requirements are adhered to in respect of their clients falling into this category of Tsogo Shareholder.

## 26.3 **All other Non-Residents of the Common Monetary Area**

### 26.3.1 **Certificated Shareholders**

Non-resident Tsogo Shareholders whose share certificates or other documents of title are endorsed "non-resident" will receive certificates for their Distribution Shares which are similarly endorsed. The Broker or the Transfer Secretaries will ensure that all Exchange Control requirements are adhered to in respect of these Distribution Shares.

### 26.3.2 **Dematerialised Shareholders**

The Distribution Shares credited to the Tsogo Shareholder's account with its CSDP or Broker will be flagged "non-resident" and linked to the applicable non-resident account in the books of the authorised dealer or authorised bank concerned. The CSDP or Broker will ensure that all requirements of exchange control are adhered to in respect of their clients falling into this category of Tsogo Shareholder.

## 27. **CONSENTS**

The Corporate Law Advisors, Independent Expert, Corporate Advisor and Transaction Sponsor, Independent Reporting Accountants, Independent Property Valuer and Transfer Secretaries have consented in writing to act in the capacities stated in this Circular and to their names being stated in this Circular and have not withdrawn their consent prior to the date of issue of this Circular.

## 28. **CONFLICT OF INTEREST**

Investec Corporate Finance, a division of Investec Bank Limited, is acting in the capacities of Corporate Advisor and Sponsor. As required in terms of the Listings Requirements, it is confirmed that in order to manage any potential or perceived conflict of interest that might arise as a result of Investec Corporate Finance in these roles, Investec Corporate Finance has in place appropriate checks and balances and divisions of responsibility amongst the persons involved in fulfilling these various functions.

## 29. **DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents will be available for inspection at the registered office of Tsogo and the office of the Corporate Advisor and Transaction Sponsor, the addresses of which are set out in the "Corporate Information and Advisors" section of this Circular, during normal business hours from Friday, 21 September 2018 up to and including Tuesday, 23 October 2018:

- 29.1 a copy of the MOI and a copy of the memorandum of incorporation of each of Tsogo's major subsidiaries;
- 29.2 a copy of the Sale and Subscription Agreement and the addendum thereto;
- 29.3 copies of the Head Leases;
- 29.4 a copy of the Head-Lease Rental Aggregation Agreement;
- 29.5 a schedule reflecting the current management and licence fees charged by the relevant companies within the Tsogo Group;
- 29.6 copies of the audited financial statements of HPF for the years ended 31 March 2016, 2017 and 2018;
- 29.7 the signed Independent Reporting Accountants' limited assurance report on the *pro forma* financial information of Tsogo;
- 29.8 the signed Independent Expert's Report;
- 29.9 the signed Independent Property Valuer's Report;

- 29.10 the written consent letters referred to in paragraph 27 of this Circular;
- 29.11 TRP approval letter; and
- 29.12 a signed copy of this Circular.

Signed at Fourways on 17 September 2018 by Jacques Booysen on behalf of the Tsogo Board and the Independent Board respectively, he being duly authorised in terms of written resolutions signed by each director and in terms of a resolution of the Independent Board.

**Jacques Booysen**  
**Chief Executive Officer**

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## INDEPENDENT EXPERT'S REPORT

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The Directors  
 Tsogo Sun Holdings Limited  
 Palazzo Towers East  
 Montecasino Boulevard  
 Fourways  
 2055

11 September 2018

Dear Sirs,

### **INDEPENDENT FAIR AND REASONABLENESS REPORT IN RESPECT OF THE PROPOSED DISPOSAL OF CERTAIN TSOGO SUN HOLDINGS LIMITED ("TSOGO" OR THE "COMPANY") CASINO, HOTEL AND OFFICE PROPERTIES TO HOSPITALITY PROPERTY FUND LIMITED ("HPF"), THE SUBSCRIPTION BY TSOGO IN HPF SHARES AND THE SUBSEQUENT UNBUNDLING OF TSOGO'S ENTIRE SHAREHOLDING IN HPF**

#### **I. INTRODUCTION**

In terms of a SENS announcement released by Tsogo on 2 March 2018, shareholders were advised of the proposed internal group restructuring in terms of which the Tsogo group of companies ("**Tsogo Group**") will dispose of seven casino, hotel and office properties (the "**Casino Precinct Properties**") to HPF (the "**Sale**"). The Sale will be implemented through the sale of the entire issued share capital of Cassava Investments Proprietary Limited ("**Cassava**") and Listed Investments Proprietary Limited ("**Listed**"), both wholly-owned subsidiaries of the Tsogo Group, to HPF for an aggregate purchase consideration of R23 006 961 538 (the "**Purchase Consideration**"), payable in cash. The head lease in terms of which the Tsogo Group will lease the Casino Precinct Properties from Cassava and Listed, will be a triple net lease.

The Sale specifically excludes the operating plant ("**Operating Plant**"), furniture, fixtures, fittings and equipment ("**FF&E**"). Tsogo will retain ownership of the Operating Plant and FF&E for the duration of the head lease. Ownership of the Operating Plant and FF&E will transfer to Listed and Cassava upon termination of the head lease for no consideration.

The Purchase Consideration will be used by the Tsogo Group to subscribe for 1 196 362 000 new HPF shares ("**Subscription Shares**") at a subscription price of R12.50 per share, amounting to a total subscription price of R14 954 525 000 (the "**Subscription Price**") (the "**Subscription**") and the balance of R8 052 436 538 to settle outstanding Tsogo Group debt. The Sale and Subscription are collectively referred to as the "Transaction".

Following the Transaction, the Tsogo Group's effective shareholding in HPF will increase to 86.7%, net of treasury shares. Tsogo intends to unbundle its entire shareholding in HPF to Tsogo shareholders, following the Subscription (the "**Unbundling**"). The Sale, Subscription and Unbundling are inter-conditional.

HPF is a subsidiary of Tsogo, and Hosken Consolidated Investments Limited ("**HCI**") is a material Tsogo shareholder. As such, HPF is an associate of HCI and the Sale and the Subscription constitute related party transactions for Tsogo in terms of paragraph 10.1(b)(vii) of the JSE Listings Requirements ("**Listings Requirements**").

Accordingly, the Tsogo board of directors (the "**Board**") must retain an independent expert to compile a report on the terms and conditions of the Sale and the Subscription and opine on the fairness of the Sale and the Subscription in terms of the Listings Requirements.

As the Unbundling results in the deemed disposal of all or the greater part of the assets of Tsogo in terms of section 112 of the Companies Act, No. 71 of 2008 (the "**Companies Act**"), the Board must retain an independent expert to compile a report thereon, as required in terms of Regulation 90 of the Companies Regulations, 2011 ("**Companies Regulations**") (as read with section 117(c)(i) and section 112) of the Companies Act.

Full particulars of the Transaction and Unbundling are contained in the circular to Tsogo shareholders (the "**Circular**") to be dated on or about 21 September 2018, of which this opinion forms part.

## 2. **SCOPE**

PSG Capital Proprietary Limited ("**PSG Capital**") has been appointed by the Board as the independent expert to opine, in accordance with the Listings Requirements and Companies Act on the terms and conditions of the Transaction and Unbundling (the "**Opinions**").

## 3. **RESPONSIBILITY**

Compliance with the Listings Requirements and Companies Act are the responsibility of the Board. PSG Capital's responsibility is to report on the terms and conditions of the Transaction and Unbundling as they relate to Tsogo shareholders.

We confirm that our Opinions have been provided to the Board, and that it will be distributed to shareholders in connection with the Transaction and Unbundling. We understand that the results of our work will be used by the Board to satisfy the requirements of the Listings Requirements and Companies Act.

## 4. **DEFINITION OF THE TERMS "FAIR" AND "REASONABLENESS"**

A transaction will generally be considered fair to a company's shareholders if the benefits received by shareholders, as a result of a corporate action, are equal to or greater than the value surrendered by a company.

The assessment of fairness is primarily based on quantitative considerations:

- The Sale may be considered fair if the value attributable to the assets being disposed of by Tsogo are equal to or less than the Purchase Consideration.
- The Subscription may be considered fair if the value attributable to the Subscription Shares are equal to or greater than the Subscription Price.
- The Unbundling may be considered fair if the value attributable to Tsogo shareholders following the Unbundling is equal to or greater than the value attributable to Tsogo shareholders prior to the Unbundling.

The assessment of reasonableness is generally based on qualitative considerations surrounding a transaction. The reasonableness of the Unbundling will be considered with reference to a shareholder's position before and after the Unbundling.

We have applied the aforementioned principles in preparing our Opinions. This independent expert report does not purport to cater for an individual shareholder's position but rather the general body of shareholders subject to the Transaction and Unbundling. A shareholder's decision regarding fair and reasonableness of the terms of the Transaction and Unbundling may be influenced by their particular circumstances (for example taxation and the original price paid for the shares).

## 5. **SOURCES OF INFORMATION**

In the course of our valuation analysis, we relied upon financial and other information, including prospective financial information, obtained from Tsogo management ("**Tsogo Management**"), their advisors and from various public, financial and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects.

The principal sources of information used in formalising our opinion include:

- The draft sale of shares and subscription agreement and ancillary agreements to be entered into between the various parties ("**Transaction Agreements**");
- A draft of the Circular to be sent to Tsogo shareholders;

The following consolidated financial information in relation to HPF:

- Audited annual financial statements for the nine-month period ended 31 March 2017;
- Summary financial results for the year ended 31 March 2018;
- Budget for the financial year ending 31 March 2019;
- Forecast for the financial years ending 31 March 2020 to 31 March 2023;

The following consolidated financial information in relation to Tsogo:

- Audited annual financial statements for the year ended 31 March 2017;
- Reviewed financial results for the year ended 31 March 2018;
- Extracted historical financial information on the Casino Precinct Properties for the years ended 31 March 2016 to 2018;

- Forecast financial information on the Casino Precinct Properties for the financial years ending 31 March 2019 to 2023;
- Independent property valuers reports on the value of HPF's entire property portfolio (the "**HPF Portfolio**") as at 31 March 2018 ("**HPF Property Valuation Reports**");
- Independent property valuers reports on the value of the Tsogo Group Casino Precinct Properties as at 31 March 2018 ("**Casino Precinct Property Valuation Reports**");
- Other financial and non-financial information and assumptions made by Tsogo Management;
- Discussions with Tsogo Management regarding the financial information relating to prevailing market, economic, legal and other conditions which may affect the underlying value and the rationale for the Transaction and Unbundling; and
- Publicly available information relating to HPF, the Casino Precinct Properties, Tsogo and the HPF Portfolio and the industry in which they operate, that we deemed to be relevant, including company announcements, analysts' reports and media articles.

## 6. **ASSUMPTIONS**

We have arrived at our opinion based on the following assumptions:

- That the terms, conditions and structure of the Transaction and Unbundling are legally enforceable and suspensive conditions to the Transaction and Unbundling, as set out in the Transaction Agreements, will be duly fulfilled;
- The final agreed terms of the Transaction and Unbundling shall not materially adversely differ from the steps, and values as presented in the Transaction Agreements;
- That reliance can be placed on the historical and forecast financial information;
- The current economic, regulatory and market conditions will not change materially;
- HPF is not involved in any material legal proceedings;
- HPF has no outstanding disputes with any regulatory body, including the South African Revenue Service;
- There are no undisclosed contingencies that could affect the value of HPF nor the Casino Precinct Properties;
- The structure of the Transaction and Unbundling will not give rise to any undisclosed tax liabilities; and
- Reliance can be placed on the representations made by Tsogo Management and the advisors during the course of forming this opinion.

## 7. **APPROPRIATENESS AND REASONABLENESS OF UNDERLYING INFORMATION AND ASSUMPTIONS**

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our opinion by:

- Considering the historical trends of provided information and assumptions;
- Comparing and corroborating such information and assumptions with external sources of information, if such information is available; and
- Determining the extent to which representation from Tsogo Management and other industry experts were confirmed by documentary evidence as well as our understanding of Tsogo and HPF and the economic environment in which these entities operate.

## 8. **PROCEDURES**

In arriving at our Opinions, we relied upon financial and other information, obtained from Tsogo Management and the advisors together with industry-related and other information in the public domain. Our conclusion is dependent on such information being accurate in all material respects.

In arriving at our Opinions we have, *inter alia*, undertaken the following procedures in evaluating the Transaction and Unbundling:

- Reviewed and analysed the financial information and the terms and conditions as stipulated in the Transaction Agreements;

- Reviewed the Circular to Tsogo shareholders;
- Reviewed the reasonableness of the information made available by and from discussions held with Tsogo Management and their advisors, such as, *inter alia*:
  - the rationale for the Transaction and Unbundling;
  - the events leading up to the Transaction and Unbundling;
  - the current market conditions relating to the HPF and Tsogo and their underlying operations; and
  - such other matters as we considered necessary.
- Where relevant, corroborated representations made by Tsogo Management to source documents;
- Reviewed certain publicly available information relating to Tsogo and HPF that we have deemed relevant;
- Reviewed the Casino Precinct Property Valuation Reports and HPF Property Valuation Reports by reviewing a material selection of valuations performed on the Casino Precinct Properties and HPF Portfolio by comparing the inputs applied in the valuations to PSG Capital's best estimate of inputs. Procedures performed by PSG Capital in deriving its best estimate of inputs applied included analysis of independent comparable property valuations, extensive market research and discussions with a reputable third-party property valuation expert. Reviewed the property valuer's qualifications;
- Obtained a letter of representation from Tsogo Management asserting that we have been provided with all relevant information and that no material information was omitted and that all such information provided to us is accurate in all respects;
- Considered a shareholder's position before and after the Transaction and Unbundling; and
- Considered other relevant facts and information relevant to concluding the Opinions.

## 9. VALUATION APPROACH

In considering the Sale, PSG Capital performed an independent valuation of Cassava and Listed using the methodologies below to determine whether the Sale is fair to Tsogo shareholders.

### Cassava and Listed – Casino Precinct Properties

- performed a valuation of Cassava and Listed, by performing a discounted cash flow (“**DCF**”) valuation on the Casino Precinct Properties, taking into account debt and cash like items;
- performed a sensitivity analyses on the DCF utilising key value drivers, which included, *inter alia*, a variance range of 0.5% in the exit capitalisation rate and a variance range of 0.5% on the discount rate applied, which analysis resulted in a variation range on the calculated value of Cassava and Listed of 4.1% and 1.7% respectively; and
- Key external and internal value drivers effecting the Cassava and Listed valuation include, *inter alia*:
  - the forecasted gross gaming revenues and margins for the Casino Precinct Properties, which directly impacts the income being generated by Cassava and Listed, following the initial five-year forecast period;
  - the forecasted occupancy rate and room rates of the hotels forming part of the Casino Precinct Properties, which directly impacts the income being generated by Cassava and Listed, following the initial five-year forecast period – any increase in the forecasted occupation rate and room rates, in excess of management's forecasts will result in an increase in income being generated, resulting in an increase in the value of the Cassava and Listed;
  - forecasted free cash flows of Cassava and Listed, largely impacted by, *inter alia*, the forecasted gross gaming revenues, forecasted occupation rate, forecasted room rates and forecasted expenses of the Casino Precinct Properties, an increase in the forecasted cash flow will result in an increase in the value of Cassava and Listed;
  - the discount rate and the exit capitalisation rate applicable to Cassava and Listed, an increase in the discount rate applicable to Cassava and Listed would result in a decrease in the value of Cassava and Listed, an increase in the exit capitalisation rate applicable to Cassava and Listed would result in a decrease in the value of Cassava and Listed (refer to sensitivity analysis performed above). The discount rate and exit capitalisation rate applicable to Cassava and Listed is impacted by, *inter alia*, Cassava and Listed's cash generating capability and the South African interest rate environment; and
  - South African interest rates and the impact of interest rates on Cassava and Listed, as an increase in rates will decrease the value as Cassava and Listed (refer to sensitivity analysis performed above).

In considering the Subscription and Unbundling, PSG Capital performed an independent valuation of HPF using the methodologies below to determine whether the Subscription and Unbundling are fair to Tsogo shareholders.

## HPF

- performed a DCF valuation of HPF to arrive at a fair value per HPF share;
- performed a sensitivity analyses on the DCF utilising key value drivers, which included, *inter alia*, a variance range of 0.5% in the exit capitalisation rate and a variance range of 0.5% on the discount rate applied, which analysis resulted in a variation range on the calculated value of HPF of 5.3% and 2.1% respectively; and
- key external and internal value drivers effecting the HPF valuation include, *inter alia*:
  - the forecasted occupancy rate and room rates of the HPF Portfolio, which directly impacts the income being generated by HPF – any increase in the forecasted occupation rate and room rates, in excess of management's forecasts will result in an increase in income being generated, resulting in an increase in the value of HPF;
  - forecasted free cash flows of HPF, largely impacted by, *inter alia*, the forecasted occupation rate, forecasted room rates, forecasted expenses and forecasted capital expenditure of HPF, an increase in the forecasted cash flow will result in an increase in the value of HPF;
  - the discount rate and the exit capitalisation rate applicable to HPF, an increase in the discount rate applicable to HPF would result in a decrease in the value of HPF, an increase in the exit capitalisation rate applicable to HPF would result in a decrease in the value of HPF (refer to sensitivity analysis performed above). The discount rate and exit capitalisation rate applicable to HPF is impacted by, *inter alia*, HPF's cash generating capability and the South African interest rate environment; and
  - South African interest rates and the impact of interest rates on HPF, as an increase in rates will decrease the value as HPF (refer to sensitivity analysis performed above).

## 10. REASONABILITY

In arriving at our opinion with respect to the reasonability of the Unbundling, we considered, *inter alia*, the following:

- the rationale of the Unbundling and the benefit thereof to Tsogo shareholders;
- the historical trading liquidity of HPF shares; and
- the potential effect of the Unbundling on the trading liquidity of HPF shares.

## 11. OPINIONS

We have considered the terms and conditions of the Transaction and Unbundling as set out above, and our opinion is based on the current economic, market, regulatory and other conditions and the information made available to us by Tsogo Management.

### **The Sale**

Based on the results of our procedures and analysis performed we are of the view, subject to the limiting conditions as set out below, that the terms and conditions of the Sale are fair to Tsogo shareholders.

### **The Subscription**

Based on the results of our procedures and analysis performed we are of the view, subject to the limiting conditions as set out below, that the terms and conditions of the Subscription are fair to Tsogo shareholders.

### **The Unbundling**

In arriving at our opinion, we compared the valuation range per HPF share, prior to the Unbundling, of R12.64 and R14.81 per share to the value range per HPF share post the Unbundling of R13.40 and R15.70 per share ("**Value Range**"), with a most likely value, being the midpoint of the Value Range of R14.55 per share.

Other than unlocking value through the Unbundling by creating liquidity in the HPF share, the Unbundling has no effect on a Tsogo shareholder's exposure to its underlying HPF shareholding. A Tsogo shareholder will be in the same position, in terms of its exposure to HPF shares, prior to and post the Unbundling.

Based on the results of our procedures and analysis performed we are of the view, subject to the limiting conditions as set out below, that the terms and conditions of the Unbundling are fair and reasonable to Tsogo shareholders.

These opinions are provided solely in respect of the Transaction and Unbundling and should not be used for any other purposes.

## 12. **LIMITING CONDITIONS**

These opinions are provided to the Board in connection with and for the purpose of the Transaction and Unbundling, for the sole purpose of assisting the Board in forming and expressing an opinion for the benefit of Tsogo shareholders. These opinions are prepared solely for the Board and therefore should not be regarded as suitable for use by any other party or give rise to third party rights.

The forecasted probabilities relate to future events and are based on assumptions, which may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely actual results will correspond to those forecast by management.

We relied upon the accuracy of the information used by us in deriving our opinion, albeit that, where practicable, we have corroborated the reasonableness of such information and assumptions through, amongst other things, reference to historic precedent and our knowledge and understanding. Whilst our work has involved an analysis of the annual financial statements and other information provided to us, our engagement does not constitute, nor does it include an audit conducted in accordance with applicable auditing standards. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided to us in respect of the Transaction and Unbundling.

These opinions expressed are necessarily based upon information available to us, the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us as at the date hereof. We have furthermore assumed that all conditions precedent, including any material regulatory and other approvals required in connection with the Transaction and Unbundling have been or will be properly fulfilled. Subsequent developments may affect our opinions, however, we are under no obligation to update, revise or re-affirm such.

## 13. **SECTIONS 115 AND 164 OF THE COMPANIES ACT**

Extracts of sections 115 and 164 of the Companies Act have been included as annexures to the Circular.

## 14. **INTEREST OF TSOGO DIRECTORS**

The effective interests of Tsogo directors, who hold Tsogo shares before the Transaction and Unbundling, are set out in paragraph 19 of the Circular.

## 15. **INDEPENDENCE AND ADDITIONAL REGULATORY DISCLOSURES**

We confirm that PSG Capital holds no shares in Tsogo or HPF, directly or indirectly. We have no interest, direct or indirect, beneficial or non-beneficial, and to the best of our knowledge, we are not related to a person who has or has had such interest in Tsogo or HPF within the immediately preceding two years or in the outcome of the Transaction and Unbundling.

The directors, partners, officers and employees of PSG Capital allocated to this assignment have the necessary qualifications, expertise and competencies to (i) understand the Transaction; (ii) evaluate the consequences of the Transaction and Unbundling; and (iii) assess the effect of the Transaction and Unbundling on the value of the shares and on the rights and interests of Tsogo shareholders, or a creditor of Tsogo, and are able to express opinions, exercise judgement and make decisions impartially in carrying out this assignment. We are not aware of any unquantifiable factors or factors that are difficult to determine, that have not been taken into account in forming our opinion.

Furthermore, we confirm that our professional fee for the opinion together is R265 000 (excluding VAT), payable in cash, and is not contingent on the outcome of the Transaction and Unbundling.

## 16. **CONSENT**

We hereby consent to the inclusion of this opinion and references thereto, in whole or in part, in the form and context in which they appear to be included in any required regulatory announcement or documentation regarding the Transaction and Unbundling.

Yours faithfully

**Riaan van Heerden**  
**PSG Capital Proprietary Limited**

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## INDEPENDENT PROPERTY VALUER'S SUMMARY VALUATION REPORT ON THE CASINO PRECINCT PROPERTIES

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The Directors  
Tsogo Sun  
A: Palazzo Towers East  
Montecasino Boulevard  
Fourways  
Johannesburg  
2011  
11 September 2018

For Attention: Mr. Graham Tyrrell  
Email: Graham.Tyrrell@tsogosun.com

Dear Sir,

### **RE: INDEPENDENT PROPERTY VALUER'S ABRIDGED REPORT ON THE PROPERTIES AS DETAILED IN THE SUMMARY SCHEDULE ATTACHED HERETO AND FOR WHICH THERE IS A DETAILED VALUATION REPORT IN RESPECT OF EACH OF THE PROPERTIES**

In accordance with your instruction of 24th April 2018, I confirm that we have visited and inspected the properties listed in the attached schedule ("**Properties**") during May 2018 and have received all the necessary details required to perform valuations in order to provide you with my opinion of the market value of the Properties as at 31st March 2018. This valuation assumes that no material changes in circumstances will have occurred by the effective date of the valuation.

#### **I. INTRODUCTION**

The valuations of the Properties have been carried out by the Independent Property Valuer who has carefully considered all aspects of all the Properties. A detailed valuation report has been prepared in respect of each of the Properties ("**Detailed Reports**"), which have been delivered to the directors of Tsogo Sun.

The Detailed Reports include commentary on the current economy and the (i) nature; (ii) locality; (iii) tenancy; (iv) risk profile; (v) forward rent and earning capability; and (vi) exposure to future expenses and property risks of each of the Properties. All these aspects have been considered in the individual valuations of each of the Properties. The Detailed Reports have also addressed the tenancy income capability and expenditure of each of the Properties and tenants. The historic expenditure profiles as well as future expenditure increases have been considered in the preparation of the Detailed Reports. The value reflected in each of the Detailed Reports indicates the fair market value for each of the respective Properties, which have been summarised in the summary schedule, attached hereto.

#### **Directors:**

**M R B Gibbons** Nat.Dip.Prop.Val., MIV(SA), MRICS, Professional Valuer  
**A r Gibbons** AEI (Zim), FIV(SA), Professional Valuer

#### **Assisted by:**

**K J Keefer** Candidate Valuer  
**T. Moulder** FRICS, FIV(SA) Professional Valuer  
**B. Curtis** Bsc Hons. Property Studies, MIV(SA), Professional Associated Valuer

#### **Associates:**

**S A Aldridge** ndpv, cea, miv(SA)  
**T R L Bate** Msc. Bsc, Land Econ. (UK), MRICS, MIV(SA)  
**S B G de Klerk** BSC (Bldg), MSc (Bldg), NDPV, MCIQB  
**W J Hewitt** NDPV, CIEA, FIV(SA)  
**P G Mitchell** NDPV, CIEA MIV(SA)  
**A R Stephenson** B Agric Mgt, AFM (UK), LLB (Natal), FIV(SA)

**T/A Magnus Penny Associates CC**  
**CK2000/020267/23**

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Offices in:  
Cape – Gauteng – KwaZulu-Natal

## 2. **BASIS OF VALUATION**

The valuation of the Properties are based on market value.

Market value is defined as the best price at which the sale of an interest in a property may reasonably be expected to have been completed, unconditionally, for a cash consideration on the date of valuation, assuming:

- 2.1 a willing seller and a willing buyer in a market;
- 2.2 that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the property, for the agreement of price and terms and for the completion of the sale; and
- 2.3 that the state of the market, level of values and other circumstances are, on any earlier assumed date of exchange of contracts, the same as on the date of the valuation.

## 3. **VALUE CALCULATION**

The calculation of the market value of these properties has been based on the Capitalisation of Net Income Method. Given that the head-leases are fully repairing and insuring (triple net leases) commencing on the effective date of the valuation, this is the deemed the most prudent approach. The basis of the calculation includes the future benefits of income-producing properties, such as the hotels and casinos. These benefits can be converted into an indication of market value through a capitalisation process.

The concluding our market valuations, we have taken the following into consideration:

- 3.1 Whether the hotels and casinos have a stabilised trading base/history.
- 3.2 Whether the properties have recently undergone a comprehensive refurbishment to improve product quality which should result in increased performance.
- 3.3 Proposed or planned capital expenditure to the properties to enhance performance of the hotels and casinos.
- 3.4 A change in supply dynamics in the local area; either in the closing and or opening of new hotels and casinos in the area.
- 3.5 A change in demand dynamics in the areas; like new companies opening in the area and changes in road networks and transport links.
- 3.6 Any envisaged changes in the cost structure to improve operational efficiencies; for example need to employ new staff or a change in kitchen equipment leading to operational savings.
- 3.7 The income stream from each property will be derived from the proposed lease agreement. Our valuation takes into account the contractual rental income for the initial term and it is assumed in each case that the leases will be renewed.
- 3.8 Projected revenue to the property owning entity will be in the form of rentals with agreed escalations; based on EBIDTA (Earnings Before Interest, taxation, depreciation and amortisation).
- 3.9 The current occupancy as a percentage of the hotel portfolio is approximately 67,5%. The properties are all fully let in terms of the Head-Lease Rental Aggregation Agreement. Occupancy levels used in the valuations are property specific and have been deduced from historic trading data. The occupancy levels are market related. The occupancy provisions used in the valuations are therefore adequate.
- 3.10 There is no loss of rental due to renovations of refurbishments currently being carried out on the buildings. There are however budgeted capital expenses within the projected next five years. There is no loss of rental as result of these activities.
- 3.11 Generally, the rentals are market related. The rental rates have been checked against rentals charged against similar properties. There are no properties that are over-rented of that cannot be re-rented at the same rental. The variable portion of the rental is based on the projected EBIDTA (Earnings Before Interest, taxation, depreciation and amortisation). We have assumed a general inflation-based growth rate for EBIDTA and no major economic fluctuations which may upset the economy.

## 4. **SPARE/VACANT LAND**

There are spare or vacant land components forming part of these properties. Significant portions of spare land forms part of the Precincts'/Properties' landscaped and parking areas. At the writing of this report we have not been advised of any proposal to develop these; consequently no value has been allocated to these.

5. **BRIEF DESCRIPTION**

Improvements to the Properties comprise hospitality and casino offerings with upmarket offices and retail premises.

6. **VALUATION QUALIFICATIONS**

Qualifications are usually detailed as a consequence of: leases under negotiation that have not yet been formalised; leases of a large nature where the premises are difficult to re-let; specialised properties; large exposure to a single tenant; potential tenant failure due to excessive rental charges; expenses required for major repairs; maintenance or other exposure to maintain the lettability of the building; contingent expropriations or servitudes that may be enforced and/or poor lease records whereby the lease may be disputed or rendered invalid.

I have, to the best of my knowledge, considered all of these aspects in the valuations of all the Properties. In my opinion, none of the Properties are prejudiced in value by the influence of any of the above listed factors.

The Independent Property Valuer is however not responsible for the competent daily management of these Properties, which will ensure that this status is maintained, or for the change of any laws, services by local authority or economic circumstances which may adversely impact on the integrity of the buildings or the tenant profile of the Properties.

7. **OPTIONS OR BENEFIT/DETRIMENT OF CONTRACTUAL ARRANGEMENTS**

To my knowledge there are no contractual arrangements on the Properties other than the leases as detailed in the Detailed Reports which have a major benefit or are detrimental to the fundamental value base of the Properties.

To the best of my knowledge, there are no options in favour of any parties for any purchase of any of the Properties.

8. **INTRA-GROUP OR RELATED PARTY LEASES**

Having inspected the Head-Lease Rental Aggregation Agreement, there are no related party leases.

9. **CURRENT STATE OF DEVELOPMENT**

Other than Suncoast Casino (Durban, KwaZulu-Natal) none of the properties are currently being developed. With regard to Suncoast, there is both the upgrading of existing facilities and the extension to the property with the construction of restaurants and additional parking facilities. We are advised that completion is due for December 2018.

10. **RENTALS USED IN VALUATIONS**

I note that most of the accommodation types within the Properties are all occupied and that there are very few vacancies. The current annual rentals and future annual rentals of the Properties have been calculated in a separate schedule. It is noted that there are no material rental reversions and that the rentals for all the Properties will increase in terms of CPI compounded annually.

11. **EXTERNAL PROPERTY**

All of the Properties within this valuation summary are situated within the borders of the Republic of South Africa.

12. **OTHER GENERAL MATTERS AND VALUATION SUMMARY**

Full valuation reports are available in respect of each of the Properties detailing tenancies, town planning, valuer's commentary, expenditure and other details. These Detailed Reports have been delivered to the Directors of the Tsogo Sun and are available for inspection as set out in paragraph 29 of the Circular.

13. **ALTERNATIVE USE FOR PROPERTIES**

The Properties have been valued in accordance with their existing uses which represent their market values. No alternative uses for the Properties have been considered in determining their value.

14. **OTHER COMMENTS**

The valuations exclude any amounts of Value-added Tax, transfer duty or securities transfer duty.

## 15. CAVEATS

### 15.1 Source of information and verification

Information on the Properties regarding rental income, recoveries, turnovers and other income detail have been provided to me by the current owners and managing agents of the Properties.

I have further compared certain expenditures given to me, to the market norms of similar properties. This has also been compared to historic expenditure levels of the properties themselves. Historical contractual expenditures and municipal utility services were compared to the past performance of the properties in order to assess potential expenditure going forward. The municipal values on the properties are very low. At the current transaction values there is some potential for the municipal values to increase by a considerable amount, should the municipality revalue these properties, in which event the rates could increase.

### 15.2 Full disclosure

The valuations contained in this summary report have been prepared on the basis that full disclosures of all information and factors which may affect the valuations, have been made to me by the Company and its management.

I have, to the best of my ability, researched the market and taken the steps detailed in paragraph 15.3 below.

### 15.3 Leases

The valuations are based on a review of the material terms of the lease, such as repairing obligations, escalations and break options and other pertinent details supplied to me by the current owners and managing agents of the Properties.

All recovery details in respect of the existing leases e.g. utility cost and other recoveries as provided for in the leases have been disclosed by way of the monthly tenant invoices and summary schedule supplied to us. Option terms and other lease information have been supplied to me by the current owners and managing agents of the Properties and I am familiar with such documents.

### 15.4 Lessees' credibility

In arriving at the valuations, cognisance has been taken of tenants' security and rating. In some cases this has influenced the capitalisation rate by way of a risk consideration.

### 15.5 Mortgage bonds, loans, etc.

The Properties have been valued as if wholly-owned with no account being taken of any outstanding monies due in respect of mortgage bonds, loans and other charges. No deductions have been made to the valuations for any costs of acquisition.

The valuations are detailed in a completed state and no deductions have been made for retention or any other set-off or deduction for any purposes which may be made at the discretion of the Company when purchasing the Properties.

### 15.6 Calculation of areas

All areas quoted within the Detailed Reports are those stated in the information furnished and verified where plans were available. To the extent that plans were not available, reliance was placed on the information submitted by the current owners and managing agents of the Properties.

Updated plans were not available for all the Properties in respect of internal configuration. The Properties generally appear to have the stated square meterage which could only be more accurately determined if re-measured by a professional. The Properties have had some internal alterations which are not fully detailed on the existing plans. The reported square meterage is therefore considered to be as correct as possible, without full a re-measurement exercise being undertaken.

### 15.7 Structural condition

The Properties have been valued in their existing states. I have not carried out any structural surveys, nor inspected those areas that are unexposed or inaccessible, neither have I arranged for the testing of any electrical or other services.

### 15.8 Contamination

The valuations assume that formal environmental assessments are not required and further that none of the Properties are environmentally impaired or contaminated, unless otherwise stated in the Detailed Reports.

## 15.9 Town planning

Where full town planning details have not been supplied, we have spoken to the appropriate Town Planning Departments and have extracted zoning information from their websites. Title deeds have been supplied in the Detailed Reports including conditions and restrictions and the Properties have been checked against such conditions. This is to ensure that they comply with town planning regulations and title deeds. There do not appear to be any infringements of local authority regulations or deeds by any of the Properties.

The valuations have further assumed that the improvements have been erected in accordance with the relevant Building and Town Planning Regulations and on inspection it would appear that the improvements are in accordance with the relevant town planning regulations for the Properties.

There is no contravention of any statutory regulation, or town planning local authority regulation or contravention of title deed conditions relating to any of the Properties which infringement could decrease the value of the Properties as stated.

## 16. MARKET VALUE

I am of the opinion that the aggregate market value of the Properties as at 31st March 2018 is R23,388,835,000.00 (excluding VAT). A summary of the valuation and details of each of the Properties is attached.

To the best of my knowledge and belief there have been no material changes in circumstances between the date of the valuation and the date of this summary valuation report which would affect the valuation.

I have more than 27 years' experience in the valuation of all nature of property and I am qualified to express an opinion on the fair market value of the Properties.

I trust that I have carried out all instructions to your satisfaction and thank you for the opportunity of undertaking this valuation on your behalf.

Yours faithfully

**M. R. B. GIBBONS**  
**NAT. DIP. PROP. VAL. MIV(SA) MRICS**  
**Professional Valuer**  
**Registration No. 4127**

(Registered without restriction in terms of The Property Valuers Act No. 47 of 2000)

For and behalf of: Mills Fitchet Magnus Penny

Suite SG110, Ground Floor

Great Westerford

240 Main Road

Rondebosch, 7725

## SCHEDULE OF PROPERTIES

No	Property name	Physical address	Registered legal description (Erf number)	Property description and use	Independent Valuer's inspection date	Freehold/Leasehold	Rentable area (GBA) (m <sup>2</sup> )	Approximate age of buildings (in years)	Building grade	Zoning, town planning and statutory contravention (if any)	Assumed perpetual vacancy	Income projection for the period 1 April 2018 to 31 March 2019	Valuation as at 31 March 2018
1	Emmotweni Casino, Nelspruit	Government Blvd, Riverside.	Ptn 1 of Erf 2 Riverside Mall, J.T., Mpumalanga Province; Erf 4 Riverside Park Ext. 1, J.T., Mpumalanga Province Erf 3 Riverside Park Ext. 1, J.T., Mpumalanga Province & Erf 5 Riverside Park Ext. 1, J.T., Mpumalanga Province	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	17,545	20 Years	A	None.	0%	R85,000,000	R918,900,000
2	The Ridge Casino	Cnr NH Highway & Mandela Street, Emalahleni	Rem Extent of Erf 1713 Deljudor Ext.26, J.S., Mpumalanga Province; Rem Extent of Erf 1714 Deljudor Ext.26, J.S., Mpumalanga Province; Ptn 2 (Ptn 1) of Erf 1716 Deljudor Ext.27, J.S., Mpumalanga Province; & Ptn 3 (Ptn of Ptn 1) of Erf 1716 Deljudor Ext.27, J.S., Mpumalanga Province;	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	18,764	16 Years	A	None.	0%	R87,000,000	R994,285,000
3	Suncoast Casino	Suncoast Blvd, Ethekweni.	Erf 12519 Durban, FU, Kwazulu-Natal	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	40,967	16 Years	A	None	0%	R570,000,000	R6,900,000,000
4	Blackrock Casino	100 Allen St.	Rem Ext. of Erf 15450 Newcastle, H.S., Kwazulu-Natal	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	9,649	18 years	A	None	0%	R29,000,000	R313,500,000

No	Property name	Physical address	Registered legal description (Erf number)	Property description and use	Independent Property Valuer's inspection date	Freehold/Leasehold	Rentable area (GBA) (m <sup>2</sup> )	Approximate age of buildings (in years)	Building grade	Zoning, town planning and statutory contravention (if any)	Assumed perpetual vacancy	Income projection for the period 1 April 2018 to 31 March 2019	Valuation as at 31 March 2018
5	Silverstar Casino	R28, Krugersdorp.	Erven 642 to 645 Homes Haven, I.Q., Mogale Local Municipality, Gauteng Province & Rem Ext. of Ptn 39 (Ptn 6) of Farm Roodekrans No. 183, I.Q., Gauteng Province	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	31,873	16 Years	A	None	0%	R152,000,000	R1,737,150,000
6	Gold Reef City Casino	Cnr: Northern Parkway & Dattat Crescent, Ormonde.	Erven 1211 & 1212 Ormonde Ext.30, I.R., Gauteng Province & Erf 412 Ormonde Ext.13, I.R., Gauteng Province	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	43,216	20 years	A	None	0%	R323,000,000	R3,800,000,000
7	Montecasino	Montecasino Blvd, Fourways.	Sections 1 to 5 in SS "One Monte", Magaliesig Ext. 37, City of Johannesburg & Erven 474 & 475 Magaliesig Ext. 37, I.Q., Gauteng Province	Hospitality Casino Gaming Retail Parking	May 2018	Freehold	109,033	18 years	A	None	0%	R698,000,000	R8,725,000,000
<b>TOTALLING</b>												<b>R23,388,835,000</b>	

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## MATERIAL LOANS TO THE TSOGO GROUP

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### INTRODUCTION

Below is a summary of material loan facilities as at the date of issue of this Circular for the Tsogo Group and its subsidiaries (excluding HPF). Given that HPF is separately listed, please refer to **Annexure 13** of the HPF Revised Listings Particulars for details of its material loans.

Facilities are raised for general corporate purposes or a portfolio of security rather than for specific purposes, and a portfolio view is therefore taken. Given that the Group facilities are treated as a pool of funding, it is appropriate to disclose the weighted average cost of funding.

The Tsogo Group's funding package, excluding HPF, is provided by a consortium of lenders and regulated by a Common Terms Agreement to which all lenders are a party, and secured through a security package whereby the security is ceded or mortgage in favour of Micawber.

### TABLE I – LENDERS

The below table presents the full names all lenders providing material loans to the Tsogo Group (excluding HPF):

<b>Lender</b>	<b>Lender full name</b>
<b>RMB</b>	FirstRand Bank Limited
<b>Absa</b>	Absa Bank Limited
<b>Ashburton</b>	Ashburton SA Credit Co-Investment Fund I (RF) Limited
<b>INGuza</b>	INGuza Investments (RF) Limited
<b>OMSFIN</b>	Old Mutual Specialised Finance (Pty) Ltd
<b>OMLACSA</b>	Old Mutual Life Assurance Company (South Africa) Limited
<b>SCM</b>	Sanlam Life Insurance Limited
<b>SSS</b>	Sanlam Life Insurance Limited
<b>United Towers</b>	United Towers (Pty) Ltd
<b>Depfin</b>	Depfin Investments (Pty) Ltd
<b>Nedbank</b>	Nedbank Limited

## TABLE 2 – TSOGO GROUP LOANS

The table below reflects the material loans of the Tsogo Group, excluding HPF, the details of which are separately disclosed separately in Table 2 below. The borrowings listed below are secured by Micawber 636 (Pty) Ltd. Where repayments of loans are due in the next 12 months, these payments will be made from operating activities.

Subsidiary	Loan	Loan type	Lender(s)	Secured/ Unsecured	Maturity	Facility R'm	Facility utilised R'm
<b>Tsogo Sun (Pty) Ltd</b>	Term A	Amortising	RMB/Absa/Ashburton/INGuza/OMSFIN/ OMLACSA/SCM/SSS	Secured – refer Table 3	30 Jun 2020	602	602
<b>Tsogo Sun (Pty) Ltd</b>	Term B	Bullet	RMB/Absa/Nedbank	Secured – refer Table 3	30 Jun 2020	4 000	4 000
<b>Tsogo Sun (Pty) Ltd</b>	Term C1	Bullet	RMB/Absa	Secured – refer Table 3	30 Jun 2021	1 600	460
<b>Tsogo Sun (Pty) Ltd</b>	Term C2	Bullet	Nedbank	Secured – refer Table 3	30 Jun 2021	1 150	–
<b>Tsogo Sun (Pty) Ltd</b>	Term D1	Bullet	RMB/Absa/Ashburton/INGuza/OMSFIN/ OMLACSA	Secured – refer Table 3	30 Jun 2021	1 200	1 200
<b>Tsogo Sun (Pty) Ltd</b>	Term F	Bullet	RMB/Absa	Secured – refer Table 3	30 Jun 2020	1 000	999
<b>Tsogo Sun (Pty) Ltd</b>	Term G	Bullet	RMB	Secured – refer Table 3	30 Jun 2019	1 000	1 000
<b>Tsogo Sun (Pty) Ltd</b>	Term H	Bullet	Nedbank	Secured – refer Table 3	30 Jun 2021	250	250
<b>Tsogo Sun (Pty) Ltd</b>	Revolving Credit Facility	RCF	Nedbank	Secured – refer Table 3	30 Jun 2020	1 500	1 500
<b>Tsogo Sun (Pty) Ltd</b>	Revolving Credit Facility	RCF	RMB & Nedbank	Secured – refer Table 3	31 Mar 2018	1 200	600
<b>Silverstar Casino (Pty) Ltd</b>	Amortising loan	Amortising	Nedbank	Secured – refer Table 3	30 Sep 2018	98	98
<b>Southern Sun Africa</b>	Term loan 1	Bullet	Absa (US Dollar based loan)	Secured – refer Table 3	31 Mar 2022	342	342
<b>Southern Sun Africa</b>	Term loan 2	Bullet	Absa (US Dollar based loan)	Secured – refer Table 3	31 Mar 2021	177	177
<b>Southern Sun Africa</b>	Revolving Credit Facility	RCF	Absa (US Dollar based loan)	Secured – refer Table 3	31 Mar 2020	35	9
<b>Southern Sun Mozambique</b>	Term Loan 3	Bullet	Absa (US Dollar based loan)	Secured – refer Table 3	31 Dec 2021	171	171
<b>Southern Sun Mozambique</b>	Term loan 4	Bullet	Barclays Bank Mauritius Limited (US Dollar based loan)	Secured – refer Table 3	31 Mar 2022	83	21
<b>Southern Sun Mozambique</b>	Term Loan 5	Bullet	Barclays Bank Mozambique (Mozambiquen Metical based loan)	Secured – refer Table 3	31 Mar 2022	118	97
<b>Ikoyi Hotels Limited</b>	Term loan 6	Bullet	Absa (US Dollar based loan)	Secured – refer Table 3	31 Mar 2022	151	151
<b>General Banking Facilities</b>			Nedbank	Secured – refer Table 3	Annual renewal	189	–
<b>Weighted Average Cost of Net Debt</b>							<b>9.40%</b>

**TABLE 3 – TSOGO GROUP SECURITY**

The following table reflects the security ceded and/or registered in favour of Micawber, with a combined book value of R14.7 billion 31 March 2018.

	<b>Entity</b>	<b>Asset secured</b>	<b>Security type</b>
1	Novaya Investments (Pty) Ltd	Vacant land	Property – mortgage bond registered
2	Cassava Investments (Pty) Ltd	The Ridge Casino	Property – mortgage bond registered
3	Listed Investments (Pty) Ltd	Emnotweni Casino	Property – mortgage bond registered
4	Tsogo Sun Casinos (Pty) Ltd	Montecasino	Property – mortgage bond registered
5	Silverstar Casino (Pty) Ltd	Silverstar Casino	Property – second mortgage bond registered
6	The pledge of shares and loans claimed held by each Guarantor		
7	All bank accounts held in South Africa and rights to cash balances held by the Guarantors		
8	Cession of insurance policies and proceeds by the Guarantors		
9	General notarial bond over all the movables of the Guarantors		
10	All shares held in Tsogo Sun Holdings Limited with the exclusion of the 3,500,000 shares held by Tsogo Sun Expansion No.1 (Pty) Ltd		

**TABLE 5 – FINANCIAL COVENANTS OF THE TSOGO GROUP, INCLUDING HPF:**

Interest Cover Ratio (EBITDA divided by Net Finance Costs):	At least 3 (three) times
Net Debt (Financial indebtedness less cash and cash equivalents) to EBITDA Ratio	Less than 3 (three) times

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## PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT AND CONDENSED CONSOLIDATED BALANCE SHEET OF TSOGO

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### PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AND PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT OF TSOGO

The *pro forma* financial information of Tsogo, as set out in this Circular consists of the *pro forma* condensed consolidated balance sheet as at 31 March 2018 and the *pro forma* condensed consolidated income statement for the year then ended (“the *Pro Forma* Financial Information of Tsogo”).

The tables below set out the *Pro Forma* Financial Information of Tsogo which has been prepared to illustrate the financial effects of the Transaction and the Unbundling on the published reviewed condensed consolidated financial results of Tsogo for the year ended 31 March 2018.

The Transaction and the Unbundling are assumed to have occurred on 31 March 2018 for purposes of presenting the *pro forma* financial effects thereof on the *pro forma* condensed consolidated balance sheet and 1 April 2017 for purposes of the *pro forma* condensed consolidated income statement. The *Pro Forma* Financial Information of Tsogo does not purport to be indicative of the financial results and effects of the Transaction and the Unbundling if they had been implemented on a different date and the *Pro Forma* Financial Information of Tsogo may not give a fair reflection of the financial position, changes in equity and results of operations or cash flows of Tsogo after the Transaction and the Unbundling.

The Directors are responsible for the compilation, contents and preparation of the *Pro Forma* Financial Information of Tsogo. Their responsibility includes determining that the *Pro Forma* Financial Information of Tsogo has been properly compiled on the basis stated, and that the *pro forma* adjustments are appropriate for purposes of the *Pro Forma* Financial Information of Tsogo disclosed pursuant to the Listings Requirements.

The *Pro Forma* Financial Information of Tsogo has been prepared using accounting policies that comply with IFRS and that are consistent with those applied in the preparation of the published reviewed condensed-consolidated financial results of Tsogo for the year ended 31 March 2018.

The *pro forma* condensed-consolidated balance sheet as at 31 March 2018 and the *pro forma* condensed-consolidated income statement for the year then ended, should be read in conjunction with the independent reporting accountants’ assurance report thereon presented in **Annexure 5** to this Circular.

**PRO FORMA CONDENSED GROUP STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2018**

R'm	The Transaction			The Unbundling								
	Note 1	Note 2	Note 3	Note 5	Note 5.1.1	Note 5.1.2	Note 5.1.3	Note 5.1.4	Note 5.1.5	Note 6	Note 7	
	Tsogo Before	The Sale	The Subscription	Unwind of deferred tax and the recognition of current tax	Pro forma after the Sale and Subscription, Unbundling	HPF adjustments	Consolidation adjustments	The Sale	The Subscription	Settlement of Third Party Debt	Goodwill derecognition and impairment	Pro forma after the Transaction and Unbundling
<b>ASSETS</b>												
<b>Non-current assets</b>												
Property, plant and equipment	16 038				16 038	(3 558)		(4 867)				7 613
Investment properties	5 255				5 255	(12 534)	7 433					154
Goodwill and other intangible assets	6 507				6 507						(2 758)	3 749
Investments in associates and joint ventures	641				641	(1)						640
Available-for-sale financial assets	1 275				1 275							1 275
Non-current receivables	66				66							66
Deferred income tax assets	142				142							142
	<b>29 924</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29 924</b>	<b>(12 535)</b>	<b>3 875</b>	<b>(4 867)</b>	<b>-</b>	<b>-</b>	<b>(2 758)</b>	<b>13 639</b>
<b>Current assets</b>												
Inventories	119				119							119
Trade and other receivables	857				857	(96)						761
Derivative financial instruments	-				-							-
Current income tax assets	36				36	(14)						22
Cash and cash equivalents	2 778				2 778	(17)		23 007	(14 955)	(8 052)		2 748
Non-current assets held for sale	66				66	(66)						
	<b>3 856</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 856</b>	<b>(193)</b>	<b>3 875</b>	<b>23 007</b>	<b>(14 955)</b>	<b>(8 052)</b>	<b>-</b>	<b>3 650</b>
<b>Total assets</b>	<b>33 780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33 780</b>	<b>(12 728)</b>	<b>3 875</b>	<b>18 140</b>	<b>(14 955)</b>	<b>(8 052)</b>	<b>(2 758)</b>	<b>17 289</b>
<b>EQUITY</b>												
<b>Capital and reserves attributable to equity holders of the company</b>												
Ordinary share capital and premium	6 636				6 636	(9 027)	9 027					6 636
Other reserves	(2 040)				(2 094)	(1 634)	764		54			(2 910)
Retained earnings	6 280			120	6 400	(444)	(2 679)	18 140	(14 955)		(2 758)	3 691
	<b>10 876</b>	<b>-</b>	<b>(54)</b>	<b>120</b>	<b>10 942</b>	<b>(11 105)</b>	<b>7 112</b>	<b>18 140</b>	<b>(14 901)</b>	<b>-</b>	<b>(2 758)</b>	<b>7 417</b>
Non-controlling interests	3 318		54		3 372	(3 036)			(54)			282
	<b>14 194</b>	<b>-</b>	<b>-</b>	<b>120</b>	<b>14 314</b>	<b>(11 105)</b>	<b>4 076</b>	<b>18 140</b>	<b>(14 955)</b>	<b>-</b>	<b>(2 758)</b>	<b>7 699</b>

R'm	The Transaction					The Unbundling						
	Note 1	Note 2	Note 3	Note 5	Pro forma after the Sale and Subscription, Unbundling	Note 5.1.1	Note 5.1.2	Note 5.1.3	Note 5.1.4	Note 5.1.5	Note 6	Note 7
	Tsogo Before	The Sale	The Subscription	Unwind of deferred tax and the recognition of current tax		HPF	Consolidation adjustments	The Sale	The Subscription	Settlement of Third Party Debt	Goodwill derecognition and impairment	Pro forma after the Transaction and costs of Unbundling
<b>LIABILITIES</b>												
<b>Non-current liabilities</b>												
Interest-bearing borrowings	12 667	-	-	12 667	(1 948)	(1 948)				(8 052)		2 667
Derivative financial instruments	132	-	-	132	(4)	(4)						128
Deferred income tax liabilities	1 670	-	-	1 522	(148)		(126)					1 396
Provisions and other liabilities	468	-	-	468	(2)	(2)						466
	<b>14 937</b>	<b>-</b>	<b>-</b>	<b>(148)</b>	<b>14 789</b>	<b>(1 954)</b>	<b>(126)</b>	<b>-</b>	<b>-</b>	<b>(8 052)</b>	<b>-</b>	<b>4 657</b>
<b>Current liabilities</b>												
Interest-bearing borrowings	2 648	-	-	2 648								2 648
Trade and other payables	1 876	-	-	1 876	331	331	(75)					2 207
Current income tax liabilities	125	-	-	28								78
	<b>4 649</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>4 677</b>	<b>331</b>	<b>(75)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 933</b>
<b>Total liabilities</b>	<b>19 586</b>	<b>-</b>	<b>-</b>	<b>(120)</b>	<b>19 466</b>	<b>(1 623)</b>	<b>(201)</b>	<b>-</b>	<b>-</b>	<b>(8 052)</b>	<b>-</b>	<b>9 590</b>
<b>Total equity and liabilities</b>	<b>33 780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33 780</b>	<b>(12 728)</b>	<b>3 875</b>	<b>18 140</b>	<b>(14 955)</b>	<b>(8 052)</b>	<b>(2 578)</b>	<b>17 289</b>
Number of shares in issue (million)	1 059			1 059								1 059
<b>NAV per share (Rands)</b>	<b>10.3</b>			<b>10.3</b>								<b>7.0</b>
<b>TNAV per share (Rands)</b>	<b>4.1</b>			<b>4.2</b>								<b>3.5</b>

## Notes to the pro forma condensed consolidated balance sheet for the year ended 31 March 2018:

1. The "Before" column is based on the condensed audited consolidated balance sheet of Tsogo for the year ended 31 March 2018.

### 2. The Sale

- The Sale of the Casino Precinct Properties to HPF for a cash Purchase Consideration of R23.01 billion, assumed to be at fair value, has no financial effect on the consolidated balance sheet of Tsogo as HPF is a subsidiary of Tsogo and is therefore consolidated by Tsogo.
- The following steps underlie the accounting for Disposal within the Tsogo Group:
  - Cassava and Listed acquire the Casino Precinct Properties (excluding Emnotweni Casino Precinct Property and the Ridge Casino Precinct Property which are already housed within the Cassava and Listed statutory accounts) at fair value in exchange for shares in Cassava and Listed issued to the Sellers in terms of the Tsogo Internal Restructure;
  - Cassava and Listed are then sold to HPF at the Purchase Consideration of R23.01 billion, representing their fair value, and will be recognised as investment property at fair value within HPF in terms of its accounting policies;
  - As HPF is a subsidiary of Tsogo, the Casino Precinct Properties are owner occupied and are recognised as Property, Plant and Equipment according to IAS16 for Tsogo. The differential between the carrying value of the properties sold, being R4.87 billion at 31 March 2018 and the fair value of the properties recognised by HPF is eliminated on consolidation of Tsogo; and
  - The Cassava and Listed shares issued to the Sellers according to the Tsogo Internal Restructure and the Subscription Shares relating to the Purchase Consideration are eliminated on consolidation of Tsogo.

### 3. The Subscription

- Cassava and Listed Sellers subscribe for 1,2 billion ordinary shares in HPF at a fixed price of R12.50 per share which constitutes 67.4% of the entire issued share capital of HPF.

Description of shareholding	Number of shares (actual)
Total HPF ordinary shares in issue prior to the Subscription	578 154 207
Subscription by Tsogo	1 196 362 000
<b>Total HPF ordinary shares post the Subscription</b>	<b>1 774 516 207</b>

Description of shareholding	Number of shares (actual)	% shareholding
Shares held by Tsogo prior to the Subscription	341 922 565	59.15%
Shares issued in terms of the Subscription	1 196 362 000	
<b>HPF shares held by Tsogo after the Subscription</b>	<b>1 538 354 565</b>	<b>86.69%</b>

- Tsogo's effective shareholding in HPF increasing to 86.69% results in a decrease in HPF non-controlling interest from 40.85% to 13.31%. This is classified as a reserve within equity relating to transactions with shareholders.
- Tsogo's share of equity in HPF is determined as follows:

Description	Rands
Total equity of HPF (extracted from the Tsogo consolidation accounting records for the year ended 31 March 2018)	R7 029m
The Subscription	R14 955m
<b>Pro forma total equity after the Subscription</b>	<b>R21 984m</b>
HPF non-controlling interest share of total equity in HPF before the Subscription (R7 029m*40.85%)	R2 872m
HPF non-controlling interest share of total equity in HPF after the Subscription (R21 984m*13.31%)	R2 926m
<b>Differential</b>	<b>R54m</b>

### 4. Unwind of deferred tax and recognition of current tax

- The transfer of the Casino Precinct Properties from Tsogo to HPF results in the release of related deferred tax, amounting to R148m as at 31 March 2018. This is due to HPF not incurring an income tax liability as a REIT. Tsogo had not recognised any deferred tax relating to the Suncoast Expansion for the financial year ended 31 March 2018.
- S13quin and S13bis of the Income Tax Act are no longer deductible by Tsogo with ownership of the properties transferring to HPF. S13quin and S13bis deductions on the Casino Precinct Properties amounted to R28m in Tsogo for the year ended 31 March 2018 and is consequently raised as a liability. Tsogo had not claimed any allowances relating to the Suncoast Expansion for the financial year ended 31 March 2018.

### 5. The Unbundling

- The distribution of the total shareholding in HPF held by Tsogo results in HPF no longer being a subsidiary of Tsogo and is deconsolidated from the Tsogo results:

#### 5.1.1 HPF:

Extracted from the published audited annual financial statements of HPF for the year ended 31 March 2018.

#### 5.1.2 Consolidation adjustments:

Represents adjustment to deconsolidate HPF extracted from the consolidation workings underlying the audited annual financial statements of Tsogo for the year ended 31 March 2018.

### 5.1.3 **The Sale:**

Subsequent to the Internal Tsogo Restructure and the Sale, Cassava and Listed are owned by HPF. As part of HPF's internal restructure, the ownership of the Casino Precinct Properties will transfer from Cassava and Listed to HPF Properties Proprietary Limited, a subsidiary of HPF. On unbundling of the HPF shares Tsogo deconsolidates HPF, including HPF Properties Proprietary Limited, which holds the property and plant pertaining to the Casino Precinct Properties as presented in **Annexure 6** operating plant amounting to R4.87 billion.

The Casino Precinct Properties are sold to HPF for Purchase Consideration of R23.01 billion, resulting in a profit on sale recognised amounting to R18.14 billion, which is recognised in retained earnings.

### 5.1.4 **The Subscription:**

Following the Unbundling, the Subscription will result in a cash outflow from Tsogo of R14.96 billion and the associated increased investment in HPF subscribed for by Tsogo is distributed to Tsogo shareholders. A portion of the HPF shares will be liquidated prior to distributing to Tsogo shareholders to fund the settlement of dividends tax relating to non-exempt shareholders according to Section 64 of the Income Tax Act.

The adjustment of R54 million for non-controlling interest as a result of the Subscription is reversed on the Unbundling.

### 5.1.5 **The settlement of Third Party Debt**

Tsogo utilised R8.05 billion of the Sale proceeds to settle Third Party Debt.

## 6. **Goodwill de-recognition and impairment assessment**

*Pre the Transaction and the Unbundling:*

The Directors have performed an impairment review prior to the Transaction. Based on this assessment none of the Casino Precinct Properties allocated assets including goodwill indicated an impairment charge.

*Implementation of the Transaction and the Unbundling:*

The Transaction and the Unbundling results in the de-recognition of the assets and liabilities of HPF from the financial statements of Tsogo including any goodwill of Tsogo allocated to the cash generating units in HPF amounting to R1.64 billion (which is considered in determining the gain or loss on unbundling).

The Transaction and Unbundling is an impairment indicator according to IAS36. As a result the Directors have performed an impairment review of the Casino Precinct Properties' cash-generating units including the impact of the Transaction.

This review is based on the current forecast cash flows of the Casino Precinct Properties post the Transaction and Unbundling, the Directors current assumptions regarding the settlement of the Third Party Debt, and the current expectation of completion of the Suncoast Expansion by December 2018.

Based on this assessment an impairment charge of R1.12 billion is recognised with expected impairment of the remaining Casino Precinct Properties goodwill of R107 million and the residual impairment charge to the remaining Casino Precinct Properties' assets amounting to R1.02 billion.

<b>Description</b>	<b>Rands</b>
Derecognition of goodwill on unbundling relating to HPF cash generating units	R1 635m
Post Transaction and Unbundling impairment of the goodwill and intangibles	R1 123m
<b>Total impact on retained earnings</b>	<b>R2 758m</b>

## 7. **Transaction costs**

Transaction costs, estimated at R13 million.

8. Certain *pro forma* reclassification adjustments have been made to HPF's financial statements to conform to Tsogo's financial statements presentation. These *pro forma* adjustments are set forth in the table below:

### HPF'S PRO FORMA STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2018

R in millions	HPF <sup>1</sup>	Reclassification	Tsogo <sup>2</sup>
<b>Assets</b>	<b>13 125</b>	<b>(397)</b>	<b>12 728</b>
<b>Non-current assets</b>	<b>12 535</b>	<b>-</b>	<b>12 535</b>
Investment properties	12 534	-	12 534
Furniture, fittings and equipment	-	-	-
Investment in associate	1	-	1
Derivative assets	-	-	-
<b>Current assets</b>	<b>590</b>	<b>(397)</b>	<b>193</b>
Trade and other receivables	134	(38)	96
Current tax	-	14	14
Derivative assets	-	-	-
Non-current assets held for sale	66	-	66
Cash and cash equivalent	390	(373)	17
<b>Total assets</b>	<b>13 125</b>	<b>(397)</b>	<b>12 728</b>
<b>Equity</b>	<b>11 105</b>	<b>-</b>	<b>11 105</b>
Stated capital	9 027	-	9 027
Non-distributable reserve	2 740	-	2 740
Common control reserve	(1 106)	-	(1 106)
Retained earnings	444	-	444
<b>Liabilities</b>	<b>2 020</b>	<b>(397)</b>	<b>1 954</b>
<b>Non-current liabilities</b>	<b>1 941</b>	<b>13</b>	<b>1 954</b>
Interest-bearing borrowings	1 936	12	1 948
Derivative liability	4	-	4
Long-term incentive liabilities	1	1	2
<b>Current liabilities</b>	<b>79</b>	<b>(410)</b>	<b>(331)</b>
Trade and other payables	52	(10)	42
Intergroup trade payables	-	(373)	(373)
Interest-bearing borrowings	-	-	-
Derivative liability	2	(2)	-
Long-term incentive liabilities	1	(1)	-
Provision for shareholder redemption	24	(24)	-
<b>Total liabilities</b>	<b>2 020</b>	<b>(397)</b>	<b>1 623</b>
<b>Total equity and liabilities</b>	<b>13 125</b>	<b>(397)</b>	<b>12 728</b>

**Notes:**

- 1) Extracted from the audited annual financial statements for the year ended 31 March 2018 for Hospitality.
- 2) As per the audited consolidation workings for Tsogo for the year ended 31 March 2018.

**PRO FORMA CONDENSED GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2018**

R'm	The Transaction			The Unbundling									
	Note 1	Note 2	Note 3	Note 4	Note 5.1.1	Note 5.1.2	Note 5.1.3	Note 5.1.4	Note 5.1.5	Note 6	Note 7		
	Tsogo Before	The Sale	The Subscription	Unwind of deferred tax and recognition of current tax	Pro forma after the Sale and Subscription, Unbundling	HPF adjustments	Consolidation adjustments	The Sale	The Subscription	Settlement of Third Party Debt	Goodwill derecognition and impairment	Transaction costs	Pro forma after the Transaction and Unbundling
Net gaming win	7 940				7 940								7 940
Rooms revenue	3 160				3 160								3 160
Food and beverage revenue	1 561				1 561								1 561
Property rental income	549				549	(867)	465						147
Other revenue	765				765								765
<b>Income</b>	<b>13 975</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13 975</b>	<b>(867)</b>	<b>465</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13 573</b>
Gain on fair value adjustment of investment properties	(191)				(191)	538	(350)						(3)
Gaming levies and Value Added Tax	(1 681)				(1 681)								(1 681)
Property and equipment rentals	(380)				(380)	1	(465)	(1 944)					(2 788)
Amortisation and depreciation	(912)				(912)		76	53					(783)
Employee costs	(3 184)				(3 184)	15							(3 169)
Other operating (expenses) and/or income	(3 965)				(3 965)	35	(2)	18 187	(5 369)		(1 123)	(13)	7 750
<b>Operating profit</b>	<b>3 662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 662</b>	<b>(278)</b>	<b>(276)</b>	<b>16 296</b>	<b>(5 369)</b>	<b>-</b>	<b>(1 123)</b>	<b>(13)</b>	<b>12 899</b>
Interest income	72				72	(28)							44
Finance costs	(1 229)	69			(1 160)	192		(69)		743			(294)
Share of profit of associates and joint ventures	63				63								63
<b>Profit before income tax</b>	<b>2 568</b>	<b>69</b>	<b>-</b>	<b>-</b>	<b>2 637</b>	<b>(114)</b>	<b>(276)</b>	<b>16 227</b>	<b>(5 369)</b>	<b>743</b>	<b>(1 123)</b>	<b>(13)</b>	<b>12 712</b>
Income tax expense	(410)	(19)		120	(310)		158	564	(208)				204
<b>Profit for the year</b>	<b>2 158</b>	<b>50</b>	<b>-</b>	<b>120</b>	<b>2 328</b>	<b>(114)</b>	<b>(118)</b>	<b>16 790</b>	<b>(5 369)</b>	<b>535</b>	<b>(1 123)</b>	<b>(13)</b>	<b>12 916</b>
<b>Profit attributable to:</b>													
Equity holders of the company	1 971	(422)		120	-	(114)	47	17 262	(5 795)	535	(1 123)	(13)	12 894
Non-controlling interests	187	472	426	-	233	-	(165)	(472)	426	-	-	-	22
<b>Reconciliation of earnings attributable to equity holders of the company to headline earnings</b>													
Profit attributable to equity holders of the company	1 971	(422)	426	120	2 095	(114)	47	17 263	(5 794)	535	(1 123)	(13)	12 894
Gain/Loss on disposal of property, plant and equipment	2				2			(18 140)					(18 138)
Impairment of property, plant and equipment	68				68			(47)			1 123		1 144



## Notes to the pro forma condensed consolidated income statement for the year ended 31 March 2018:

1. The "Before" column is based on the condensed audited consolidated income statement of Tsogo for the year ended 31 March 2018.

### 2. The Sale

- The R23.01 billion cash Purchase Consideration paid by HPF to Tsogo will be funded by R8.05 billion HPF third party debt, assumed to be at a weighted average cost of 8.54% p.a and R14.96 billion cash raised from the Subscription. Tsogo will utilise the R23.01 billion cash from the Disposal to settle R8.05 billion Tsogo Third Party Debt, at a weighted average cost of capital of 9.40% and subscribe for HPF shares in the Subscription.

#### Finance costs:

- A finance cost differential arises as a result of the R8.05 billion HPF third party debt raised by HPF (a subsidiary) and the R8.05 billion Tsogo Third Party Debt settled by Tsogo.

Description	Rand
Finance cost for Tsogo Third Party Debt at 9.40% p.a	R757m
Finance cost for HPF third party debt at 8.54% p.a	R688m
<b>Pro forma finance cost saving</b>	<b>R69m</b>
<b>Tax impact (@ 28%)</b>	<b>(R19m)</b>

- HPF non-controlling interest is allocated its 40.85% share (before the effect of the Subscription) of the R8.05 billion HPF third party debt finance cost for the year, totalling R281 million.

#### Depreciation:

- The Casino Precinct Properties are owner occupied and recognised at Property, Plant and Equipment according to IAS16. HPF non-controlling interest is allocated its 40.85% share (before the effect of the Subscription) of the R53 million depreciation for the year ended 31 March 2018 relating to the Casino Precinct Properties amounting to R22 million.

#### Impairment

- The Casino Precinct Properties are owner occupied and recognised at Property, Plant and Equipment according to IAS 16. HPF non-controlling interest is allocated its 40.85% share (before the effect of the Subscription) of the R45 million impairment (refer to Annexure 6) for the year ended 31 March 2018 relating to the Casino Precinct Properties amounting to R19 million.

#### Rental Income for the Casino Precinct Properties:

- According to the Rental Aggregation Agreement R1,94 million of rental income will be earned by HPF on acquisition of the Casino Precinct Properties. HPF non-controlling interest will earn their 40.85% share of this rental income amounting to R794 million prior to the Subscription.

#### Overall impact on HPF non-controlling interest before the Subscription:

Finance cost for HPF R8 billion third party debt (R8.05 billion*8.54%*40.85%)	(R281m)
Depreciation of the Casino Precinct Properties acquired by HPF (R53m *40.85%)	(R22m)
Impairment of the Casino Precinct Properties acquired by HPF (R45m*40.85%)	(R19m)
Rental income from the casino letting enterprises acquired by HPF (R1944.1 million*40.85%) prior to the Subscription and the Unbundling	R794m
<b>Impact on HPF non-controlling interest</b>	<b>R472m</b>

### 3. Subscription

- Tsogo will effectively acquire an additional 27.54% in HPF through the Subscription with its total shareholding increasing from 59.15% to 86.69%. Tsogo's effective shareholding in HPF increasing to 86.69% results in a decrease in profit attributable to HPF non-controlling interest from 40.85% to 13.31%. This is classified as a transaction with shareholders and calculated as follows:

Description	Rand
Reduction in HPF non-controlling interest's share of Casino Precinct Properties rental income according to the Rental Aggregation Agreement (R1 944.1*27.54%)	(R535m)
Reduction in HPF non-controlling interest's share of HPF's existing property portfolio earnings (R390m*27.54%)	(R107m)
Decrease in finance costs allocated to HPF non-controlling interest (R8.05bn*27.54%*8.54%)	R189m
Decrease in depreciation allocated to HPF NCI (R53 million*27.54%)	R15m
Decrease in impairment allocated to HPF NCI (R45 million*27.54%)	R12m
<b>Impact on HPF non-controlling interest</b>	<b>(R426m)</b>

### 4. Unwind of deferred tax and recognition of current tax

- The transfer of the Casino Precincts Properties from Tsogo to HPF results in the release of the related deferred tax as at 1 April 2017 amounting to R120m that arises on the Casino Precinct Properties. This is due to the fact that there are no future tax consequences in HPF. Tsogo had not recognised any deferred tax relating to the Suncoast Expansion for the financial year ended 31 March 2018.
- S13quin and S13bis of the Income Tax Act are no longer deductible by Tsogo with ownership of the properties transferring to HPF. R28m current tax is expected as a result of no s13quin and S13bis deductions on the Casino Precinct Properties. Tsogo had not claimed any allowances relating to the Suncoast Expansion for the financial year ended 31 March 2018.
- Deferred tax charge of R28m recognised for the year ended 31 March 2018 relating to S13quin and S13bis of the Income Tax Act for the Casino Precinct Properties is reversed.
- These adjustments are once off and are reversed in determining the adjusted headline earnings.

## 5. The Unbundling

- The distribution of the total shareholding in HPF held by Tsogo results in HPF no longer being a subsidiary of Tsogo and is deconsolidated from the Tsogo results:

### 5.1.1 HPF:

Extracted from the published audited annual financial statements of HPF for the year ended 31 March 2018, refer to Note 8.

### 5.1.2 Consolidation adjustments

Represents adjustment to deconsolidate HPF extracted from the consolidation workings underlying the audited annual financial statements of Tsogo for the year ended 31 March 2018.

### 5.1.3 The Sale:

The Casino Precinct Properties are sold to HPF for the Purchase Consideration of R23.01 billion, resulting in a profit on sale recognised amounting to R18.14 billion. This adjustment is once off and is reversed in determining the adjusted headline earnings.

Subsequent to the Internal Tsogo Restructure and the Sale, Cassava and Listed are owned by HPF. As part of HPF's internal restructure, the ownership of the Casino Precinct Properties will transfer from Cassava and Listed to HPF Properties Proprietary Limited, a subsidiary of HPF. On unbundling of the HPF shares Tsogo deconsolidates HPF, including HPF Properties Proprietary Limited, which holds the property and plant pertaining to the Casino Precinct Properties as presented in **Annexure 6** operating plant amounting to R4.87 billion. Tsogo deconsolidates the depreciation and impairment (included in other operating expenses) recognised for the financial year ended 31 March 2018 pertaining to the Casino Precinct Properties amounting to R53 million and R45 million respectively.

The deconsolidation of impairment is considered in the headline earnings adjustments.

According to the Rental Aggregation Agreement HPF is paid R1.94 billion rental relating to the Casino Precinct Properties, which is tax deductible for Tsogo.

The finance cost differential of R69 million and its related tax of R19 million, included as part of the Sale impact (refer to Note 2 above) is reversed on deconsolidation of HPF.

No adjustment is made for interest earned on the Purchase Consideration of R23.01 billion as the proceeds are utilised for the Subscription and settlement of Third Party Debt (refer notes below).

The adjustments to HPF non-controlling interest are reversed on unbundling as per Note 2 above amounting to R472 million.

### 5.1.4 The Subscription:

No adjustment is made for the cash outflow of R14.96 billion as the Subscription is funded from the Purchase Consideration proceeds.

A portion of the HPF shares that are unbundled are liquidated prior to distributing to Tsogo shareholders to fund the settlement of dividends tax relating to non-exempt shareholders according to Section 64 of the Income Tax Act.

At the Last Practicable Date, the Hospitality share price is R9.89. No capital gains tax is payable on the unbundling of the Subscription shares with the Subscription Price of R12.50 more than the Hospitality share price at the Last Practicable Date.

The existing shareholding in HPF prior to the Subscription is exempt from tax consequences according to Section 46 of the Income Tax Act on unbundling.

According to Tsogo accounting policies and IFRIC17 Tsogo recognises the non-cash dividend to its shareholders at fair value. At 5 September 2018, the Last Practicable Date, the fair value of the HPF shares distributed is R9.89 per share with a resultant dividend of R15.21 billion for the 1,538,354,565 shares distributed.

The difference between the fair value of the HPF shares unbundled and the net asset value of HPF including goodwill deconsolidated is recognised as a loss on unbundling to shareholders of R5.37 billion in profit and loss. This adjustment is once off and is reversed in determining the adjusted headline earnings.

Description	Rand
Net asset value of HPF according to the Tsogo consolidated accounting records	R7 029m
The Subscription	R14 955m
Goodwill	R1 636m
HPF Non-controlling interest	(R3 036m)
<b>Total net asset value de-recognised</b>	<b>R20 584m</b>
Fair value of Tsogo's shareholding in HPF	R15 215m
<b>Loss on unbundling</b>	<b>(R5 369m)</b>

The adjustment of R426 million for non-controlling interest as a result of the Subscription is reversed on the Unbundling.

### 5.1.5 The settlement of Third Party Debt

Tsogo utilised R8.05 billion of the Sale Purchase Consideration to settle Third Party Debt, resulting in the reversal of R743 million finance cost, based on the weighted average cost of debt of Tsogo's Third Party Debt of 9.23%, net of tax of R208 million.

## 6. Goodwill de-recognition and impairment assessment

*Pre the Transaction and the Unbundling:*

The Transaction and Unbundling is an impairment indicator according to IAS36. As a result the Directors have performed an impairment review prior to the Transaction and the Unbundling of the Casino Precinct Properties' cash generating units.

*Implementation of the Transaction and the Unbundling*

This review is based on the current forecast cash flows of the each Casino Precinct Properties post the Transaction and Unbundling, the Directors current assumptions regarding the settlement of the Third Party Debt, and the current expectation of completion of the Suncoast Expansion by December 2018.

Based on this assessment an impairment charge of R1.12 billion is recognised with expected impairment of the remaining Casino Precinct Properties goodwill of R107 million and the residual impairment charge to the remaining Casino Precinct Properties' assets amounting to R1.02 billion. This adjustment is once off and is reversed in determining the adjusted headline earnings.

Description	Rands
Post Transaction and Unbundling impairment of the casino assets and derecognition of goodwill	R1 123m
<b>Total impact on profit for the year</b>	<b>R1 123m</b>

7. **Transaction costs**

- Once off transaction costs, estimated at R13m. This adjustment is one-off and added back in determining adjusted headline earnings.
- Unless otherwise indicated the *pro forma* adjustments are recurring.

8. Certain *pro forma* reclassification adjustments have been made to HPF's financial statements to conform to Tsogo's financial statements presentation. These *pro forma* adjustments are set forth in the table below:

**Hospitality Pro forma Income Statement for the year ended 31 March 2018**

R in millions	Hospitality <sup>1</sup>	Reclassification	Tsogo <sup>2</sup>
<b>Revenue</b>	<b>867</b>		<b>867</b>
Rental income – contractual	867	–	867
Rental income – straight-line accrual	–	–	–
<b>Operating expenses</b>	<b>(47)</b>	<b>(4)</b>	<b>(51)</b>
Property and equipment rentals	–	(1)	(1)
Employee costs	–	(15)	(15)
Other operating expenses	(41)	(12)	(35)
<b>Operating profit</b>	<b>820</b>	<b>(4)</b>	<b>816</b>
<b>Net finance costs</b>	<b>(164)</b>	<b>–</b>	<b>(164)</b>
Finance income	28	–	28
Finance costs	(192)	–	(192)
<b>Profit before sale of fixed assets, impairment, fair value adjustments, goodwill and taxation</b>			
Profit on sale of investment properties	–	–	–
Profit on sale of furniture, fittings and equipment	–	–	–
Goodwill impairment	–	–	–
<b>Fair value adjustments</b>	<b>(542)</b>	<b>4</b>	<b>(538)</b>
Investment properties, before straight-lining adjustments	(537)	(1)	(538)
Change in fair value as a result of the straight-lining adjustments	–	–	–
Interest rate swaps	(5)	5	–
Profit before taxation	114	–	114

**Notes:**

- 1) Extracted from the audited annual financial statements for the year ended 31 March 2018 for Hospitality.
- 2) As per the audited consolidation workings for Tsogo for the year ended 31 March 2018.

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## THE INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT ON THE PRO FORMA FINANCIAL INFORMATION

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Board of Directors  
Tsogo Sun Holdings Limited  
Palazzo Towers East  
Montecasino Boulevard  
Fourways  
2055

### Independent reporting accountant's assurance report on the compilation of *Pro forma* Financial Information of Tsogo Sun Holdings Limited

#### Introduction

Tsogo Sun Holdings Limited (the "Company" or "Tsogo") is issuing a circular to its shareholders (the "Circular") regarding the disposal of the Casino Precinct Properties to Hospitality Property Fund Limited ("Hospitality" or "HPF") and the unbundling of the shares held in Hospitality ("the Transaction and the Unbundling").

At your request and for the purposes of the Circular to be dated on or about 21 September 2018, we present our assurance report on the compilation of the *pro forma* financial information of the Company by the directors. The *pro forma* financial information, presented in paragraph 10 and **Annexure 4** to the Circular, consists of the *pro forma* condensed consolidated balance sheet as at 31 March 2018, the *pro forma* condensed consolidated income statement for the year ended 31 March 2018 and the *pro forma* financial effects (the "*Pro forma* Financial Information"). The *Pro forma* Financial Information has been compiled on the basis of the applicable criteria specified in the JSE Limited (JSE) Listings Requirements and described paragraph 10 and **Annexure 4** to the Circular.

The *Pro forma* Financial Information has been compiled by the directors to illustrate the impact of the Transaction and the Unbundling on the Company's reported financial position as at 31 March 2018, and the Company's financial performance for the year then ended, as if the Transaction and the Unbundling had taken place at 31 March 2018 and 1 April 2017, respectively. As part of this process, information about the Company's financial position and financial performance has been extracted by the directors from the Company's condensed consolidated financial statements for the year ended 31 March 2018, on which an audit report has been published.

#### Directors' responsibility

The directors of the Company are responsible for the compilation, contents and presentation of the *Pro forma* Financial Information on the basis of the applicable criteria specified in the JSE Listings Requirements and described in paragraph 10 and **Annexure 4** to the Circular. The directors of the Company are also responsible for the financial information from which it has been prepared.

#### Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Reporting accountant's responsibility

Our responsibility is to express an opinion about whether the *Pro forma* Financial Information has been compiled, in all material respects, by the directors on the basis specified in the JSE Listings Requirements and described in paragraph 10 and **Annexure 4** to the Circular based on our procedures performed. We conducted our engagement in accordance

with the International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. This standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the *Pro forma* Financial Information has been compiled, in all material respects, on the basis specified in the JSE Listings Requirements and described in paragraph 10 and **Annexure 4** to the Circular.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the *Pro forma* Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the *Pro forma* Financial Information.

The purpose of *pro forma* financial information is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the *Pro forma* Financial Information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the *Pro forma* Financial Information provides a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related *Pro forma* Adjustments give appropriate effect to those criteria; and
- The *Pro forma* Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the *Pro forma* Financial Information has been compiled, and other relevant engagement circumstances.

Our engagement also involves evaluating the overall presentation of the *Pro forma* Financial Information.

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

Opinion

In our opinion, the *Pro forma* Financial Information has been compiled, in all material respects, on the basis of the applicable criteria specified by the JSE Listings Requirements and described in paragraph 10 and **Annexure 4** to the Circular.

**PricewaterhouseCoopers Inc.**

Director: **BS Humphreys**

Registered Auditor

Johannesburg

11 September 2018

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## HISTORICAL FINANCIAL INFORMATION IN RESPECT OF THE CASINO PRECINCT PROPERTIES

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### Introduction

The Historical Financial Information is the responsibility of the directors of Tsogo and has been prepared according to the measurement and recognition principals of the relevant IFRS standard as disclosed below, Tsogo's accounting policies as disclosed below, and Section 8.1-8.9 of the JSE Limited Listing Requirements. The Historical Financial Information has been prepared to provide Tsogo shareholders with limited information on elements of the past performance and financial position in respect of the subject matter of the Transaction.

The Historical Financial Information presented below includes:

- EBITDAR after management fees of the Casino Precinct Properties for the years ended 31 March 2018, 31 March 2017 and 31 March 2016;
- Property and plant of the Casino Precinct Properties and Operating Plant to be sold to HPF in terms of the Transaction as at 31 March 2018;
- Interest bearing borrowings of the Silverstar Casino Precinct as at 31 March 2018; and
- Expansion and maintenance cash flows for the Casino Precinct Properties for the financial year ended 31 March 2018.

### Purpose of the Historical Financial Information

#### EBITDAR after management fees

EBITDAR after management fees per Casino Precinct Property noted below was used to determine the Initial Aggregate Base Rental to be paid by Tsogo to HPF in terms of the Transaction and according to paragraph 4 of this Circular. The EBITDAR after management and license fees per Casino Precinct Property is the relevant historical financial information that has been used to determine the rental payable by Tsogo to HPF in terms of the Rental Aggregation Agreement. The Initial Aggregate Base Rental will escalate by the defined Escalation Rate annually on the 1st day of April. The EBITDAR after management fees will further be utilised for the Head Lease Anniversary Rental Review as described in paragraph 4 of this Circular.

#### Property and Plant

The carved out carrying value, depreciation, and impairment of the Casino Precinct property and plant disposed to HPF as a result of the Transaction for the 31 March 2018 financial year.

#### Interest bearing borrowings

The carved out interest bearing borrowings of the disposed Casino Precinct Properties relating to the Silverstar Casino Precinct for the 31 March 2018 financial year.

#### Cash flow

The carved out cash flow additions of the disposed Casino Precinct Properties has been determined by identifying the specific cash flows associated with the Property and Plant being disposed in the Transaction for the 31 March 2018 financial year.

### (1a) Basis of Preparation of the Historical Financial Information

#### EBITDAR after management fees

The EBITDAR after management fees (earnings before interest, income tax, depreciation, amortisation, property rentals paid, and after deducting management fees charged) per property for the disposed Casino Precinct Properties has been extracted from the accounting records of Tsogo used to populate and prepare the audited financial statements for Tsogo for the years ended 31 March 2018, 2017 and 2016 that have been prepared according to the measurement and recognition principles of IFRS. Management fees considered are according to 4.3.5.2.2 and 4.3.6 of this Circular. The EBITDAR of Monte Circle Property and Monte Place Property for the Montecasino Precinct and the Gold Reef City Theme Park Property for the Gold Reef City Casino Precinct which are excluded from the Transaction are carved out and not included. The EBITDAR of the Palazzo Towers for the Montecasino Precinct has been included.

## **Property and Plant**

The property and plant information has been prepared in accordance with the recognition and measurement principles of *IAS16: Property, Plant and Equipment* for the carrying value of the disposed Casino Precinct Properties as at 31 March 2018.

The property and plant carrying value of the Casino Precinct Properties has been carved out from the accounting records of Tsogo for the financial year ended 31 March 2018 which have been prepared according to IFRS. These Tsogo accounting records have been utilised to prepare the audited and published financial statement for Tsogo for the year ended 31 March 2018.

The carved out carrying value of the disposed Land and Buildings of the Casino Precinct Properties has been determined by identifying the assets that meet the definition of land and everything attached to it by natural or artificial means according to the Transaction (Refer to paragraph 1.3 and the definition of Buildings) through inspection of the accounting records of Tsogo.

The Operating Plant, which is agreed to remain in Tsogo's custody until termination of the Head Lease, have been identified and carved out according to the Transaction through inspection of the accounting records of Tsogo and according to paragraph 1.3, and 4.3.18 of this Circular.

No comparative historical financial information for 31 March 2017 and 31 March 2016 has been carved out

## **Interest bearing borrowings**

The interest bearing borrowings of the Silverstar Casino Precinct has been determined by identifying the specific debt associated with the Casino Precinct Properties being disposed in the Transaction.

The interest bearing borrowings of the Casino Precinct Properties has been carved out from the accounting records of Tsogo for the financial year ended 31 March 2018 which have been prepared according to IFRS. These Tsogo accounting records have been utilised to prepare the audited and published financial statement for Tsogo for the year ended 31 March 2018.

No comparative historical financial information for 31 March 2017 and 31 March 2016 has been carved out.

## **Cash Flow**

The cash flow additions of the Casino Precinct Properties has been carved out from the accounting records of Tsogo for the financial year ended 31 March 2018 which have been prepared according to IFRS. These Tsogo accounting records have been utilised to prepare the audited and published financial statement for Tsogo for the year ended 31 March 2018.

No comparative historical financial information for 31 March 2017 and 31 March 2016 has been carved out.

## **Accounting policies**

### **Property and Plant**

Property and plant are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Assets' residual values and useful lives are reviewed by management and adjusted, if appropriate, at each balance sheet date and triennially independent valuations are completed by external valuers. Land and buildings comprise mainly hotels and casinos.

(i) *Assets in the course of construction*

Assets in the course of construction are carried at cost less any impairment loss. Cost includes professional fees and for qualifying assets certain borrowing costs as determined below. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(ii) *Depreciation*

No depreciation is provided on freehold land or assets in the course of construction. In respect of all other property and equipment, depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value, of each asset over its expected useful life as follows:

Freehold properties	20 – 50 years
Leasehold buildings improvements	Shorter of the lease term or 50 years

(iii) *Capitalisation of borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. The group considers a period of greater than 12 months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### **Interest bearing borrowings**

Borrowings are recognised initially at fair value and are subsequently stated at amortised cost and include accrued interest and prepaid facility transaction costs.

Finance costs include all borrowing costs incurred on borrowing instruments together with related costs of debt facilities management. Such costs include facility commitment fees which are expensed in borrowing costs as incurred and facility raising fees which are amortised through borrowing costs over the life of the related facilities. Borrowing costs, other than borrowing costs capitalized, are recognised in the income statement in the period in which they are incurred.

### **EBITDAR after management fees for the years ended 31 March 2018, 2017 and 2016**

<b>R'm</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Montecasino precinct	1 025	1 082	1 083
Gold Reef City precinct	469	460	426
Silverstar precinct	212	248	254
Suncoast precinct	666	720	702
Blackrock precinct	42	52	50
Emnotweni precinct	118	126	133
The Ridge precinct	128	130	142
<b>Total</b>	<b>2 660</b>	<b>2 818</b>	<b>2 790</b>

**Property and Plant as at 31 March 2018**

<b>31 March 2018</b>	<b>R'm</b>
<b>Land and Buildings of the Casino Precinct Properties</b>	
<b>Cost</b>	
Opening cost as at 1 April 2017	5 137
Additions	367
Disposals	(1)
Impairments	(86)
<b>Total cost as at 31 March 2018</b>	<b>5 417</b>
<b>Accumulated Depreciation</b>	
Opening depreciation as at 1 April 2017	538
Depreciation	53
Disposals	–
Impairments	(41)
<b>Closing depreciation as at 31 March 2018</b>	<b>550</b>
<b>Carrying value as at 31 March 2018</b>	<b>4 867</b>
<b>Operating plant of the Casino Precinct Properties</b>	
<b>Cost</b>	
Opening cost as at 1 April 2017	877
Additions	42
Disposals	(2)
Impairments	(4)
<b>Closing cost as at 31 March 2018</b>	<b>914</b>
<b>Accumulated Depreciation</b>	
Opening accumulated depreciation as at 1 April 2017	452
Depreciation	43
Disposals	(1)
Impairments	(2)
<b>Closing accumulated depreciation as at 31 March 2018</b>	<b>491</b>
<b>Net Book Value 31 March 2018</b>	<b>423</b>
<b>Total carrying value of the Land and Buildings, Operating Plant of the Casino Precinct Properties</b>	<b>5 290</b>

**Interest bearing borrowings as at 31 March 2018**

<b>Silverstar Casino Precinct Interest bearing borrowings</b>	<b>R'm</b>
Balance as at 31 March 2018 (a)	98
Interest expense for F'18	18

**Note (a):** The Silverstar Casino Precinct interest bearing borrowings was priced off one month of the Johannesburg Interbank Average Rate ("JIBAR") and was a monthly amortising loan maturing on the 30th September 2018. The outstanding balance on the loan was settled in full during April 2018.

## Cash flow additions as at 31 March 2018

31 March 2018	R'm
<b>Cashflow additions</b>	
Expansion additions	340
Expansion capital creditor outstanding at year end	(73)
<b>Expansion cash flow (a)</b>	<b>267</b>
Maintenance additions	27
<b>Maintenance cash flow</b>	<b>27</b>

**Note (a):** majority of the expansion additions relates to the Suncoast Expansion.

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## INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION

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### ***Independent reporting accountant's audit report on the historical financial information***

To the directors of Tsogo Sun Holdings Limited

#### ***Our opinion***

Tsogo Sun Holdings Limited (the "Company") is issuing a circular to its shareholders (the "Circular") regarding the disposal of a portfolio of casino assets to Hospitality Property Fund Limited ("the Proposed Transaction").

In our opinion, the historical financial information of the Company as at 31 March 2018 is prepared, in all material respects, in accordance with the basis of preparation as set out in the basis of preparation of the historical financial information paragraph to the historical financial information in Annexure 6 of this Circular.

#### ***What we have audited***

At your request and solely for the purpose of the Circular to be dated on or about 21 September 2018, we have audited the Company's historical financial information as at 31 March 2018 which comprises the detailed property, plant and equipment note and EBITDAR note for the Casino Precinct Properties for the year then ended.

#### ***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 *Reporting accountant's responsibilities for the audit of the historical financial information* 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 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 International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

#### ***Emphasis of matter - Basis of accounting***

We draw attention to the basis of preparation of the historical financial information note to the historical financial information, which describes the basis of accounting. The historical financial information is prepared by the Company in order to meet its reporting obligations to the JSE Limited pursuant to section 8.2 of the JSE Limited Listing Requirements. As a result of the historical financial information being prepared on a financial reporting framework designed to meet the information needs of a specific user, namely the JSE Limited, the historical financial information may not be suitable for another purpose. Our report is not modified in respect of this matter.

#### ***Purpose of this report***

This report has been prepared for the purpose of the Circular and for no other purpose.

#### ***Responsibilities of the directors for the historical financial information***

The directors of Tsogo Sun Holdings Limited are responsible for the preparation, contents and presentation of the Circular and are responsible for ensuring that the Company complies with the JSE Limited Listings Requirements.

The directors of Tsogo Sun Holdings Limited are responsible for the preparation of this historical financial information in accordance with the basis of preparation as set out in note 1.a) to the historical financial information, JSE Limited Listing Requirements and for such internal control as management determines is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error.

In preparing the historical financial information, the directors of Tsogo Sun Holdings Limited are responsible for assessing 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Reporting accountant's responsibilities for the audit of the historical financial information**

Our objectives are to obtain reasonable assurance about whether the historical financial information as a whole is 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. Misinformation 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 this financial information.

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 historical financial information, 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of Tsogo Sun Holdings Limited.
- Conclude on the appropriateness of the directors of Tsogo Sun Holdings Limited's 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 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 reporting accountant's report to the related disclosures in the historical financial information 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 reporting accountant's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the directors of Tsogo Sun Holdings Limited 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 of Tsogo Sun Holdings Limited 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, related safeguards.

### **PricewaterhouseCoopers Inc.**

Director: **Brett Humphreys**

Registered Auditor

Johannesburg

11 September 2018

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## MATERIAL CONTRACTS

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### 1. **CULLINAN SHARE PURCHASE AGREEMENT BETWEEN SOUTHERN SUN HOTELS (“SSH”) AND LIBERTY GROUP LIMITED (“LIBERTY”)**

Parties: SSH, Liberty and the Cullinan Hotel Proprietary Limited (“Cullinan”)

Date: 2 December 2016

Nature: In terms of this agreement, SSH acquired the remaining 40% of the shares in and claims against Cullinan, from Liberty, for a total purchase consideration of R1 030 million, payable in cash.

### 2. **GARDEN COURT AND STAYEASY ACQUISITION BY CULLINAN FROM LIBERTY**

Parties: Cullinan, Liberty, Liberty Two Degrees Collective Investment Scheme in Property and Southern Sun Hotel Interests Proprietary Limited

Date: 26 August 2016

Nature: In terms of this agreement, Cullinan acquired the Garden Court Umhlanga Hotel and the StayEasy Pietermaritzburg Hotel properties and businesses from Liberty for a total purchase consideration of R310 million, payable in cash.

### 3. **CLUB MYKONOS REPURCHASE AGREEMENT BETWEEN CLUB MYKONOS LANGEBAAN PROPRIETARY LIMITED AND WEST COAST LEISURE PROPRIETARY LIMITED**

Parties: Club Mykonos Langebaan Proprietary Limited (“Mykonos”) and West Coast Leisure Proprietary Limited (“WCL”)

Date: 9 December 2016

Nature: In terms of this agreement, Mykonos repurchased 29 637 ordinary shares of R0.01 each in its share capital, from WCL, for an aggregate consideration of R190 million, payable in cash.

### 4. **DISPOSAL BY SSH TO HPF OF MERWAY FIFTH INVESTMENTS PROPRIETARY LIMITED AND CULLINAN**

Parties: HPF, Cullinan, SSH and Merway Fifth Investments Proprietary Limited (“Merway”)

Date: 16 May 2017

Nature: In terms of this agreement, HPF acquired 100% of the shares in and claims against Merway and Cullinan from SSH (effectively acquiring 29 hotel properties) for an aggregate purchase price of R3 600 million. The purchase consideration was discharged by:

- The payment to SSH by HPF of R1 030 million in cash on 7 August 2017; and
- The issue to SSH by HPF of 174 064 861 HPF shares on 24 July 2017.

### 5. **SANDTON EYE ACQUISITION**

Parties: HPF Properties Limited (“HPFP”), Savana Property Proprietary Limited (“Savana”) and Sandton Isle Investments Proprietary Limited (“Sandton Isle”)

Date: 11 April 2017

Nature: In terms of this agreement, HPFP acquired various sections and exclusive use areas of the Sandton Eye sectional title scheme from Savana and an existing real right of extension in the said scheme from Sandton Isle, for an aggregate purchase consideration of R302 million, settled as follows:

- R271 million in cash on 21 August; and
- the issue of 2 150 856 ordinary shares at R14.02 each on 31 August 2017.

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**EXTRACTS OF THE AUDITED CONSOLIDATED FINANCIAL INFORMATION OF  
TSOGO FOR THE YEARS ENDED 31 MARCH 2016, 2017 AND 2018**

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The consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement and accounting policies and critical accounting estimates and judgements for the three years ended 31 March 2016, 31 March 2017 and 31 March 2018 presented below have been extracted, without adjustment, from the audited annual financial statements of Tsogo. The audited financial statements of Tsogo have been prepared in accordance with IFRS and have been reported on without qualification by PricewaterhouseCoopers Inc. The detailed notes to the annual financial statements can be viewed on the Tsogo website (<https://www.tsogosun.com>).

## CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH

	<b>2018 Rm</b>	<b>2017 Rm</b>	<b>2016 Rm</b>
Net gaming win	7 940	7 483	7 361
Rooms revenue	3 160	3 078	2 784
Food and beverage revenue	1 561	1 434	1 353
Property rental income	549	445	133
Other revenue	765	782	652
<b>Income</b>	<b>13 975</b>	<b>13 222</b>	<b>12 283</b>
Gaming levies and Value Added Tax	(1 681)	(1 557)	(1 531)
Property and equipment rentals	(380)	(303)	(287)
Amortisation and depreciation	(912)	(846)	(812)
Employee costs	(3 184)	(3 044)	(2 871)
Other operating expenses	(3 965)	(3 530)	(3 382)
Fair value adjustment of investment properties	(191)	757	25
<b>Operating profit</b>	<b>3 662</b>	<b>4 699</b>	<b>3 425</b>
Interest income	72	43	35
Finance costs	(1 229)	(1 066)	(892)
Share of profit of associates and joint venture	63	38	29
<b>Profit before income tax</b>	<b>2 568</b>	<b>3 714</b>	<b>2 597</b>
Income tax expense	(410)	(665)	(777)
<b>Profit for the year</b>	<b>2 158</b>	<b>3 049</b>	<b>1 820</b>
<b>Profit attributable to:</b>			
Equity holders of the company	1 971	2 507	1 802
Non-controlling interests	187	542	18
	2 158	3 049	1 820
<b>Basic and diluted earnings per share</b>	<b>198.3</b>	<b>262.0</b>	<b>188.3</b>
<b>Profit for the year</b>	<b>2 158</b>	<b>3 049</b>	<b>1 820</b>
<b>Other comprehensive income for the year, net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>	<b>(145)</b>	<b>(194)</b>	<b>332</b>
Cash flow hedges	(83)	(121)	162
Currency translation adjustments	(86)	(96)	215
Available-for-sale investment fair value adjustment	3	–	–
Income tax relating to available-for-sale investments	–	(11)	–
Income tax relating to items that may subsequently be reclassified to profit or loss	21	34	(45)
<b>Items that may not be reclassified subsequently to profit or loss:</b>	<b>3</b>	<b>2</b>	<b>3</b>
Remeasurements of post-employment defined benefit liability	4	3	4
Income tax relating to items that may not subsequently be reclassified to profit or loss	(1)	(1)	(1)
<b>Total comprehensive income for the year</b>	<b>2 016</b>	<b>2 857</b>	<b>2 155</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company	1 830	2 315	2 136
Non-controlling interests	186	542	19
	<b>2 016</b>	<b>2 857</b>	<b>2 155</b>

## CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	2018 Rm	2017 Rm	2016 Rm
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16 038	15 556	14 370
Investment properties	5 255	4 969	108
Goodwill	2 134	2 106	2 106
Other intangible assets	4 373	4 461	4 476
Investments in associates	513	483	491
Investments in joint ventures	128	126	129
Available-for-sale financial assets	1 275	1 272	252
Non-current receivables	66	60	68
Derivative financial instruments	–	–	74
Deferred income tax assets	142	121	185
	<b>29 924</b>	<b>29 154</b>	<b>22 259</b>
<b>Current assets</b>			
Inventories	119	115	125
Trade and other receivables	857	696	669
Current income tax assets	36	78	122
Cash and cash equivalents	2 778	2 424	2 492
	<b>3 790</b>	<b>3 313</b>	<b>3 408</b>
Non-current assets held for sale	66	66	–
Total current assets	3 856	3 379	3 408
<b>Total assets</b>	<b>33 780</b>	<b>32 533</b>	<b>25 667</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the company</b>			
Ordinary share capital and premium	6 636	4 576	4 576
Other reserves	(2 040)	874	(232)
Retained earnings	6 280	5 321	3 974
Total shareholders' equity	10 876	10 771	8 318
Non-controlling interests	3 318	2 685	654
<b>Total equity</b>	<b>14 194</b>	<b>13 456</b>	<b>8 972</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing borrowings	12 667	9 439	8 346
Derivative financial instruments	132	37	492
Deferred income tax liabilities	1 670	2 029	2 059
Post-employment benefit liability	1	4	6
Deferred revenue and income	31	29	24
Long-term incentive liabilities	27	19	34
Provisions	172	210	173
Other non-current liabilities	237	249	272
	<b>14 937</b>	<b>12 016</b>	<b>11 406</b>
<b>Current liabilities</b>			
Interest-bearing borrowings	2 648	5 098	3 394
Trade and other payables	1 876	1 867	1 767
Current income tax liabilities	125	96	128
	<b>4 649</b>	<b>7 061</b>	<b>5 289</b>
<b>Total liabilities</b>	<b>19 586</b>	<b>19 077</b>	<b>16 695</b>
<b>Total equity and liabilities</b>	<b>33 780</b>	<b>32 533</b>	<b>25 667</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 31 MARCH

	Attributable to equity holders of the company					Total equity Rm
	Ordinary share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm	Non-controlling interests Rm	
<b>Balance at 1 April 2015 as previously reported</b>	4 576	(442)	2 917	7 051	635	7 686
Recognition of fair value of investment properties net of deferred tax	–	–	9	9	–	9
<b>Balance at 1 April 2015 restated</b>	4 576	(442)	2 926	7 060	635	7 695
Total comprehensive income	–	331	1 805	2 136	19	2 155
Profit for the year	–	–	1 802	1 802	18	1 820
Cash flow hedges, net of tax	–	117	–	117	–	117
Currency translation adjustments	–	214	–	214	1	215
Remeasurements of post-employment defined benefit liability, net of tax	–	–	3	3	–	3
Transfer from share-based payment reserve to retained earnings	–	(121)	121	–	–	–
Ordinary dividends	–	–	(878)	(878)	–	(878)
<b>Balance at 1 April 2016</b>	4 576	(232)	3 974	8 318	654	8 972
Total comprehensive income	–	(194)	2 509	2 315	542	2 857
Profit for the year	–	–	2 507	2 507	542	3 049
Cash flow hedges, net of tax	–	(87)	–	(87)	–	(87)
Currency translation adjustments	–	(96)	–	(96)	–	(96)
Deferred tax on available-for-sale financial assets	–	(11)	–	(11)	–	(11)
Remeasurements of post-employment defined benefit liability, net of tax	–	–	2	2	–	2
Settlement of Cullinan put liability with non-controlling interests	–	493	(187)	306	(306)	–
Consideration to HPF non-controlling interests in hotel assets	–	968	–	968	353	1 321
Acquisition of non-controlling interests from HPF	–	–	–	–	1 592	1 592
Acquisition of Mykonos and Blackrock casinos' non-controlling interests	–	(161)	–	(161)	(37)	(198)
Ordinary dividends	–	–	(975)	(975)	(113)	(1 088)

	Attributable to equity holders of the company					
	Ordinary share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm	Non- controlling interests Rm	Total equity Rm
<b>Balance at 31 March 2017</b>	4 576	874	5 321	10 771	2 685	13 456
Total comprehensive income	–	(144)	1 974	1 830	186	2 016
Profit for the year	–	–	1 971	1 971	187	2 158
Cash flow hedges, net of tax	–	(60)	–	(60)	(1)	(61)
Currency translation adjustments	–	(86)	–	(86)	–	(86)
Fair-value measurement of available-for-sale financial assets, net of tax	–	2	–	2	–	2
Remeasurements of post-employment defined benefit liability, net of tax	–	–	3	3	–	3
Issue of ordinary share capital	1 974	–	–	1 974	–	1 974
Treasury shares settled	86	–	–	86	–	86
Consideration to HPF non-controlling interests in hotel assets	–	(37)	–	(37)	1 067	1 030
Acquisition of non-controlling interests from HPF	–	436	–	436	(436)	–
Consideration to HPF non-controlling interests – Sandton Isle	–	(15)	–	(15)	15	–
Common control reserve arising on acquisition of Gameco	–	(3 154)	–	(3 154)	–	(3 154)
Acquisition activity of Gameco	–	–	–	–	(38)	(38)
Ordinary dividends	–	–	(1 015)	(1 015)	(161)	(1 176)
<b>Balance at 31 March 2018</b>	<b>6 636</b>	<b>(2 040)</b>	<b>6 280</b>	<b>10 876</b>	<b>3 318</b>	<b>14 194</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 31 MARCH

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>Rm</b>	<b>Rm</b>	<b>Rm</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	4 394	4 776	4 376
Interest received	72	43	31
Finance costs paid	(1 220)	(1 119)	(832)
Income tax paid	(688)	(627)	(657)
Dividends paid to shareholders	(1 015)	(975)	(878)
Dividends paid to non-controlling interests	(161)	(113)	–
Pre-acquisition dividend paid	–	(133)	–
Dividends received	110	134	51
<b>Net cash generated from operating activities</b>	<b>1 492</b>	<b>1 986</b>	<b>2 091</b>
<b>Cash flows from investment activities</b>			
Purchase of property, plant and equipment – expansionary	(546)	(665)	(1 377)
Purchase of property, plant and equipment – replacement	(564)	(573)	–
Proceeds from disposal of property, plant and equipment	8	1	9
Acquisition and development of investment properties	(443)	(92)	(27)
Proceeds from disposal of investment property	–	144	19
Purchase of intangible assets	(20)	(14)	(10)
Purchase of available-for-sale financial assets	–	(1 272)	(252)
Proceeds from disposal of non-current assets held for sale	1	–	–
Acquisition of Gameco, net of cash acquired	(1 542)	–	–
Acquisition of HPF, net of cash acquired	–	189	(12)
Acquisition of Umhlanga and Pietermaritzburg businesses	–	(310)	–
Acquisition of interest in associate	–	–	(315)
Loans repaid by associates	–	3	1
Other loans and investments repaid	–	–	17
Other loans granted	–	(2)	–
<b>Net cash utilised for investment activities</b>	<b>(3 106)</b>	<b>(2 591)</b>	<b>(1 947)</b>
<b>Cash flows from financing activities</b>			
Borrowings raised	6 494	4 156	485
Borrowings repaid	(5 599)	(2 651)	(1 044)
Treasury shares settled	86	–	–
Cash proceeds from rights issue to HPF non-controlling interests, net of share issue costs	995	–	–
Share issue expenses arising from the issue of shares for Gameco acquisition	(9)	–	–
Repayments of finance leases	–	–	(17)
Acquisition of non-controlling interests	–	(655)	–
Decrease in amounts due by share scheme participants	1	6	9
<b>Net cash generated from financing activities</b>	<b>1 968</b>	<b>856</b>	<b>(567)</b>
Net increase in cash and cash equivalents	354	251	(423)
Cash and cash equivalents at beginning of the year, net of bank overdrafts	725	479	883
Foreign currency translation	(8)	(5)	19
<b>Cash and cash equivalents at end of the year, net of bank overdrafts</b>	<b>1 071</b>	<b>725</b>	<b>479</b>

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the consolidated annual financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

### **(a) Basis of preparation**

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and Interpretations as issued by the IFRS Interpretations Committee, and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ('FRSC'), the Listings Requirements of the JSE and the requirements of the South African Companies Act, No 71 of 2008, and have been prepared under the historical cost convention, as modified by the revaluation to fair value of certain financial instruments and investment property as described in the accounting policies below.

### **(b) Adoption of annual improvements**

The group has adopted all the new, revised or amended accounting standards as issued by the IASB which were effective for the group from 1 April 2017, none of which had a material impact on the group.

### **(c) Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the group's Chief Executive Officer ('CEO') and the group executive committee ('GEC'). The group's CEO and the GEC review the group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the group's CEO and GEC which are used to make strategic decisions.

### **(d) Basis of consolidation and business combinations**

The consolidated financial statements include the financial information of subsidiary, associate and joint venture entities owned by the group.

#### **(i) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group 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. Subsidiaries are included in the financial statements from the date control commences until the date control ceases. Increases in fair value of assets that occur on the group obtaining control, for nil consideration, of an entity previously accounted for as an associate or joint venture is transferred to a reserve called 'Surplus arising on change in control'.

The group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by- acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Control exists where the group has the ability to direct or dominate decision-making in an entity, regardless of whether this power is actually exercised.

Goodwill arising on consolidation 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. Where the fair value of the group's share of separable net assets acquired exceeds the fair value of the consideration, the difference is recognised immediately in profit or loss.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**(ii) Transactions with non-controlling interests**

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests and direct costs incurred in respect of transactions with non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**(iii) Associates and joint ventures**

Associates are entities over which the group has directly or indirectly significant influence but not control, generally accompanying a shareholding of 20% to 50%, where significant influence is the ability to influence the financial and operating policies of the entity. A joint venture is an entity over which the group contractually shares control with one or more partners.

Investments in associates and joint ventures are accounted for using the equity method of accounting.

**(iv) Goodwill**

Goodwill is stated at cost less 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 from both a business type and geographical basis.

**(v) Common control acquisitions**

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

A transaction deemed to be a transaction under common control consequently falls outside the scope of IFRS 3 *Business Combinations*. The group's accounting policy is to apply predecessor accounting to common control transactions. Common control accounting is applied and, under the predecessor accounting method, assets and liabilities acquired, including goodwill acquired, are recognised at the predecessor values with the difference between the acquisition value and the aggregate purchase consideration recognised as a separate reserve in equity, a 'common control' reserve.

**(e) Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in SA Rand which is the group's presentation functional currency.

**(ii) 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 balance sheet date with the resultant translation differences being credited or charged against income in the income statement. Translation differences on non-monetary assets such as equity investments classified as available-for-sale assets are included in other comprehensive income.

**(iii) Foreign subsidiaries, associates and joint ventures – translation**

Once-off items in the income and cash flow statements of foreign subsidiaries, associates and joint ventures expressed in currencies other than the SA Rand are translated into SA Rand at the rates of exchange prevailing on the day of the transaction. All other items are translated at weighted average rates of exchange for the relevant reporting period. Assets and liabilities of these undertakings are translated at closing rates of exchange at each balance sheet date. All translation exchange differences arising on the retranslation of opening net assets together with differences between income statements 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. When a foreign operation is disposed of, any related exchange differences in other comprehensive income are reclassified in profit or loss as part of the gain or loss on disposal.

**(f) Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Assets' residual values and useful lives are reviewed by management and adjusted, if appropriate, at each balance sheet date and triennially independent valuations are completed by external valuers. Land and buildings comprise mainly hotels and casinos.

**(i) Assets in the course of construction**

Assets in the course of construction are carried at cost less any impairment loss. Cost includes professional fees and for qualifying assets certain borrowing costs as determined below. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

**(ii) Depreciation**

No depreciation is provided on freehold land or assets in the course of construction. In respect of all other property, plant and equipment, depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value, of each asset over its expected useful life as follows:

Freehold properties	20 – 50 years
Leasehold buildings improvements	Shorter of the lease term or 50 years
Casino equipment	4 – 6 years*
Computer equipment and software	2 – 10 years*
Furniture, fittings and other equipment	3 – 15 years*
Vehicles	5 years*
Theme Park rides	6 – 26 years*
Operating equipment	2 – 3 years

*\*These categories have been grouped together under 'Plant and equipment' in note 17 Property, plant and equipment*

Operating equipment that meets the definition of property, plant and equipment (which includes gaming chips, kitchen utensils, crockery, cutlery, linen and uniforms) is recognised as an expense based on usage. The period of usage depends on the nature of the operating equipment and varies between two and three years.

**(iii) Profit or loss on disposal**

The profit or loss on the disposal of an asset is the difference between the disposal proceeds and the net book amount of the asset.

**(iv) Capitalisation of borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. The group considers a period of greater than 12 months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

**(g) Investment property**

Property that is held for long-term rental yields or for capital appreciation or both, and where companies in the group occupy no or an insignificant portion, is classified as investment property. Investment property also includes property that is being constructed or developed for future use. The nature of these properties is mostly hotels and includes furniture, fixtures and equipment and the underlying letting enterprise.

Investment property is stated at fair value. Gains or losses arising on changes in the fair value are recognised immediately in profit or loss.

Properties are initially recognised at cost on acquisition, which comprises the purchase price and includes expenditure that is directly attributable to the acquisition of the property. Subsequent costs are included in the property's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

**(h) Intangible assets**

Intangible assets are stated at cost less accumulated amortisation which is determined on a straight-line basis (if applicable) and impairment losses. Cost is usually determined as the amount paid by the group, unless the asset has been acquired as part of a business combination. Intangible assets acquired as part of a business combination are recognised at fair value at the acquisition date. Amortisation is included together with depreciation in the income statement.

Intangible assets with indefinite lives are not amortised but are subject to annual reviews for impairment.

Intangible assets with finite lives are amortised over their estimated useful economic lives, and only tested for impairment where there is a triggering event. The directors' assessment of the useful life of intangible assets is based on the nature of the asset acquired, the durability of the products to which the asset attaches and the expected future impact of competition on the business.

Intangible assets acquired as part of a business combination are recognised separately when they are identifiable, and it is probable that economic benefits will flow to the group.

**(i) Computer software**

Where computer software is not an integral part of a related item of property, plant and equipment, the software is capitalised as an intangible asset.

Capitalised computer software, licence and development costs are amortised over their estimated useful economic lives of two to 10 years which are reassessed on an annual basis.

**(ii) Casino licences and bid costs**

Costs incurred during the bidding process for a casino licence are capitalised to casino licences and bid costs by the individual casino on the successful award of the casino licence as these costs are directly attributable to the award of the licence. Payments made to gaming boards for enhancements of existing casino licences, such as additional gaming positions, are capitalised by the individual casino to the underlying casino licence.

Casino licences that do not have an expiry date are not amortised as they are considered to have an indefinite life and are tested annually for impairment on the same basis as goodwill (refer note d(iv)). Casino licences having an expiry date are amortised over the exclusivity period of the respective licence of 12 to 15 years. Costs associated with unsuccessful casino licence applications are immediately impaired.

**(iii) Other**

Other comprises management contracts recognised on business combinations and trademarks.

**(i) Financial assets and financial liabilities**

Financial assets are recognised when the group becomes a party to the contractual provisions of the respective instrument. Financial assets are derecognised when the right to receive cash flows from the asset has expired or has been transferred and the group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when they are extinguished, that is discharged, cancelled or expired.

Finance costs are charged against income in the year in which they accrue using the effective interest rate method. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are included in the effective interest calculation and taken to finance costs over the life of the instrument.

All financial instruments are recognised initially at fair value plus transaction costs unless accounted for at fair value through profit or loss whereby transaction costs are expensed.

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale investments. The group determines the classification of its financial assets at initial recognition and determines subsequent measurement.

**(i) Financial assets at fair value through profit or loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. All subsequent measurement adjustments are accounted for in profit or loss.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include loans, trade and other receivables and cash and cash equivalents. Such instruments are measured subsequently at amortised cost using the effective interest method.

**(iii) Available-for-sale investments**

Available-for-sale investments consist of equity investments only. All fair value movements are accounted for in other comprehensive income (unless impaired) and dividends are accounted for in profit and loss. Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement as part of interest income.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other revenue when the group's right to receive payments is established.

The group classifies its financial liabilities in the following categories: at fair value through profit or loss and at amortised cost.

**(i) Financial liabilities at fair value through profit or loss**

The group does not designate any financial liabilities at fair value through profit or loss. Only derivatives are included in this category. All fair value movements on these financial liabilities are recognised in profit or loss.

## **(ii) Financial liabilities at amortised cost**

All other financial liabilities are included in this category and include borrowings (refer note 1(q)) and trade and other payables. All such financial liabilities are recognised at amortised cost using the effective interest rate method.

## **(j) Fair value measurement**

Financial instruments carried at fair value, by valuation method, are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 – refer note 52.

## **(k) Offsetting financial instruments**

Where a legally enforceable right exists to set off recognised amounts of financial assets and liabilities and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously, which are in determinable monetary amounts, the relevant financial assets and liabilities are offset. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the respective company or counterparty – refer note 53.

## **(l) Impairment of financial assets**

The group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

## **(m) Derivative instruments and hedge accounting**

The derivative instruments used by the group, which are used solely for hedging purposes (i.e. to offset interest rate risks), comprise interest rate swap contracts. Such derivative instruments are used to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policies.

Derivatives are initially recorded at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the hedging relationship.

In order to qualify for hedge accounting, the group is required to document the relationship between the hedged item and the hedging instrument. The group is also required to document and demonstrate that the relationship between the hedged item and the hedging instrument will be highly effective. This effectiveness test is reperformed at each period end to ensure that the hedge has remained and will continue to remain highly effective.

Derivatives are designated as hedges of highly probable forecast transactions or commitments (cash flow hedge).

Certain derivative instruments, while providing effective economic hedges under the group's policies, are not designated as hedges. Changes in the fair value of any derivative instruments that do not qualify or have not been designated as hedges are recognised immediately in profit or loss. The group does not hold or issue derivative financial instruments for speculative purposes.

Cash flow hedges comprise derivative financial instruments designated in a hedging relationship to manage currency or interest rate risk to which the cash flows of certain liabilities are exposed. The effective portion of changes in the fair value of the derivative that is designated and qualifies for hedge accounting is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. Amounts accumulated in other comprehensive income are recycled to the income statement in the period in which the hedged item affects profit or loss. However, where a forecast transaction results in a non-financial asset or liability, the accumulated fair value movements previously deferred in other comprehensive income are included in the initial cost of the asset or liability.

Cash flow hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or when a hedge no longer meets the criteria for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss existing in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss within other operating expenses.

#### **(n) Inventories**

Inventories are valued at the lower of cost or net realisable value. Operating equipment utilised within 12 months is recognised as an expense based on usage. Provision is made for slow-moving goods and obsolete materials are written off. Cost is determined on the following basis:

- Consumable stores are valued at invoice cost on a first in, first out ('FIFO') basis.
- Food and beverage inventories and operating equipment are valued at weighted average cost.

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

#### **(o) Non-current assets held for sale**

Non-current assets held for sale are those non-current assets of which the carrying amount will be recovered principally through sale rather than use. These non-current assets are available for immediate sale in their present condition, subject only to terms that are usual for the sale of such assets, and the sale is probable within a year as management is committed to a plan to dispose of the noncurrent assets, actively market them, and expect that these assets will be sold within a year.

#### **(p) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds and are included in the share premium account.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in equity attributable to the company's equity holders. Company shares consolidated into the group as part of the Gold Reef Share Scheme and the executive facility are accounted for as treasury shares.

#### **(q) Borrowings and finance costs**

Borrowings are recognised initially at fair value and are subsequently stated at amortised cost and include accrued interest and prepaid facility transaction costs.

Finance costs include all borrowing costs incurred on borrowing instruments together with related costs of debt facilities management. Such costs include facility commitment fees which are expensed in borrowing costs as incurred and facility raising fees which are amortised through borrowing costs over the life of the related facilities. Borrowing costs, other than borrowing costs capitalised (refer note f(iv)), are recognised in the income statement in the period in which they are incurred.

**(r) Impairment of non-financial assets**

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). If the recoverable amount of a CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

**(s) Provisions**

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision is made for the potential jackpot payouts on slot machines and table progressives and is based on the meter readings.

The group also recognises a provision for bonus plans and long-service awards.

**(t) Revenue recognition**

**(i) Hotel, gaming, Theme Park and cinema revenues**

Revenue includes the fair value of income derived from hotel trading, restaurant revenues, Theme Park entrance fees, banqueting and venue hire, parking revenues, ticket sales and other non-net gaming win and hotel sundry revenues. Value Added Tax ('VAT') on these revenue transactions is excluded from revenue. Revenue is recognised on the accrual basis as goods and services are provided to the customer.

**(ii) Property rental income**

Property rentals received are recognised on a straight-line basis over the term of the lease. Contingent (variable) rentals are included in revenue when the amounts can be reliably measured. Recoveries of costs from lessees, where the group merely acts as agent and makes payment of these costs on behalf of lessees, are offset against the relevant costs.

**(iii) Royalty and management fee income**

Royalty income (which is included in other revenue) and management fee income are recognised on an accrual basis in accordance with the relevant agreements as and when royalties become due and when services are provided.

**(iv) Customer reward programmes**

Provision is made for the estimated liability arising from the issue of benefits under the group's customer reward programmes, based on the value of rewards earned by the programme members, and the expected utilisation of these rewards. The fair value attributed to these awards is deferred as a liability included in deferred revenue and income in the balance sheet, and released to profit or loss as the awards are redeemed. The expected utilisation is determined through consideration of historical usage and forfeiture rates.

**(v) Interest income**

Interest income is recognised using the effective interest method.

**(vi) Dividend income**

Dividend income is recognised when the right to receive payment is established, and is included in other revenue.

#### **(u) Net gaming win**

Net gaming win comprises the net table and slot machine win derived by casino operations, slot machine win derived by limited payout route operations and net bingo winnings derived from gambling patrons. In terms of accounting standards, betting transactions concluded under gaming operations meet the definition of derivatives and therefore income from gaming operations represents the net position arising from financial instruments. The net gaming win is measured as the net cash received from betting transactions from gaming operations. Due to the short-term nature of the group's gaming operations, all income is recognised in profit or loss immediately, at fair value.

In the gaming industry, the nature of betting transactions makes it difficult to separate bets placed by customers and winnings paid to customers. It therefore follows that gaming operations experience practical difficulties reflecting output tax separately from input tax.

Accordingly, South African Revenue Service ('SARS') allows gaming operators to account for VAT by applying the tax fraction to the net betting transaction. Provincial gaming levies are calculated on a similar basis by applying the tax fraction to the net betting transaction. Any change in either the VAT rate or the provincial gaming levies would be absorbed entirely by the group and would have no impact on the customers. The group thus treats VAT and other taxes levied on gaming winnings as direct costs as these are borne by the group and not customers, and have no effect on gaming activities from the customers' perspective. These costs are included in net gaming win that is disclosed separately on the face of the income statement.

#### **(v) Leases**

##### **(i) The group is the lessee**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged or credited to the income statement on a straight-line basis over the period of the lease.

##### **(ii) The group is the lessor**

Assets leased to third parties under operating leases are included in property, plant and equipment (refer note f) and investment property (refer note g) in the balance sheet.

#### **(w) Employee benefits**

##### **(i) Defined contribution plans**

A defined contribution plan is a pension or provident plan under which the group pays fixed contributions into a separate entity.

The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

##### **(ii) Other post-employment obligations**

The group operates a defined benefit plan for a portion of the medical aid members. This fund is now closed to new entrants. The assets of the scheme are held separately from those of the group and are administered by trustees.

The liability recognised in the balance sheet in respect of the plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using reference to current market yields on South African government bonds.

Actuarial gains or losses arising from experience adjustments, and changes in actuarial assumptions, are recognised in full as they arise outside the income statement and are charged or credited to equity in other comprehensive income in the period in which they arise.

All other costs are recognised immediately in profit or loss.

**(iii) Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than 12 months after balance sheet date are discounted to present value in a similar manner to all long-term employee benefits.

**(iv) Bonus plans**

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments and the performance of the respective employees. The criteria are only finalised after the group's year end. The group recognises the liability where an estimate can be made of the amount to be paid and it is contractually obliged to do so or there is a past practice that has created a constructive obligation and the directors are of the opinion that it is probable that such bonuses will be paid. This liability is included in 'Provisions' in the balance sheet.

**(v) Share-based payments – equity-settled schemes**

The group operates equity-settled, share-based compensation plans.

The fair value of the employee services received by the company and/or its subsidiaries in exchange for the grant of the options was recognised as an expense.

**(vi) Goods or services settled in cash**

Goods or services, including employee services received in exchange for cash-settled, share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed or capitalised as assets. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

The fair value of the long-term incentive plan liability is determined at each balance sheet date by reference to the company's share price. This is adjusted for management's best estimates of the appreciation, bonus and performance units expected to vest and management's best estimate of the performance criteria assumptions on the performance units.

**(vii) Employee leave entitlement**

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability to the employees for annual leave up to the balance sheet date. This liability is included in 'Trade and other payables' in the balance sheet.

**(viii) Long-service awards**

The group recognises a liability and an expense for long-service awards where cash is paid to employees at certain milestone dates in their careers with the group. The method of accounting and frequency of valuation are similar to those used for defined benefit schemes. The actuarial valuation to determine the liability is performed annually. This liability is included in 'Provisions' in the balance sheet.

**(x) Income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

The current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. The group's liability for current taxation is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full using the liability method, in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements, except where the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither accounting nor taxable profit or loss.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that future taxable profit will be available against which the temporary differences (including carried forward tax losses) can be utilised.

In respect of real estate investment trust ('REIT') assets and liabilities (investment properties) the measurement of deferred tax is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. Capital gains and losses from property sold by a REIT are disregarded and the rate relevant to recoupments is 28%. Investment properties are held as long-term income-generating assets. Therefore, should any property no longer meet the group's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains (currently nil). Allowances previously claimed will be recouped on sale. Where an accumulated loss is available to shield this recoupment, a deferred tax asset is raised.

Deferred tax is measured at the tax rates expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to income taxes levied by the same taxation authority on either the taxable entity, or different taxable entities where there is an intention to settle the balances on a net basis.

#### **(y) Dividend distributions**

Dividend distributions to the company's shareholders are recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's board of directors.

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **(a) Principles of critical accounting estimates and assumptions**

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **(b) Investment property**

Investment property represents a large proportion of the group's asset base. Therefore, the judgements made in determining their classification and fair values affect the group's financial position and performance.

In determining the classification of the properties as investment properties, the group considered its exposure to the risks of running the hotel business and its associated exposure to the variability of the cash flows of the underlying operations. The group took the following factors into account:

- Intention to hold land and buildings for rental income and capital appreciation and its role as a passive investor;
- The duration of the lease agreements;
- Control over the decision-making powers of the relevant hotel operations;
- The present value of the minimum lease payments in relation to the fair value of the investment properties; and
- Various financial ratios to determine its exposure to the variability in cash flows of the hotel operations.

Based on the above, the group concluded that the properties meet the definition of investment property.

Use is made of independent professionally qualified valuers. Valuations are currently performed on an annual basis on the entire portfolio of investment properties but will move to a three-year rotation from the next financial year, and will be fair valued by internal management for the intervening years. For a more detailed explanation regarding the estimates and judgements involved in the valuation of investment property, refer note 18.

**(c) Estimated impairment of goodwill and indefinite lived intangible assets**

The group tests annually whether goodwill and indefinite lived intangible assets have suffered any impairment in accordance with the accounting policy stated in notes 1(d) and 1(h). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates as noted in notes 19 and 20 of the consolidated annual financial statements.

**(d) Fair value of financial instruments that are not traded in an active market**

The fair value of financial instruments that are not traded in an active market (for example available-for-sale unlisted investments) is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

***Available-for-sale unlisted investment***

The group has used a discounted cash flow analysis for the valuing of the group's available-for-sale asset that is not traded in an active market. Refer note 23 for the significant unobservable inputs together with a sensitivity analysis should these significant unobservable inputs change.

**(e) Classification of certain casino precinct properties**

The proposed transaction, as noted in note 54 *Events occurring after the balance sheet date*, if approved by Tsogo Sun shareholders and subsequently implemented, the group will have transferred a significant portion of its casino real estate assets to HPF. As the necessary shareholder approvals, which is a substantive condition for the transaction to take place, are not considered to be highly probable by the board of directors, these assets have not been classified as non-current assets held for sale in terms of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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**EXTRACTS OF THE AUDITED CONSOLIDATED FINANCIAL INFORMATION OF  
HPF FOR THE YEARS ENDED 31 MARCH 2016, 2017 AND 2018**

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The consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement and accounting policies and critical accounting estimates and judgements for the three years ended 31 March 2016, 31 March 2017 and 31 March 2018 presented below have been extracted, without adjustment, from the audited annual financial statements of HPF. The audited financial statements of HPF have been prepared in accordance with IFRS and have been reported on without qualification by PricewaterhouseCoopers Inc. The detailed notes to the annual financial statements can be viewed on the HPF website ([www.hpf.co.za](http://www.hpf.co.za)).

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 31 MARCH

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Revenue</b>	866 917	498 803	474 328
Rental income – contractual	866 501	498 803	474 553
Rental income – straight-line accrual	416	–	(225)
Operating expenses	(46 555)	(38 858)	(44 852)
<b>Operating profit</b>	<b>820 362</b>	459 945	429 476
Net finance cost	(164 063)	(115 504)	(158 085)
Finance income	27 706	20 556	12 737
Finance costs	(191 769)	(136 060)	(170 822)
Profit before sale of fixed assets, impairment, fair value adjustments, goodwill and taxation	656 299	344 441	271 391
Profit on sale of investment properties	–	36 528	(13 556)
Profit on sale of furniture, fittings and equipment	109	–	–
Goodwill impairment	–	(16 003)	(12 000)
Fair value adjustments	(542 931)	179 191	257 412
Investment properties, before straight-lining adjustment	(537 144)	184 173	257 412
Change in fair value as a result of the straight-lining adjustment	(416)	–	–
Interest rate swaps	(5 371)	(4 982)	–
<b>Profit before taxation</b>	<b>113 477</b>	544 157	503 247
Taxation	–	–	(9)
Equity-accounted profit from associate net of tax	274	409	264
Debenture discount amortisation	–	–	(2 313)
<b>Profit for the year</b>	<b>113 751</b>	544 566	501 189
<b>Other comprehensive income</b>			
Items that may not be reclassified subsequently to profit or loss:			
– Fair value adjustment of the properties acquired under common control	2 388 848	–	–
<b>Total comprehensive income</b>	<b>2 502 599</b>	544 566	501 189
<b>Profit attributable to:</b>			
– Equity holders	113 751	544 566	501 189
– Non-controlling interests	–	–	–
Other comprehensive income attributable to:			
– Equity holders	2 388 848	–	–
– Non-controlling interests	–	–	–
<b>Earnings and diluted earnings per share (cents)</b>	<b>22.97</b>	166.24	148.65

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 31 MARCH

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	12 533 970	8 061 038	5 169 000
Furniture, fittings and equipment	163	198	180
Investments in associates	751	477	318
Derivative asset	–	1 870	4 961
	<b>12 534 884</b>	8 063 583	5 174 459
<b>Current assets</b>			
Properties held for trading	–	–	22 643
Trade and other receivables	133 915	115 536	57 035
Derivative asset	–	280	699
Non-current assets held for sale	65 600	65 610	129 491
Cash and cash equivalents	390 591	210 054	194 260
	<b>590 106</b>	391 480	404 128
Total assets	<b>13 124 990</b>	8 455 063	5 578 587
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Stated capital	9 027 065	5 565 258	2 909 957
Non-distributable reserve	2 739 443	893 526	714 335
Common control reserve	(1 106 013)	–	–
Retained earnings	444 108	138 719	107 961
	<b>11 104 603</b>	6 597 503	3 732 253
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing borrowings	1 936 071	1 488 493	1 125 063
Derivative liability	4 042	2 514	1 477
Long-term incentive liabilities non-current portion	1 483	–	–
	<b>1 941 596</b>	1 491 007	1 126 540
<b>Current liabilities</b>			
Trade and other payables	51 919	111 876	95 552
Interest-bearing borrowings	–	230 000	600 000
Derivative liability	2 241	548	113
Long-term incentive liabilities current portion	502	–	–
Provision for shareholder redemption	24 129	24 129	24 129
	<b>78 791</b>	366 553	719 794
Total liabilities	<b>2 020 387</b>	1 857 560	1 846 334
Total equity and liabilities	<b>13 124 990</b>	8 455 063	5 578 587

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 31 MARCH

	Attributable to equity holders of the Company							Total R'000
	Share capital R'000	Share premium R'000	Stated share capital R'000	Treasury share reserve R'000	Retained income R'000	Common control reserve R'000	Non- distributable reserve R'000	
<b>Balance at 30 June 2015</b>	28	515 903	–	–	(2 332)	–	457 148	<b>970 747</b>
Total comprehensive income for the year	–	–	–	–	501 189	–	–	501 189
Conversion of par value shares into no par value shares	(28)	(515 903)	515 931	–	–	–	–	–
Conversion of debentures into no par value shares	–	–	2 428 150	–	–	–	–	2 428 150
Conversion of par value treasury shares into no par value shares	–	–	–	(9 995)	–	–	–	(9 995)
Transfer to fair value reserves – investment properties	–	–	–	–	(251 024)	–	251 024	–
Transfer to fair value reserves – interest rate swaps	–	–	–	–	(6 163)	–	6 163	–
Dividends paid	–	–	–	–	(133 709)	–	–	(133 709)
Provision for shareholder redemption	–	–	(24 129)	–	–	–	–	(24 129)
<b>Balance at 1 July 2016</b>	–	–	2 919 952	(9 995)	107 961	–	714 335	<b>3 732 253</b>
Total comprehensive income for the year	–	–	–	–	544 566	–	–	544 566
Conversion of par value shares into no par value shares/transaction costs (capital restructure and Tsogo transaction)	–	–	(17 992)	–	–	–	–	(17 992)
Conversion of par debentures into stated capital	–	–	2 673 293	–	–	–	–	2 673 293
Dividend declared on 23 August 2016	–	–	–	–	(137 164)	–	–	(137 164)
Dividend declared on 22 September 2016	–	–	–	–	(13 406)	–	–	(13 406)
Dividend declared on 10 February 2017	–	–	–	–	(184 047)	–	–	(184 047)
Transfer to fair value reserve – investment property	–	–	–	–	(184 173)	–	184 173	–
Transfer to fair value reserve – interest rate swaps	–	–	–	–	4 982	–	(4 982)	–



## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	725 127	329 152	453 473
Finance income received	27 706	20 556	12 737
Finance costs paid	(191 769)	(136 060)	(170 822)
Dividends paid to shareholders	(351 293)	(334 617)	(247 561)
Tax paid	–	–	(109)
Net cash generated/(utilised) from operating activities	<b>209 771</b>	(120 969)	47 718
<b>Cash flows from investment activities</b>			
Acquisition and development of investment properties	(416 873)	(73 262)	(131 157)
Purchase of furniture, fittings and equipment	–	(153)	(202)
Proceeds from disposal of furniture, fittings and equipment	109	–	–
Proceeds from disposal of investment properties	–	146 872	206 362
Proceeds from disposal of non-current assets held for sale	911	–	–
Dividends received from associate	–	251	200
Cash acquired as part of acquisition of subsidiary	202 640	88 047	–
Acquisition of subsidiary	(1 030 000)	–	–
Net cash utilised for investment activities	<b>(1 243 213)</b>	161 755	75 203
<b>Cash flows from financing activities</b>			
Interest-bearing liabilities raised	1 928 935	600 000	232 200
Interest-bearing liabilities repaid	(1 709 700)	(607 000)	(365 011)
Cash proceeds from rights issue	1 000 000	–	–
Transaction costs	(5 256)	(17 992)	–
Net cash inflow/(outflow) from financing activities	<b>1 213 979</b>	(24 992)	(132 811)
Net increase in cash and cash equivalents	<b>180 537</b>	15 794	(9 890)
Cash and cash equivalents at the beginning of the year	<b>210 054</b>	194 260	204 150
Cash and cash equivalents at the end of the year	<b>390 591</b>	210 054	194 260

## **I. Accounting policies**

The significant accounting policies adopted in the preparation of the consolidated annual financial statements and Company annual financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

### **I.1 Basis of preparation**

The consolidated annual financial statements have been prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ('FRSC'), the Listings Requirements of the JSE and the Companies Act of South Africa, and have been prepared under the historical cost convention, as modified by the revaluation to fair value of certain financial instruments as described in the accounting policies on the following pages. The term IFRS includes International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') or the former Standing Interpretations Committee ('SIC'). The standards referred to are set by the IASB.

The financial statements are presented in Rand and are rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The prior year financials are for a period of nine months ending 31 March 2017 as a result of the change in year end in order to align with the year end of the group's parent entity.

### **I.2 Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the group's CEO. The group's CEO reviews the group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the group's CEO which are used to make strategic decisions and are disclosed in note 17.

### **I.3 Basis of consolidation and business combinations**

The consolidated financial statements include the financial statements of subsidiaries and associates owned by the Company.

#### **(i) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group 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. Where the group's interest in subsidiaries is less than 100%, the share attributable to outside shareholders is reflected in non-controlling interests. Subsidiaries are included in the financial statements from the date control commences until the date control ceases. Increases in fair value of assets that occur on the group obtaining control, for nil consideration, of an entity previously accounted for as an associate or joint venture is transferred to a reserve called 'surplus arising on change in control'.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The acquisition of the assets acquired under common control is based on judgement and is detailed in note 2.3.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

#### **(ii) Associates**

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition reserve movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the investee, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value and recognises the amount immediately in profit or loss.

Some of the group's associates have different local statutory accounting reference dates. These are equity accounted using management prepared information on a basis coterminous with the group's accounting reference date. Where management prepared information is at a different date from that of the group's, the group equity accounts that information but takes into account any changes in the subsequent period to 31 March that would materially affect the results.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

#### **(iii) Goodwill**

Goodwill arising on consolidation 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. Where the fair value of the group's share of separable net assets acquired exceeds the fair value of the consideration, the difference is recognised immediately in profit or loss.

Goodwill is stated at cost less 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.

The carrying amount of goodwill in respect of associates and joint ventures is included in the carrying value of the investment in the respective associate and joint venture.

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 from both a business type and geographical basis.

### **1.4 Furniture, fittings and equipment**

Furniture, fittings and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

#### **(i) Profit or loss on disposal**

The profit or loss on the disposal of an asset is the difference between the disposal proceeds and the net book amount of the asset.

## **1.5 Investment property**

Property that is held for long-term rental yields or for capital appreciation or both, and where companies in the group occupy no or an insignificant portion, is classified as investment property. Investment property also includes property that is being constructed or developed for future use. The nature of these properties is mostly hotels and includes furniture, fixtures and equipment and the underlying letting enterprise.

Investment property is stated at fair value net of any impairment losses. Gains or losses arising on changes in the fair value are recognised immediately in profit or loss.

Properties are initially recognised at cost on acquisition, which comprises the purchase price and includes expenditure that is directly attributable to the acquisition of the property. Subsequent costs are included in the property's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably.

## **1.6 Financial instruments**

### ***Initial recognition and measurement***

Financial assets are recognised when the group becomes a party to the contractual provisions of the respective arrangement. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial assets are derecognised when the right to receive cash flows from the asset has expired or has been transferred and the group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when they are extinguished, that is discharged, cancelled or expired.

Finance costs are charged against income in the year in which they accrue using the effective interest rate method. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are included in the effective interest calculation and taken to finance costs over the life of the instrument.

The group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition.

### ***Financial instruments designated as at fair value through profit or loss***

Financial instruments at fair value through profit or loss are financial assets held for trading and/or designated by the entity upon initial recognition as at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets (trade and other receivables), except for maturities of greater than 12 months after the balance sheet date which are classified as non-current assets.

Purchases and sales of investments are recognised on the date on which the group commits to purchase or sell the asset.

### ***Trade and other receivables***

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

### **Trade and other payables**

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Trade payables are analysed between current and non-current liabilities on the face of the balance sheet, depending on when the obligation to settle will be realised.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank deposits and other short-term highly liquid investments. Cash and cash equivalents are measured at amortised cost which is equivalent to fair value.

## **1.7 Offsetting financial instruments**

Where a legally enforceable right exists to set off recognised amounts of financial assets and liabilities and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously, which are in determinable monetary amounts, the relevant financial assets and liabilities are offset. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or counterparty.

## **1.8 Impairment of financial assets**

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is detailed in note 27.3.2.

## **1.9 Derivative financial assets and financial liabilities**

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future.

Derivative financial assets and liabilities are analysed between current and non-current assets and liabilities on the face of the balance sheet, depending on when they are expected to mature.

For derivatives that are not designated to have a hedging relationship, all fair value movements thereon are recognised immediately in profit or loss.

## **1.10 Non-current assets held for sale**

Non-current assets held for sale are those non-current assets of which the carrying amount will be recovered principally through sale rather than use. These non-current assets are available for immediate sale in their present condition, subject only to terms that are usual for the sale of such assets, and the sale is probable within a year as management is committed to a plan to dispose of the non-current assets, actively market them, and expect that these assets will be sold within a year.

## **1.11 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are shown in equity as a deduction from the proceeds.

## **I.12 Provisions**

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

## **I.13 Acquisition of assets under common control**

Transactions in which assets or businesses are ultimately controlled by the same party before and after the transaction and where that control is not transitory, are referred to as common control transactions. Where a transaction meets the definition of a common control transaction, predecessor accounting is applied. Any costs directly attributable to the acquisition are written off to reserves.

Predecessor accounting values assets and liabilities using the existing carrying value on the effective date with no goodwill or bargain purchase price being recognised. Any excess/deficit of the purchase price, over the pre-combination recorded ultimate holding company's carrying values, is adjusted directly to equity.

## **I.14 Revenue recognition**

### **(a) Rental income**

Revenue from the letting of investment property comprises rentals (excluding VAT) recognised on a straight-line basis over the term of the lease. Contingent (variable) rentals, including rentals from parking income and rentals from advertising, are included in revenue when the amounts can be reliably measured.

### **(b) Finance income**

Interest earned on cash invested with financial institutions and by the Company on its investments in its subsidiaries is recognised on an accrual basis using the effective interest method.

## **I.15 Expenses**

### **(a) Recoveries of costs from lessees**

Where the group merely acts as an agent and makes payment of these costs on behalf of lessees, these are offset against the relevant costs.

### **(b) Finance costs**

Finance costs are costs incurred on funds borrowed. These are expensed in the period in which they are incurred using the effective interest method.

## **I.16 Income tax**

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

### **Current tax**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries, associates and joint ventures to the extent that the parent company is able to control the timing of the reversal of the temporary differences and they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax 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 group, 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.

In respect of REIT assets and liabilities (investment properties) the measurement of deferred tax is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. Capital gains and losses from property sold by a REIT are disregarded and the rate relevant to recoupments is 28%. Investment properties are held as long-term income generating assets.

Therefore, should any property no longer meet the Company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains (currently nil). Allowances previously claimed will be recouped on sale. Where an accumulated loss is available to shield this recoupment, a deferred tax asset is raised.

In respect of other assets and liabilities, deferred tax is provided based on the expected manner of realisation or settlement taking into account the entities expectation that it will pay dividends and will receive a tax deduction making it in substance exempt.

### **1.17 Dividend distributions**

Dividend distributions to the Company's shareholders are recognised as a liability in the group's financial statements in the period in which the dividends are approved by the Company's board of directors.

### **1.18 Employee benefits**

Short-term employee benefits are recognised in the period in which they are incurred.

Long-term benefits, which have been recently implemented, are recognised at the fair value of the liability incurred and are expensed when consumed or capitalised as assets. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

The fair value of the long-term incentive plan liability is determined at each balance sheet date by reference to the parent entity's share price. This is adjusted for management's best estimate of the appreciation, bonus and performance units expected to vest and management's best estimate of the performance criteria assumption on the performance units.

## **2. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Principles of critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **2.1 Classification of investment properties**

Investment properties include land and buildings that are held for long-term rental yields and/or for capital appreciation. Investment properties include properties that are being constructed or developed for future use as investment properties.

In determining the classification of the properties as investment properties, management considered its exposure to the risks of running the hotel business and their associated exposure to the variability of the cash flows of the underlying operations. Management took the following factors into account:

- Intention to hold land and buildings for rental income and capital appreciation and its role as a passive investor.
- The duration of the lease agreements.
- Control over the decision-making powers of the relevant hotel operations.
- The present value of the minimum lease payments in relation to the fair value of the investment properties.
- Various financial ratios to determine its exposure to the variability of the hotel operations.

Based on the above, management concluded that the properties meet the definition of investment property.

## **2.2 Valuations of investment properties**

The group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which premiums are added for market risk and equity and debts costs. The discount rate takes into account a risk premium associated with the local economy.

## **2.3 Acquisition of assets under common control**

Hospitality concluded an agreement with Tsogo Sun to acquire 100% of the share capital in the Cullinan Hotel Proprietary Limited ('Cullinan') and Merway Fifth Investments Proprietary Limited ('Merway') effective 1 July 2017. The acquisition of the portfolio includes 29 investment properties for an aggregate purchase consideration of R3.6 billion, which includes a cash consideration of R1.03 billion and the issue of 174 064 861 shares at R14.00 each. The transaction is deemed to be a transaction under common control and consequently falls outside the scope of IFRS 3 *Business combinations*. The Fund will apply the same accounting policy relating to common control transactions applied by Tsogo Sun, its parent shareholder. The policy is to apply predecessor accounting in common control transactions. The acquisition of Merway and Cullinan is noted in note 7 of the group annual financial statements.

Under the predecessor accounting method, assets and liabilities acquired are recognised at the predecessor values with the difference between the acquisition value and the aggregate purchase consideration recognised as a separate reserve in equity.

The fair value gain on the assets acquired has been recognised as other comprehensive income as the uplift does not represent financial performance of the current period.

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## SECTIONS 115 AND 164 OF THE COMPANIES ACT

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### 115. Required approval for transactions contemplated in Part.

- (1) Despite section 65, and any provision of a company's Memorandum of Incorporation, or any resolution adopted by its board or holders of its securities, to the contrary, a company may not dispose of, or give effect to an agreement or series of agreements to dispose of, all or the greater part of its assets or undertaking, implement an amalgamation or a merger, or implement a scheme of arrangement, unless-
- (a) the disposal, amalgamation or merger, or scheme of arrangement-
    - (i) has been approved in terms of this section; or
    - (ii) is pursuant to or contemplated in an approved business rescue plan for that company, in terms of Chapter 6; and
  - (b) to the extent that Parts B and C of this Chapter, and the Takeover Regulations, apply to a company that proposes to-
    - (i) dispose of all or the greater part of its assets or undertaking;
    - (ii) amalgamate or merge with another company; or
    - (iii) implement a scheme of arrangement,
- the Panel has issued a compliance certificate in respect of the transaction, in terms of section 119 (4) (b), or exempted the transaction in terms of section 119 (6).
- (2) A proposed transaction contemplated in subsection (1) must be approved-
- (a) by a special resolution adopted by persons entitled to exercise voting rights on such a matter, at a meeting called for that purpose and at which sufficient persons are present to exercise, in aggregate, at least 25% of all of the voting rights that are entitled to be exercised on that matter, or any higher percentage as may be required by the company's Memorandum of Incorporation, as contemplated in section 64 (2); and
  - (b) by a special resolution, also adopted in the manner required by paragraph (a), by the shareholders of the company's holding company if any, if-
    - (i) the holding company is a company or an external company;
    - (ii) the proposed transaction concerns a disposal of all or the greater part of the assets or undertaking of the subsidiary; and
    - (iii) having regard to the consolidated financial statements of the holding company, the disposal by the subsidiary constitutes a disposal of all or the greater part of the assets or undertaking of the holding company; and
  - (c) by the court, to the extent required in the circumstances and manner contemplated in subsections (3) to (6).
- (3) Despite a resolution having been adopted as contemplated in subsections (2) (a) and (b), a company may not proceed to implement that resolution without the approval of a court if-
- (a) the resolution was opposed by at least 15% of the voting rights that were exercised on that resolution and, within five business days after the vote, any person who voted against the resolution requires the company to seek court approval; or
  - (b) the court, on an application within 10 business days after the vote by any person who voted against the resolution, grants that person leave, in terms of subsection (6), to apply to a court for a review of the transaction in accordance with subsection (7).

- (4) For the purposes of subsections (2) and (3), any voting rights controlled by an acquiring party, a person related to an acquiring party, or a person acting in concert with either of them, must not be included in calculating the percentage of voting rights-
- (a) required to be present, or actually present, in determining whether the applicable quorum requirements are satisfied; or
  - (b) required to be voted in support of a resolution, or actually voted in support of the resolution.
- (4A) In subsection (4), "act in concert" has the meaning set out in section 117 (1) (b).
- (5) If a resolution requires approval by a court as contemplated in terms of subsection (3) (a), the company must either-
- (a) within 10 business days after the vote, apply to the court for approval, and bear the costs of that application; or
  - (b) treat the resolution as a nullity.
- (6) On an application contemplated in subsection (3) (b), the court may grant leave only if it is satisfied that the applicant-
- (a) is acting in good faith;
  - (b) appears prepared and able to sustain the proceedings; and
  - (c) has alleged facts which, if proved, would support an order in terms of subsection (7).
- (7) On reviewing a resolution that is the subject of an application in terms of subsection (5) (a), or after granting leave in terms of subsection (6), the court may set aside the resolution only if-
- (a) the resolution is manifestly unfair to any class of holders of the company's securities; or
  - (b) the vote was materially tainted by conflict of interest, inadequate disclosure, failure to comply with the Act, the Memorandum of Incorporation or any applicable rules of the company, or other significant and material procedural irregularity.
- (8) The holder of any voting rights in a company is entitled to seek relief in terms of section 164 if that person-
- (a) notified the company in advance of the intention to oppose a special resolution contemplated in this section; and
  - (b) was present at the meeting and voted against that special resolution.
- (9) If a transaction contemplated in this Part has been approved, any person to whom assets are, or an undertaking is, to be transferred, may apply to a court for an order to effect-
- (a) the transfer of the whole or any part of the undertaking, assets and liabilities of a company contemplated in that transaction;
  - (b) the allotment and appropriation of any shares or similar interests to be allotted or appropriated as a consequence of the transaction;
  - (c) the transfer of shares from one person to another;
  - (d) the dissolution, without winding-up, of a company, as contemplated in the transaction;
  - (e) incidental, consequential and supplemental matters that are necessary for the effectiveness and completion of the transaction; or
  - (f) any other relief that may be necessary or appropriate to give effect to, and properly implement, the amalgamation or merger.

#### **164. Dissenting shareholders appraisal rights**

- (1) This section does not apply in any circumstances relating to a transaction, agreement or offer pursuant to a business rescue plan that was approved by shareholders of a company, in terms of section 152.
- (2) If a company has given notice to shareholders of a meeting to consider adopting a resolution to-
  - (a) amend its Memorandum of Incorporation by altering the preferences, rights, limitations or other terms of any class of its shares in any manner materially adverse to the rights or interests of holders of that class of shares, as contemplated in section 37 (8); or
  - (b) enter into a transaction contemplated in section 112, 113, or 114, that notice must include a statement informing shareholders of their rights under this section.
- (3) At any time before a resolution referred to in subsection (2) is to be voted on, a dissenting shareholder may give the company a written notice objecting to the resolution.
- (4) Within 10 business days after a company has adopted a resolution contemplated in this section, the company must send a notice that the resolution has been adopted to each shareholder who-
  - (a) gave the company a written notice of objection in terms of subsection (3); and
  - (b) has neither-
    - (i) withdrawn that notice; or
    - (ii) voted in support of the resolution.
- (5) A shareholder may demand that the company pay the shareholder the fair value for all of the shares of the company held by that person if-
  - (a) the shareholder-
    - (i) sent the company a notice of objection, subject to subsection (6); and
    - (ii) in the case of an amendment to the company's Memorandum of Incorporation, holds shares of a class that is materially and adversely affected by the amendment;
  - (b) the company has adopted the resolution contemplated in subsection (2); and
  - (c) the shareholder-
    - (i) voted against that resolution; and
    - (ii) has complied with all of the procedural requirements of this section.
- (6) The requirement of subsection (5) (a) (i) does not apply if the company failed to give notice of the meeting, or failed to include in that notice a statement of the shareholders rights under this section.
- (7) A shareholder who satisfies the requirements of subsection (5) may make a demand contemplated in that subsection by delivering a written notice to the company within-
  - (a) 20 business days after receiving a notice under subsection (4); or
  - (b) if the shareholder does not receive a notice under subsection (4), within 20 business days after learning that the resolution has been adopted.
- (8) A demand delivered in terms of subsections (5) to (7) must also be delivered to the Panel, and must state-
  - (a) the shareholder's name and address;
  - (b) the number and class of shares in respect of which the shareholder seeks payment; and
  - (c) a demand for payment of the fair value of those shares.

- (9) A shareholder who has sent a demand in terms of subsections (5) to (8) has no further rights in respect of those shares, other than to be paid their fair value, unless-
- (a) the shareholder withdraws that demand before the company makes an offer under subsection (11), or allows an offer made by the company to lapse, as contemplated in subsection (12) (b);
  - (b) the company fails to make an offer in accordance with subsection (11) and the shareholder withdraws the demand; or
  - (c) the company, by a subsequent special resolution, revokes the adopted resolution that gave rise to the shareholder's rights under this section.
- (10) If any of the events contemplated in subsection (9) occur, all of the shareholder's rights in respect of the shares are reinstated without interruption.
- (11) Within five business days after the later of-
- (a) the day on which the action approved by the resolution is effective;
  - (b) the last day for the receipt of demands in terms of subsection (7) (a); or
  - (c) the day the company received a demand as contemplated in subsection (7) (b), if applicable, the company must send to each shareholder who has sent such a demand a written offer to pay an amount considered by the company's directors to be the fair value of the relevant shares, subject to subsection (16), accompanied by a statement showing how that value was determined.
- (12) Every offer made under subsection (11)-
- (a) in respect of shares of the same class or series must be on the same terms; and
  - (b) lapses if it has not been accepted within 30 business days after it was made.
- (13) If a shareholder accepts an offer made under subsection (12)-
- (a) the shareholder must either in the case of-
    - (i) shares evidenced by certificates, tender the relevant share certificates to the company or the company's transfer agent; or
    - (ii) uncertificated shares, take the steps required in terms of section 53 to direct the transfer of those shares to the company or the company's transfer agent; and
  - (b) the company must pay that shareholder the agreed amount within 10 business days after the shareholder accepted the offer and-
    - (i) tendered the share certificates; or
    - (ii) directed the transfer to the company of uncertificated shares.
- (14) A shareholder who has made a demand in terms of subsections (5) to (8) may apply to a court to determine a fair value in respect of the shares that were the subject of that demand, and an order requiring the company to pay the shareholder the fair value so determined, if the company has-
- (a) failed to make an offer under subsection (11); or
  - (b) made an offer that the shareholder considers to be inadequate, and that offer has not lapsed.
- (15) On an application to the court under subsection (14)-
- (a) all dissenting shareholders who have not accepted an offer from the company as at the date of the application must be joined as parties and are bound by the decision of the court;
  - (b) the company must notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to participate in the court proceedings; and
  - (c) the court-
    - (i) may determine whether any other person is a dissenting shareholder who should be joined as a party;
    - (ii) must determine a fair value in respect of the shares of all dissenting shareholders, subject to subsection (16);

- (iii) in its discretion may-
    - (aa) appoint one or more appraisers to assist it in determining the fair value in respect of the shares; or
    - (bb) allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective, until the date of payment;
  - (iv) may make an appropriate order of costs, having regard to any offer made by the company, and the final determination of the fair value by the court; and
  - (v) must make an order requiring-
    - (aa) the dissenting shareholders to either withdraw their respective demands or to comply with subsection (13) (a); and
    - (bb) the company to pay the fair value in respect of their shares to each dissenting shareholder who complies with subsection (13) (a), subject to any conditions the court considers necessary to ensure that the company fulfils its obligations under this section.
- (15A) At any time before the court has made an order contemplated in subsection (15) (c) (v), a dissenting shareholder may accept the offer made by the company in terms of subsection (11), in which case-
- (a) that shareholder must comply with the requirements of subsection 13 (a); and
  - (b) the company must comply with the requirements of subsection 13 (b).
- (16) The fair value in respect of any shares must be determined as at the date on which, and time immediately before, the company adopted the resolution that gave rise to a shareholder's rights under this section.
- (17) If there are reasonable grounds to believe that compliance by a company with subsection (13) (b), or with a court order in terms of subsection (15) (c) (v) (bb), would result in the company being unable to pay its debts as they fall due and payable for the ensuing 12 months-
- (a) the company may apply to a court for an order varying the company's obligations in terms of the relevant subsection; and
  - (b) the court may make an order that-
    - (i) is just and equitable, having regard to the financial circumstances of the company; and
    - (ii) ensures that the person to whom the company owes money in terms of this section is paid at the earliest possible date compatible with the company satisfying its other financial obligations as they fall due and payable.
- (18) If the resolution that gave rise to a shareholder's rights under this section authorised the company to amalgamate or merge with one or more other companies, such that the company whose shares are the subject of a demand in terms of this section has ceased to exist, the obligations of that company under this section are obligations of the successor to that company resulting from the amalgamation or merger.
- (19) For greater certainty, the making of a demand, tendering of shares and payment by a company to a shareholder in terms of this section do not constitute a distribution by the company, or an acquisition of its shares by the company within the meaning of section 48, and therefore are not subject to-
- (a) the provisions of that section; or
  - (b) the application by the company of the solvency and liquidity test set out in section 4.
- (20) Except to the extent-
- (a) expressly provided in this section; or
  - (b) that the Panel rules otherwise in a particular case,
- a payment by a company to a shareholder in terms of this section does not obligate any person to make a comparable offer under section 125 to any other person.

## **NOTICE OF GENERAL MEETING**

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**All terms defined in the circular to which this Notice of General Meeting is attached (“Circular”), shall bear the same meanings when used in this Notice of General Meeting.**

Notice is hereby given that a General Meeting of Tsogo Shareholders will be held at Tsogo's head office, Main Board Room, Ground Floor, Palazzo Towers East, Montecasino Boulevard, Fourways, South Africa, at 12:00 on Tuesday, 23 October 2018, for the purposes of considering and, if deemed fit, passing, with or without modification, the ordinary resolutions set out hereunder.

The record date for determining which Tsogo Shareholders must be registered in the Register in order to receive the Circular is Friday, 14 September 2018.

The record date for determining which Tsogo Shareholders are entitled to participate in and vote at the General Meeting is Friday, 12 October 2018. Accordingly, the last day to trade in order to be eligible to participate and vote at the General Meeting will be Tuesday, 9 October 2018.

**Please note that Tsogo intends to provide for participation at the General Meeting by way of electronic communication. In this regard, please read the notes at the end of this Notice of General Meeting.**

### **Ordinary resolution number 1 – Approval of the Transaction, as a Category I transaction and a Related Party transaction in terms of the Listings Requirements**

**“Resolved as an ordinary resolution that,** the Transaction (i.e. the Sale and the Subscription) be approved as a Category I transaction and a Related Party transaction in terms of the Listings Requirements on the terms and conditions set out in the Sale and Subscription Agreement, a copy of which has been tabled at the General Meeting.”

As HCI is a Related Party to Tsogo for the purposes of the Listings Requirements (by virtue of the fact that HCI is a material shareholder of Tsogo and HPF is an associate of HCI), in order to implement the Sale and Subscription Agreement, ordinary resolution number 1 must be passed by Tsogo Shareholders (other than HCI, TIHC Investments Proprietary Limited, Johnnic Holdings Management Services Proprietary Limited and Tsogo Investment Holding Company Proprietary Limited, which are associates of HPF in terms of the Listings Requirements, although they will be taken into account in determining the quorum for the General Meeting).

In terms of the Companies Act, the MOI and the Listings Requirements, the adoption of ordinary resolution number 1 will require the support of more than 50% of the voting rights exercised on the resolution.

### **Special resolution – Approval of the Unbundling**

**“Resolved as a special resolution that,** subject to the Transaction and the HPF Internal Restructure having been duly implemented the distribution by Tsogo of 1 538 354 565 ordinary shares of no par value in the issued share capital of HPF as a distribution in specie to Tsogo Shareholders in terms of the Unbundling and on the basis detailed in the Circular, be and it is hereby approved.”

As the distribution by Tsogo of the HPF Shares to Tsogo Shareholders as contemplated in the special resolution, will constitute a disposal of the greater part of Tsogo's assets, the provisions of Section 112 read with Section 115 of the Companies Act require, *inter alia*, that such distribution be approved by Tsogo Shareholders by way of a special resolution.

In terms of the Companies Act and the MOI, the adoption of the special resolution will require the support of at least 75% of the voting rights exercised on the resolution.

## **Ordinary resolution number 2 – Directors’ and Company Secretary’s authority to take all such actions necessary to implement the Transaction and the Unbundling**

“**Resolved as an ordinary resolution that**, any Director or the Company Secretary of Tsogo, be and is hereby authorised and empowered to do all such things, sign all such documents and take all such actions or procure the doing of all such things, the signature of all such documents and the taking of all such actions as may be necessary for or incidental to the implementation of the Transaction, the Unbundling and Ordinary Resolution number 1 and the Special Resolution passed at the General Meeting at which this resolution is considered.”

In terms of the Companies Act and the MOI, the adoption of ordinary resolution number 2 will require the support of more than 50% of the voting rights exercised on the resolution.

## **Entitlement to attend and vote at the General Meeting and appointment of Proxies**

Tsogo Shareholders who wish to participate in the General Meeting should note that in terms of the Companies Act, they are required to provide reasonable satisfactory identification before being entitled to attend or participate in the General Meeting.

Certificated Shareholders or Own-name Dematerialised Shareholders may attend and vote at the General Meeting, or alternatively appoint a proxy to attend, speak and, vote in their stead. It is recommended that the Form of Proxy attached to the Circular, duly completed, be returned to the Transfer Secretaries at the address given in the Circular as soon as possible for administrative purposes only (preferably by Friday, 19 October 2018), but in any event, duly completed Forms of Proxy must be received by the Transfer Secretaries prior to the proxy exercising any of such Tsogo Shareholder’s rights as a Tsogo Shareholder at the General Meeting.

Dematerialised Shareholders other than Own-name Dematerialised Shareholders, must contact their CSDP or Broker, as the case may be, and obtain the relevant letter of representation from it if they wish to attend the General Meeting. If Tsogo Shareholders are unable to attend the General Meeting but wish to be represented thereat, they must furnish their CSDP or Broker, as the case may be, with their instructions for voting at the General Meeting.

The completion and submission of a Form of Proxy by a Tsogo Shareholder, will not preclude such Tsogo Shareholder from attending the General Meeting.

## **Participation in the General Meeting by electronic communication**

Tsogo Shareholders wishing to participate electronically in the General Meeting are required by no later than 12:00 on Friday, 19 October 2018, to deliver written notice to Tsogo at Palazzo Towers East, Montecasino Boulevard, Fourways, (marked for the attention of the Company Secretary) that they wish to participate via electronic communication at the General Meeting (**Electronic Notice**).

In order for the abovementioned notice to be valid it must contain (a) if the Tsogo Shareholder is an individual, a certified copy of his/her identity document and/or passport; (b) if the Tsogo Shareholder is not an individual, a certified copy of a resolution or letter of representation by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution or signed the relevant letter of representation. The letter of representation or resolution must set out who from the relevant entity is authorised to represent the entity at the General Meeting via electronic communication; (c) a valid e-mail address and/or facsimile number; and (d) confirmation of whether the Tsogo Shareholder wishes to vote via electronic communication.

Tsogo will use its reasonable endeavours to notify a Tsogo Shareholder wishing to participate in the General Meeting by way of electronic communication, of the relevant details through which the Tsogo Shareholder can participate via electronic communication, by no later than 24 hours before the commencement of the General Meeting.

Should a Tsogo Shareholder wish to participate in the General Meeting by way of electronic communication as mentioned above, such Tsogo Shareholder or his proxy will be required to dial-in to the dial-in facility on the date of the General Meeting. The dial-in facility will be linked to the venue at which the General Meeting will take place on the date of, from the time of commencement of, and for the duration of, the General Meeting. The dial-in facility will enable all persons to participate electronically in the General Meeting in this manner (and as contemplated in Section 63(2) of the Companies Act) and to communicate concurrently with each other without an intermediary, and to participate reasonably effectively in the General Meeting. The costs of such participation will be for the Tsogo Shareholder's or proxy's own account.

For and on behalf of:

**TSOGO SUN HOLDINGS LIMITED**

**J BOOYSEN**

17 September 2018

**Registered office**

Palazzo Towers East  
Montecasino Boulevard  
Fourways, 2055  
(Private Bag X200, Bryanston, 2021)



# TSOGO SUN HOLDINGS LIMITED

(Incorporated in South Africa)  
(Registration number 1989/002108/06)  
Share code: TSH ISIN: ZAE000156238

## FORM OF PROXY

All terms defined in the circular, to which this form of proxy is attached (“Circular”), shall bear the same meanings when used in this Form of Proxy.

**For use only by Certificated Shareholders or Own-name Dematerialised Shareholders at the General Meeting to be held at Tsogo’s head office, main boardroom, ground floor, Palazzo Towers East, Montecasino Boulevard, Fourways, South Africa at 12:00 on Tuesday, 23 October 2018.**

Dematerialised Shareholders, other than Own-name Dematerialised Shareholders, must **not** complete this Form of Proxy.

Full name: I/We (BLOCK LETTERS)

of (address):

Telephone: (Work)

Telephone: (Home)

Fax:

Cell number:

being the holder(s) of  Shares hereby appoint:

1. \_\_\_\_\_ or failing him/her,
2. \_\_\_\_\_ or failing him/her,
3. the chairperson of the General Meeting,

as my/our proxy to vote for me/us on my/our behalf at the General Meeting or any adjournment thereof as follows:

Resolution	For	Against	Abstain
<b>Ordinary resolution number 1</b> Approval of the Transaction as a Category 1 transaction and a Related Party transaction			
<b>Special resolution</b> Approval of the Unbundling			
<b>Ordinary resolution number 2</b> Directors' authority to take all such actions necessary to implement the Transaction, the Unbundling, ordinary resolution number 1 and the special resolution			

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2018

Signature \_\_\_\_\_

Assisted by me (if applicable) \_\_\_\_\_

**Please read the notes on the reverse side hereof.**

**A Tsogo Shareholder entitled to attend and vote at the General Meeting may appoint one person as his/her proxy to attend, speak or vote in his/her stead at the General Meeting. A proxy need not be a Tsogo Shareholder.**

**On a show of hands, every Tsogo Shareholder or his proxy shall have one vote (irrespective of the number of Tsogo Shares held). On a poll, every Tsogo Shareholder or his proxy shall have one vote for each Tsogo Share held or represented by him.**

## Notes to the form of proxy:

1. A Tsogo Shareholder may insert the name of a proxy or the names of two alternative proxies of his choice in the spaces provided with or without deleting the chairperson of the General Meeting, but any such deletion must be initialled by the Tsogo Shareholder. The person whose name appears first on this Form of Proxy and who is present at the General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please indicate in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of Tsogo Shares exercisable by you, insert the number of Tsogo Shares held in respect of which you wish to vote. Failure to provide an indication as to the manner in which you wish your votes to be cast will be deemed to authorise and compel the chairperson, if the chairperson is an authorised proxy, to vote in favour of the resolutions, or to authorise any other proxy to vote for or against the resolutions or abstain from voting as he deems fit, in respect of all your votes exercisable thereat. A Tsogo Shareholder or his proxy is not obliged to use all the votes exercisable by the Tsogo Shareholder or its proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the Tsogo Shareholder or his proxy.
3. It is recommended that forms of proxy, duly completed, be lodged with the Transfer Secretaries as soon as possible for administrative purposes only (preferably by Friday, 19 October 2018), but in any event, duly completed Forms of Proxy must be received by the Transfer Secretaries prior to the proxy exercising any of such Tsogo Shareholder's rights as a Tsogo Shareholder at the General Meeting.
4. Any alteration or correction made to this Form of Proxy must be initialled by the signatory(ies).
5. Documentary evidence establishing the authority of a person signing this Form of Proxy in a representative capacity must be attached to this Form of Proxy unless previously recorded by the Transfer Secretaries or waived by the chairperson of the General Meeting.
6. The completion and lodging of this Form of Proxy will not preclude the relevant Tsogo Shareholder from attending the General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Tsogo Shareholder wish to do so.
7. The chairperson of the General Meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these notes and instructions, provided that the chairperson is satisfied as to the manner in which the Tsogo Shareholder wishes to vote.
8. This Form of Proxy shall not be valid after the expiration of the General Meeting or any adjournment thereof.
9. Joint holders – any such persons may vote at the General Meeting in respect of such joint Tsogo Shares as if he were solely entitled thereto, but if more than one of such joint holders are present or represented at the General Meeting, that one of the said persons whose name stands first in the register in respect of such Tsogo Shares or his proxy, as the case may be, is alone entitled to vote in respect thereof.

## Summary of the rights established in terms of Section 58 of the Companies Act:

For purposes of this summary, "shareholder" shall have the meaning ascribed thereto in the Companies Act.

1. At any time, a shareholder of a company is entitled to appoint an individual, including an individual who is not a shareholder of that company, as a proxy, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder, and such proxy appointment remains valid for one year after the date upon which the proxy was signed, or any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in Section 58(4)(c) of the Companies Act or expires earlier as contemplated in Section 58(8)(d) of the Companies Act.
3. Except to the extent that the Memorandum of Incorporation of a company provides otherwise –
  - 3.1 a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder;
  - 3.1 a proxy may delegate his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
  - 3.1 A copy of the instrument appointing a proxy must be delivered to the relevant company, or to any other person on behalf of the relevant company, before the proxy exercises any rights of the shareholder at a shareholders' meeting.
4. Irrespective of the form of instrument used to appoint a proxy, the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company.
5. Unless the proxy appointment expressly states otherwise, the appointment of a proxy is revocable. If the appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the company.
6. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date: (a) stated in the revocation instrument, if any; or (b) upon which the revocation instrument is delivered to the proxy and the relevant company as required in Section 58(4)(c)(ii) of the Companies Act.
7. If the instrument appointing a proxy or proxies has been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's Memorandum of Incorporation to be delivered by such company to the shareholder, must be delivered by such company to the shareholder, or to the proxy or proxies, if the shareholder has directed the relevant company to do so in writing and paid any reasonable fee charged by the company for doing so.
8. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction, except to the extent that the Memorandum of Incorporation, or the instrument appointing the proxy provide otherwise.
9. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy:
  - 9.1 such invitation must be sent to every shareholder who is entitled to notice of the meeting at which the proxy is intended to be exercised;
  - 9.2 the invitation, or form of instrument supplied by the relevant company, must: (a) bear a reasonably prominent summary of the rights established in Section 58 of the Companies Act; (b) contain adequate blank space, immediately preceding the name or names of any person or persons named in it, to enable a shareholder to write in the name and, if so desired, an alternative name of a proxy chosen by such shareholder; and (c) provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour or against the applicable resolution/s to be put at the relevant meeting, or is to abstain from voting;
  - 9.3 the company must not require that the proxy appointment be made irrevocable; and
  - 9.4 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in Section 58(5) of the Companies Act.