TSOGO SUN

TSOGO SUN HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
(Registration No. 1989/002108/06)
JSE Share Code: TSH
ISIN: ZAE000156238
("**Tsogo**" or the "**Company**")

PROPOSAL TO DISTRIBUTE TSOGO'S ENTIRE HOLDING IN HOSPITALITY PROPERTY FUND LIMITED ("HOSPITALITY") POST THE IMPLEMENTATION OF THE PROPOSED DISPOSAL OF TSOGO'S CASINO PRECINCT PROPERTIES TO HOSPITALITY

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1. **PROPOSED UNBUNDLING**

1.1 Shareholders are referred to the announcement released on SENS on 9 July 2018 ("**terms announcement**") in respect of, *inter alia*, Tsogo's proposed disposal of a portfolio of seven mixed-use casino precinct properties ("**properties**") to Hospitality. Unless specified otherwise, the terms defined in the terms announcement, when used in this announcement, bear the same meanings as in the terms announcement.

1.2 Tsogo shareholders are hereby advised that Tsogo has signed an addendum to the subscription agreement which provides for the distribution, by Tsogo, of its entire holding of Hospitality shares to Tsogo shareholders, pro rata to their respective Tsogo shareholding ("**unbundling**"). The unbundling will occur in two tranches as follows:

1.2.1 a distribution in specie of 918 069 783 Hospitality shares, in the ratio of 0.86316 Hospitality shares for every ordinary share in Tsogo held at such time, such that Tsogo's interest in Hospitality post this distribution will be 35%; and

1.2.2 an unbundling in terms of section 46 of the Income Tax Act of the remaining 620 284 782 Hospitality shares then held by Tsogo, in the ratio of 0.58318 Hospitality shares for every ordinary share in Tsogo held at such time;

1.3 The unbundling will result in the disposal of the greater part of the assets or undertaking of Tsogo in terms of section 112 of the Companies Act, 2008, as amended ("**Companies Act**") and therefore requires the approval of the Takeover Regulation Panel ("**TRP**") and the approval of Tsogo shareholders by way of a special resolution, in compliance with section 115 of the Companies Act.

1.4 There have been no other material changes to the terms contained in the terms announcement.

2. **CONDITIONS PRECEDENT TO THE UNBUNDLING**

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

2.1.1 the conditions precedent to which the transaction is subject shall have been fulfilled (or waived, where possible) and the transaction shall have been implemented in accordance with its terms;

2.1.2 the transfer of the subscription shares by the sellers to Tsogo shall have been implemented;

2.1.3 the internal restructuring to be undertaken by the Hospitality group to be completed post the implementation of the transaction, whereby beneficial ownership of all of the Hospitality group properties (both casinos and hotels) will be vested in HPF Properties Proprietary Limited, a wholly-owned subsidiary of Hospitality, shall have been implemented in accordance with its terms;

2.1.4 the unbundling shall have been authorised by the board of directors of Tsogo ("**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 of the JSE Limited ("**JSE Listings Requirements**"), noting that it reasonably appears that Tsogo will satisfy the solvency and liquidity test referred to in Section 4 of the Companies Act immediately after completing the proposed unbundling as contemplated in Section 46(1)(b) of the Companies Act;

2.1.5 the TRP shall have issued a compliance certificate to Tsogo in accordance with Section 119(4)(b) of the Companies Act in respect of the unbundling;

2.1.6 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; and

2.1.7 during the time period prescribed in Section 164(7) of the Companies Act, appraisal rights in terms of Section 164 of the Companies Act shall not have been 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).

2.2 Subject to the fulfilment or waiver, as the case may be, of the conditions precedent set out above, and having regard to both the Companies Act and JSE Listings

Requirements, Tsogo will procure that the unbundling will be duly implemented as soon as practically possible following the implementation of the transaction.

3. UPDATED PRO FORMA FINANCIAL EFFECTS

3.1 The information set out below replaces the pro forma financial effects contained in the terms announcement.

3.2 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.

3.3 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.

3.4 The table below sets out the pro forma financial effects of the transaction and the unbundling:

	Before(1)	**Pro forma after the transaction and the unbundling**(2)	**% change**
Basic and diluted headline earnings per share (cents)(3)	198.3	1 377.5	594.7
Basic and diluted adjusted headline earnings per share (cents) (3)	197.8	105.0	(46.9)
Net asset value per share (Rands) (4)	10.3	7.4	(27.5)
Net tangible asset value per share (Rands) (4)	4.1	3.9	(5.4)
Weighted average number of shares in issue ('million)	994	994	-
Number of shares in issue ('million)	1 059	1 059	-

Notes and assumptions:

1. *The Tsogo financial information reflected in the "Before" column has been extracted from the published audited condensed consolidated financial results of Tsogo for the year ended 31 March 2018.*
2. *The Tsogo financial information reflected in the "After" column has been calculated on the basis that the transaction and the unbundling and any other conditions to implement these have been completed.*
3. *The effects on earnings, diluted earnings, headline earnings, diluted headline earnings and distributable earnings per share are based on the following assumptions:*
   - *3.1 Before, Tsogo has a 59.15% effective holding in Hospitality and consequently, Hospitality's non-controlling interest ("**Hospitality NCI**") has a 40.85% effective holding in Hospitality. After, following the transaction and unbundling, Hospitality will no longer be a subsidiary of Tsogo and will be deconsolidated from Tsogo, along with the Hospitality NCI and the properties.*
   - *3.2 Tsogo will recognise an R16.77 billion profit on disposal of the properties to Hospitality and pay an initial aggregate base rental amount of R1.94 billion per annum to Hospitality.*
   - *3.3 Tsogo will utilise R8.05 billion of the purchase consideration to settle debt with a weighted average cost of 9.23% per annum.*
   - *3.4 An impairment assessment has been prepared by the Board for the properties. An estimated impairment charge of R1.12 billion is recognised as a result of the transaction and the unbundling.*
   - *3.5 The unbundling of the Hospitality shares to Tsogo shareholders results in a loss on unbundling of R3.12 billion based on the Hospitality share price on the last practicable date.*
   - *3.6 Tax allowances on the properties sold to Hospitality are no longer deductible for Tsogo with ownership of the properties transferring to Merway. This results in the reversal of the current deferred tax liability temporary differences on the properties of R120 million and the reversal of certain S13 quin/bis allowances as per the Income Tax Act amounting to R28 million in additional current tax on the allowances that will no longer be deductible with the properties transfer to Merway.*
   - *3.7 Once off transaction costs assumed of R13 million.*
4. *The effects on net asset value per share and tangible net asset value per share are based on the following assumptions:*
   - *4.1 Before, Tsogo has a 59.15% effective holding in Hospitality and consequently, Hospitality NCI has a 40.85% effective holding in Hospitality. After, following the transaction and unbundling, Hospitality will no longer be a subsidiary of Tsogo and will be deconsolidated from Tsogo along with the Hospitality NCI and the properties. Tsogo's total shareholding in Hospitality will be unbundled to Tsogo shareholders, including the R14.96 billion subscription in Hospitality prior to the unbundling.*
   - *4.2 The reversal of the current deferred tax liability temporary differences on the properties of R120 million and the reversal of certain S13 quin/bis allowances as per the Income Tax Act amounting to R28 million in additional current tax on the allowances that will no longer be deductible with the properties being transferred to Merway.*
   - *4.3 The properties are sold to Hospitality for R23.01 billion, resulting in a profit on sale recognised amounting to R16.77 billion, which is recognised in retained earnings. R1.39 billion of goodwill attributable to the properties is derecognised as a result of the unbundling.*
   - *4.4 Following the unbundling, the subscription will result in a cash outflow of R14.96 billion for the shares in Hospitality unbundled to Tsogo shareholders.*
   - *4.5 Tsogo will utilise R8.05 billion of the purchase consideration to settle debt with a weighted average cost of 9.23% per annum.*
   - *4.6 Once off transaction costs are assumed to be R13 million.*

4. DISTRIBUTION OF CIRCULAR AND NOTICE OF GENERAL MEETING

Shareholders are further advised that a circular containing all the relevant information relating to the transaction and the unbundling is expected to be issued on or about 21 September 2018. Further announcements will be released on SENS in due course.

Fourways

7 September 2018

Corporate advisor and sponsor to Tsogo

Investec Bank Limited

Corporate Law Advisors to Tsogo

Taback and Associates Proprietary Limited

Werksmans Attorneys

Independent Expert

PSG Capital

Independent reporting accountant

PWC