Southern Sun 2023

CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER

Southern Sun Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/006356/06)
Share code: SSU ISIN: ZAE000272522
(Southern Sun, the company or the group)

Commentary

The group is encouraged by the continued improvement in trading volumes in South Africa over the six-month period ended 30 September 2023, particularly when compared to the prior comparative period, which was still impacted by the Omicron variant of Covid-19 with restrictions only entirely lifted on 22 June 2022. The group achieved total income for the six months ended 30 September 2023 of R2.8 billion, a 34.0% growth on revenue generated in the prior comparative period of R2.1 billion excluding the once-off payment of R399 million received from Tsogo Sun Limited.

This performance comprises rooms revenue growth of 41.0% to R1.9 billion (2022: R1.3 billion), food and beverage revenue growth of 28.7% to R730 million (2022: R567 million), property rental income growth of 38.2% to R94 million (2022: R68 million) and a 16.3% decline in other revenue to R108 million (2022: R129 million excluding the once-off payment of R399 million (R313 million after tax) received from Tsogo Sun Limited (TS) on implementation of the Separation Agreement on 30 September 2022 (Separation Payment)). The reduction in other revenue is attributable to lower forfeitures from the group's frequentGuest loyalty rewards programme for the six months ended 30 September 2023 of R6 million compared to forfeitures of R33 million during the prior comparative period.

Improved trading has been particularly prevalent in the Western Cape, which has enjoyed several large events hosted at the Cape Town International Convention Centre such as the recent Netball World Cup. In Gauteng, the group proudly hosted the 15th BRICS Summit in August 2023 at the Sandton Convention Centre, which led to substantial demand for accommodation at the surrounding hotels. In addition, most regions have seen good transient demand, with a substantial portion of the group's hotels trading above pre-Covid-19 levels.

Aided by more normalised demand from local and international travellers and strong demand for conferencing and events, group occupancy at 56.3% for the six-month period ended 30 September 2023, has increased by 10.3 percentage points (pp) compared to 46.0% in the prior comparative period and is 2.8pp below the 59.1% achieved for the same six-month period in 2019, being pre-Covid-19.

This shortfall in occupancy largely relates to certain hotels in the Sandton and Rosebank nodes, the group's budget offering SUN1 as well as particular hotels in the offshore division which have not yet fully recovered but are showing signs of improvement as the year progresses, and present a focus area for management.

The group's rooms revenue has been supported by average room rate (ARR) growth which has increased by 11.4% for the six-month period ended 30 September 2023, compared to the prior comparative period and by an encouraging 25.2% compared to the same six-month period in 2019.

The improvement over the pre-Covid-19 period is achieved through a combination of higher achieved yielding and a change in the mix of hotels following the consolidation of a number of properties previously leased from third parties. Luxury hotel guests have proven more resilient to prevailing economic pressures such as inflation and rising interest rates, being influenced more by location and personal preference rather than price.

Commentary *continued*

Combined South African and offshore hotel trading statistics, excluding hotels managed on behalf of third-party owners and those leased by third parties, are as follows:

For the six months ended 30 September	2023	2022*	2019*
Occupancy (%)	**56.3**	46.0	59.1
Average room rate (R)	**1 297**	1 164	1 036
RevPar (R)	**730**	535	613
Rooms available ('000)^	**2 546**	2 538	2 126
Rooms sold ('000)	**1 432**	1 168	1 257
Rooms revenue (Rm)	**1 858**	1 359	1 303

^ *The increase in rooms available from 30 September 2022 to 30 September 2023 relates to the acquisition of the Southern Sun Mbombela and StayEasy Mbombela hotels with effect from 30 September 2022. The increase in rooms available from 30 September 2019 to 30 September 2023 relates to the transfer of Arabella Hotel, Golf & Spa, Hazyview Sun, The Edward, Mount Grace Hotel & Spa, Southern Sun The Marine and Garden Court Victoria Junction to internally managed, together with the inclusion of The Westin Cape Town, Radisson Blu Gautrain Hotel and the Sandton Consortium hotels as part of the group's owned portfolio.*

* *Trading statistics have not been adjusted to exclude discontinued operations and rooms revenue is the total revenue generated from continuing and discontinued operations.*

Notwithstanding the upward trend in trading and return to normalised travel patterns, the group remains heavily exposed to the South African economy which faces slow GDP growth, high unemployment and high operating costs due to lack of government investment into infrastructure for power generation and rail transport. These challenges have a negative impact on both consumer and corporate sentiment.

Overall, the group's operating costs for the six months ended 30 September 2023 have increased by 21.9%. The main contributors to this increase include the take-on of the operating cost base relating to the acquisition of the Mbombela properties, employee costs, rooms-division expenses, food and beverage cost of sales, and the property costs (electricity, diesel, water and property rates). The increase in employee costs is attributable to inflationary salary increases implemented on 1 April 2023 as well as increased rostering of operational support staff in response to higher trading levels. As a consequence of continuous load shedding, R28 million (2022: R17 million) has been spent on diesel over the six months to 30 September 2023, a 64.7% increase on the prior comparative period. There have been no commensurate savings in electricity, however, which has increased by 13.8% while the cost of water has risen by 36.4%. Property rates have remained flat at R82 million (2022: R82 million) for the six-month period.

Despite pressure from these administered expenses, the group has continued to maintain good cost controls, with specific focus on ensuring that the significant savings achieved through the restructuring during the Covid-19 period are not lost. As a result, the group generated Ebitdar of R745 million (2022: R449 million from continuing operations), a R296 million increase on the prior comparative period and equating to an Ebitdar margin of 26.7% compared to 21.6% (if the Separation Payment is excluded from total income) for the six months ended 30 September 2022 and in line with the Ebitdar margin achieved over the same six-month period in 2019 of 27.0%; despite the consolidation of hotels previously accounted for as investment properties generating rental income at an Ebitdar margin of 100%.

Review of operations

The group's segmental analysis on page 25 has been presented on a consistent basis with the disclosure made for the year ended 31 March 2023 and consequently, the revenue and Ebitdar performance measures for the six months ended 30 September 2022 have been restated to align with the new methodology. Refer to note 8 for further details.

Ebitdar from Investment properties – Externally managed for the six months ended 30 September 2023 of R77 million (2022: R54 million) relates to the four remaining investment properties not operated or managed by the group, being Birchwood Hotel & OR Tambo Conference Centre, the Radisson Blu Waterfront Hotel, Champagne Sports Resort and Kopanong Hotel & Conference Centre.

The Sandton Consortium segment reflects the trading performance of the Sandton Sun and Towers complex and the Garden Court Sandton City leased from Liberty 2 Degrees (L2D) and partners, along with management fee income earned from the Sandton Convention Centre. This segment generated revenue of R333 million (2022: R225 million) and Ebitdar of R105 million (2022: R55 million) for the six months ended 30 September 2023. These hotels have been star performers in Gauteng, thanks to their location and the increased demand for events and conferencing at the Sandton Convention Centre, a primary example of which was the 15th BRICS Summit hosted during August 2023.

Overall, revenue and Ebitdar generated by the Internally managed South African hotel portfolio owned and leased by the group for the six months ended 30 September 2023 was R2.2 billion (2022: R1.6 billion) and R573 million (2022: R346 million) respectively. All regions performed significantly better relative to the prior comparative period which was still negatively impacted by the Omicron strain of the Covid-19 virus. Increasing demand from international and domestic corporate conferencing and leisure transient travel along with major economic forums and sporting events, made a significant contribution to the group's performance across the provinces for the period.

The group generated revenue and Ebitdar from the Western Cape of R745 million (2022: R494 million) and R211 million (2022: R89 million) respectively. Key hotels in the province include The Westin Cape Town, Southern Sun The Cullinan and Southern Sun Waterfront. The revenue and Ebitdar contribution from KwaZulu-Natal was R518 million (2022: R466 million) and R151 million (2022: R133 million) respectively. The group's hotels located on the Durban beachfront and Umhlanga continue to perform well. Umhlanga is a key growth node for the group and during August 2023 acquired land adjacent to our existing hotel for R36 million, earmarked for future development.

The corporate transient and international travel segment has been the slowest to return to pre-Covid-19 levels. Consequently, Gauteng has lagged behind other provinces in terms of recovery, particularly hotels not located in prime business hubs near OR Tambo International Airport or Sandton Convention Centre. The group's Rosebank hotels have struggled due to lack of corporate conferencing and transient travel in a competitive market to which additional capacity has been added. In response, the group is planning a refurbishment of the Southern Sun Rosebank bedrooms to align them with the look-and-feel of the refurbished lobby which was launched as part of the hotel's rebranding to a Southern Sun. The rebranding of the Holiday Inn Sandton to a core Southern Sun brand in Sandton and leveraging our relationships with sporting bodies, corporates and government has given the hotel traction in the market. The group's revenue and Ebitdar from Gauteng for the six months ended 30 September 2023 amounted to R611 million (2022: R423 million) and R119 million (2022: R51 million) respectively.

The Other segment includes outlying hotels situated in Mpumalanga, Eastern Cape, Kimberley, Bloemfontein and Polokwane. These hotels are well supported by government groups and conferencing business as well as sporting events and have consistently performed well after the pandemic. This segment generated revenue and Ebitdar for the six months ended 30 September 2023 of R333 million (2022: R252 million) and R92 million (2022: R73 million) respectively.

Total revenue for the Offshore division of hotels of R213 million (2022: R178 million) for the six months ended 30 September 2023 largely relates to the Southern Sun Maputo, Mozambique which has not traded in line with expectations mainly due to development delays in the oil and gas sectors; and Paradise Sun, Seychelles which has met performance expectations thanks to support from the European market. Trading at the Southern Sun, The Ridge in Zambia was muted due to its reliance on corporate travel from South Africa with much of the demand directed to the outlying mining regions as opposed to the city. In response to these dynamics, expenses have been tightly controlled. In the owned offshore portfolio only the Southern Sun Dar es Salaam, Tanzania remains closed, however, the group continues to monitor levels of demand for an indication that re-opening the hotel would be feasible. The offshore division generated Ebitdar of R41 million (2022: R31 million).

The Manco segment is now effectively a cost centre and revenue for this segment reflects the net impact of how the group accounts for its frequentGuest loyalty rewards programme. Manco costs net of reward forfeitures for the six months ended 30 September 2023 were R50 million compared to R35 million in the prior comparative period, as a result of a R27 million reduction in forfeitures.

Property and equipment rental expense of R94 million (2022: R63 million) represents the variable portion of lease payments. Excluding the impact of IFRS 16, the group incurred cash rent of R168 million for the six months ended 30 September 2023 compared to R131 million in the prior comparative period. The overall increase in the group's rent expense reflects the normalisation in trading and the reinstatement of the leases over the Sandton Consortium hotels.

There were no exceptional gains or losses incurred by the group for the six months ended 30 September 2023. Exceptional gains for the prior comparative period of R377 million relate to the Separation Payment received on implementation of the transaction, with net of losses on disposal of property, plant and equipment, trademark impairments and transaction costs totalling R22 million.

Net finance costs of R139 million (2022: R175 million) include interest on capitalised leases of R67 million (2022: R63 million) and have reduced because of the reduction in the group's net interest-bearing debt levels, offset by rising base interest rates.

The share of profit from associates of R26 million (2022: R27 million) is in line with the prior comparative period. Hotel trading in the UK recovered quickly post-Covid-19, particularly in the regional markets and trading levels and profitability continue to be encouraging.

The income tax expense for the six months ended 30 September 2023 of R93 million (2022: R97 million) is in line with operating profits, however, the prior comparative period includes the tax raised on the Separation Payment received from TS. Certain of the group's operating subsidiaries remain in assessed loss positions, however, these are being utilised as trading improves. Deferred income tax assets amounting to R289 million have been recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Group adjusted headline profit for the six months ended 30 September 2023 of R255 million (2022: R17 million for continuing operations) has improved by R238 million. The adjustments to the prior comparative period include the reversal of the post-tax and non-controlling interest impacts of the exceptional gains noted above. The weighted average number of shares in issue has reduced from the prior comparative period due to the group's acquisition of 99 million SSU shares (refer to Corporate activity) and the resultant adjusted headline earnings per share is 18.0 cents (2022: 1.2 cents).

Commentary *continued*

Corporate activity

During May and June 2023, the group acquired an additional 89 million SSU shares at an average price of R4.35 which together with the 10 million SSU shares acquired in the prior financial year, brings the total SSU shares bought back by the group to 99 million at an aggregate cost of R434 million, and reduces the overall shares in issue net of treasury shares by 6.7%.

HPF Properties Proprietary Limited (HPF) acquired the balance of the land not already owned at the Birchwood Hotel & OR Tambo Conference Centre as well as certain moveable assets for a total purchase consideration of R180 million. Partial payment of R59 million occurred on 10 July 2023. A further payment of R101 million was made by HPF on 2 October 2023 and the balance of the purchase price of R20 million will be settled on transfer of the property to HPF. The hotel will continue to be operated and managed by the existing third-party operator and consequently, will continue to be classified as investment property.

Funding capacity and covenants

Interest-bearing debt net of cash at 30 September 2023 totalled R1.5 billion, which is R185 million more than the 31 March 2023 balance of R1.3 billion which is largely attributable to the share buyback of R389 million and capital expenditure of R216 million, net of after-tax cash flow generated over the six months of R437 million and net foreign exchange losses of R17 million. The group was well within covenant requirements for the 12-month rolling period to 30 September 2023, achieving a leverage ratio (net debt to Ebitda) of 1.1 times and an interest cover ratio of 5.3 times.

Going concern

The condensed unaudited consolidated interim financial statements are prepared on the going concern basis. Based on the cash flow forecasts, available cash resources and facility headroom, management believes that the group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner. Refer to note 12 for further details.

The board of directors of the company has assessed the cash flow forecasts and is of the view that the group has sufficient liquidity to meet its obligations over the next 12 months.

Prospects

The buoyant trading levels over the past six months have continued into October and November 2023 and we remain optimistic that this momentum will continue into December and the group's fourth quarter, particularly in the Western Cape.

Thanks to the group's national distribution and ability to successfully host and coordinate large events like the BRICS Summit and the Netball World Cup during the first six months of the financial year, other opportunities have presented themselves such as the WXV Women's International Rugby Event and the BRICS Games held in the Western Cape and KwaZulu-Natal respectively during October 2023 in addition to the Africa Growth and Opportunity Act Summit held in November 2023.

South Africa's ability to attract international events will boost foreign inbound travel and stimulate economic growth, however, this requires confidence in the country's ability to supply uninterrupted power and security. While there have been promising steps towards solving these challenges through collaboration with the private sector, this will take time.

The group will continue to pursue its stated strategy of reducing debt levels while continuing to allocate capital to key properties in our portfolio so that they remain best-in-class. Customer experience is central to Southern Sun's value proposition and the group will continue to focus on our customer delivery.

Dividend

Having successfully refinanced the group's debt facilities, substantially reduced net debt levels and meeting debt covenant requirements, the group has now sufficiently stabilised post-Covid-19 to consider resuming dividend declarations. Traditionally, the group generates around two-thirds of its profits in the second six months of the financial year and given that R389 million has been returned to shareholders through share buybacks implemented since 31 March 2023, the directors consider it prudent to reserve cash resources until the group's full year trading results are finalised and a final dividend can be declared. Accordingly, the directors have not declared an interim cash dividend for the six months ended 30 September 2023.

Events occurring after the balance sheet date

The directors are not aware of any other matter or circumstance arising since the balance sheet date and the date of this report other than those disclosed in note 11.

Presentation

Shareholders are advised that a presentation on the results for the six months ended 30 September 2023 will be held on Tuesday, 21 November 2023 at 10:00 via Microsoft Teams, and those wishing to join can find the link to the presentation on the company's website at **www.southernsun.com/investors**.

Marcel von Aulock
Chief Executive Officer

Laurelle McDonald
Chief Financial Officer

21 November 2023

Notes to the condensed unaudited consolidated interim financial statements

for the six months ended 30 September

1 BASIS OF PREPARATION

The condensed unaudited consolidated interim financial statements for the six months ended 30 September 2023 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. Chief Financial Officer, L McDonald CA(SA), supervised the preparation of these condensed unaudited consolidated interim financial statements. The accounting policies are consistent with IFRS, as well as those applied in the most recent audited financial statements as at 31 March 2023. The condensed unaudited consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2023, which have been prepared in accordance with IFRS. These condensed unaudited consolidated interim financial statements for the six months ended 30 September 2023 have not been audited or reviewed by the company's auditors, Deloitte & Touche.

2 STANDARDS ISSUED NOT YET EFFECTIVE

The group is concluding on the impact of the new standards, interpretations and amendments that have been issued but are not yet effective, none of which are expected to have a material effect on the consolidated position or performance of the group.

Amendments to *Non-current Liabilities with Covenants*, amendments to IAS 1 and *Classification of Liabilities as Current or Non-current*, amendments to IAS 1 *Lease Liability in a Sale and Leaseback*, amendments to IFRS 16 *Supplier Finance Arrangements*, amendments to IAS 7 and IFRS 7, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures, Lack of Exchangeability,* amendments to IAS 21 and *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, amendments to IFRS 10 and IAS 28, have been considered and none are expected to have a material impact on the group.

3 FAIR VALUE MEASUREMENT

The group fair values its investment properties (categorised as level 3 values) and interest rate swaps (categorised as level 2 values). There were no transfers into or out of level 3 other than as shown below.

3.1 Investment properties

The movement of investment properties for the period is as follows:

	30 September 2023 Unaudited Rm	31 March 2023 Audited Rm
Opening net carrying amount	**1 485**	1 450
Additions to and development of investment properties	**68**	31
Fair value adjustments recognised in profit or loss – continuing operations	**–**	4
Closing net carrying amount	**1 553**	1 485

3.1.1 Fair value measurement

The group's investment properties have been categorised as level 3 values based on the inputs to the valuation technique used. The group has elected to measure investment properties at fair value. The fair value is determined using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the South African 10Y bond yield at the time of valuation, to which premiums are added for market risk and equity and debt costs. The discount rate factors in a risk premium associated with the local economy as well as those specific to the local property market and the hotel industry. Management has assessed the fair value of the group's investment properties by reviewing the cash flow forecasts for the period FY25 to FY29, which we believe adequately reflect cash flows generated by the underlying hotels for the years ending March 2024 to March 2025 as the recovery in trading levels unfold and normalise. In addition, various technical inputs have been reviewed including the 10Y bond yield which has increased from 9.8% as at 31 March 2023 to 10.8% as at 30 September 2023.

Based on these factors, management is of the view that the increased cash flows generated from FY25 to FY29 as a result of the recovery in trading are offset by the increase in discount rate caused by the increase in the 10Y bond yield. Accordingly, the fair value of investment properties is fairly stated at 30 September 2023 and no additional fair value adjustment is required. The valuation of investment properties will be reassessed at 31 March 2024 by an external appointed valuer.

3.1.2 Basis of preparation of cash flow forecasts

Based on the out-performance of actual FY23 results versus FY23 group forecasts, management has adopted a more optimistic view of the recovery in trading levels and an overarching assumption has been made that the group will return to long-term average occupancy levels excluding the impact of Covid-19. The forecast period in which each individual hotel returns to its long-term average occupancy has been individually considered based on its specific regional and market dynamics. In order to ensure the cost efficiencies achieved in the operational restructuring flowed through to the cash flow forecasts, each hotel prepared a detailed budget for FY24 assuming an increased return of domestic and international corporate business during FY24H1 and volumes increasing steadily into FY24H2 as foreign inbound travel volumes increase ahead of the summer season. The overall assumption for the group was that FY20 occupancies should be reached in FY25 and increase from there as FY20 was impacted by Covid-19, particularly in March 2020.

Occupancies for the group's owned hotel portfolio including offshore are assumed to increase from 58% in FY24 to 61% for FY25, increasing to 64% in FY27 and 66% in FY29, which is closer to the group's long-term occupancy levels before the impact of Covid-19. ARRs are assumed to increase by a compound annual revenue growth rate (CAGR) of 4.8% between FY25 and FY29. Based on a review of the revenue and Ebitdar levels of each hotel, management is comfortable that the individual hotel trading assumptions are reasonable. Operating expenses were escalated by CPI except for utilities, which escalates by an average of 10.8% between FY25 and FY29. Payroll costs were escalated by CPI +1.0%. No expansion capex has been forecast and maintenance capex has been reviewed by unit and prioritised to ensure that the properties are well maintained and in good condition.

3.2 Interest rate swaps

Hedge accounting is applied to the group's interest rate swaps. The group's primary interest rate risk arises from long-term borrowings (excluding bank overdrafts). In line with group policy, a portion of the group debt is hedged.

Fixed interest rate swaps ranged from 6.2% to 6.7% as at 30 September 2023, referenced against the three-month JIBAR of 8.3% (2022: fixed interest rate swaps ranged from 6.2% to 7.2% as at 31 March 2023, referenced against the three-month JIBAR of 8.0%).

The fair value of the group's derivatives used for hedge accounting is an asset of R26 million (2022: R14 million) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior period. As at 30 September 2023, the group's interest rate hedges have been assessed as effective.

4 IMPAIRMENT OF GOODWILL AND PROPERTY, PLANT AND EQUIPMENT

Management has assessed the group's goodwill and property, plant and equipment for impairment by reviewing the cash flow forecasts for the period FY25 to FY29, which we believe adequately reflect cash flows generated by the underlying hotels for the years ending March 2025 to March 2026 as the recovery in trading levels normalises. The cash flow forecasts for the South African and offshore properties were prepared on the basis set out in note 3.1.2. In addition, various technical inputs have been reviewed including the 10Y bond yield which has increased from 9.8% at 31 March 2023 to 10.8% as at 30 September 2023.

Based on these factors, management is of the view that the carrying values of goodwill and property, plant and equipment are fairly stated at 30 September 2023 and no additional impairments or impairment reversals are required. The impairment assessments of goodwill and property, plant and equipment, will be revised at year end to take into account any changes in the technical inputs and the impact that changing conditions may have on the estimated future cash flows.

5 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

5.1 Interest-bearing borrowings

Changes arising from financing activities for the six months ended 30 September 2023 related to interest-bearing borrowings, excluding bank overdrafts from short-term borrowings, are as follows:

	Long term Rm	Short term Rm	Total Rm
Balance at 1 April 2023	**1 964**	**–**	**1 964**
Borrowings raised	**174**	**–**	**174**
Borrowings repaid	**(174)**	**–**	**(174)**
Currency translation	**30**	**–**	**30**
Balance at 30 September 2023	**1 994**	**–**	**1 994**
Balance at 1 April 2022	3 495	–	3 495
Borrowings raised	2 383	–	2 383
Borrowings repaid	(3 829)	–	(3 829)
Currency translation	133	–	133
Derecognition on disposal of subsidiary	(218)	–	(218)
Balance at 31 March 2023	1 964	–	1 964

5.2 Lease liabilities

Changes arising from lease liabilities for the period under review are as follows:

	Non-current portion Rm	Current portion Rm	Total Rm
At 1 April 2023	**1 412**	**35**	**1 447**
Transfer to current lease liabilities	**(24)**	**24**	**–**
Principal elements of lease payments	**–**	**(17)**	**(17)**
At 30 September 2023	**1 388**	**42**	**1 430**

Total cash outflow of R68 million (2022: R63 million) relating to finance costs has been included in cash flows from operating activities.

	Non-current portion Rm	Current portion Rm	Total Rm
At 1 April 2022	1 349	11	1 360
New leases raised	95	5	100
Transfer to current lease liabilities	(35)	35	–
Principal elements of lease payments	–	(22)	(22)
Modification of lease contract	3	6	9
At 31 March 2023	1 412	35	1 447

6 RELATED PARTY TRANSACTIONS

As previously reported, the related party transaction with TS was implemented with effect from 30 September 2022 with the net cash flow to the group amounting to R248 million. As at 31 March 2023, the management and licensing agreement in respect of all 15 hotels owned by TS have been terminated and excluded from the group's portfolio of managed hotel properties.

The group's other related party transactions and balances are set out below:

	2023 Rm	2022 Rm
Hotel management fees and royalties received from Tsogo Sun Limited	–	22
Management fees received from Tsogo Sun Limited for shared services	1	3
Fees received from Tsogo Sun Limited for administration services for hotels	–	12
Management fees paid to Tsogo Sun Limited for shared services	–	(1)
Tenant recoveries by Tsogo Sun Limited	–	(2)
Purchase of Southern Sun and StayEasy Mbombela from Tsogo Sun Limited	–	(142)
Separation Payment received from Tsogo Sun Limited	–	399
Amounts receivable from Tsogo Sun Limited and its subsidiaries	1	7
Shareholder loans to associate – IHL Holdco Limited	19	69
Loan due to fellow shareholder in associate (IHL) – RDI	–	(35)
Dividend received from associate – RBH	10	–

The group had no other significant related party transactions during the period under review.

7 RENTAL CONCESSIONS AND LEASE MODIFICATIONS

During the 2023 financial year, the group and the lessor reconsidered the financial performance of the Sandton Consortium hotels and agreed that the hotel precinct was approaching economic viability. The impact of this assessment was considered and resulted in the finance lease liability and the right-of-use asset increasing by R9 million for the year ended 31 March 2023.

The lease relating to Garden Court East London was extended for an additional 10 years on 1 July 2022 on revised terms, which resulted in the recognition of a right-of-use asset and a corresponding lease liability of R70 million for the year ended 31 March 2023.

Additionally, a right-of-use asset and corresponding lease liability of R23 million has been recognised relating to the rental of office space at Nelson Mandela Square with the lease effectively commencing 1 April 2023 as well as a right-of-use asset and corresponding lease liability of R7 million relating to the Southern Sun Cape Sun parking lease extended on 1 January 2023 for an additional 10 years.

8 SEGMENT INFORMATION

In terms of IFRS 8 *Operating Segments*, the Chief Operating Decision Making (CODM) has been identified as the group's Chief Executive Officer (CEO) and senior management. Management has determined the operating segments based on the reports reviewed by the CODM. There was no change to the basis of measurement of segment profit or loss from the annual financial statements apart from the disclosure of Ikoyi as a discontinued operation and the CODM taking into account the impact of the implementation of the TS Transaction (refer to note 6 for further details) and the impact on external management fees earned.

Following the implementation of the TS Transaction and the resulting decrease in external management fee income earned by the group, senior management took the opportunity to review its segmental reporting structure. The disclosure relating to revenue and Ebitdar performance of the **Offshore** segment remains unchanged from prior years. Revenue and Ebitdar relating to **Investment properties – Externally managed** (previously disclosed as Rental Income – HPF) now excludes the Sandton Eye retail space which forms part of the Radisson Blu Gautrain Hotel building, and has been disclosed in the Internally managed segment.

The revenue and Ebitdar relating to the **Sandton Consortium** hotels leased from L2D and partners has been disclosed as a separate segment previously included as part of the Inland segment. While the group reflects the trading revenue and Ebitdar relating to the hotel operations, what is retained in Ebitda after rental payments to L2D and partners is effectively management fee income earned from the hotels and the Sandton Convention Centre along with 1% of the Ebitdar of the hotels.

Internally managed hotels in South Africa has been categorised by province, previously disclosed based on whether the hotel was located at the coast or inland, to better reflect the group's geographical footprint. Similarly, hotels that were previously included in the Trading income – HPF segment are now included in their respective province. The Ebitdar measure of each segment includes the external management fee income earned from hotels managed for third-party owners before the deduction of internal management fees as these internal fees are no longer included in the **Manco** segment. This provides more meaningful information about the cash generated by the group from a particular province and how performance is influenced by events taking place in that province. **Other** segment included hotel properties located in outlying regions including Mpumalanga, Eastern Cape, Kimberley, Bloemfontein and Polokwane.

The reallocation of external management fee income into the respective provinces means that the **Manco** segment now reflects the unallocated cost of providing the various central services to the business including among others, sales, marketing, information technology, development, human resources and finance services. The segment also includes the net cost of the group's frequentGuest loyalty rewards programme.

The CODM assesses the performance of the operating segments based on Ebitdar (earnings before interest, income tax, depreciation, amortisation, rent and related IFRS 16 rent adjustment, and adjusted for the same items as headline earnings). The measure excludes the effects of share-based payment expense and the effects of non-recurring expenditure. The measure also excludes all headline earnings adjustments, impairments and fair value adjustments on non-current and current assets and liabilities. Finance income and finance costs are not included in the results for each operating segment, as this is driven by the group treasury function which manages the cash and debt position of the group.

9 CAPITAL COMMITMENTS

The group spent R216 million on operating equipment, maintenance and expansion capex for the six months ended 30 September 2023. The group has committed capital spend of R239 million, of which the majority relates to the activation of certain refurbishments.

10 CONTINGENT LIABILITIES

The group had no significant contingent liabilities as at 30 September 2023.

11 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

HPF Properties Proprietary Limited (HPF) acquired the balance of the land not already owned at the Birchwood Hotel & OR Tambo Conference Centre as well as certain moveable assets for a total purchase consideration of R180 million. Partial payment of R59 million occurred on 10 July 2023. A further payment of R101 million was made by HPF on 2 October 2023 and the balance of the purchase price of R20 million will be settled on transfer of the property to HPF. The hotel will continue to be operated and managed by the existing third-party operator and consequently, will continue to be classified as investment property.

HPF also acquired land adjacent to the Garden Court Umhlanga hotel in August 2023 for R36 million. The property is still in the process of being transferred.

12 GOING CONCERN

The condensed unaudited consolidated interim financial statements are prepared on the going concern basis. Based on the cash flow forecasts, available cash resources and facility headroom, management believes that the group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner.

12.1 Financial capacity and covenants

Improved profitability and cash generation over the past 12 months, along with the application of the proceeds from the related party transaction with TS and the disposal of the Southern Sun Ikoyi hotels towards the settlement of the group's interest-bearing borrowings, created facility headroom of R1.0 billion. Together with available cash of R498 million, the group has comfortably achieved a leverage ratio of 1.1, and an interest cover ratio of 5.3 for the 30 September 2023 measurement date. The minimum liquidity requirement fell away after 31 March 2023 when the covenants become more restrictive over time, based on a sliding scale:

- the maximum leverage cover ratio reduces to 3.0 for periods after 31 March 2023, to 2.5 for periods after 31 March 2024 and to 2.0 for periods after 31 March 2025; and
- the minimum interest cover ratio increases to 2.5 for periods after 31 March 2023.

Based on current performance and management's forecast cash flows to 31 March 2024 (refer to note 3.1.2), there is no reason to believe that the group will not meet these covenants levels.

As at 30 September 2023, the group had net cash equivalents net of bank overdrafts of R498 million (2022: R441 million). The group has R1.99 billion (2022: R2.8 billion) of gross interest-bearing debt (excluding capitalised lease liabilities) and access to R1.0 billion in undrawn facilities to meet its obligations as they become due.

The board of directors of the company has assessed the cash flow forecasts and is of the view that the group has sufficient liquidity to meet its obligations over the next 12 months.

13 IKOYI CASH DEPOSIT

As part of the transaction to dispose of the group's Southern Sun Ikoyi hotel in Nigeria, the group agreed to Kasada Albatross Holding (Kasada) depositing US$12.8 million in a Southern Sun controlled bank account in Mauritius to serve as cash collateral for the group's guarantee obligation in respect of the hotel's in-country debt balance (Ikoyi Cash Deposit). The Ikoyi Cash Deposit was included in cash and cash equivalents as at 31 March 2023 and the related liability to repay Kasada was separately disclosed on the face of the balance sheet.

During July 2023, Kasada refinanced the hotel's in-country debt and the group was released from its guarantee obligation. The deposit including accumulated interest earned amounting to US$13.1 million, held in a Southern Sun controlled bank account in Mauritius was repaid to Kasada on 18 July 2023.

Condensed consolidated income statement

for the six months ended 30 September

	Change %	2023 Unaudited Rm	2022 Unaudited Rm
Rooms revenue	41	**1 858**	1 318
Food and beverage revenue	29	**730**	567
Property rental income		**94**	68
Other revenue		**108**	528
Income	12	**2 790**	2 481
Property and equipment rentals		**(94)**	(63)
Amortisation and depreciation		**(190)**	(192)
Employee costs		**(754)**	(623)
Other operating expenses		**(1 292)**	(1 033)
Operating profit		**460**	570
Finance income		**30**	16
Finance costs		**(169)**	(191)
Share of profit of associates		**26**	27
Profit before income tax		**347**	422
Income tax expense		**(93)**	(97)
Profit for the period from continuing operations		**254**	325
Profit for the period from discontinued operations		**–**	10
Profit for the period		**254**	335
Profit attributable to:			
Equity holders of the company		**255**	334
From continuing operations		**255**	325
From discontinued operations		**–**	9
Non-controlling interests		**(1)**	1
From continuing operations		**(1)**	–
From discontinued operations		**–**	1
		254	335
Basic and diluted profit attributable to the ordinary equity holders of the company per share (cents)			
Number of shares in issue (million)		**1 379**	1 478
Weighted number of shares in issue (million)		**1 413**	1 478
Basic profit per share (cents)		**18.0**	22.6
From continuing operations		**18.0**	22.0
From discontinued operations		**–**	0.6
Diluted profit per share (cents)		**17.6**	22.6
From continuing operations		**17.6**	22.0
From discontinued operations		**–**	0.6

Condensed consolidated statement of comprehensive income

for the six months ended 30 September

	2023 Unaudited Rm	2022 Unaudited Rm
Profit for the period	**254**	335
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:	**82**	359
Cash flow hedges	**2**	27
Currency translation adjustments on continuing operations	**81**	179
Currency translation adjustments on discontinued operations	**–**	160
Income tax relating to items that may subsequently be reclassified to profit or loss	**(1)**	(7)
Total comprehensive income for the period	**336**	694
Total comprehensive income attributable to:		
Equity holders of the company	**335**	693
Non-controlling interests	**1**	1
	336	694
Total comprehensive income attributable to equity holders:		
Continuing operations	**335**	524
Discontinued operations	**–**	169

Supplementary information

for the six months ended 30 September

	Continuing operations		Discontinued operations	
	2023 Unaudited Rm	2022 Unaudited Rm	2023 Unaudited Rm	2022 Unaudited Rm
Reconciliation of profit attributable to equity holders of the company to headline profit and adjusted headline profit				
Profit attributable to equity holders of the company	**255**	325	**–**	9
Loss on disposal of property, plant and equipment	**–**	5	**–**	–
Impairment of trademark	**–**	6	**–**	–
Headline profit[2]	**255**	336	**–**	9
Separation Payment	**–**	(399)	**–**	–
Transaction cost	**–**	11	**–**	–
Share of associates' exceptional items – cash flow hedges reclassified to profit or loss	**–**	(11)	**–**	–
Total tax effects of other exceptional items	**–**	80	**–**	–
Adjusted headline profit[1, 2]	**255**	17	**–**	9
Number of shares in issue (million)	**1 379**	1 478	**1 379**	1 478
Weighted number of shares in issue (million)	**1 413**	1 478	**1 413**	1 478
Basic headline profit per share (cents)	**18.0**	22.7	**–**	0.6
Diluted headline profit per share (cents)	**17.6**	22.7	**–**	0.6
Basic adjusted headline profit per share (cents)	**18.0**	1.2	**–**	0.6
Diluted adjusted headline profit per share (cents)	**17.6**	1.2	**–**	0.6

1 *Adjusted headline profit is defined as profits or losses attributable to equity holders of the company adjusted for after-tax exceptional items (including headline adjustments) that are regarded as sufficiently material and unusual that they would distort the numbers if they were not adjusted. This measure is not required by IFRS, is audited at year end and is commonly used in the industry.*

2 *The Separation Payment of R399 million (R313 million net of tax) has been included in the group's headline profit for the six months ended 30 September 2022.*

Supplementary information *continued*

for the six months ended 30 September

	Continuing operations		Discontinued operations	
	2023 Unaudited Rm	2022 Unaudited Rm	**2023 Unaudited Rm**	2022 Unaudited Rm
Reconciliation of operating profit to Ebitdar				
Ebitdar pre-exceptional items is made up as follows:				
Operating profit	**460**	570	**–**	15
Amortisation and depreciation	**190**	192	**–**	4
Property rentals	**83**	56	**–**	–
Share-based payment expense	**12**	8	**–**	–
	745	826	**–**	19
Add/(less): Exceptional losses[1]/(gains)				
Loss on disposal of property, plant and equipment	**–**	5	**–**	–
Impairment of trademark	**–**	6	**–**	–
Separation Payment	**–**	(399)	**–**	–
Transaction/restructuring costs	**–**	11	**–**	–
Ebitdar	**745**	449	**–**	19

[1] *The group considers exceptional items to be those that are not within the normal day-to-day operations of the business and sufficiently material or unusual that they would distort the numbers if they were not adjusted. This would include headline adjustments.*

Condensed consolidated cash flow statement

for the six months ended 30 September

	2023 Unaudited Rm	2022 Unaudited Rm
Cash flows from operating activities		
Profit before interest and income tax	**460**	570
Adjust for non-cash movements	**347**	359
Decrease in working capital	**(128)**	(99)
Cash generated from operations	**679**	830
Finance income	**30**	16
Finance costs	**(169)**	(188)
Income tax paid	**(90)**	(14)
Dividends paid	**–**	(1)
Cash flows from operating activities – discontinued operations	**–**	15
Net cash generated from operating activities	**450**	658
Cash flows from investment activities		
Purchase of property, plant and equipment – replacement	**(140)**	(39)
Purchase of property, plant and equipment – expansionary	**(8)**	(142)
Proceeds from disposals of property, plant and equipment	**–**	1
Additions to investment property	**(9)**	(9)
Additions to investment property – expansionary	**(59)**	–
Dividends received	**10**	–
Net cash utilised for investment activities – discontinued operations	**–**	(2)
Net cash utilised in investment activities	**(206)**	(191)
Cash flows from financing activities		
Borrowings raised	**174**	5
Borrowings repaid	**(174)**	(635)
Principal element of lease payments	**(17)**	(12)
Purchase of treasury shares	**(389)**	–
Refund of funds held as security	**(236)**	–
Net cash utilised for financing activities	**(642)**	(642)
Net decrease in cash and cash equivalents	**(398)**	(175)
Cash and cash equivalents at beginning of the period, net of bank overdrafts	**883**	665
Foreign currency translation	**13**	20
Cash and cash equivalents at end of the period, net of bank overdrafts	**498**	510
Included in cash and cash equivalents per the balance sheet	**498**	441
Included in the assets that are held for sale	**–**	69
Cash and cash equivalents at end of the period, net of bank overdrafts	**498**	510

Condensed consolidated balance sheet

	30 September 2023 Unaudited Rm	31 March 2023 Audited Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**8 494**	8 412
Right-of-use assets	**972**	1 014
Investment properties	**1 553**	1 485
Goodwill	**354**	354
Other intangible assets	**36**	38
Investments in associates	**408**	374
Post-employment benefit assets	**5**	5
Derivative financial instruments	**26**	28
Non-current receivables	**14**	14
Deferred income tax assets	**289**	312
Total non-current assets	**12 151**	12 036
Current assets		
Inventories	**77**	75
Trade and other receivables	**559**	504
Other income tax assets	**8**	8
Cash and cash equivalents	**498**	883
Demand deposit held as security	**–**	230
Cash and cash equivalents	**498**	653
Total current assets	**1 142**	1 470
Total assets	**13 293**	13 506
EQUITY		
Capital and reserves attributable to equity holders of the company		
Ordinary share capital and premium	**5 333**	5 333
Other reserves	**1 929**	1 837
Treasury shares	**(433)**	(44)
Retained earnings	**1 319**	1 064
Total shareholders' equity	**8 148**	8 190
Non-controlling interests	**(17)**	(18)
Total equity	**8 131**	8 172

	30 September 2023 Unaudited Rm	31 March 2023 Audited Rm
LIABILITIES		
Non-current liabilities		
Interest-bearing borrowings	**1 994**	1 964
Lease liabilities	**1 388**	1 412
Deferred income tax liabilities	**458**	458
Deferred revenue	**27**	23
Provisions	**66**	70
Total non-current liabilities	**3 933**	3 927
Current liabilities		
Lease liabilities	**42**	35
Trade and other payables	**1 015**	887
Deferred revenue	**53**	46
Liabilities linked to demand deposit	**–**	230
Provisions	**67**	137
Current income tax liabilities	**52**	72
Total current liabilities	**1 229**	1 407
Total liabilities	**5 162**	5 334
Total equity and liabilities	**13 293**	13 506

Condensed consolidated statement of changes in equity

for the six months ended 30 September

	Attributable to equity holders of the company						
	Ordinary share capital and premium Rm	Other reserves Rm	Treasury shares Rm	Retained earnings Rm	Total attributable to the parent Rm	Non-controlling interests Rm	Total equity Rm
Balance at 31 March 2022	5 333	1 828	–	48	**7 209**	97	**7 306**
Total comprehensive income	–	359	–	334	**693**	1	**694**
Profit for the year	–	–	–	334	**334**	1	**335**
Cash flow hedges, net of tax	–	20	–	–	**20**	–	**20**
Currency translation adjustment	–	339	–	–	**339**	–	**339**
Share-based payments charge	–	8	–	–	**8**	–	**8**
Balance at 30 September 2022	5 333	2 195	–	382	**7 910**	98	**8 008**
Balance at 1 April 2023	**5 333**	**1 837**	**(44)**	**1 064**	**8 190**	**(18)**	**8 172**
Total comprehensive income	–	80	(389)	255	**(54)**	1	**(53)**
Profit for the year	–	–	–	255	**255**	(1)	**254**
Cash flow hedges, net of tax	–	1	–	–	**1**	–	**1**
Currency translation adjustment	–	79	–	–	**79**	2	**81**
Purchase of treasury shares	–	–	(389)	–	**(389)**	–	**(389)**
Share-based payments charge	–	12	–	–	**12**	–	**12**
Balance at 30 September 2023	**5 333**	**1 929**	**(433)**	**1 319**	**8 148**	**(17)**	**8 131**

Segmental analysis

for the six months ended 30 September

	Revenue[1]		Ebitdar[2]		Ebitdar margin	
	2023 Rm	2022 Restated[4] Rm	2023 Rm	2022 Restated[4] Rm	2023 %	2022 Restated[4] %
Continuing operations						
Investment properties – Externally managed	**77**	54	**76**	52	**99**	96
Sandton Consortium	**333**	225	**105**	55	**32**	24
Internally managed	**2 207**	1 635	**573**	346	**26**	21
Western Cape	**745**	494	**211**	89	**28**	18
KwaZulu-Natal	**518**	466	**151**	133	**29**	29
Gauteng	**611**	423	**119**	51	**19**	12
Other	**333**	252	**92**	73	**28**	29
Offshore	**213**	178	**41**	31	**19**	17
Manco costs	**(40)**	389	**(50)**	(35)	*****	(9)
Manco[3]	**(40)**	(10)	**(50)**	(35)	*****	*
Separation Payment	**–**	399	**–**	–	**–**	–
Total	**2 790**	2 481	**745**	449	**27**	18
Discontinued operations						
Offshore	**–**	67	**–**	19	**–**	28
Group, including discontinued operations	**2 790**	2 548	**745**	468	**27**	18

1 *All revenue and income from hotel operations is derived from external customers. No one customer contributes more than 10% to the group's total revenue.*

2 *Refer to reconciliation of operating profit to Ebitdar on page 20.*

3 *This segment includes the net cost of the group's frequentGuest loyalty rewards programme which is managed by Manco and consequently includes the forfeitures and any other adjustments, while the redemptions are allocated to the specific segments.*

4 *Restated for the change to the disclosure of segmental reporting. Refer to note 8.*

* *Percentage change greater than 100% or negative.*

Revenue from contracts with customers

for the six months ended 30 September

The group derives revenue over time, with the exception of food and beverage revenue which is recognised at a point in time, together with its hotel customer reward programmes in terms of which revenue is recognised as the rewards are redeemed or they expire. The group has no contract assets. The table below presents revenue by segment which excludes other income as these are accounted for under different accounting policies, which are included in the segmental analysis on page 25. Disaggregation of revenue from contracts with customers for the period under review:

	Rooms revenue recognised over time		Food and beverage recognised at a point in time		Other revenue[1]		Revenue from external customers	
	2023 Rm	2022 Restated[2] Rm	2023 Rm	2022 Restated[2] Rm	2023 Rm	2022 Restated[2] Rm	2023 Rm	2022 Restated[2] Rm
Continuing operations								
Sandton Consortium	**209**	134	**109**	81	**10**	6	**328**	221
Internally managed	**1 507**	1 069	**563**	434	**86**	106	**2 156**	1 609
Western Cape	**516**	330	**176**	131	**40**	29	**732**	490
KwaZulu-Natal	**332**	290	**147**	130	**20**	31	**499**	451
Gauteng	**412**	269	**164**	115	**25**	33	**601**	417
Other	**247**	180	**76**	58	**1**	13	**324**	251
Manco	**–**	–	**–**	–	**–**	405	**–**	405
Offshore	**142**	115	**58**	52	**12**	11	**212**	178
	1 858	1 318	**730**	567	**108**	528	**2 696**	2 413
Discontinued operations								
Offshore	**–**	42	**–**	23	**–**	2	**–**	67
	1 858	1 360	**730**	590	**108**	530	**2 696**	2 480

	2023 Rm	2022 Restated[2] Rm
Reconciliation to segmental analysis on page 25:		
Continuing operations	**2 790**	2 481
Revenue from contracts with customers per above	**2 696**	2 413
Property rental income	**94**	68
Discontinued operations – Revenue from contracts with customers per above	**–**	67
Total income per segmental analysis	**2 790**	2 548

1 *All other revenue is recognised over time except for the Separation Payment of R399 million that is included in the Manco segment.*

2 *Restated for the change to the disclosure of segmental reporting. Refer to note 8.*

	2023 Rm	2022 Rm
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Other revenue is made up as follows:		
Management fees revenue	**31**	43
Parking revenue	**7**	6
Venue hire revenue	**33**	26
Packaged food	**12**	11
Non-arrival charges	**7**	4
Other sundry revenue	**18**	39
Separation Payment	**–**	399
Other revenue	**108**	528

Southern Sun

DIRECTORS

JA Copelyn (Chairman)* MN von Aulock (Chief Executive Officer) L McDonald (Chief Financial Officer) MH Ahmed (Lead Independent)*#
SC Gina*# ML Molefi# JG Ngcobo*#
JR Nicolella* CC September*#

* Non-executive   # Independent

COMPANY SECRETARY

LR van Onselen for Southern Sun Secretarial Services Proprietary Limited

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This condensed results announcement contains forward-looking statements and information in relation to the group. By its very nature, such forward-looking statements and information require the company to make assumptions that may not materialise or that may not be accurate. Such forward-looking information and statements involve known and unknown risks, uncertainties and other important factors beyond the control of the company that could cause the actual performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements. Past share performance cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of the announcement and no statement is intended to be a profit forecast. Forward-looking statements are the responsibility of the directors and have not been reviewed and reported on by the external auditors in accordance with ISAE 3400 *The Examination of Prospective Financial Information*.

Luxury		Full Service	Economy	Convention Centre
54 on Bath	Arabella Hotel, Golf & Spa	Southern Sun Hotels	stayeasy	Sandton Convention Centre
Beverly Hills	InterContinental Johannesburg O.R. Tambo Airport	Southern Sun Resorts	SUN1	
Sandton Sun	Sandton Towers	Sun Square		
Mount Grace Hotel & Spa	Paradise Sun praslin seychelles	Garden Court		

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