CITY LODGE HOTEL GROUP

Integrated Report 2017

REPORTING principles

The City Lodge Hotel Group is guided by the principles, with regards to our Integrated Report, contained in the following:

Integrated reporting

- IIRC <IR> Framework
- South African Companies Act
- JSE Listings Requirements
- King Report on Corporate Governance 2009 ("King III")
- Where applicable we apply the Global Reporting Initiative's ("GRI") guidelines

Financial reporting

- International Financial Reporting Standards
- South African Companies Act
- JSE Listings Requirements

INTEGRATED REPORTING

In 2017 City Lodge Hotels Limited published our seventh Integrated Report. Using feedback obtained from our stakeholders, the input of reporting experts and an internal review, we have introduced some minor changes to improve the readability of this report, along with some additional disclosure.

We hope that this IR gives you a better understanding of our business and we remain committed to improving on this report and would appreciate your feedback in this regard – any comments can be emailed to Alastair Dooley at **adooley@clhg.com.**

SCOPE AND BOUNDARY

City Lodge Hotels Limited's IR is released at least 15 business days prior to its AGM. This report covers the financial year from 1 July 2016 to 30 June 2017. The previous IR was published in 2016 and covered the period 1 July 2015 to 30 June 2016. The scope of this year's report includes all of our operations in South Africa, Kenya and Botswana totalling 57 hotels. This IR provides a general narrative on the performance of the group's business across our five hotel brands. All City, Town and Road Lodge brands, as well as three Courtyard Hotels and the Fairview Hotel, are wholly owned by the group, while the remaining two Courtyard Hotels are proportionally consolidated.

This report is consistent with the prior year and is compiled annually. There are no restatements from the prior year.

This report has been prepared primarily for the providers of financial capital in order to support their financial capital allocation assessments, although information relevant to other stakeholders has also been included. The 2016 report was made available to shareholders on 19 September 2016.

Included in the report are the group's consolidated annual financial statements.

REPORT NAVIGATION

CONSOLIDATION	ENVIRONMENTAL SUSTAINABILITY
AFRICA EXPANSION	INFORMATION TECHNOLOGY
TRANSFORMATION	BRAND IDENTITY

Passionate people

BOARD OF DIRECTORS' STATEMENT

On the basis of the recommendations from the auditors KPMG Inc., the audit committee provides assurance on the annual financial statements.

The board acknowledges its responsibility to ensure the integrity of the Integrated Report ("IR"). The board has applied its mind to the IR and believes that it addresses all material issues, presents fairly the integrated performance of the organisation and its impacts in accordance with the principles set out in the International Integrated Reporting Framework.

The IR has been prepared in line with best practice and the recommendations of King III.

The IR was approved by the board on 4 September 2017 and is signed on its behalf by:

C Ross – *Chief executive*

B T Ngcuka – *Chairman*

www.clhg.com

CONTENTS

COMPANY PROFILE

BUSINESS REVIEW

FINANCIAL STATEMENTS

Committed to service excellence

FORWARD LOOKING STATEMENTS

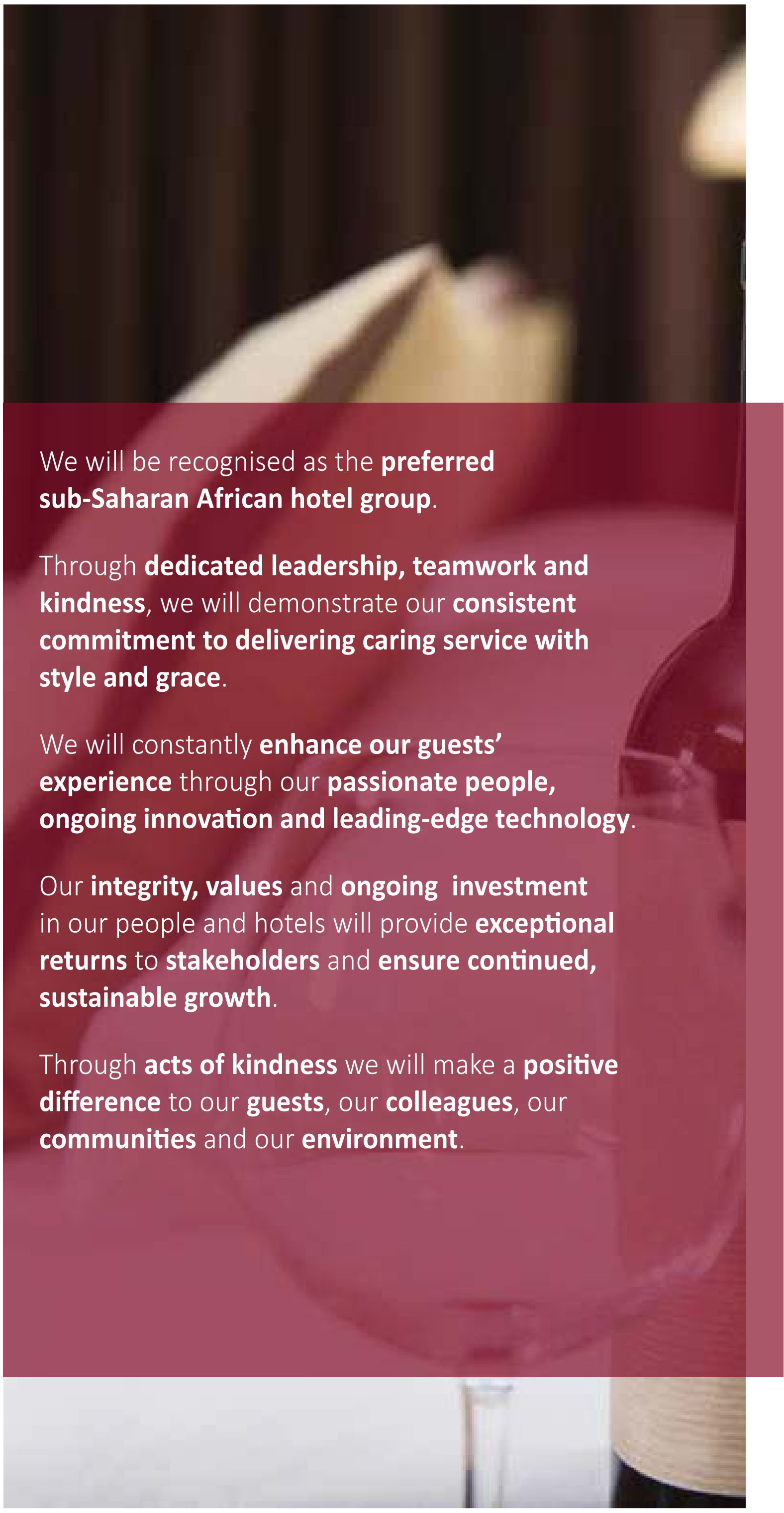
Certain statements in this document may constitute “forward looking statements”.

Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of City Lodge Hotels Limited and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements.

The company undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events.

These have not been reviewed or reported on by the group’s auditors.

OUR vision



We will be recognised as the **preferred sub-Saharan African hotel group**.

Through **dedicated leadership, teamwork and kindness**, we will demonstrate our **consistent commitment to delivering caring service with style and grace**.

We will constantly **enhance our guests' experience** through our **passionate people, ongoing innovation and leading-edge technology**.

Our **integrity, values** and **ongoing investment** in our people and hotels will provide **exceptional returns** to **stakeholders** and **ensure continued, sustainable growth**.

Through **acts of kindness** we will make a **positive difference** to our **guests**, our **colleagues**, our **communities** and our **environment**.

WHAT we do

The City Lodge Hotel Group is a multi-brand chain offering a variety of locations, features and budget choices to business and leisure travellers.

Commitment to **service excellence** from **highly motivated and dedicated staff** is a common thread throughout the group's hotels, which have developed a loyal base of regular guests over the years and an ever-growing number of new guests.

We place emphasis on providing **quality accommodation, friendly service** and a **homely ambience –** core reasons why guests choose our hotels.

The group has five distinct brands, currently offering **7 072 rooms**, at **57 locations** throughout **Southern** and **Eastern Africa.**

OUR strategy

CONSOLIDATION	To **consolidate our position** within South Africa.
AFRICA EXPANSION	To **expand our footprint** beyond South Africa's borders.
TRANSFORMATION	To continue to **transform the group** in line with the B-BBEE Codes of Good Practice.
ENVIRONMENTAL SUSTAINABILITY	To be a **leader within the hospitality sector** in environmentally sustainable business practices.
INFORMATION TECHNOLOGY	To **maintain and implement an innovative technology** platform.
BRAND IDENTITY	To continue **embedding our refreshed brands**, and realise growing benefits from an individual brand marketing strategy.

WHERE we operate and aim to expand to

1 Hotel

127 Rooms

KENYA
Nairobi

5 Hotels

381 Rooms

GAUTENG
Johannesburg
(Eastgate, Rosebank, Sandton)
Tshwane
(Arcadia)

EASTERN CAPE
Port Elizabeth

17 Hotels

3 002 Rooms

GAUTENG
Johannesburg
(Johannesburg Airport, Bryanston, Fourways, Newtown, OR Tambo International Airport, Sandton – Katherine Street, Sandton – Morningside, Waterfall City)

Tshwane
(Hatfield, Lynnwood)

WESTERN CAPE
Cape Town
(GrandWest, Pinelands, V&A Waterfront)

EASTERN CAPE
Port Elizabeth

KWAZULU-NATAL
Durban
(Central, Umhlanga Ridge)

FREE STATE
Bloemfontein

Opening soon
KENYA
Nairobi

MOZAMBIQUE
Maputo

TANZANIA
Dar es Salaam

In 2012, the group acquired a 50% interest in the **Fairview Hotel and Town Lodge,** Upper Hill, Nairobi, Kenya, and it has since taken full ownership.

Town Lodge Gaborone in Botswana became the first new hotel developed by the group outside of South Africa.

With **five Courtyard Hotels** (381 rooms), **17 City Lodge Hotels** (3 002 rooms), **12 Town Lodges** (1 503 rooms), **22 Road Lodges** (2 059 rooms), and the **Fairview Hotel** (127 rooms), **the City Lodge Hotel Group has 7 072 rooms and ranks amongst the 200 largest hotel chains in the world.**

- Fairview
- Courtyard Hotel
- City Lodge Hotel
- Town Lodge
- Road Lodge

12 Hotels

1 503 Rooms

GAUTENG
Johannesburg
(Johannesburg Airport, Midrand, Roodepoort, Sandton – Grayston Drive)
Tshwane
(Menlo Park)

WESTERN CAPE
Bellville
George

EASTERN CAPE
Port Elizabeth

MPUMALANGA
Mbombela

LIMPOPO
Polokwane

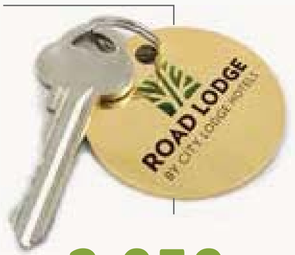
BOTSWANA
Gaborone

KENYA
Nairobi

Opening soon
KWAZULU-NATAL
Umhlanga Ridge

NAMIBIA
Windhoek

22 Hotels



2 059 Rooms

GAUTENG
Johannesburg
(Carnival City, Germiston, Isando, Johannesburg Airport, Randburg, Rivonia, Southgate)
Tshwane
(Centurion)

WESTERN CAPE
Cape Town
(N1 City, Cape Town International Airport)

EASTERN CAPE
East London
Port Elizabeth
(Port Elizabeth Airport, Summerstrand)

NORTHERN CAPE
Kimberley

KWAZULU-NATAL
Durban
(Central, Umhlanga Ridge)
Pietermaritzburg
Richards Bay

FREE STATE
Bloemfontein

MPUMALANGA
Mbombela

NORTH WEST
Potchefstroom
Rustenburg

Opening soon
LIMPOPO
Polokwane

WHERE we have come from and our accolades

1985

City Lodge Randburg (now Bryanston), the first selected services hotel in South Africa, **opens its doors to the public.**

1990

Town Lodge, a new brand and differentiated two-star offering, **is added to the portfolio.**

Bronze level from Investors **in People.**

1992

City Lodge Hotels Limited **successfully listed on the JSE.**

1995

City Lodge 10th Anniversary Employees Share Trust was launched which enabled employees to become shareholders.

Road Lodge, our one-star brand **and Courtyard,** our four-star **brand offering,** are added to the portfolio.

2008

Successful introduction of BEE SHAREHOLDERS through a structured deal.

= **Accolades**

FAIRVIEW
A CITY LODGE GROUP HOTEL

2012

Acquisition of 50% interest in **Fairview Hotel Limited, Kenya.**

2013

Town Lodge Gaborone opens, being our first hotel to be developed outside South Africa.

2014

Acquisition of remaining 50% interest in **Fairview Hotel Limited, Kenya.**

Rejuvenation of hotel brands and logos.


City Lodge in R1bn expansion plan

2016

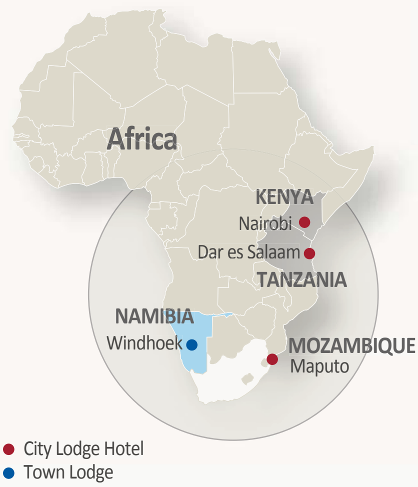
2016 Sunday Times Top 100 Company, **placing 46th.**

Best one and two-star hotel in 2016 National Lilizela Accommodation Awards.

2017

Construction continues on four hotels in four countries.

Twelve Tripadvisor 2017 Certificates of Excellence.



2017 CERTIFICATE of EXCELLENCE
tripadvisor

HOW we have performed

R1,5bn
(2016: R1,5bn)
Total revenue for the year increased by 2%

R609,6m
(2016: R655,2m)
Normalised cash generated by operations decreased by 7%

R202,4m
(2016: R192,3m)
Capital investment increased by 5%

R362,2m
(2016: R373,7m)
Normalised headline earnings decreased by 3%

R513,6m
(2016: R528,4m)
Normalised operating profit decreased by 3%

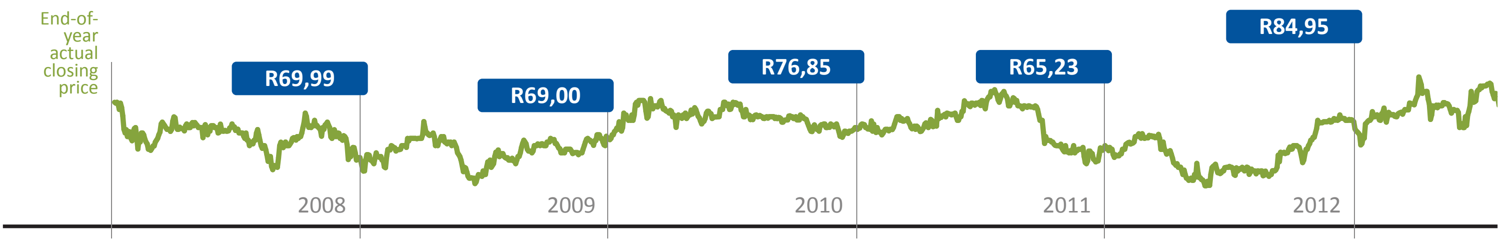
833,6c
(2016: 859,9c)
Diluted headline earnings per share decreased by 3%

Level 5
(2016: level 3 – old codes)
BEE rating in terms of revised tourism sector scorecard

1 951
(2016: 1 907)
Total number of jobs created increased by 44

STOCK EXCHANGE PERFORMANCE

11-year ordinary share price



3 928c
(2016: 3 704c)
Normalised net asset value per share

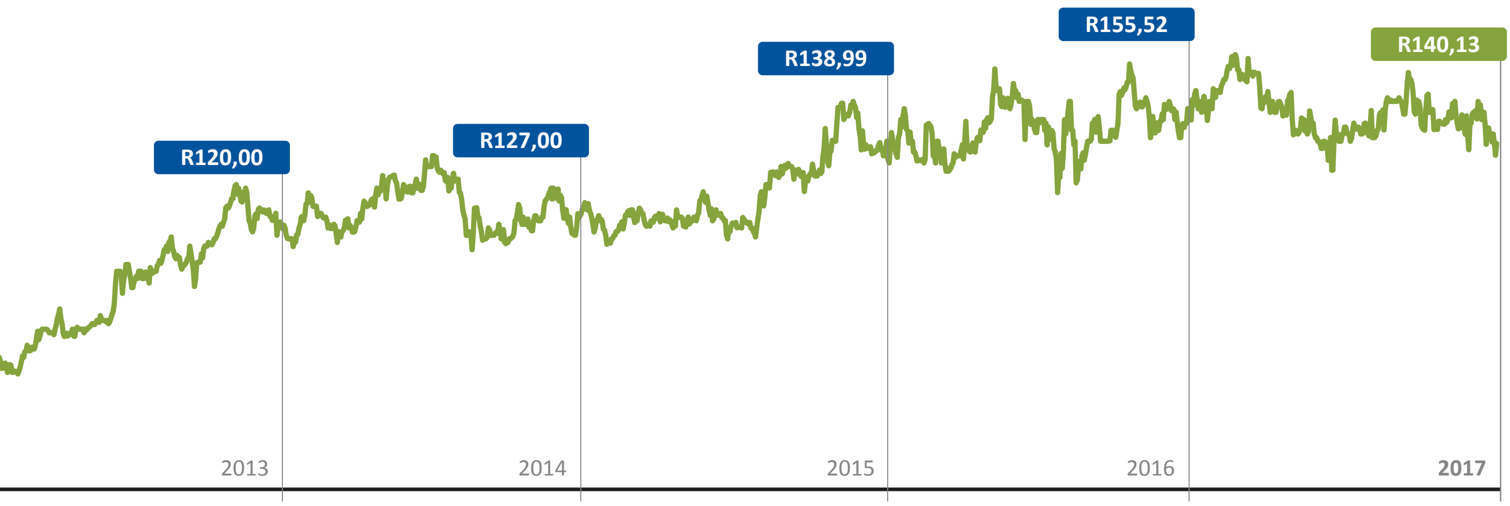
34 321t
(2016: 35 936t)
Carbon footprint

86%
(2016: 86%)
Total customer satisfaction rating remained unchanged

500,0c
(2016: 517,0c)
Dividends per share decreased by 3%

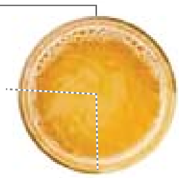
63%
(2016: 66%)
Group occupancy rate decreased by 3%

R616,7m
(2016: R624,9m)
Total normalised EBITDA decreased by 1%



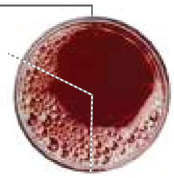
VALUE added statement

Employees



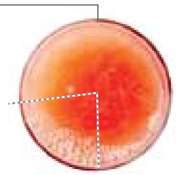
27%

Government



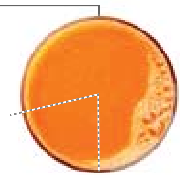
31%

Providers of capital



24%

Reinvested to maintain/ develop operations



18%

	Group			
R000	**2017**	**%**	2016	%
Revenue[1]	**1 729 407**		1 704 249	
Paid to suppliers for materials and services[1]	**(618 169)**		(582 204)	
Value added by operations	**1 111 238**		1 122 045	
Interest income	**6 603**		2 268	
Total wealth created	**1 117 841**	**100**	1 122 045	100
Distributed as follows:				
Salaries, wages and all related benefits[2]				
– direct	**253 964**		243 814	
– indirect	**45 766**		43 065	
	299 730	**27**	286 879	26
Government				
Taxes[3]	**299 647**		312 118	
Rates	**42 986**		39 106	
	342 633	**31**	351 224	31
Providers of capital				
Dividends to ordinary shareholders	**192 955**		184 316	
Interest on borrowings	**77 558**		74 523	
	270 513	**24**	258 839	23
Reinvested to maintain/develop operations				
Depreciation	**102 779**		96 399	
Accumulated profit	**102 186**		130 972	
	204 965	**18**	227 371	20
Total wealth distributed	**1 117 841**	**100**	1 124 313	100
Headcount – direct	**1 440**		1 424	
Headcount – indirect	**511**		483	
Total headcount	**1 951**		1 907	

[1] Including value added taxation ("VAT").
[2] Excluding employee taxes.
[3] Includes income taxation, deferred taxation, employee taxes and net VAT.

OUR group structure

CITY LODGE HOTEL GROUP

City Lodge Hotels Limited

- 100% Budget Hotels Proprietary Limited RSA
- 100% City Lodge Hotels (Africa) Proprietary Limited RSA
  - 100% City Lodge Hotels (Namibia) Proprietary Limited Namibia
  - 100% City Lodge (Uganda) Limited Uganda
  - 99% CLHG Mozambique LDA Mozambique■
  - 100% CLHG Tanzania Limited Tanzania●
- 100% City Lodge Hotels (Botswana) Proprietary Limited Botswana
- 100% Courtyard Management Company Proprietary Limited RSA
- 100% Fairview Hotel Limited Kenya
- 70% Anchor Park Investments 105 Proprietary Limited
- 100% Property Lodging Investments Proprietary Limited RSA
  - 100% City Lodge Holdings (Share Block) Proprietary Limited RSA*
- 100% Gallic Courtyard (Arcadia) (Share Block) Proprietary Limited RSA
- 100% Gallic Courtyard (Bruma Lake) (Share Block) Proprietary Limited RSA
- 100% Gallic Courtyard (Rosebank) (Share Block) Limited RSA
- 100% Gallic Courtyard (Sandown) (Share Block) Proprietary Limited RSA
- Vuwa Hotels Proprietary Limited#
- Newshelf 935 Proprietary Limited#
- Newshelf 892 Proprietary Limited#

** A subsidiary of Property Lodging Investments Proprietary Limited.*

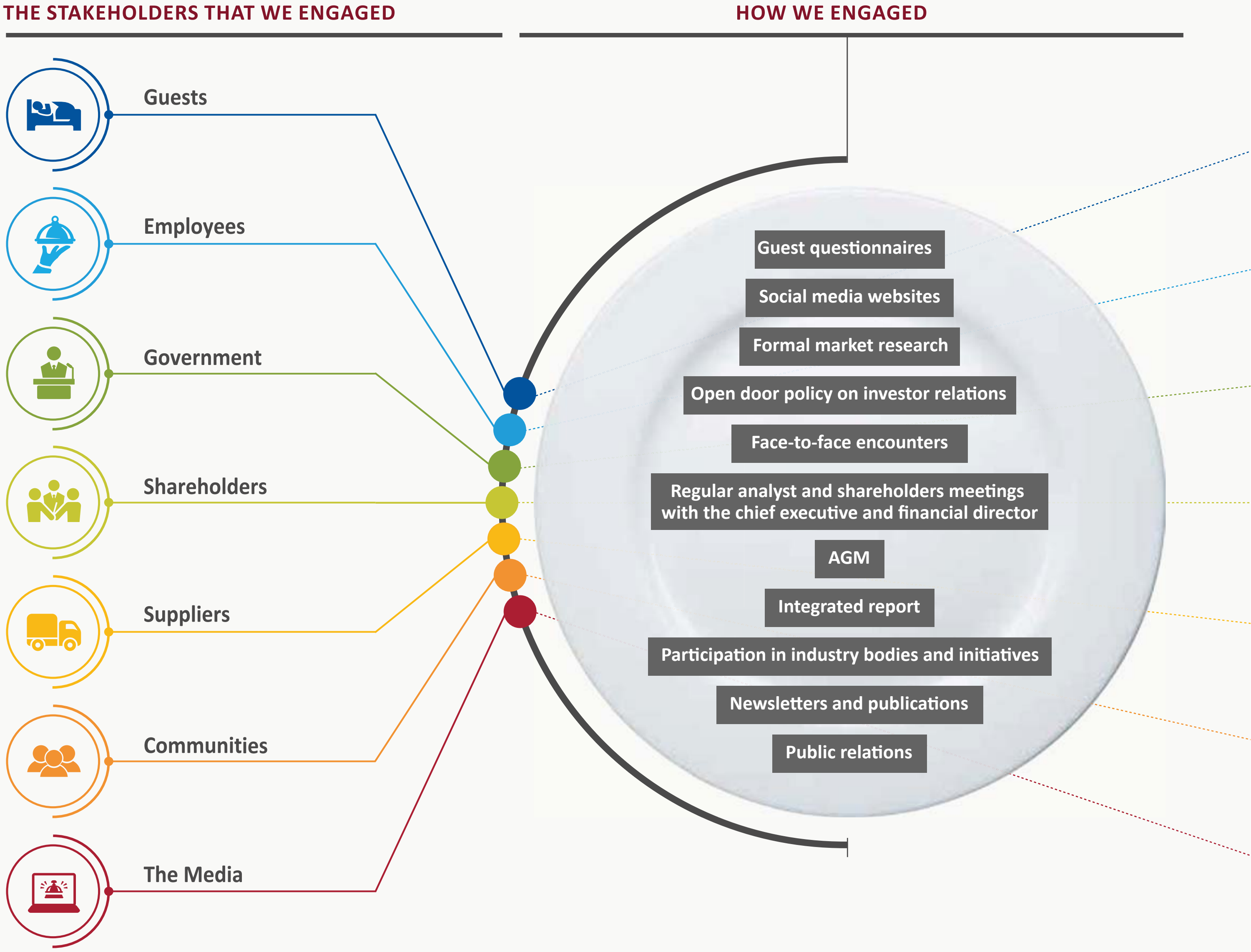
● City Lodge Hotels Limited owns 0,01%.

■ City Lodge Hotels Limited owns 1%.

 # City Lodge has guaranteed the funding of these BEE entities, resulting in their incorporation into the company and group results. City Lodge does not hold a direct interest in these entities.

THOSE who keep us in business

Engaging with our stakeholders and **understanding their requirements and concerns is critical to helping our company identify its most material issues**. Information gathered as part of our various stakeholder engagement processes **feeds directly into decision-making and drives our business strategy**.



WHAT IS IMPORTANT TO THEM

■ Quality product offering ■ Recognised loyalty ■ Efficiency in dealing with us	■ Consistent service levels ■ Value for money ■ Listening to their needs
■ Job security ■ Fair remuneration ■ Performance management	■ Engagement ■ Career pathing ■ On-the-job coaching and training ■ Safe working conditions
■ Tax revenues ■ Compliance with legislation ■ Advancing transformation ■ Job creation	■ Investment in country ■ Supporting communities ■ Reduction in consumption of natural resources
■ Corporate governance and ethical leadership ■ Growth and expansion opportunities	■ Level of gearing ■ Return on investment ■ Dividends
■ Stability of supply and timely payment ■ BEE performance ■ Fair treatment	
■ Sponsorships ■ Bursaries and leadership ■ Investment in disadvantaged communities ■ Volunteer days ■ Responsible consumption	
■ Honest transparent communication	

WHERE our industry is headed

Business and consumer confidence has remained under pressure and at historically low levels within South Africa, along with high levels of unemployment and political uncertainty.

Economic growth has been negatively impacted with South Africa falling into a technical recession in the early part of 2017, but returning to low growth in the second quarter.

Levels of midweek business travel have been impacted by the combination of low business confidence and low economic growth. A trend has developed in which some business travellers have shortened their stays or "traded down" to lower graded and less expensive hotels and other types of accommodation offerings and establishments. Weekend travel has been affected by pressure on consumers and their disposable income.

Botswana's economic fortunes are closely aligned to those of South Africa, while in East Africa, the Kenyan economy continued to show an improved performance in the first half of the 2017 financial year, but was negatively impacted in the last quarter of the year in the lead-up to the Kenyan elections on 8 August. Despite a few incidents of violence and alleged voting irregularities, the Kenyan elections were successfully held and declared to be largely free and fair by an African observer team which included former South African president, Thabo Mbeki.

Both business and leisure travellers are increasingly focusing on accommodation options that take their evolving and changing needs into account. These needs vary from location, style and budget to issues such as information technology accessibility, catering options, energy efficiency, environmental awareness and a range of other features and services.

The South African Reserve Bank has forecast that the country's economy will grow by about 1% in 2017. While this is an improvement on 2016, it is still extremely low and does not provide the necessary impetus needed for sustainable economic improvement that will positively affect the business and consumer sectors of the economy.

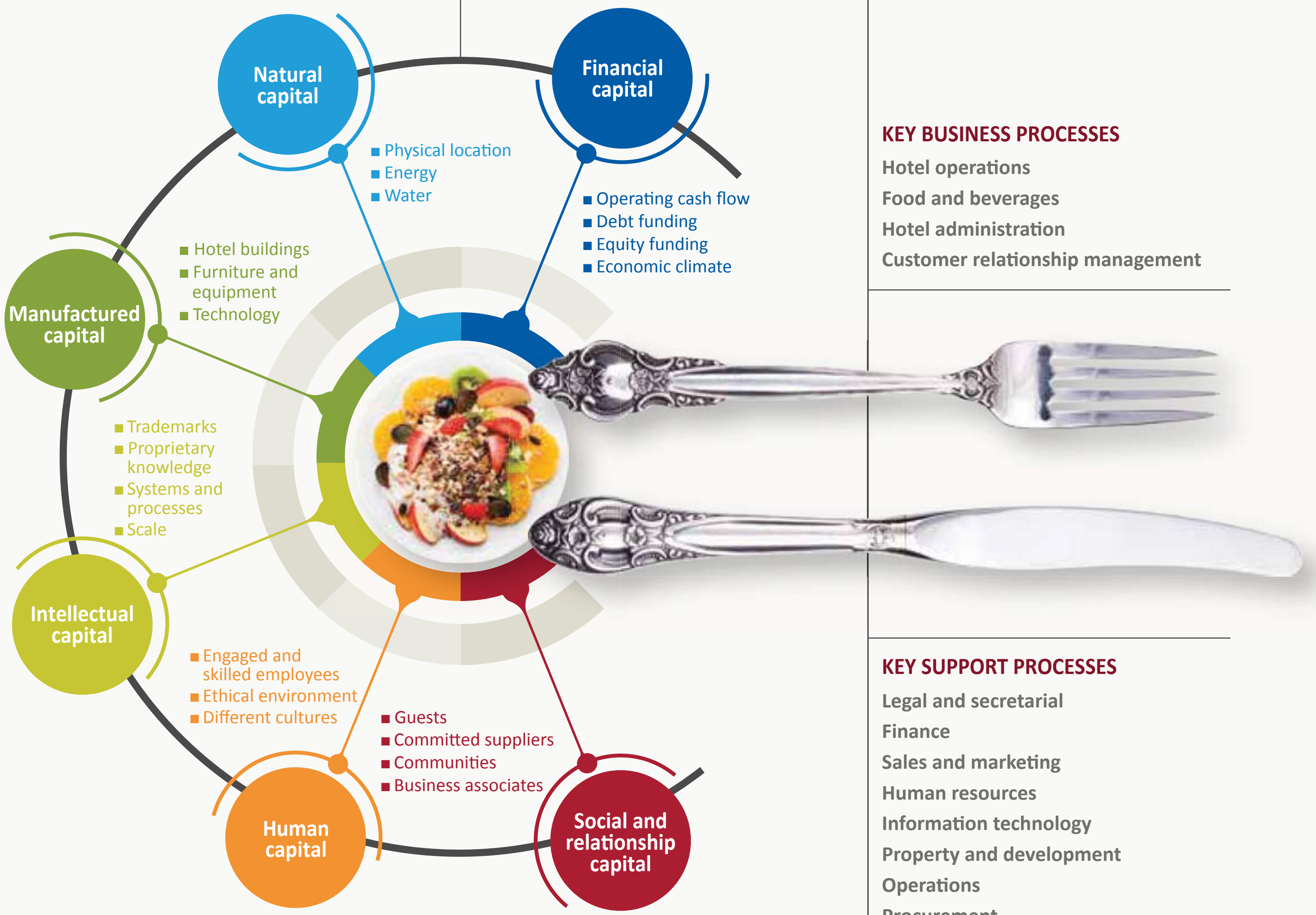
There are signs of economic improvement in South Africa with the South African Chamber of Business's confidence index reaching a five-month high in July, based mainly on a slight strengthening in the value of the Rand, a drop in inflation and a 0,25% cut in interest rates in late July. However, economic and currency volatility and political uncertainty are expected to be major influencing factors for the remainder of 2017 with rating agencies keeping a watch on developments ahead of the ruling party's policy and leadership conference in December.

In line with the weak economy and saturation in some locations, new hotel development in South Africa is subdued with relatively few new projects or openings on the drawing board. In Southern Africa and East Africa, the announcement of new hotel developments has slowed down after the launch of several new projects in recent years, including our own group's developments in Kenya, Mozambique, Namibia and Tanzania.

Online booking platforms continue to make inroads into traditional booking channels. This trend is expected to continue as travellers increasingly make use of highly efficient and convenient mobile technology to organise their business and social lives.

OUR business model

INPUTS



KEY PROCESSES

KEY BUSINESS PROCESSES

Hotel operations
Food and beverages
Hotel administration
Customer relationship management

KEY SUPPORT PROCESSES

Legal and secretarial
Finance
Sales and marketing
Human resources
Information technology
Property and development
Operations
Procurement

We own or lease and manage all of our **57 hotels under our own brands** and primarily operate in the selected service hotel sector, which we pioneered in South Africa.

In this way we are able to manage our products and standards in such a way as to enforce consistency throughout the group. This consistency flows from hotel design, to product offering and service. The company will lease properties both in South Africa and offshore only where it is not possible to own the land and/or buildings. Such properties would be in the minority, allowing the group to leverage off its historic low-cost model to remain competitive in the current trading environment.

Through the implementation of a rigorous refurbishment strategy, we maintain our high standards of product quality and are able to introduce advancements/improvements to our product regularly. One such example of the benefits from this strategy is the implementation of our energy-efficiency initiatives, which has reduced our absolute energy consumption by more than 37% since its initiation in 2010.

Of our revenue, approximately 90% is generated from providing tip-top and clean accommodation to business and leisure travellers in a loving and caring environment. Providing services to complement this offering such as breakfast, light meals, sundowner bars and meeting facilities allow guests to select which services they wish to receive at an additional affordable price.

All our hotels receive the support of our central office, which manages and implements the group's strategies consistently across all our brands. As a result of this unique value proposition, we have managed to achieve an average return on equity of 23,3% over the past seven years, with a current client satisfaction rating of 86% for the past year. This was achieved against a backdrop of providing jobs to 1 656 people in South Africa and a further 295 beyond its borders, either directly or indirectly, thereby contributing to government's growth objectives.

	OUTPUTS/OUTCOMES	STRATEGIC LINK
Financial capital	■ Enhanced equity value ■ Growth in footprint ■ Optimum debt levels ■ Investment income ■ Transformed ownership	CONSOLIDATION AFRICA EXPANSION TRANSFORMATION
Natural capital	■ Desirable product in convenient locations ■ Reduced environmental footprint ■ Recycling of waste ■ Efficient consumption	ENVIRONMENTAL SUSTAINABILITY
Manufactured capital	■ Quality accommodation ■ Comfort ■ Access to technology ■ Meeting travellers' changing needs	CONSOLIDATION AFRICA EXPANSION INFORMATION TECHNOLOGY
Intellectual capital	■ Positive brand reputation ■ Innovation ■ Improved operational efficiency ■ Standardised operating systems, policies and procedures	INFORMATION TECHNOLOGY BRAND IDENTITY
Human capital	■ Guests' satisfaction ■ Increased loyalty ■ Low staff turnover	CONSOLIDATION
Social and relationship capital	■ Guests' satisfaction ■ Loyal supplier base ■ Social upliftment ■ Industry participation and engagement ■ Management of overheads	CONSOLIDATION TRANSFORMATION

OUR material issues and strategic priorities

In determining our material issues – those that have the greatest potential impact on our success – City Lodge is informed by a range of **internal and external factors,** as well as the concerns raised by our stakeholders.

The group follows a process to assess the input gathered and identify those issues that are of the greatest strategic importance to us. In particular, **we gather information through internal and external engagement processes using these key sources:**

1

THE EXTERNAL ENVIRONMENT

We are informed by trends in the external environment, which are discussed as a regular item at the company's executive committee and board meetings. These include economic and industry trends, shifts in the competitive landscape and stakeholder concerns.

2

THE REGULATORY ENVIRONMENT AND INDEPENDENT BODIES

We consider the regulatory environment, assessing the materiality and impact of various regulations and legislation – both existing and those being developed – on the company. This includes legislation affecting our engagement with our workforce, the treatment of customers, marketplace behaviour, governance and environmental responsibility. We also participate in forums with governing bodies responsible for the development of legislation.

3

STAKEHOLDER ENGAGEMENT

Engaging with our stakeholders and understanding their concerns is critical to helping our company identify its most material issues. Information gathered as part of our various stakeholder engagement processes feeds directly into decision-making and drives our business strategy.

4

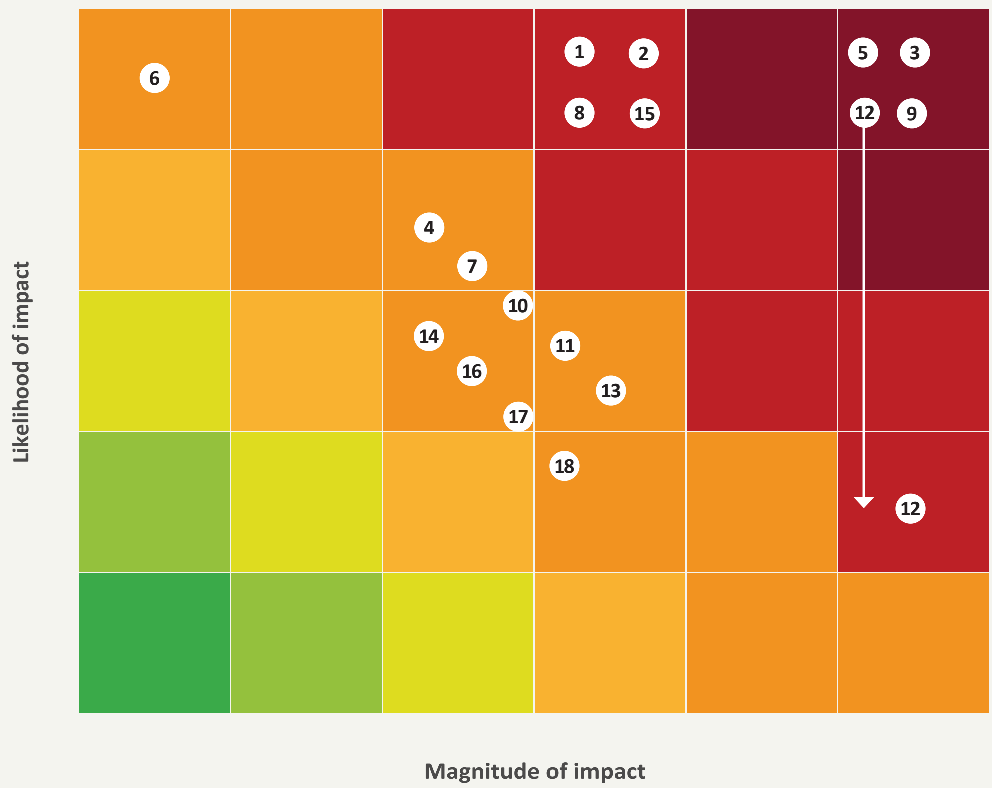
IDENTIFYING OUR MATERIAL ISSUES

Following an internal workshop, inputs gathered from these key sources were assessed, summarised and recorded into an enterprise risk management toolkit. Each item was assessed in terms of severity and likelihood of impact, with an assessment of the item's inherent risk exposure, the risk mitigation strategies and an evaluation of the residual risk exposure. This process ultimately resulted in a ranking of our business risks, which are encompassed in our material issues which were presented to the board for its approval for inclusion in this IR. Since 2016, there has been some movement in the assessment of one of the material issues as a result of shifting operating conditions, which is presented in the adjacent graph.

The issues identified were mapped according to their materiality as shown.

As the final step in the process, this information was fed directly into the articulation of our current business strategy.

MATERIAL ISSUES HEAT MAP



Strategic risk profile 2017

Issues included in this area of the grid have only a minor impact on the company and are thus not reported on.

Issues included in this area have a relatively moderate impact on our company. All issues shown in this area are discussed partially in this report.

Issues included in this area are of high significance and impact for both stakeholders and the company. All issues shown in this area are discussed fully in this report.

0 Issue numbers (refer pages 18 to 21).

OUR material issues and strategic priorities continued

MATERIAL ISSUES	DESCRIPTION	MITIGATING STRATEGY
1. Industry trends – over-supply	Continuous increases in capacity and the low utilisation thereof result in a subdued short-term outlook for the hospitality industry. In the large centres, growth in the shared economy has also introduced additional capacity.	- Active management which informs decisions on pricing and capacity. - Tracking and analysing industry trends and data.
2. Industry trends – travel patterns	Shifting travel patterns as a result of budgetary constraints, flight availability and enhanced technology have seen a decrease in overnight travel and reservation lead times are typically short.	- Active management which informs decisions on pricing and capacity. - Tracking and analysing industry trends and data.
3. Industry trends – yield management	Our ability to manage our own inventory and pricing strategy could impact our market share as travellers shop around for the best available deal.	- Active management which informs decisions on pricing and capacity. - Tracking and analysing industry trends and data.
4. B-BBEE deal funding and compliance	In the short term, the terms of the B-BBEE funding deal contain specific covenants to be complied with, along with minimum redemption levels, which are solely dependent on dividend flows from the group.	- Continuous engagement with banks regarding performance and terms of funding.
5. Exposure to South African macro-economic environment	As a result of the bulk of our operations being concentrated within the borders of South Africa, we are directly affected by the spending habits of the South African business traveller and consumer, influenced for example by a rising cost of living, the political landscape and low business confidence and economic growth.	- Geographic spread of portfolio and active brand management. - Exploring non-South African opportunities. - Maintain a price/value advantage.
6. Safeguarding our assets	High levels of crime occurring in and around our hotels.	- Awareness in this regard is addressed through participation in industry security and local policing forums. - 24-hour on premises security at all sites.
7. Failure to provide required service levels	Inability to meet the diverse needs of travellers.	- Extensive in-house training for all employees.
8. Changing labour environment	The current environment around collective bargaining by unions and the establishment of new unions may change current processes and the implementation of stringent penalties for missed employment equity targets.	- Regular engagement with labour unions and service providers. - Compliance function to monitor changing legislative requirements. - EE plans developed at individual hotel level.
9. Limitation on availability of funding for future projects and the cost thereof	In order for City Lodge to expand its footprint both locally and internationally in future, access to funding may be limited due to current macro-economic circumstances, however, some additional borrowing capacity may be created following the settlement of the BEE debt funding. The cost and terms at which such funding is granted may affect the group's ability to expand and grow.	- Continuous engagement with bank regarding facilities available. - Consideration of alternative sources of funding.
10. Exposure to emerging markets – macro factors	City Lodge's strategy to expand beyond the borders of South Africa could be affected by various risks prevalent in these countries, including political and regulatory uncertainty, transparency around land ownership, threat of terrorism, corruption and the timeframe to obtain operating licences.	- Clear guidelines and expectations, direct in-depth investigation and feasibility studies on countries and specific locations by dedicated resources. - On-site visits.
11. Exposure to emerging markets – operational challenges	There are a host of operational challenges involved in expanding beyond South African borders, eg availability of electricity, operating supplies, potable water and sewerage treatment.	- Extensive evaluation conducted by external specialists. - On-site visits.

STRATEGIC PRIORITIES/FOCUS	OVERVIEW	OUTCOME	KPI
CONSOLIDATION To **consolidate our position** within South Africa.	Through **continued focus on quality of service and product,** we aim to **maintain our position** as a leading provider of **quality selected services** hotel accommodation to our guests.	▪ Increased occupancy. ▪ Maintained/increased average daily rates. ▪ Increased focus on cost base. ▪ Managed debt levels. ▪ Consistently high standard of product and service.	▪ Occupancy % ▪ Average daily rate ("ADR") ▪ EBITDA margin ▪ Brand perception score ▪ Guest satisfaction survey % ▪ Return on equity ("RoE")
AFRICA EXPANSION To **expand our footprint** beyond South Africa's borders.	By obtaining a detailed understanding of our continent, we will be able to introduce **the same quality product our guests have grown to love to other African countries.**	▪ Detailed feasibility studies into foreign markets. ▪ Established footprint in new markets.	▪ Number of hotels beyond South African borders.

OUR material issues and strategic priorities continued

MATERIAL ISSUES	DESCRIPTION	MITIGATING STRATEGY
12. B-BBEE	Compliance to legislative requirements and the achievement of revised targets, particularly in light of the settlement of the BEE loan funding.	▪ Regular monitoring and forecasting of BEE targets.
13. Environmental sustainability	Development, implementation and maintenance of sustainable environmentally friendly business practices.	▪ Regular monitoring and decision-making by the environmental sustainability steering committee.
14. Reliance on IT infrastructure	As a result of the wide distribution of our hotels throughout sub-Saharan Africa, we have an established IT infrastructure in order to support our operations. Our hotels are reliant on this infrastructure daily in order to perform optimally and securely.	▪ Continuous upgrading and maintenance of IT infrastructure. ▪ Implementation of a detailed disaster recovery plan. ▪ Making use of third-party hosting facilities. ▪ Regular reviews and updates to IT security infrastructure.
15. Changing needs of the business traveller	Technological advancements result in changing guest expectations, which place additional reliance on the IT infrastructure and require the group to be innovative in its offering and refurbishments.	▪ Dedicated resources engage internally to assess and implement new projects.
16. Perception of brand and service offerings	City Lodge has been offering a consistently good product since its inception. As a result of the new capacity created in the industry, consumers are spoilt for choice and may perceive the brand unfavourably given its relative age and due to a lack of understanding thereof. Further, the direction of the marketing campaigns may influence consumer perceptions.	▪ A targeted marketing strategy to educate guests about the various brand offerings. ▪ Regular market research is conducted to understand the views and needs of travellers, which informs future decision-making. ▪ Engaging external specialist branding and marketing consultants and keeping up with current consumer trends.
17. Fair remuneration philosophy	There is a global trend towards evaluating income disparity within an organisation and benchmarking these to similar industry participants. Further, the introduction of a pay-for-performance culture aligns employee interests with those of shareholders.	▪ Extensive evaluation conducted by external specialists. ▪ Monitoring and implementation of remuneration philosophy is a function of the remuneration committee.
18. Legislative changes and compliance with laws and regulations	Compliance with new and changing legislation.	▪ Continuous monitoring of legislative changes affecting the industry and providing commentary when requested to do so. ▪ Dedicated legal and compliance function.

STRATEGIC PRIORITIES/FOCUS	OVERVIEW	OUTCOME	KPI
TRANSFORMATION To continue to **transform the group** in line with the B-BBEE Codes of Good Practice.	By remaining **committed to the principles contained in the Codes of Good Practice, the group will transform itself,** thereby ensuring its long-term sustainability.	- Increased ownership in the hands of black South Africans. - Increased representation at all levels in the group. - Improved level of skills and experience. - Development and support of sustainable supply chain. - Positive influence on local communities.	- B-BBEE rating - Various HR targets
ENVIRONMENTAL SUSTAINABILITY To be a **leader within the hospitality sector** in environmentally sustainable business practices.	By clearly understanding the impact our business has on the environment, we are able to change the way we operate, and in so doing have a **positive influence on our planet and its sustainability over the short, medium and long term.**	- Increased awareness of environment issues. - Understanding of the group's impact on the environment. - Reduced energy and water consumption. - Minimisation and recycling of waste.	- CO_2 footprint - Recognised sustainability certification - Consumption per room sold
INFORMATION TECHNOLOGY To maintain and implement an innovative technology platform.	By remaining aware of current trends and introducing innovative IT services to enhance our guests' experiences and drive efficiency.	- Increased innovation. - Enhanced guest satisfaction. - Streamlined processes. - Secure data and infrastructure.	- Results from reviews and testing. - Guest satisfaction survey %.
BRAND IDENTITY To continue **embedding our refreshed brands**, and realise growing benefits from a channel marketing strategy.	The refreshed brand identity will continue to result in **a shift in the level of awareness and perception of our brands among current and future guests,** demonstrating how the experience of our product has kept up with market trends.	- Improved level of awareness of the group's brands. - Increased level of differentiation of the group's offering. - Improved digital and social media presence. - Increased occupancy.	- Level of brand awareness - Digital presence - Occupancy %

OUR brand overview

FAIRVIEW
A CITY LODGE GROUP HOTEL

OUR ROOMS

127 rooms — 1 Hotel

- Spacious rooms with various-sized beds
- Television with satellite TV
- Bathroom with bath and/or separate showers
- Irons and ironing boards
- Tea and coffee-making facilities
- Electronic safe large enough to accommodate a laptop
- Desk with lighting and plugs for easy connectivity

OUR SERVICES

- Gym
- Boardrooms and conference facilities
- Convenient location
- Full English and continental breakfast daily
- 24-hour reception and check-in
- Sundowner bar
- A number of onsite restaurants and cafés
- Same-day laundry and dry-cleaning service
- Sparkling swimming pool
- Free and convenient parking
- Wireless internet access

CURRENT LOCATIONS

- Nairobi, Kenya

COURTYARD HOTEL

OUR ROOMS

381 rooms — 5 Hotels

- Studio, one or two-bedroom luxury air-conditioned rooms
- Well-appointed bathroom(s)
- Fully equipped kitchenette
- Personal electronic safe in each room (big enough for laptops)
- International direct-dial telephone
- Television with M-Net and selected DStv channels
- Chrysalis cotton-rich percale linen
- Tea and coffee-making facilities

OUR SERVICES

- Intimate lounge area
- Club lounge
- 24-hour enhanced security
- Free, secure parking just metres from your door
- An elegant boardroom for guest use
- Personal use of guest office and internet
- Sparkling pool in landscaped garden setting
- Full English and continental breakfast daily
- In-room dining by arrangement with local restaurants
- Same-day laundry and dry-cleaning service
- 24-hour launderette
- Personalised food shopping service
- Wireless internet access

CURRENT LOCATIONS

- Johannesburg (Eastgate, Rosebank, Sandton)
- Port Elizabeth
- Tshwane (Arcadia)

CITY LODGE HOTEL

3 002 rooms **17 Hotels**

- Spacious air-conditioned room with queen-sized bed or twin beds
- Television with M-Net and selected DStv channels
- Bathroom with bath and separate shower or maxi-shower
- Tea and coffee-making facilities
- Rooms with sleeper-sofa available at selected hotels on request
- Electronic safe large enough to accommodate a laptop
- Desk with lighting and plugs for easy connectivity
- Plush duvets with cotton-rich percale linen

- Internet area
- Mini-gym
- Boardroom
- Convenient locations, close to major routes
- Full English and continental breakfast daily
- 24-hour reception and check-in
- Sundowner bar
- 24-hour vending machines stocked with snacks and cold beverage items
- Same-day laundry and dry-cleaning service
- Sparkling swimming pool
- Free and convenient parking
- Wireless internet access
- #Cafe serving light meals

- Bloemfontein
- Cape Town (GrandWest, Pinelands, V&A Waterfront)
- Durban (Central, Umhlanga Ridge)
- Johannesburg (Airport – Barbara Road, Bryanston, Fourways, Newtown, OR Tambo Airport, Sandton – Katherine Street, Sandton – Morningside, Waterfall City)
- Port Elizabeth
- Tshwane (Hatfield, Lynnwood)

TOWN LODGE BY CITY LODGE HOTELS

1 503 rooms **12 Hotels**

- Fully carpeted, spacious air-conditioned room with double or twin beds
- Television with M-Net and selected DStv channels
- Interleading family rooms available
- En-suite bathroom with maxi-shower
- Tea and coffee-making facilities
- Desk with lighting and plugs for easy connectivity
- Electronic safe large enough to accommodate a laptop

- Convenient locations, close to major routes
- Free, easy and secure parking
- 24-hour reception and check-in
- Full English and continental breakfast daily
- Sundowner bar
- 24-hour vending machine for snacks and beverages
- Same-day laundry and dry-cleaning service
- Wireless internet access

- Bellville
- George
- Johannesburg (Johannesburg Airport, Midrand, Roodepoort, Sandton – Grayston Drive)
- Mbombela
- Polokwane
- Port Elizabeth
- Tshwane (Menlo Park)
- Gaborone, Botswana
- Nairobi, Kenya

ROAD LODGE BY CITY LODGE HOTELS

2 059 rooms **22 Hotels**

- Fully carpeted and air-conditioned
- Television with M-Net and selected DStv channels
- Working desk
- En-suite bathroom with shower, toilet and hand basin
- Rooms with double or twin beds, with single sleeper chair available in selected rooms

- A light breakfast is available daily
- 24-hour vending machines stocked with snacks and beverages
- Free, ample and secure parking
- 24-hour reception service and check-in
- Wireless internet access

- Bloemfontein Airport
- Cape Town (N1 City, Cape Town International Airport)
- Centurion
- Durban (Central, Umhlanga Ridge)
- East London
- Johannesburg (Carnival City, Germiston, Isando, Johannesburg Airport, Randburg, Rivonia, Southgate)
- Kimberley
- Mbombela
- Pietermaritzburg
- Port Elizabeth (Port Elizabeth Airport, Summerstrand)
- Potchefstroom
- Richards Bay
- Rustenburg

FAIRVIEW

A CITY LODGE GROUP HOTEL

Perfectly located

A traveller's oasis

Located on two hectares of beautifully landscaped and manicured gardens, this hotel combines comfort and style to suit both business and leisure travellers. It offers excellent access to the Nairobi CBD and the city's two main airports.

Apart from comfortable rooms and apartments, the hotel also offers free wireless internet, conferencing, a wine bar, a swimming pool and excellent dining facilities for all meals.

COURTYARD
HOTEL

Designed to impress

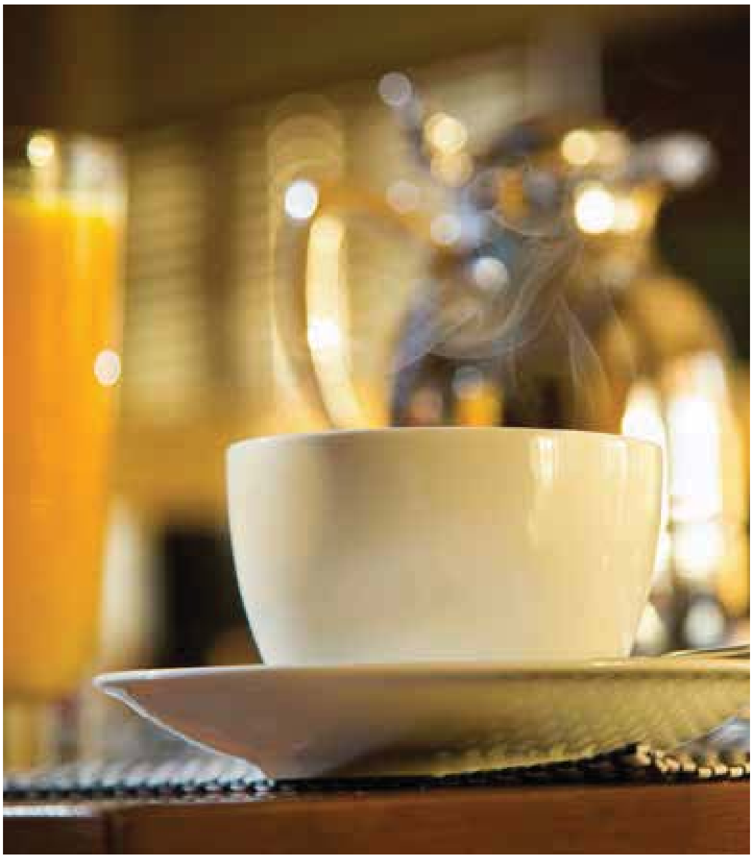
Superior service, impeccable style

Each of our five Courtyard hotels has its own distinct character and personality, but each also has the same goal – to provide guests with an excellent accommodation experience in an elegant environment.

From access to a personal shopping service, to the benefit of an early evening club lounge, guests are given the sort of special treatment to be expected from a brand that goes out of its way to meet needs and surpass expectations.

With its spacious accommodation options ranging from studio through to two-bedroom luxury rooms, the Courtyard brand offers a large degree of self-sufficiency with guests having access to their own kitchenette, lounge and dining areas.

There's comfort in every detail



Ideal for business or leisure

City Lodges have established an enviable reputation as providers of ideal services and features for both business and leisure travellers.

From their scrumptious breakfasts, coffee shops and sundowner bar services, through to their spacious en-suite bedrooms and inviting swimming pools, they have all that guests need to enjoy a home-away-from-home experience in outstanding locations with ample safe parking.

TOWN LODGE
BY CITY LODGE HOTELS

A little extra can mean a lot

Convenience with a smile

Town Lodges offer affordable accommodation in convenient locations.

While their bedrooms are slightly smaller than those at City Lodges, they offer many of the same services such as friendly staff, great breakfasts, sundowner bar services and swimming pools, along with lots of free safe parking.

ROAD LODGE
BY CITY LODGE HOTELS

Basically brilliant

Value, value, value!

Superbly located for budget-conscious business and leisure travellers, Road Lodges provide incredible value for money without scrimping on quality.

One, two or three guests can share a comfortably furnished and decorated room for the single room rate.

Continental breakfasts and ample free safe parking are also provided.

WHO governs us

Chairman

BULELANI NGCUKA

(63) ✢

BProc, LLB, MA (Webster University, Geneva, Switzerland)

Appointed to the board in 2008

Skills and expertise

Legal and general business expertise

Serves on the board of the following listed companies:

Buildmax Limited

CSG Holdings Limited (chairman)

Other:

Vuwa Investments Proprietary Limited

Menzies Aviation (South Africa) Proprietary Limited

Coega Autospray Proprietary Limited

Amadlelo Agri Proprietary Limited

BetterGroup Limited

Leapfrog Property Group Proprietary Limited

Lead independent

FRANK KILBOURN

(56) ✢ ✪ ✪

BCom, LLB, BA Honours (Philosophy, cum laude), HDip (Tax), LLM

Appointed to the board in 1996

Skills and expertise

Areas of expertise include legal, finance, corporate finance, private equity, venture capital, empowerment, investment, mining and tourism

Serves on the board of the following companies:

Bright Resources Investments Proprietary Limited

Manganese Metal Company Proprietary Limited

Strauss & Co (executive chairman)

GEORGE GIDEON (DEON) HUYSAMER

(54) ✦ ✪ ✪

LLB

Appointed to the board in 2015

Skills and expertise

Areas of expertise include legal, tourism, management and management consulting, corporate finance, consulting, investment analysis, stockbroking and wealth management

Serves on the board of the following companies:

Brand South Africa

MAD Charity and Children's Eco Training

Member of Executive Committee of the Klaserie Private Nature Reserve

SIZAKELE MARUTLULLE

(48) ✪

MA (Sociology)

Appointed to the board in 2016

Skills and expertise

Areas of expertise include brand communication and business leadership

Serves on the board of the following companies:

Automotive Association of South Africa

NDUMI MEDUPE

(46) ✪ ✪ ✦

Chartered Accountant (SA)

Appointed to the board in 2006

Skills and expertise

Areas of expertise include audit, risk, governance and financial management

Serves on the board of the following companies:

Indyebo Consulting (founder and chief executive)

Pinnacle Holdings Limited

Italtile Limited

Futura Footwear Limited

▲ Executive director
✪ Independent non-executive
✷ By invitation – audit committee
◆ By invitation – remuneration and nomination committee
✻ Kenyan

STUART MORRIS

(71) ❂ ✦ ✪ ✢

BCom, Chartered Accountant (SA)

Appointed to the board in 2006

Skills and expertise

Areas of expertise include strategy, finance, audit, risk, accounting, tax, compliance, human resources and general management

Serves on the board of the following listed companies:

Bryte Insurance Company Limited

Other:

Rolex Watch (South Africa) Proprietary Limited

Sasol Pension Fund

Wits Donald Gordon Medical Centre Proprietary Limited

VINCENT RAGUE

(64) ✲ ✦ ✪

BA Honours (Economics and Statistics)

Appointed to the board in 2016

Skills and expertise

Areas of expertise include banking, investment, project and corporate finance

Serves on the following tourism boards:

Catalyst Principal Partners, Financial Sector Deepening Africa

Pan-Africa infrastructure Development Funds

CLIFFORD ROSS

(60) ❖ ✦ ✱ ✴ ▲ ◆

Dip (Hotel Management), Advanced Management Programme (Cornell)

Appointed to the board in 1991

Skills and expertise

Areas of expertise include strategy, management and operations within the hotel industry

Serves on the following tourism boards:

Tourism Business Council of South Africa

Federated Hospitality Association of Southern Africa

Tourism Enterprise Partnership

STH – UJ School of Tourism and Hospitality

KEITH SHONGWE

(53) ✦ ❖ ✪

BSc, MBChB

Appointed to the board in 2002

Skills and expertise

Areas of expertise include business development, consulting, management, technology, project management and healthcare

ANDREW WIDEGGER

(51) ❖ ✦ ✱ ▲ ✴

Chartered Accountant (SA)

Appointed to the board in 1994

Skills and expertise

Areas of expertise include accounting, finance and management, property development and operations within the hotel industry

❂ Member of audit committee
✱ Member of executive committee
✢ Member of remuneration and nomination committee
❖ Member of social and ethics committee
✦ Member of risk committee

WHO leads us

CLIFFORD ROSS

Chief executive

(60) ❖ ✦ ▲ ✴ ◆ ✱

Dip (Hospitality Management), Advanced Management Programme (Cornell)

30 years with the company

ANDREW WIDEGGER

Financial director

(51) ❖ ✦ ▲ ✴ ✱

Chartered Accountant (SA)

24 years with the company

TONY BALABANOFF

Divisional director – operations

(57) ✦

BTech (Hospitality Management), Advanced Management Programme (Cornell)

31 years with the company

ALASTAIR DOOLEY

Divisional director – financial

(38) ✦ ✴

Chartered Accountant (SA)

8 years with the company

MARCEL KOBILSKI

Divisional director – human resources

(53) ✦ ✱

Dip (Hospitality Management), BBA

21 years with the company

NAYNESH PARBHOO

Divisional director – accounting

(44) ✦

Chartered Accountant (SA)

19 years with the company

ROSS PHINN

Divisional director – operations

(46) ✦

Dip (Hotel Management)

20 years with the company

RYAN RUTHVEN

Divisional director – IT

(35) ✦

BCom Honours (Informatics)
CISA

4 years with the company

LINDIWE SANGWENI-SIDDO

Divisional director – operations

(50) ✦

Dip (Hotel Management)
BSc (Penn State University)

2 years with the company

PATRICK TATE

Divisional director – operations

(61) ✦

Dip (Hotel Management)

29 years with the company

MELANIE VAN HEERDEN

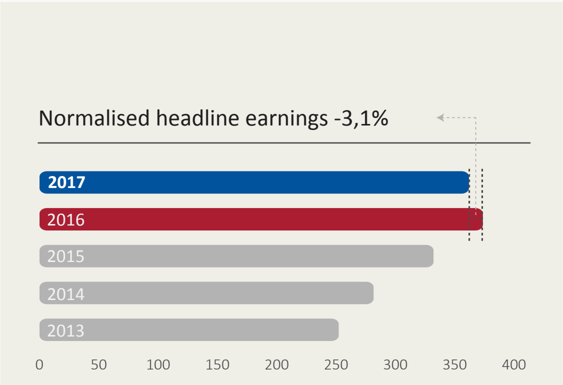
Group company secretary

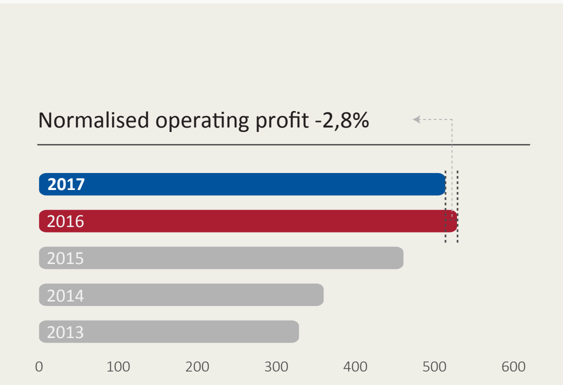
(41) ✦

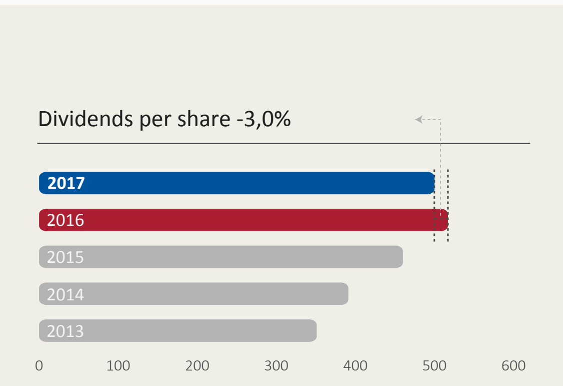
BCom LLB

12 years with the company

✦ Member of executive committee
❖ Member of social and ethics committee
✱ Member of risk committee
▲ Executive director
✷ By invitation – audit committee
◆ By invitation – remuneration and nomination committee







Profitable and cash generative

DEAR STAKEHOLDER

While there is not a specific theme running through this year's Integrated Report, there is an underlying emphasis on the consistency of service delivery and our overall business model that has been a hallmark since the group's inception in 1985.

In times of economic weakness and low business and consumer confidence, our focus on always being consistent in whatever we do has certainly proven its value for all our stakeholders – our business, our guests, our suppliers, our staff and our shareholders.

Despite encountering a variety of strong headwinds in a difficult year for many business sectors, our group demonstrated the resilience and suitability of our chosen business model, as well as the strength of our highly regarded brands to remain highly profitable, strongly cash generative and growth focused.

Measuring and marketing our consistency has brought important benefits and fine-tuned our group's ability to concentrate on the things that help to distinguish our operations in an increasingly competitive environment.

Good return on equity

Ongoing engagement with guests is an important part of this process. This has seen our footprint grow across various social media channels. From a sales point of view, our group's presence at various local, regional and international exhibitions, workshops and roadshows has maintained a strong profile for our brands in critical travel markets.

By constantly listening to guest feedback, monitoring international trends and consistently focusing on what's most important to our core market, our hotels continue to receive certificates of excellence from TripAdvisor and awards from online booking agencies such as Hotels.com and Expedia. This is useful reassurance that our operations are on the right track and that our brands are effectively meeting the discerning needs of business and leisure travellers.

As a highly committed, responsible and involved corporate citizen, it is pleasing to note the growing contributions that our group is making towards corporate social investment, supplier development, skills development, thereby complementing and reinforcing the broader impact of our operations in the societies where we operate and making a difference.

CONSISTENTLY GROWING OUR PRESENCE IN SOUTHERN AFRICA AND EASTERN AFRICA

After several years of carefully targeting a selective Southern African and Eastern African expansion strategy, our group is on the threshold of adding significant scale to existing operations in South Africa, Botswana and Kenya.

CHAIRMAN and **CHIEF EXECUTIVE'S** review continued

By the third quarter of 2018, our hotel footprint outside of South Africa will rise to seven, offering 929 rooms to travellers in five different countries – Botswana, Kenya, Mozambique, Namibia and Tanzania.

The 147-room Town Lodge Windhoek, Namibia, is making good progress and is expected to open in September 2017. This will become the group's third Town Lodge outside of South Africa and the 13th in the group.

Construction of the 148-room City Lodge Hotel Maputo, Mozambique, is well under way and the hotel is expected to open late in the second quarter or early in the third quarter of 2018.

Development of the 172-room City Lodge Hotel Two Rivers in Nairobi, Kenya, is nearing completion with the hotel expected to open in October 2017. The 147-room City Lodge Hotel Dar es Salaam, Tanzania, is progressing well and is expected to open in the first quarter of 2018.

In South Africa, lease and development agreements have been signed to extend the City Lodge Hotel OR Tambo Airport by 62 rooms to 365 rooms. Construction has commenced and the new rooms are expected to open in the first quarter of 2018. Plans are well advanced for the possible development of a 158-room Town Lodge in Umhlanga and a 90-room Road Lodge in Polokwane.

The group focuses on the long term and is confident that the country's political and economic issues will be resolved, enabling further development opportunities to be considered as and when they arise.

The group continues to assess other opportunities in Southern Africa and Eastern Africa.

FINANCIAL HIGHLIGHTS

Average occupancies at the group's operations decreased by three percentage points to 63% in the year, 30 June 2017.

In South Africa, the drop in occupancy was similar and was a direct result of the continued deterioration in business and consumer confidence, ongoing political uncertainty and negligible economic growth. Coastal hotels fared slightly better than inland hotels, benefiting from inbound tourism. Weekend occupancies were particularly soft.

Occupancies in Botswana mirrored the overall downward trend in South Africa, with that country's economy closely linked to South Africa's. After showing an increase in the first six months, Kenyan occupancies weakened in the last three months of the year in the lead-up to the country's 8 August elections. Occupancies should improve now that the elections are over.

Total revenue grew by 1,8% to R1,52 billion. This was assisted by an inflationary increase in room rates. Total operating costs, on a normalised basis, increased by 5,0% resulting in a 1,2% decrease in the normalised EBITDA margin to 40,6%. Total normalised EBITDA decreased by 1,3% to 616,7 million. Depreciation and amortisation rose by 6,6%, interest income was R2,0 million higher and interest expense was R1,8 million lower than in the previous year.

Cash deposits of R48,4 million held by Chase Bank Kenya, which was placed into receivership in April 2016, were reclassified to other investments in the prior financial year. Given the length of time which has elapsed and the uncertainty regarding timing and extent of access once full banking operations are resumed, it was deemed prudent to impair the carrying value by 50%, resulting in an after tax charge to the income statement of R16,8 million. This has been reversed in the calculation of normalised earnings.

Normalised headline profit before tax for the group decreased by 2,1% to R501,3 million, while normalised headline earnings decreased by 3,1% to R362,2 million. Normalised diluted headline earnings per share were down by 3,1% to 833,6 cents. A final dividend of 228 cents per share was declared, taking the distribution for the year to 500 cents per share.

The funding associated with the group's BEE transaction, which was concluded in 2008, is due for redemption and/or repayment on 31 December 2017. As a result the associated liabilities on the balance sheet, which are well covered by the value of the underlying shares, have been reclassified from non-current to current.

CONTINUING TO DRIVE TECHNOLOGY AS A BUSINESS ENABLER

Information technology continues to play an integral role in our group's service delivery at existing operations and in the ongoing development of new hotels in different countries. The group's expansion into new African territories has been a focal area for the group IT function, to ensure consistency in our guest experience while also providing systems that are reliable and consistent for our hotel operations.

Investment made into building our own systems – specifically the Lodgix property management system – has once again proved of great benefit in our expansion journey. As each territory has its own specific requirements – including regulations within the tourism industry or the country's revenue authority – we have been successful in developing these requirements within our existing systems. The IT infrastructure and data centre at our Kenyan operations has been upgraded to provide further capacity for the additional operations in the Eastern African region and to introduce upgraded technologies similar to those used in our South African operations. Importantly, the IT team in Kenya has been working closely with the South African IT team during this process, and have been upskilled in the various technologies required to deliver our services consistently.

Our successful Bid2Stay auction platform, used as an additional online channel for selling of excess inventory, has been successfully upgraded to provide a brand new experience with additional benefits beyond the reduced room rate offered through the system. The system is also integrated with our CLHG Rewards programme, allowing for the added potential for our guests to earn valuable rewards points as well as options such as complimentary breakfasts or drinks at the bar.

Significantly, our group had also developed additional direct connections with the larger external booking channels as well as through our own systems, enabling a further cost reduction in the making of reservations. Another vital development has been the increased focus on cyber security and resilience. This is a hugely important consideration for all organisations, especially for groups such as ours which are expanding their geographic footprint across national borders. User awareness and internal/external assessments are frequently carried out to confirm that our information security policies and actions align with global best practices and regulations.

As our group continues its targeted African expansion programme, the group IT function will support this growth and will constantly be working on new initiatives that will further enhance the guest experience and introduce greater efficiencies across our operations.

GROWING OUR PEOPLE AND PROTECTING THE ENVIRONMENT

Growing our group is not possible without growing our people. The past year was again an excellent year of growth for our people throughout the organisation. It is very pleasing to report that no fewer than 19 of our hotel general managers wrote and passed the Certified Hotel Administrator Programme. The City and Guilds programme continues to be an important part of our management training and growing numbers of our staff members are constantly involved in various programmes focused on accommodation services, hospitality operations and food and beverage proficiency.

Learnerships have also become important, enabling us to partner with organisations such as the South African Disability Development Trust to provide a number of disabled learners with valuable opportunities. More broadly in the learnership environment, it is encouraging to note that over the past two years, all of the Front Office learnerships we have offered have seen the candidates being employed by the group at the end of their programme or within six months of completing their programme.

As a group that is highly involved in staff improvement at all levels, it is also pleasing to report that we are continuing to assist several staff members to obtain their Grade 12 qualifications, providing them with a springboard for further career development. Many other staff members throughout the group have enrolled in a range of administration, executive development and university courses.

Our group has made great strides in improving energy efficiency and environmental friendliness over the past few years. A solar power pilot project was begun at our Road Lodge Centurion in February 2017 and is being evaluated for its effectiveness. If the project proves successful, installations will be considered for additional hotels. A grey water recycling pilot project is being evaluated at our Road Lodge Pietermaritzburg. This could also be rolled out to other hotels if it proves to be successful. Across the group, we continue to assess ways to reduce the amount of waste our hotels send to landfill sites.

OUTLOOK

Trading conditions and therefore occupancies have remained under pressure in the first two months of the new financial year without a much-needed trigger to re-ignite business and consumer confidence. It is hoped that a catalyst will soon emerge to improve sentiment and provide fresh economic growth impetus that will stimulate both business and leisure travel.

THANKS

Our thanks go to all the special stakeholders who have enabled our group to achieve more than 32 years of meeting the discerning needs of business and leisure travellers in South Africa and increasingly in other selected African countries. These stakeholders include our guests, staff, management, directors, shareholders and service providers, all of whom have played an integral part in the group's ongoing growth and success.

SEVEN-YEAR financial review

R'm	**2017**	2016	2015	2014	2013	2012	2011
Consolidated normalised income statements							
Revenue	**1 520,4**	1 493,2	1 303,1	1 062,8	975,9	875,8	790,2
EBITDA	**616,4**	624,8	547,1	438,2	407,6	368,9	330,4
Depreciation and amortisation	**(102,8)**	(96,4)	(86,4)	(78,4)	(79,0)	(78,4)	(73,1)
Operating profit	**513,6**	528,4	460,7	359,8	328,6	290,5	257,3
Net interest (expenditure)/income	**(12,6)**	(16,4)	(6,2)	3,3	(5,5)	(9,0)	(12,0)
Fair value gain on remeasurement of investment in joint venture	**–**	–	60,0	44,7	–	–	–
Income/(loss) from joint ventures	**–**	–	1,6	21,3	16,0	(0,1)	0,6
Profit before taxation	**501,0**	512,0	516,1	429,1	339,1	281,4	245,9
Taxation	**(139,0)**	(138,2)	(123,6)	(102,2)	(86,8)	(89,6)	(81,6)
Profit for the year	**362,0**	373,8	392,5	326,9	252,3	191,8	164,3
Determination of normalised headline earnings							
Normalised profit for the year	**362,0**	373,8	392,5	326,9	252,3	191,8	164,3
Fair value gain on remeasurement of investment in joint venture	**–**	–	(60,0)	(44,7)	–	–	–
Gain on bargain purchase	**–**	–	–	(0,6)	–	–	–
Loss/(profit) on sale of equipment	**0,3**	(0,2)	(0,7)	–	(0,2)	(0,1)	(1,4)
Taxation effect	**(0,1)**	0,1	0,3	–	0,1	–	0,2
Headline earnings	**362,2**	373,7	332,1	281,6	252,2	191,7	163,1

R'm	2017	2016	2015	2014	2013	2012	2011
Consolidated normalised statements of financial position							
Assets							
Non-current assets	**2 010,9**	1 929,4	1 809,2	1 535,7	1 295,3	1 149,8	1 173,9
Property, plant and equipment	**1 917,0**	1 844,1	1 740,2	1 453,8	1 068,6	1 092,5	1 118,9
Intangible assets and goodwill	**50,5**	45,6	32,6	15,3	–	–	–
Investments and loans	**34,2**	34,0	31,7	63,0	222,6	54,3	52,0
Deferred taxation	**9,2**	5,7	4,7	3,6	4,1	3,0	3,0
Current assets	**394,8**	305,2	221,1	175,7	75,5	142,6	75,6
Total assets	**2 405,7**	2 234,6	2 030,3	1 711,4	1 370,8	1 292,4	1 249,5
Equity							
Total shareholders' funds	**1 711,5**	1 607,7	1 439,8	1 238,1	1 051,9	915,2	840,6
Share capital and premium	**179,4**	168,0	164,0	158,3	154,7	148,8	147,6
Incentive scheme shares	**(22,0)**	(19,5)	(11,0)	(22,1)	(17,1)	(17,1)	–
Reserves	**1 554,1**	1 459,2	1 286,8	1 101,9	914,3	783,5	693,0
Liabilities							
Non-current liabilities	**549,0**	497,9	470,7	376,2	181,8	166,2	254,7
Interest-bearing borrowings	**320,0**	270,0	250,0	185,0	–	–	125,0
Other non-current liabilities	**89,6**	102,2	113,4	105,9	113,0	94,6	56,2
Deferred taxation	**139,4**	125,7	107,3	85,3	68,8	71,6	73,5
Current liabilities	**145,2**	129,0	119,8	97,1	137,1	211,0	154,2
Total equity and liabilities	**2 405,7**	2 234,6	2 030,3	1 711,4	1 370,8	1 292,4	1 249,5

SEVEN-YEAR financial review continued

		2017	2016	2015	2014	2013	2012	2011
Ordinary share performance								
Shares in issue	000	**43 572**	43 407	43 347	43 221	43 123	42 989	42 929
Normalised weighted average shares in issue	000	**43 347**	43 226	43 168	42 875	42 818	42 827	42 854
Normalised diluted headline earnings per share	cents	**833,6**	859,9	759,9	643,1	578,3	442,8	379,0
Dividends per share	cents	**500,0**	517,0	460,0	391,0	351,0	268,0	228,0
Normalised dividend cover	times	**1,7**	1,7	1,7	1,7	1,7	1,7	1,7
Normalised net asset value per share	cents	**3 928**	3 704	3 322	2 865	2 439	2 129	1 958
Normalised net operating cash flow per share	cents	**1 107,2**	1 172,5	935,6	797,7	815,2	682,9	580,7
Profitability and liquidity (normalised)								
EBITDA margin	%	**40,5**	41,9	42,0	41,2	41,8	42,1	41,8
EBITDAR margin	%	**46,8**	47,5	47,7	48,0	48,4	49,0	48,7
Operating margin	%	**33,8**	35,4	35,4	33,9	33,7	33,2	32,6
Effective tax rate	%	**27,7**	27,0	24,0	23,8	25,6	31,9	33,2
Return on equity	%	**21,8**	24,5	24,8	24,6	25,6	21,8	19,8
Interest-bearing debt to total shareholders' funds	%	**18,7**	16,8	17,4	14,9	3,3	13,7	23,8
Current ratio	:1	**2,7**	2,4	1,9	1,8	0,6	0,7	0,5

DEFINITIONS

Normalised headline earnings
Headline earnings adjusted for the effects of transactions relating to BEE or those of a non-recurring/core nature.

Normalised headline earnings per share
Normalised profit before exceptional items divided by the weighted average number of ordinary shares in issue.

Normalised diluted headline earnings per share
Normalised headline earnings divided by the sum of the weighted average number of ordinary shares in issue and any outstanding share options in issue.

Dividend cover
Normalised diluted headline earnings per share divided by dividends declared per share.

Normalised net asset value per share
Total normalised shareholders' funds divided by the number of ordinary shares in issue at the year-end.

Normalised net operating cash flow per share
Net cash inflow from operating activities, before dividends, divided by the weighted average number of ordinary shares in issue.

EBITDA
Normalised earnings before interest, taxation, depreciation and amortisation.

		2017	2016	2015	2014	2013	2012	2011
Stock exchange performance								
Market price per ordinary share								
– Closing	Rand	**140,13**	155,52	138,99	127,00	120,00	84,95	65,23
– Highest	Rand	**175,99**	173,00	159,00	143,01	134,00	90,00	87,25
– Lowest	Rand	**132,01**	129,00	112,01	107,33	78,00	57,51	64,00
Total market capitalisation	R'm	**6 106**	6 751	6 025	5 489	5 175	3 652	2 800
Normalised fully diluted closing price-earnings multiple	times	**16,8**	18,1	18,3	19,8	20,8	19,2	17,2
Volume traded								
– Ordinary shares	000	**10 251**	9 217	14 162	9 397	10 531	13 517	16 280
Other								
Number of hotels at year-end		**57**	57	55	54	55	52	52
Number of rooms at year-end		**7 072**	7 072	6 834	6 685	6 755	6 440	6 440
Group average occupancy	%	**63**	66	67	63	62	59	56

DEFINITIONS continued

EBITDA margin
Normalised EBITDA expressed as a percentage of revenue.

EBITDAR
Normalised earnings before interest, taxation, depreciation, amortisation and rental.

EBITDAR margin
Normalised EBITDAR expressed as a percentage of revenue.

Operating margin
Normalised operating profit expressed as a percentage of revenue.

Effective tax rate
Taxation per the normalised income statement expressed as a percentage of normalised profit before taxation.

Return on equity
Normalised headline earnings attributable to ordinary shareholders expressed as a percentage of normalised average ordinary shareholders' funds.

Interest-bearing debt to total shareholders' funds
Normalised interest-bearing debt expressed as a percentage of total normalised shareholders' funds.

Current ratio
Normalised current assets divided by normalised current liabilities.

OUR strategy measured

Being a "guest centric" selected service hotel group is expected, we however believe that what really makes a difference is the way in which our passionate people deliver consistently caring service to our guests with kindness. This is the reason why we have formed a base of loyal guests, who have continued to stay with us over the past 32 years. It is with this in mind that we analyse our strategic achievements of the past year, and look to unpack how we will continue to deliver on our commitment to long-term sustainability to you, our providers of capital.

CONSOLIDATION

TO CONSOLIDATE OUR POSITION WITHIN SOUTH AFRICA

Occupancy performance

The group's South African occupancies for the period reflected an occupancy of 63% compared to 66% in the prior year. The declining trend of occupancies throughout the year were largely attributable to the weak performance of the local economy. The majority of the group's available inventory is, however, well placed to benefit from possible trading down, as both corporate and leisure travellers seek to limit costs incurred on travel. The introduction of new capacity in certain cities around the country has further added to increased pressure on occupancies, along with the growing number of establishments entering the shared economy. Government travel has seen a decline over the past year as a result of tighter budgetary control, however, some benefit is being realised due to the cost-containment initiatives being implemented by the National Treasury. Growth in demand from online travel agencies, mostly used by international travellers, has continued even though the currency has strengthened substantially over the past year.

The year ahead will continue to be a challenging one, as the performance of the local economy is not expected to improve in the short term, with growth of less than 1% expected.

Average daily rates ("ADR")

In line with the ADR of the industry, the group has seen an inflationary improvement in current achieved room rates. This improvement is, however, not as significant as for the rest of the industry, due to the consistent rates philosophy of the group over the long term and the relative strength of the Western Cape market and the higher weighting in number of rooms for the rest of the industry. This philosophy results in more predictability for corporate travellers.

In order to drive occupancy growth over weekends, the group has a number of special packaged rates in place to encourage group and family travel such as "Team Scheme" and "Spouse on the House". Participating in South African Tourism's Sho't Left campaign, encouraging South Africans to travel at home, further exposes our various hotel brands to new markets. Our unique auction website, www.bid2stay.co.za, allows guests to bid online for discounted accommodation and other benefits across our portfolio in South Africa. These rates are particularly competitive for the cost-conscious traveller.

Expanding in South Africa

While no new hotels were opened over the past year, the group has commenced with the extension of the 303-room City Lodge at OR Tambo Airport by adding an additional 62 rooms. As part of this extension, the hotel will also undergo a minor refurbishment of the rooms and commercial areas to ensure a consistent scheme throughout the hotel. This construction will allow for the assessment of some new construction techniques to be assessed for use in future developments. Plans are also underway for a new Town Lodge in Umhlanga Ridge and Road Lodge in Polokwane.

Keeping our hotels in great shape

Over the years, the group has followed a stringent refurbishment programme maintaining a high standard in the quality of our hotel product. This year was no exception with refurbishments having taken place at Road Lodge Johannesburg International Airport and Road Lodge Durban, and with future refurbishments planned for City Lodge Hotel Durban, Town Lodge Johannesburg International Airport and Road Lodge Isando in the coming year.

Continuous focus on quality is maintained at all our hotels through our ongoing maintenance and minor refurbishment programmes.

Guest satisfaction

Knowing what our guests think about us is key to being able to consistently deliver on our value proposition. Guest comments and feedback are received directly from our guests or through our online Rate-Us questionnaire. We constantly monitor posts on various social media platforms, including Facebook, Twitter, TripAdvisor and Hellopeter.com, where all comments are analysed and complaints are attended to.

The Rate-Us questionnaire received approximately 19 000 responses during the year, an increase in the volume of responses of 15%, yielding an average customer satisfaction score of 86% (2016: 86%). Using this instant feedback mechanism, our guests are able to share their experiences directly, allowing us to give them more of what they want, and addressing any concerns which they may have. TripAdvisor awarded no fewer than 12 of our hotels with certificates of excellence for 2017, based squarely on guest experiences and ratings.

Human capital

Our human capital strategy is driven by structuring and measuring our performance against the "Investors in People" standard. As a quality hotel provider, one of the most important contributors towards the continued success of our performance is the performance of our people, and the management of our human capital is therefore a key focus area for the group. Our "Investors in People" recognition clearly demonstrates our ongoing commitment towards growing and empowering our people.

The Investors in People standard measures the following criteria and clearly demonstrates our focus in this regard:

Indicator	Meaning	Category
Leading and inspiring people	Objectives are clear and leaders inspire and motivate people to achieve against them. People in the organisation trust leaders.	LEADING
Living the organisation's values and behaviours	People and leaders act in line with the organisation's values at all times and they have the courage, and support, to challenge inconsistent behaviours.	
Empowering and involving people	A culture of trust and ownership exists in the organisation and people feel empowered to make decisions and to act on them.	
Managing performance	Objectives within the organisation are fully aligned, performance is measured and feedback is used.	SUPPORTING
Recognising and rewarding performance	Recognition and reward is clear and appropriate, creating a culture of appreciation where people are motivated to perform at their best.	
Structuring work	The organisation is structured to deliver on its ambition. Roles are designed to deliver on organisational objectives and create interesting work for people, while encouraging collaborative ways of working.	
Building capability	People's capabilities are actively managed and developed allowing them to reach their full potential and ensuring that the organisation has the right people in place, at the right time, to fill the right roles.	IMPROVING
Delivering continuous improvement	There is a focus on continuous improvement where people use internal and external sources to come up with new ideas and approaches, supported by a culture that encourages innovation.	
Creating sustainable success	The organisation has a focus on the future and is responsive to change. Leaders have a clear understanding of the external environment and the impact this has on the organisation.	

OUR strategy measured continued

The group's ability to attract and retain skilled human capital is underpinned by the provision of an employee value proposition that specifically highlights clearly defined career pathing and succession planning. The efficacy of this approach is demonstrated in the following comparative turnover information, which in our South African operations indicates an annual level of turnover which at 8,69% is below the industry norm.

Year	Voluntary turnover	Involuntary turnover	% of total headcount
2014/15	61	24	7,74
2015/16	62	43	8,71
2016/17	**60**	**37**	**8,69**

The group talent officer, assisted by line management, is responsible for the attraction, development and retention of high-calibre employees. All employees are afforded an annual development appraisal, ongoing assessments and feedback by supervisors and management ensures that skills and knowledge gaps are identified within current positions. Suitable employees for development into and within supervisory and management levels are acknowledged and proposed for inclusion into succession pools or developed towards such. An emphasis is placed on the development of previously disadvantaged individuals in order to ensure that the group can work progressively towards achieving its employment equity targets.

Training and development

The skills development committee meets at least bi-annually in order to determine the group's skills development requirements.

The committee has been mandated to deal with skills development issues and committee members are therefore knowledgeable with regard to legislation surrounding skills development. The committee consists of the divisional director: human resources, the group's skills development facilitator, a union representative, shop stewards from the regions and members of staff from different levels and backgrounds elected by their constituencies.

The group continues to focus on providing learnership opportunities, both internally and externally, as well as graduate internships for students with diploma and degree level hospitality qualifications.

The group has a registered skills development facilitator who submits a workplace skills plan annually and reports on training achieved against that plan.

A training coordinator assists the skills development facilitator with logistics and administration and allows for a greater focus by the skills development facilitator on ensuring return on investment in respect of the training interventions provided.

Training interventions covered training priorities ranging from legislative compliance to management and leadership skills, as well as client service and employee development.

A total of 82 people were promoted in the group during the year, 63% of whom were female.

	2017	2016
African	**57**	37
Coloured	**12**	8
Indian	**0**	0
White	**13**	3
Total	**82**	48

The comparative report below is aligned with the reporting period for the Sector Education and Training Authority that requires "calendar year" reporting and organising of training activities.

	1 January 2016 to 31 December 2016	1 January 2015 to 31 December 2015	1 January 2014 to 31 December 2014
% of total payroll spent on training	**3,9**	4,0	3,2
% of total payroll spent on training previously disadvantaged employees	**3,2**	3,4	2,7
Total number of interventions attended by all employees	**11 320**	9 459	8 736
Total number of interventions attended by black employees	**10 041**	8 215	7 391
Total number of interventions attended by black female employees	**6 441**	5 586	5 095
Total spend on training and development	**R9,7 million**	R9,0 million	R6,1 million

With regard to training considered as eligible for the pivotal grant, the following highlights are noted:

- Work integrated learning – This opportunity was provided to 100 hotel school students from hotel schools across South Africa, to gain practical experience in the group's hotels pursuant to the completion of their formal learning programmes. This programme not only serves to provide students with the opportunity to gain experience, but also allows the group to assess these students as potential employees for the future.
- City and Guilds qualifications – The group provides its permanent employees with the opportunity to attend these programmes and thereby obtain an internationally recognised qualification. This contributes to the group building a pool of skills for succession planning and assists in career pathing. A total of 18 employees wrote and passed their City and Guilds exams in the first half of the financial year gaining various certificates, diplomas and advanced diplomas while a further 85 employees were enrolled during the second half of the year.
- The group also provides learnership opportunities to employed and unemployed individuals and is currently involved in providing learnerships for disabled learners in partnership with the South African Disability Development Trust. We are currently hosting 35 disabled and previously unemployed learners, some of whom we again hope to absorb into our operations upon successful completion of their programme. To continue the programme into next year we have registered an additional 15 learners on this learnership, who will be working towards various qualifications.

Employee and industrial relations ("ER and IR")

All ER and IR issues are dealt with in an inclusive manner, with the group preferring to invite participation on all substantive issues that may have an effect on the employment relationship or on employees' conditions of work. The group currently recognises, and has a recognition agreement with one trade union, SACCAWU, which is representative of 16,5% of total employees and 18,7% of those occupying positions within the defined bargaining unit.

No days have been lost due to industrial action during the period under consideration.

The group continues to use its programme "high-performance people" as the model for its ER, and courses are held periodically for supervisors and management. This programme is also made available to shop stewards from time to time to ensure complete understanding of the company's policies and procedures. In addition, all levels of management are trained in the principles of "managing with intent" to ensure that best practice management techniques are applied within the group.

Labour utilisation

An analysis of sick and absent days recorded in the group indicates a loss of 1,7% of all working days available due to sickness and absence during the year.

Sick leave is monitored on an individual basis to ensure that patterns are noted, where possible, to either ensure assistance and intervention or to take steps where possible abuse is noted. Incidents of absence are monitored and dealt with through the group's disciplinary procedures.

Health and safety

Although the group's properties do not represent dangerous working environments, all necessary precautions and measures are taken to ensure the safety of our employees. This includes the adherence to strict guidelines in terms of monitoring and implementing health and safety requirements. Each hotel has established a health and safety committee, as well as appointed responsible persons in terms of the Occupational Health and Safety Act.

The group utilises the software program Worktrainer to record and monitor all health and safety compliance. Compliance with the health and safety policy and legislation is reviewed as part of the internal audit process. In addition, the group maintains its commitment to ensuring that levels of hygiene, compliant with HACCP ("hazard analysis of critical control points") legislation, are maintained at all hotels.

The group ensures that all contractors engaged in the delivery of services to the group are equally compliant in terms of their adherence to health and safety requirements.

The following incidents were experienced in our South African operations during the year:

	Number of incidents		
Nature of incident	**2016/17**	2015/16	General outcome
In the kitchen – food preparation and cleaning	**9**	12	In all instances staff members either received first aid and returned to work immediately, or were booked off for a period and returned to work thereafter.
Incidents on stairs and in built environment	**10**	7	
Due to carrying and lifting	**1**	0	
Repairs and maintenance related	**3**	4	
Total	**23**	23	

The year ahead

Performance over the year ahead is expected to be challenging, given the various challenges faced by the country and the economy. By maintaining focus on our operations and delivering a consistently high-quality product to our guests, we will present a compelling value offer to travellers in all sectors of the market. We are well placed to benefit from any increased economic activity in the economies in which we operate.

AFRICA EXPANSION

TO EXPAND OUR FOOTPRINT BEYOND SOUTH AFRICA'S BORDERS

Continued progress in growing our presence in Southern and Eastern Africa over the past year, is being made at a slow but steady pace.

The 147-room Town Lodge Windhoek, Namibia is expected to open in September 2017. This is slightly later than initially expected, however, the new hotel is already generating a good level of interest among local travellers and corporates. The 172-room City Lodge Hotel Two Rivers in Nairobi, Kenya is hot on its heels, with an expected completion towards the end of October 2017. City Lodge Hotel Dar es Salaam, a 147-room hotel located in Tanzania, is progressing well with its expected completion and opening in the first quarter of 2018. As a result of the delays in obtaining regulatory approvals, the 148-room City Lodge Hotel in Maputo, Mozambique is only expected to open mid-2018.

Trading outside South Africa in Gaborone, Botswana and Nairobi, Kenya has been under pressure, due to current economic conditions in the respective countries. Kenyans went to the polls in the country's general election in August 2017, which following the previous general election, has led to some anxiety among travellers to the country, resulting in weaker trading in the months preceding it.

Future expansion

Investigations into opportunities in the rest of Africa continued during the course of the year, with visits to a number of countries in Africa, in order to identify suitable locations and investment opportunities. Where an opportunity was identified, a detailed feasibility was prepared taking into account a number of factors in order to assess the likelihood of a hotel's success. This process is often a lengthy one, and may result in a significant amount of effort being lost if the parties are not able to reach satisfactory agreement on the terms.

On completion of the current projects, our non-South African hotel portfolio will comprise around 12% of our total number of rooms available and contribute 20% to 25% to our EBITDA once reaching operational maturity.

TRANSFORMATION

TO CONTINUE TO TRANSFORM THE GROUP IN LINE WITH THE B-BBEE CODES OF GOOD PRACTICE

The B-BBEE landscape within South Africa has seen some significant changes over the past year, with some level of interest from our guests and suppliers as to how the group continues to remain abreast of the latest developments.

During the year, the group established a transformation committee comprising members of the Exco and other senior managers. The purpose of the committee is to maintain oversight over the implementation of the various initiatives of the group, to implement relevant policy decisions and changes and to provide feedback on the group's progress to the executive and board.

The group achieved an overall level 5 B-BBEE contributor rating under the amended Tourism Sector Codes during the year. This score as presented in the adjacent table reflected some areas of improvement from the prior year, although due to the changes implemented in the reduction of scorecard elements, a meaningful comparison is not possible. The group's failure to achieve the sub-minimum scores under the ownership and supplier development elements, however, resulted in a penalty of one level being applied to the initial rating achieved. The compliance form required by the BEE Commission was submitted following the issuance of the group's certificate in January 2017.

During the year, the group has placed significant emphasis and resources on improving the areas which resulted in the penalty being applied. With regards to ownership, the net value created in the hands of black people is influenced by the closing share price on the measurement date. Given the period of time which has passed since the implementation of the group's 2008 BEE transaction, the current share price level and the value of outstanding debt, this element's sub-minimum will not be achieved in the short term. Further consideration is also being given to the current funding arrangement, which has an expiry date of 31 December 2017.

With regards to supplier development, the group has identified three specific projects with existing suppliers over the past year, which have received our financial and employee support. By providing R5,0 million in interest-free loans to these qualifying suppliers, one of our suppliers has expanded his business offering by buying new machinery. Another used the sum to pay their three-year international licence fee to provide the "Investors in People" accreditation, which the group also achieved. The third supplier used the funds to purchase land for farming and built a number of tunnels to be used for growing vegetables using hydroponic farming methods. Growing sustainable suppliers and businesses is a vital component of our broader transformation initiatives.

A further commitment of up to R2,0 million was made to the CEO initiative's SA SME Fund, with an initial contribution of R0,2 million being made during the year.

While the majority of our transformation targets are driven centrally, there is a link to our performance appraisal linked ("PAL") bonus scheme, creating accountability at an operational level too.

Scorecard element	Weighting	Score 2016/17
Ownership	27,00	**18,43**
Management control	19,00	**11,66**
Skills development	20,00	**17,84**
Enterprise development	40,00	**26,82**
Socio-economic development	5,00	**8,00**
Total B-BBEE score	111,00	**82,75**

OUR strategy measured continued

Ownership
The group currently has an overall black ownership percentage of 21,46%, with 10,85% being held by black women. It is mindful of the impact the winding up of the BEE funding deal may have on this ownership and continues to engage with all the relevant parties in the current structure to minimise a potential decline in black ownership, as the amended codes have set a black ownership target of 30%.

Management control
The employment equity consultative committee meets at least bi-annually to assess progress towards the achievement of quantitative goals, as well as to consider the qualitative elements which may influence the aforesaid achievement of the goals. The committee is representative of all individuals in the company, and is chaired by the divisional director: human resources, appointed as the senior manager responsible for compliance with the Employment Equity Act ("EE Act"), and enjoys the participation of the representative trade union. The lack of a readily available pool of skilled candidates from designated groups at senior and management levels continues to hamper transformation efforts. The group's ability to develop its own pipeline through succession pools, attendant development and the accelerated development and deployment programme ("ADDP") will mitigate this to a degree in the medium to long term.

The following comparative table displays the company's employee profile as at 30 June 2017 and 30 June 2016, for purposes of the EE Act.

		Male				Female				Foreign nationals		Total
Occupational level	Year	African	Coloured	Indian	White	African	Coloured	Indian	White	M	F	
Top management	**2017**			**1**	**7**	**1**			**1**			**10**
	2016			1	8	1						10
Senior management	**2017**	**5**	**3**		**31**	**2**	**1**		**18**			**60**
	2016	5	3		32	1	1		20			62
Middle management	**2017**	**4**	**4**	**2**	**19**	**21**	**5**	**2**	**16**		**1**	**74**
	2016	3	3	2	22	18	4	2	18		1	73
Junior management	**2017**	**41**	**11**	**2**	**19**	**105**	**26**	**2**	**17**		**1**	**224**
	2016	40	12	1	19	102	25	2	18		1	220
Discretionary decision-making	**2017**	**105**	**12**	**3**	**11**	**183**	**27**	**5**	**59**	**2**		**407**
	2016	101	13	3	14	178	27	6	60	1		403
Defined decision-making	**2017**	**116**	**12**		**4**	**174**	**34**			**1**		**341**
	2016	118	12		4	177	36		1	3		351
Total permanent	**2017**	**271**	**42**	**8**	**91**	**486**	**93**	**9**	**111**	**3**	**2**	**1 116**
	2016	267	43	7	99	477	93	10	117	4	2	1 119
Non-permanent*	**2017**	**8**	**1**		**2**	**57**	**4**	**1**	**2**	**2**	**2**	**79**
	2016	21	3		1	51	7	1		1	1	86
Grand total	**2017**	**279**	**43**	**8**	**93**	**543**	**97**	**10**	**113**	**5**	**4**	**1 195**
	2016	288	46	7	100	528	100	11	117	5	3	1 205

** Including 69 experiential learners.*

Continuing to make a difference

Over many years, our group has focused on improving the lives of the needy and less fortunate in and around the communities where our hotels operate. This impetus continues through our online beneficiary recipients – Hospice and Food & Trees for Africa – and other organisations which benefit, such as the Cancer Association of South Africa through our Cuppa for CANSA campaign. We also have strong links with the MAD Foundation, the Save the World Foundation, the Sunshine Tour, the JoBerg2c mountain bike challenge and the RAC City Lodge 32km Tough One road race. Over the past year, R4,4 million was donated to various CSI initiatives, with R231 000 being contributed on behalf of our guests to our online charities and a further donation of R200 000 to the Cuppa for CANSA campaign.

ENVIRONMENTAL SUSTAINABILITY

TO BE A LEADER WITHIN THE HOSPITALITY SECTOR IN ENVIRONMENTALLY SUSTAINABLE BUSINESS PRACTICES

As a group, we understand how important it is for our stakeholders that we conduct our business in an environmentally friendly and responsible way. Over the past few years we have developed and implemented policies, practices and targets to reduce and limit our impact on the environment, and continually encourage some of our stakeholders to do the same and to join us on our journey. We continue to actively analyse, manage and monitor these targets and practices throughout all our brands to ensure we operate as environmentally responsibly as reasonably and feasibly possible.

Carbon footprint

Measuring and reporting your carbon footprint has become a globally accepted measure of one's overall impact on the environment. While this is not the sole indicator of our performance in this area, we are proud of our achievements in reducing our overall impact on our planet since the start of our environmental sustainability journey. We have once again engaged a third-party expert to assist us in assessing our footprint for the year ended 30 June 2017. The scope of this year's assessment was consistent with last year. The total greenhouse gas ("GHG") emissions emitted as a result of operational activities amount to 34 321 (2016: 35 936) tonnes of CO_2 equivalent ("CO_2e").

The reporting methodology used by Promethium Carbon advisers follows the reporting principles and guidelines provided by three complementary international standards, thereby enhancing the environmental integrity of the carbon footprint.

OUR strategy measured continued

	2017			2016	
Source of emissions	**WBCSD# scope**	**Total CO_2e (t/yr)**	**Proportion of total CO_2e (%)**	Total CO_2e (t/yr)	Proportion of total CO_2e (%)
Premises – LPG consumption	**Scope 1**	**28**	**0,1**	28	0,1
Premises – Backup diesel generators		**108**	**0,3**	89	0,3
Premises – Refrigerant gas loss		**818**	**2,4**	795	2,2
Premises – Fire extinguishers		**63**	**0,2**	40	0,1
Subtotal		**1 017**	**3,0**	952	2,7
Premises – Electricity consumption	**Scope 2**	**27 444**	**80,0**	29 619	82,4
Subtotal		**27 444**	**80,0**	29 619	82,4
Upstream activities					
Premises – Water consumption	**Scope 3**	**822**	**2,4**	901	2,5
Premises – Waste disposal		**464**	**1,4**	498	1,4
Business travel – Flights		**207**	**0,6**	139	0,4
Business travel – Employee-owned cars		**24**	**0,07**	18	0,05
Downstream activities					
Fuel and energy-related emissions not included in scope 1 and 2		**4 269**	**12,4**	3 730	10,4
Downstream transportation and distribution		**74**	**0,2**	80	0,2
Subtotal		**5 860**	**17,07**	5 365	14,95
Total*		**34 321**	**100**	35 936	100

** Errors due to rounding.*
 # World Business Council for Sustainable Development ("WBCSD").

Through our ongoing commitment and implementation of resource-efficient technology, we have successfully controlled our GHG emissions and carbon footprint over the past year.

Specific sustainability focus areas
Energy consumption
In our South African operations, we only use electricity generated by the national energy provider Eskom, similarly so in Botswana and Kenya. It is, however, important to our guests that we ensure security of supply, and therefore all hotels have backup diesel generators installed for use during power outages.

The majority of our consumption is as a result of water heating, air-conditioning, lighting and laundry operations, with a total energy consumption for the period of 26,9 million kWh. This contributes towards 80,0% of our carbon footprint and remained a key focus area as a result.

By maintaining a sustainable energy management programme at each of our hotels, we were able to continue our focus on operational and technical efficiencies. In our South African operations, our absolute energy consumption decreased by 3,3%; however, comparative consumption per room night sold only decreased by 0,2% when compared to last year. This is primarily due to decreased occupancies over the period.

Our electricity consumption per occupied and per available room and the resultant per room cost thereof were as follows:

Brand	**kWh per occupied room (2016/17)**	kWh per occupied room (2015/16)	**Cost per occupied room (2016/17)**	Cost per occupied room (2015/16)	**kWh per available room (2016/17)**	kWh per available room (2015/16)	**Cost per available room (2016/17)**	Cost per available room (2015/16)
Courtyard	**30,9**	27,5	**R51,77**	R42,79	**14,7**	15,6	**R24,66**	R24,28
City Lodge	**18,7**	19,0	**R26,60**	R24,35	**11,9**	12,7	**R16,97**	R16,26
Town Lodge	**17,6**	17,7	**R31,06**	R25,77	**9,6**	10,2	**R17,00**	R15,01
Road Lodge	**13,2**	12,9	**R22,51**	R21,15	**9,1**	9,4	**R15,55**	R15,37

Renewable energy
In February 2017, the group commenced with a 12-month pilot project to assess the viability and feasibility of solar power generation at our Road Lodge Centurion. The project has a generating capacity of 50kW, which has thus far proven to be an appropriate size for this hotel's consumption. The electricity being generated by this system is being closely monitored to evaluate the assumptions used in the feasibility study. These assumptions and findings will then be worked into the evaluation of similar installations at other group hotels in the future.

Water consumption
Reducing water consumption is a joint effort between our hotels and their guests and staff. In designing our hotels, we have reduced the number of rooms with baths in our newer and refurbished City Lodge Hotels to approximately one-third, installed low-flow shower heads and taps and looked at other ways to reduce overall water consumption. A grey water recycling plant has been installed as a pilot project at Road Lodge Pietermaritzburg to treat water expelled from our laundry, which is then used for irrigation purposes. Further such installations will take place during the upcoming year, should this project prove to be viable. Not only is this good for the planet, but as the cost of potable water increases, the savings achieved will contribute to the financial sustainability of the group.

Our guests are encouraged to play their part in saving water by reusing their towels and linen, choosing to shower instead of bath and flushing wisely using the dual-flush toilet systems. We have, in water scarce regions, changed our housekeeping policies for longer staying guests, which has been well received. Reducing the volume of laundry on a daily basis has had a direct impact on the volume of water consumed, and is currently an ongoing area of focus in reducing consumption.

All water for supplying guest rooms and for use in the laundries and kitchens is drawn from municipal supply, with the exception of our Kenyan hotels, where the majority of water is supplied from boreholes. In isolated instances in South Africa, borehole water is used to supplement municipal supply for garden watering purposes.

OUR strategy measured continued

Total water consumption for the period was 631 494 kilolitres ("kℓ"). This represents a decrease of 62 071 kilolitres (9%) when compared to the prior period, highlighting the group's efforts to reduce water consumption during the recent drought.

Brand	**kℓ per occupied room (2016/17)**	kℓ per occupied room (2015/16)	**Cost per occupied room (2016/17)**	Cost per occupied room (2015/16)	**kℓ per available room (2016/17)**	kℓ per available room (2015/16)	**Cost per available room (2016/17)**	Cost per available room (2015/16)
Courtyard	**1,09**	0,78	**R15,65**	R16,94	**0,52**	0,44	**R7,45**	R9,61
City Lodge	**0,38**	0,39	**R9,44**	R8,34	**0,24**	0,26	**R6,02**	R5,57
Town Lodge	**0,36**	0,41	**R8,68**	R11,01	**0,20**	0,24	**R4,75**	R6,41
Road Lodge	**0,30**	0,34	**R5,30**	R6,07	**0,21**	0,25	**R3,66**	R4,41

In addition to conserving water, we have a responsibility to manage the quality of water discharged by reducing the consumption and/or controlling the discharge of materials and products that may contaminate water. We achieve this through the use of biodegradable chemicals and products, the installation of grease traps and by using salt water chlorinators to maintain hygiene in our pools.

Waste and recycling

While the volume of solid waste generated by the group is relatively low, given our selected service product offering, we do leverage opportunities which exist to recycle paper, glass, plastics, aluminium and steel cans, and printer cartridges. Hotels in the City Lodge Hotel brand ensure the sorting of waste on premises and the subsequent recycling thereof, with limited waste to landfill being generated. Various recycling options are currently in operation at our other brand hotels. We continue to work on cost-effective solutions to reduce waste to landfill within our remaining hotels.

Compliance

No environmental accidents occurred during the year nor were any environment-related fines imposed the company.

Our goals for the year ahead

In the year ahead we aim to maintain the reduction of energy consumption on a per-room-sold basis. Through our water-saving initiatives we will endeavour to reduce our water consumption on a per-room-sold basis and continue to investigate options around grey water reuse and water conservation in general. Regarding total waste to landfill in hotels where waste data is kept, we will focus on limiting this to below 40% of total waste.

We will continue to investigate the viability of additional photovoltaic solutions and installations for use in selected hotels.

INFORMATION TECHNOLOGY

TO MAINTAIN AND IMPLEMENT AN INNOVATIVE TECHNOLOGY PLATFORM

The group's investment in technology in prior years has provided a stable platform on which to build. Further investments made over the past year will ensure that, as we extend our operations across the African continent, we are prepared for the increased demand on our IT environment. The group IT function has embarked on various initiatives over the past year, which included the following:

Support of the African expansion programme

The new territory expansion has been a central focus area, to ensure that we are able to deliver the same consistent experience which our guests have enjoyed in the past, while also providing systems that are consistent for our hotel operations.

Having built our own property management system has allowed us the ability to develop and cater for each country's specific requirements, including the tourism industry regulations and revenue authority specifications.

Our Kenyan operations underwent an upgrade of their IT infrastructure and data centre, to provide additional capacity for the additional operations in the East African region and to introduce upgraded technologies similar to that used in our South African operations. This necessitated the upskilling of our IT professionals in Kenya to further deliver a consistent offering.

New Bid2Stay system

Our highly successful Bid2Stay platform, used as an additional online channel for selling excess inventory over weekends, was upgraded to provide a brand new experience with additional benefits beyond the reduced room rate offered on the previous system. It has also been integrated into our rewards system, allowing members to earn rewards points, while being able to redeem points for a complimentary breakfast or a drink at the bar.

Integration into additional global channels

By developing additional direct connections with larger external channels, as well as our own systems (such as the Bid2Stay system), we have managed to further reduce reservation costs during the year.

Cyber resilience

The recent increase in cyber security attacks globally has raised awareness of potential threats to all organisations, and as we continue to expand, this remains a key focus of the group IT function. Increased user awareness and regular internal and external assessments are performed to confirm the information security posture and ensure improvements are made to align with global practices and regulations.

Leveraging our technologies for the future

As the expansion into Africa remains a focus for the group, the group IT function will continue supporting the growth and will be working on new initiatives that will further enhance the guest experience and introduce efficiencies within our operations.

TO CONTINUE EMBEDDING OUR REFRESHED BRANDS AND REALISE GROWING BENEFITS FROM AN INDIVIDUAL BRAND MARKETING STRATEGY

Consistency has always been one of the most important hallmarks of the City Lodge Hotel Group. We want our guests to be confident that they will receive the services and enjoy the features and facilities they have come to expect from the brands within our group.

Equally important is brand differentiation, ensuring that our guests know what to expect from the brands they choose. Following on from market disruption research conducted in the previous year, this past year led to the development of specific campaign pay-off or tag lines for each of our major brands, encapsulating and communicating the essential characteristics and appeal of the individual brand.

These are the creative and descriptive pay-off lines developed for above-the-line and below-the-line marketing campaign activities, but also filtering through to online content:

- Courtyard Hotel – Designed to Impress
- City Lodge Hotel – There's Comfort In Every Detail
- Town Lodge – A Little Extra Can Mean A Lot
- Road Lodge – Basically Brilliant

These campaign pay-off lines have been used within fresh radio and print advertising creative campaigns that are being strategically focused and implemented within our main target markets. A new print campaign was started for our Courtyard Hotel brand in June 2017 and a new print and radio campaign for our Town Lodge brand began in June and July 2017. New campaigns will also be rolled out for our City Lodge Hotel and Road Lodge brands in the new financial year.

In May 2018, a brand awareness review will be conducted to measure the level of entrenchment of our brands across their target markets. This is also part of our ongoing exercise of tracking brand performance, association and perception.

OUR strategy measured continued

Just as it is extremely important for our hotels to always be in tip-top shape, subject to regular upgrades and refurbishments, the same applies to our marketing, rewards and booking channels. Our longstanding Lodger Club was upgraded and relaunched as the CLHG Rewards programme in January, along with some additional benefits and features for our regular guests. Our popular Bid2Stay online auction site was also revamped and relaunched in February with extra features and functionality.

With social media being such an important aspect of communication and guest engagement, our social media agency continues to develop our footprint in this vital area of interactive relationship-building and ongoing guest interaction. It is encouraging to note that over our various social media channels, more than 160 000 people are "liking", "following" or engaging with us on platforms such as Facebook, Twitter and LinkedIn.

In the sales arena, our group has continued to participate in selected local, regional and international exhibitions, workshops and roadshows aimed at showcasing our hotels. This included events such as Meetings Africa in Johannesburg, World Travel Market in Cape Town and the annual travel industry Indaba in Durban.

Regionally and internationally, our group has in recent months been represented at events in Botswana, Namibia, South America, India, China and Mozambique, with other events in the pipeline over the next few months.

Although we do not actually do anything specifically aimed at winning awards, it is always gratifying when recognition is accredited to our efforts and activities. It reinforces and supports what we are doing behind the scenes and how this is translating into results for our guests.

An encouraging award during the past year was from the Ask Afrika 2017/18 Youth Brands survey for "the coolest brand" in our category. Hotels.com also recognised some of our hotels during the year, along with 12 TripAdvisor certificates of excellence. Bloomberg ranked us at number 191 in its top 250 companies in Africa and our group was ranked 46th in the 2016 *Sunday Times* Top 100 Companies supplement which focuses on the JSE's best long-term performers for shareholders.

GOVERNANCE report

STATEMENT OF COMPLIANCE

Sound corporate governance and an ongoing commitment to upholding the highest levels of integrity and business ethics serves as the foundation upon which the City Lodge Hotel Group conducts its business. This, together with a culture of compliance with applicable legislation, regulation, non-binding rules, codes of best practice and internal policies and procedures, play a critical role in delivering sustainable value to the benefit of the company's stakeholders.

The board is the focal point of the group's corporate governance system and is ultimately accountable and responsible for the performance and affairs of the company. It is supported in its efforts by various committees.

The board takes guidance from the principles advocated in the King Report on Corporate Governance 2009 ("King III"), the JSE Listings Requirements ("Listings Requirements"), the Companies Act, 71 of 2008 ("the Act") and the International Integrated Reporting Framework, and is satisfied that, for the year under review, the company has complied with the mandatory governance principles contained in the Listings Requirements and applied the recommendations in King III. Details of the group's application of King III are available on the company's website, **www.clhg.com**. Where a principle has not been applied, this has been stated and explained.

King IV, which was published on 1 November 2016 and advocates an outcomes-based approach to corporate governance, will have application to the company's 2017/18 financial year. Processes are under way to ensure suitable application.

GOVERNANCE STRUCTURE AND DEVELOPMENTS

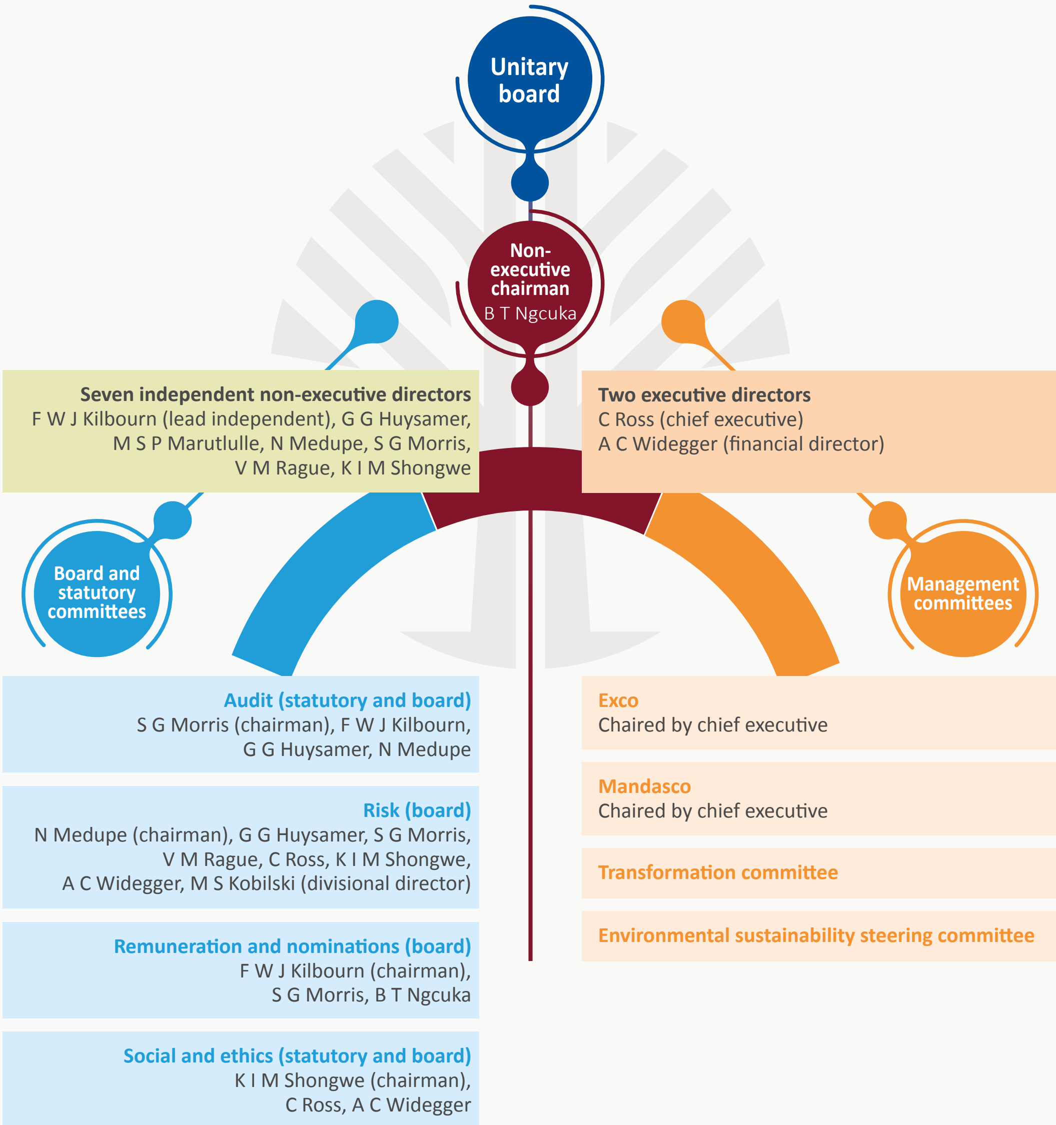
Governance processes are continually reviewed to ensure they are appropriately aligned and to identify those areas which the company needs to address, further entrench or improve upon. Initiatives undertaken to enhance the governance framework during the reporting period included:

- Adoption of the group's revised code of ethics and business conduct.
- Review and gap analysis of King IV to assess the status of the group's governance when measured against the practices included in King IV.
- Ongoing training on the impact of the Protection of Personal Information Act ("POPI Act") on the group and data processed by the business units, reviewing and where necessary amending documentation to align with the POPI Act.
- Ongoing maintenance of the regulatory universe, including ongoing identification and analysis of applicable legislation, regulation, non-binding rules and best practice, implementation of policies and procedures based on applicable laws and regulations, creating awareness and monitoring compliance.
- Revision of the current policy on selection and appointment to the board to encompass race and gender diversity at board level and adoption thereof. While no voluntary targets have been set, the remuneration and nominations committee will annually consider diversity at board level and make recommendations in respect thereof.

Areas of focus for the year ahead include:

- King IV: Agree on an improvement framework and commence efforts on addressing the gaps identified, starting with the realignment of the board and committee charters to King IV.
- A review of the remuneration philosophy and policy to ensure that it remains relevant and aligned with best practice.
- Ongoing training on the impact of POPI on the group and data processed by the business units, reviewing and where necessary amending documentation to align with the POPI Act.
- Presentation and confirmation of the regulatory universe, development and implementation of policies and procedures based on applicable laws and regulations, monitoring compliance and raising awareness and conducting training, where appropriate.
- Compliance monitoring, which includes, *inter alia*, the review of legislation, its impact on the company and the associated compliance requirements.
- Ongoing advancement of the group's ethics management, particularly in terms of ethics awareness.
- Revision of the combined assurance plan to ensure that adequate mitigating strategies are in place and assurance providers identified.
- Formalise terms of reference for the executive committee.

CITY LODGE GOVERNANCE STRUCTURE



THE BOARD

Charter

The board operates in accordance with a formally approved charter that sets out the processes and practices that have been adopted by the board to assist in the effective discharge of its responsibilities. It ensures that board activities conform to sound corporate governance principles and comply with applicable legislation. The charter also sets out the division of responsibilities to ensure a balance of power and authority so that no one individual has unfettered powers of decision-making.

All board members are aware of their collective, as well as individual, responsibilities. The charter supports a work plan against which agendas are prepared and which gives guidance as to the timelines against which the board is required to discharge its responsibilities.

Primary areas of focus include monitoring, reviewing and implementing matters of a strategic, financial, non-financial (including governance, compliance, ethics, sustainability and social responsibility) and an operational nature.

The board takes the lead in guiding the company's strategic direction, ethics, governance processes, operating, financial, as well as non-financial performance.

No changes were effected to the charter over the past year.

Composition

The unitary board comprises 10 directors, eight of whom are classified as non-executive directors ("NEDs") and two as executive directors. Seven of the eight NEDs are considered independent. In total, 50% of the board comprises members of colour, with females making up 20% of the board. The chief executive and financial director serve as the two executive directors on the board. Each of the NEDs are individuals of high calibre, with sound credibility, who possess the requisite knowledge, skills and experience to make a meaningful contribution to and ensure the effective leadership of the company. All directors participate actively in the board deliberation and decision-making process.

The strong representation of tourism industry expertise and experience blends well with the diversity of experience in other areas and serve to strengthen the board's collective business acumen. As such the board is satisfied that it possesses the appropriate balance of knowledge, skills, experience, diversity and independence to discharge its responsibilities and does not currently merit a change in constitution.

As reported in last year's Integrated Report, Ms Sizakele Marutlulle was appointed to the board with effect from 1 October 2016.

Appointment, rotation and retirement

Procedures for appointments to the board are formal and transparent and a matter for the board as a whole, assisted where appropriate by Remcom. Appointments are based on leadership skills, experience and expertise required, with diversity and gender being taken into account. All potential board appointees are subject to a fit and proper test, in accordance with the JSE Listings Requirements, and all appointments are subject to shareholder approval.

NEDs have no fixed term of appointment or service contract. In accordance with the company's memorandum of incorporation ("MoI"), at least one-third of the NEDs retire by rotation at the company's annual general meeting. The directors so retiring may, if eligible, offer themselves for re-election.

Executive directors are full-time salaried employees engaged on the company's standard terms and conditions of employment, which may be terminated on three months' notice. Termination of an executive director's employment contract will result in resignation from the board.

Executive directors do not receive fees for their services as a director on the board or member of the board and statutory committees and, in accordance with King III, do not retire by rotation at the annual general meeting.

Newly appointed directors retire at the first annual general meeting following their appointment and make themselves available for re-election by shareholders.

The retirement age for a NED is 70 years, subject to review at the discretion of the board, and 65 years for an executive director.

Despite him having reached retirement age, the board wishes to continue to avail itself of the services of Mr S G Morris, as he continued to be a valuable member of the board and contributes meaningfully to board and committee deliberations and on the basis that his independence continues to be reviewed annually.

Having considered the suitability of the directors retiring by rotation and being available for re-election, the board has resolved to put the directors, whose brief curricula vitae are set out on pages 34 and 35 to shareholders for re-election.

Independence
The board evaluates the independence of the NEDs, particularly long-serving directors on an annual basis. In addition to evaluating participation and effectiveness at meetings, consideration is given to the directors' independence of behaviour and judgement, paying close attention to his/her interest and/or involvement with other companies, number of other directorships, relationships with, *inter alia*, suppliers and competitors and interests in material contracts with the company, as well as any other factors which could have a bearing on his/her ability to act independently.

The evaluation process includes disclosure by each director of external associations and/or relationships for purposes of determining, *inter alia*, potential conflicts of interest and possibility that independence may be impaired.

At its most recent assessment, the board concluded that:

- the chairman, Mr Bulelani Ngcuka is, not considered independent due to his substantial interest in one of the company's BEE shareholders;
- Messrs Kilbourn and Morris, Dr Shongwe and Mrs Medupe continue to contribute to board deliberations in a manner that is objective, meaningful and unbiased and that their independence in character and judgement is in no way affected or impaired by their length of service or age and there is no relationship or circumstance that is likely to, or could appear to, affect their independence. In fact, if one has regard to the cyclical and specialist nature of the tourism industry it could be argued that requiring directors to resign after nine years is not only impractical but not in shareholders' best interest.

Board leadership
Responsibility for running the board and for running the company's business are two critical functions. The role of the chairman is distinct from that of the chief executive. Separation of these roles ensures a clear division of responsibilities, which is necessary to ensure a balance of power and authority, so that no one individual has unfettered powers of decision-making.

Chairman of the board and lead independent director ("LID")
The chairman of the board is responsible for setting the ethical tone for the company, ensuring the integrity and effectiveness of the board's governance processes, acting as the link between the board and management and providing leadership and vision in a manner that will serve to enhance shareholder value and ensure the long-term sustainability of the company. The board has, in line with the recommendations in King III and the Listings Requirements, appointed an LID to provide leadership and advice to the board in matters where there may be an actual or perceived conflict of interest.

The chairman and LID are elected annually. The board is comfortable that Messrs Ngcuka and Kilbourn are able to effectively carry out their respective duties and has accordingly re-elected them as chairman and LID for the ensuing year.

Chief executive
The board has delegated responsibility for the day-to-day management of the company's affairs to the chief executive.

The chief executive's functions and responsibilities include, *inter alia:*

- implementation of the board-approved strategies, objectives and decisions within the framework of the delegated authorities, values and policies of the company;
- developing and recommending the annual business plan and budget;
- monitoring and reporting on company performance;
- ensuring key management roles are occupied by individuals with the necessary competence and authority and that the functions are appropriately resourced.

Board meetings and procedures
Meeting dates are established in advance in respect of each calendar year. The board works to a formal agenda prepared by the company secretary, in consultation with the chairman. Board packs containing the meeting agenda and relevant supporting documentation are circulated well enough in advance of each meeting to allow sufficient time for preparation.

Where a director is not able to attend a meeting he/she informs the chairman of the board or relevant committee, as well as the company secretary, of this together with the reason for his/her absence.

Directors may, when they are unable to attend in person, participate via video and/or teleconferencing facilities and, where appropriate, make submissions on matters to be tabled for discussion, which submissions are recorded at the meeting. Decisions taken between scheduled board meetings, as provided in the company's MoI, are tabled for noting at the subsequent board meeting.

Details of the type and number of meetings held during the year under review, as well as individual director attendance, are set out in the table below.

Board and committee meeting schedule and attendance

	Board	Annual general meeting	Audit committee	Remuneration and nominations committee	Risk committee	Social and ethics committee
Number of meetings	4	1	3	3	3	2
G G Huysamer	4	1	3	–	3	–
F W J Kilbourn	4	1	3	3	–	–
N Medupe	4	1	3	–	3	–
B T Ngcuka	4	1	–	3	–	–
M S P Marutlulle	3[#]	1	–	–	–	–
S G Morris	4	1	3	3	3	–
V M Rague	4	[Δ]	–	–	3	–
C Ross	3[Δ]	1	2[Δ]*	2[Δ]*	2[Δ]	2
K I M Shongwe	4	1	–	–	3	2
A C Widegger	4	1	3*	1*	3	2

** By invitation.*
– Not a member.
Δ Apologies.
 # Appointed to the board with effect from 1 October 2016.

Meeting dates
11 August 2016
10 November 2016
15 February 2017
18 May 2017

Annual general meeting date
10 November 2016

Induction and ongoing training and development
To assist them in the effective discharge of their responsibilities, directors are afforded the benefit of an induction programme tailored to the individual's needs and aimed at broadening their understanding of the company and the business environment within which it operates. The company shares the responsibility of ensuring directors are equipped with the necessary skills to effectively carry out their duties and, when it is deemed appropriate, directors can avail themselves of continuing professional development programmes.

Succession plan
The board:
- is responsible for its own succession planning; and
- annually reviews the succession plans in place for the executive directors and other senior executives.

Information and communication
Directors have:
- access to the advice and services of the company secretary and may, where necessary, and in accordance with the board-approved policy, seek independent professional advice at the company's expense; and
- unrestricted access to all company information and senior management to assist them in the discharge of their duties and responsibilities.

GOVERNANCE report continued

Company strategy
Strategy, risk, performance and sustainability are inseparable. The board assumes responsibility for:
- formulating, developing and adopting the company's strategic plans and providing effective leadership and oversight of performance against targets and objectives;
- satisfying itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management;
- ensuring that the strategy will result in sustainable outcomes;
- considering sustainability as a business opportunity that guides strategic formulation; and
- monitoring management in implementing board plans and strategies.

Progress on the implementation and achievement of the company's strategic objectives is monitored on an ongoing basis and is reported on at each meeting of the board and Exco.

Evaluation of the board, chairman, chief executive and company secretary
Board effectiveness is considered on an annual basis and takes the form of a self-assessment. Where a director's performance is not considered satisfactory, the board will not recommend him/her for re-election.

The board is satisfied that it operates effectively and that it has discharged its responsibilities as detailed in the board charter and annual work plan.

The chairman
The performance and leadership of the chairman is assessed by the LID in an informal manner.

The chief executive
The chairman of the board, in consultation with the NEDs, assesses the performance of the chief executive.

Company secretary
The appointment and removal of the company secretary is a matter for the board as a whole.

The group company secretary ensures statutory and legal compliance, as well as adherence to the Listings Requirements and relevant governance principles. She provides guidance to the board on their governance, compliance and fiduciary duties, assumes responsibility for administering the proceedings and affairs of the board and communicates with stakeholders and liaises with the company's transfer secretary and sponsor.

Mrs van Heerden is an admitted attorney notary and conveyancer, holding BCom and LLB degrees, with 15 year's post-qualification experience. Her academic and professional qualifications were externally verified prior to appointment.

The board, while evaluating her performance and interactions with the directors and board as a whole considers Mrs van Heerden to be suitably qualified and experienced and is satisfied that she demonstrates the requisite competence to continue to hold the office of group company secretary.

The board furthermore concluded that there is an arm's-length relationship between itself and the group company secretary, taking into account that she is not a director serving on the board nor related to a director, and that as a result, the potential for conflict of interest is minimised.

BOARD, STATUTORY AND MANAGEMENT COMMITTEES

The board, statutory and management committees contribute to enhancing good corporate governance and improving internal controls. The delegation of specific responsibilities to these committees in no way relieves the board from discharging its duties and it remains ultimately accountable for the performance and affairs of the company.

Each board and statutory committee operates within approved terms of reference, which are updated from time to time to ensure that they are aligned with governance best practice, as well as internal, market, legislative and regulatory requirements, and against an approved work plan, which provides members with an understanding of their roles as well as guidance as to when various responsibilities need to be discharged. No changes were effected to the charters during the year.

Each committee, with the exception of the management committees, is chaired by an independent non-executive director who reports on the activities and recommendations made by the committee at the board meeting immediately following the committee meeting. Minutes of all board and statutory committee meetings, save for Remcom (which are available on request), are tabled for noting by the board. The group company secretary serves as secretary for all the committees.

Additional meetings may be convened when necessary to address urgent matters falling within the committee's scope of responsibility. No such meetings were held during the year.

The board regularly assesses the composition of the committees to ensure that they each possess the appropriate balance of skills, knowledge and experience, as well as the need for additional committees, to assist it in carrying out its duties and meeting its statutory and other legal requirements. There were no changes in committee composition during the year under review nor were any additional committees constituted.

The effectiveness of each committee is considered annually and entails a self-assessment. Any areas identified as requiring improvement are considered and the appropriate measures put in place.

The board is satisfied that each committee operates effectively and has discharged the responsibilities detailed in their respective terms of reference, at the intervals indicated in the annual work plan.

The chairmen of the respective committees attend the annual general meeting to respond to any questions shareholders may raise with regard to matters falling within their respective committee mandates.

The chief executive chairs the executive and management development and succession committees established to assist him in the discharge of the responsibilities delegated to him by the board.

Audit committee

The audit committee is a statutory committee of the board. Members are elected annually in accordance with the Companies Act and King III by shareholders, on the recommendation of the board. It assists the board in the discharge of it statutory duties as well as other duties assigned to it by the board.

Composition

The committee comprises four independent non-executive directors.

All members are financially literate and have business and financial acumen.

The chief executive, financial director, divisional director: financial, lead external audit partner and internal audit partner attend committee meetings by invitation and participate in discussions, but do not vote on any matters tabled for decision.

The internal and external auditors have unrestricted access to the committee through the chair.

The chairman of the board is not a member of the committee. He may, however, attend meetings by invitation.

Role and responsibilities

The committee's responsibilities, in addition to its statutory responsibilities, as detailed in its terms of reference include:

- safeguarding the company's assets, the operation of systems, control processes and the preparation of accurate financial reports and statements in compliance with relevant legal requirements and accounting standards;
- evaluating the adequacy and efficiency of internal control systems, accounting practices, information as well as the auditing thereof;
- consideration of the internal and external audit process and accounting principles and policies;
- ensuring the independence of the external and internal audit functions; and
- ensuring legislative and regulatory compliance and compliance with applicable codes.

Meetings and activities

Three meetings were held during the year under review to:

- examine and review reports to shareholders, including financial and sustainability reports;
- review the annual financial statements, interim reports, accompanying reports to shareholders, preliminary results announcement and any other announcement regarding the company's results or other financial information to be made public, prior to submission and approval by the board;
- review the internal control structures, including financial control, accounting systems and reporting;

- nominate the registered auditor, including the lead audit partner, review and approve the scope of work, the external audit fee and nature and extent of non-audit services;
- monitor and supervise the effectiveness of the internal audit function, including the performance of the internal audit partner;
- ensure that the roles and functions of external and internal audit are sufficiently clarified and coordinated;
- review and approve the annual internal audit plan and fee, and receive internal audit's written assessment of operational controls;
- receive reports and note the minutes from the risk committee with regard to the policy and plan for risk management and its implementation;
- oversee the implementation of the IT governance framework and ensure that it aligns with the company's performance and sustainability objectives;
- monitor and evaluate significant IT investments and expenditure;
- ensure that IT forms an integral part of the company's risk management process and ensure that information assets are managed effectively;
- oversee financial reporting risks, internal financial controls, fraud risks as they relate to financial reporting and IT risks as they relate to financial reporting;
- pre-approve and monitor the extent of non-audit services provided, which for the year under review represented 23% (2016: 37%) of the total audit fee paid.

  On the basis that the auditor does not function in the role of management, does not audit its own work or serve in an advocacy role for the company, the committee concluded that the non-audit work performed did not impair the independence of the auditors;
- monitor legislative and regulatory compliance and compliance with governance codes and accounting standards (local and international);
- consider and approve the material issues facing the company, against which reporting will take place;
- approve the annual work plan against which the agenda for committee meetings will be prepared and monitoring progress against it; and
- consider and satisfy itself as to the independence of the external auditors and determining that the reporting accountant is accredited in accordance with the provisions of the Listings Requirements.

The external and internal auditors and representatives from senior management meet, at least annually, with the committee independently of one another to report back on and discuss any issues relevant to the audit process.

During its meeting with management, the committee, in addition to discussing issues relevant to the audit, considered the quality and effectiveness of the external audit function and concluded that it was satisfied with the performance and level of services rendered by the external auditor. The board has, on the recommendation of the audit committee, nominated KPMG Inc. for reappointment as the company's registered auditor for the ensuing year, with Mr Michael Oddy as the engagement partner, at the forthcoming annual general meeting.

Both the external and internal audit partners attend the annual general meeting to respond to any questions shareholders may raise.

Confirmation of the expertise of the financial director

The audit committee has considered and confirmed that the finance function is adequately resourced with suitably skilled and technically competent individuals and in particular confirms that it is satisfied that the company's financial director, Mr Andrew Widegger, is equipped with the necessary expertise and experience to fulfil the requirements and responsibilities associated with the position.

Further information is contained in the report of the audit committee on page 93.

Remuneration and nominations committee ("Remcom")

Composition

Remcom comprises three NEDs, two of whom are independent. The LID chairs the committee. The chief executive attends meetings by invitation, but does not have a vote on matters to be decided upon nor does he participate in the decision-making process relevant to his remuneration.

The chairman of the board drives the nomination process and leads the nomination portion of meetings.

Role and responsibilities
Remcom is responsible for:
- ensuring that the directors and executives are fairly and responsibly remunerated and that the disclosure in respect thereof is accurate and transparent. Remcom does this by overseeing the implementation of remuneration policies in relation to NEDs', executive directors' and other senior executives' and reviewing the outcomes of the implementation of these policies and evaluating whether they promote the achievement of the company's strategic objectives and encourage individual performance. Where circumstances necessitate, Remcom will recommend the necessary improvements to the board;
- reviewing other remuneration-related matters, as the board may from time to time direct;
- considering the appropriate composition, in terms of size, mix, knowledge and experience for the board and its committees;
- ensuring there is a formal process in place for the appointment of directors;
- ensuring that induction and ongoing training and development of directors takes place; and
- ensuring that formal succession plans for the board, chief executive and senior executives are in place.

Meetings and activities
The committee met three times during the year under review to:
- review the Exco's remuneration packages in accordance with the company's approved remuneration policy, which included mandating third-party service providers to conduct a benchmarking exercise and assist in the formulation of a recommendation to the board;
- determine, following review of associated performance criteria, the short-term and long-term incentive awards;
- consider the succession plans in place for the Exco as well as the company's organisational structure;
- receive and approve the committee's annual work plan against which the agenda for committee meetings is prepared to ensure that the committee attends to all matters falling within its mandate;
- consider management's proposal regarding NEDs' fees, for recommendation to the board and subsequent approval by shareholders; and
- review the company's remuneration policy, for tabling at the annual general meeting of the company by way of a non-binding advisory vote.

Details on how the Remcom discharged its responsibilities can be found in the remuneration report on pages 76 to 88.

Risk committee
Risk appetite and tolerance are fundamental concepts setting the context for determining the group's strategic objectives and is informed by the group's risk culture and details the risks the group can or is prepared to take and which are to be avoided.

The board determines the group's risk appetite and tolerance levels, while management assumes responsibility for the day-to-day management of risks.

The group's enterprise risk management process encompasses the review, identification, quantification, prioritisation, response to and monitoring of the consequences of both internal and external risks and also accounts for new and emerging risks and opportunities. It also promotes ownership of risk areas and accountability for risk management. Risk and control procedures are developed, and enhanced upon, on an ongoing basis to improve risk identification, assessment and monitoring. Risks are assessed in terms of potential impact and likelihood. Inherent risk is determined with reference to an evaluation of impact and probability and its significance to the business, while residual risk is determined with reference to the mitigating strategies in place.

Composition
The committee comprises eight members, five of whom are independent non-executive directors, two executive directors and a divisional director.

The chairman of the board is not a member of the committee.

Role and responsibilities
The risk committee assists the board in discharging its responsibilities associated with risk management by reviewing the effectiveness of the processes and procedures adopted by management in relation to identifying, evaluating, documenting, managing, monitoring and

reporting on risks and the assurance provided thereon.

It is the committee's responsibility to ensure that an effective policy and plan for risk management, that will enhance the company's ability to achieve its strategic objectives, has been implemented.

Key focus areas include the management, rather than elimination, of risk, and ensuring comprehensive, timely and relevant disclosure with regard to risks facing the company. While the committee assumes responsibility for overseeing the risk management programme in place for the group, management is responsible for identifying and evaluating strategic and operational risks and opportunities, putting the necessary mitigating strategies in place, allocating responsibility, formulation of a risk management plan and monitoring compliance against the plan.

Exco supports the committee in discharging its responsibilities.

Meetings and activities

The committee met three times during the year under review for the purpose of:

- performing the annual review of the group risk register, which includes:
  - considering whether any issues have come to light that impact the risk profile of the company which would result in an amendment of the risk register;
  - identifying opportunities where effective risk management can be turned into a competitive advantage;
  - where appropriate, the re-ranking of existing risks;
- confirming its satisfaction with the effectiveness of the risk management system and processes in place and that the risks facing the company are being addressed appropriately;
- receiving the chief executive's report on the status with regard to the company's key risks;
- considering the governance, legal and compliance reports, incorporating calls to the whistleblower alertline, at intervals where the social and ethics committee does not sit;
- considering uninsured and uninsurable risks and adequacy of cover;
- approving the committee's annual work plan against which meeting agendas are prepared.

The material issues on pages 16 to 21 provide further detail on the material risks the company faces.

The board is satisfied that the group's risks are being managed appropriately and is comfortable with the risk management processes adopted by management.

Social and ethics committee ("SEC")

The SEC is constituted as a statutory committee for purposes of discharging the duties contemplated in Regulation 43 of the Act and as a board committee in respect of the responsibilities delegated to it by the board.

Composition

The three member committee comprises the chairman, an independent non-executive director, and two executive directors. While the committee complies with the Act's requirements regarding its constitution, it does not meet the King III recommendation for a majority of the committee members to be non-executive directors. The committee, having applied its mind to the current membership, and having taken into consideration that a significant portion of the matters falling within its mandate are operational, remains comfortable with the current membership and its ability to effectively discharge its responsibilities.

The group company secretary and representatives from the various functions responsible for managing the subject matter falling within the remit of the SEC assist the committee in the discharge of its responsibilities.

Role and responsibilities

The committee is primarily responsible for ensuring the group is and remains a responsible corporate citizen and engages in sustainable business practices. Its role and responsibilities, which cover the group's South African operations, include:

- social and economic development;
- good corporate citizenship;
- issues around the environment, health and public safety, including the impact of the company's activities and services;
- consumer relationships;
- management of the company's ethics;

- labour and employment, including transformation; and
- reporting annually to shareholders on matters falling within the scope of its responsibilities.

Meetings and activities

The committee met twice during the year under review to consider:

- Socio-economic development, including the company's standing in terms of:
  - The 10 principles set out in the United Nations Global Compact Principles
    The group has adopted the 10 principles and monitors and reports on compliance with human rights, labour, anticorruption and environmental matters despite not being a signatory to the compact.
  - Human rights
    The group remains committed to protecting and upholding human rights as far as it is able to exercise control over such. It subscribes to and supports "the Code", a compact between members of the international tourism industry that deals with the awareness of its staff with regard to issues and circumstances prevalent in the practices of human trafficking and child sex tourism.

    City Lodge is not complicit in human rights abuses. It does not vet its suppliers in this regard on the basis that it does not believe doing so is necessary in the context of its operations and profile of suppliers.
  - Freedom of association
    The group recognises the right to freedom of association as well as the right to collective bargaining and continues to recognise and bargain with the trade union, SACCAWU. All staff (up to supervisory level) in the deemed "bargaining unit" may belong to the union from a bargaining perspective. While any other level of staff member may belong to the union, they are not covered by any bargaining gains made by the union.
  - Forced or compulsory labour
    The group supports the elimination of all forms of forced or compulsory labour and has no exposure to such practices. Suppliers are not vetted in this regard as the group is of the opinion that this is not necessary in the context of its operations and the profile of its suppliers.
  - Abolition of child labour
    The group demonstrates its support for the abolition of child labour by ensuring that no minors are employed. It is a condition of employment that all employees provide proof of age upon commencement of employment.
  - The Organisation for Economic Co-operation and Development's recommendations regarding corruption.
- Activities associated with good corporate citizenship including the group's positioning and efforts with regards promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution towards community development in the areas within which the company operates and record of sponsorship, donations and charitable giving.

In this regard it is to be noted that:

- no judgments, penalties and/or fines were recorded and/or levied against the company or its directors for failure to comply with any legislative or regulatory requirement;
- no political donations were made during the year; and
- no requests for information under the Promotion of Access to Information Act were received during the year under review.

For details on sponsorships, donations and charitable giving refer to page 55.

The company operates a 24-hour whistleblower alertline which is independently managed by Whistle Blowers Proprietary Limited. The alertline affords all stakeholders the opportunity to anonymously report perceived cases of unethical or corrupt behaviour. All reports to the hotline are actively investigated and, where appropriate, action is taken.

In total 14 calls were logged during the year under review, all of which were investigated. The majority of the calls were found to be internal grievances and were dealt with in accordance with the company's internal grievance procedure.

- The group's labour and employment practices, including its standing in terms of the International Labour Organisation Protocol on decent work and working conditions, its employment relationships and contribution toward employee educational development.
- Progress made with regard to transformation, taking the Employment Equity and Broad-Based Black Economic Empowerment Acts into account.
- The group's compliance with applicable legislation, regulation and codes of good practice.
- Environmental sustainability practices, in particular three of the UN Global Compact Principles relating to supporting a precautionary approach to environmental challenges and supporting greater environmentally friendly technologies.
- Consumer relationships, including advertising and public relations and stakeholder engagement, it being specifically noted that no complaints have been lodged with either the Consumer Tribunal or the Advertising Standards Authority for the year under review.
- The revised code of ethics and business conduct and adoption thereof for implementation throughout the group.

The report detailing how the committee has discharged its responsibilities in this regard appears on page 89.

Executive committee ("Exco")

The 11 member Exco is the most senior executive decision-making body within the group and assists the chief executive in managing the group's operations and discharging the obligations delegated to him by the board. Peter Schoeman, divisional director: sales and marketing, resigned effective 28 February 2017.

As reported in last year's Integrated Report, Ms Melanie van Heerden and Mr Ryan Ruthven were appointed to the Exco with effect from 1 July 2016.

Exco's responsibilities include:

- implementing strategy;
- overseeing and managing the company's operations as well as operational and financial performance against set objectives;
- competitor activity;
- developing and making recommendations to the board with regard to the company's strategy and key policies, including the implementation and progress towards the achievement thereof;
- providing effective leadership to the company's employees;
- developing and presenting budgets and financial reports for subsequent submission to the board; and
- developing, implementing and monitoring governance, compliance, sustainability, risk management, internal control processes and ethics.

Exco met five times during the year.

Management development and succession committee ("Mandasco")

Mandasco comprises seven members, all of whom are Exco members, and is responsible for ensuring that:

- effective management development practices are in place and that they are aligned with the group's business needs and human capital requirements;
- the company is able to meet its employment equity and transformation objectives through the attraction and retention of the appropriate level of talent; and
- an adequate succession pool and talent pipeline is maintained.

Five meetings were convened during the year under review for purposes of discharging its responsibilities in relation to:

- maintaining an adequate succession pool and talent development plan through:
  - the identification of suitable candidates to populate the respective succession pools and for participation in the accelerated development and deployment programme ("ADDP");
  - the compilation, execution and monitoring of individual development plans for succession pool and ADDP members to enable them to reach their full potential and develop the requisite skills and expertise necessary to suitably qualify them for the position for which they are being developed; and
  - the deployment of succession pool and ADDP members to fill positions for which they have been developed, as and when they become available;

- transformation initiatives, specifically the achievement of the targeted employment equity levels, by identifying individuals for participation in the succession pools and ADDP, and monitoring the progress of existing candidates.

The various programmes in place saw the following appointments being made during the year under review:

- General manager: one ADDP candidate;
- Assistant general manager: two succession pool candidates and two ADDP candidates.

IT governance

IT governance is integrated into the business and is an important enabler both in the enhancement and advancement of the company's objectives and position as a leader in its field.

The board is ultimately responsible for IT governance and the strategic alignment of IT with the company's performance and achievement of its strategic objectives. It has delegated responsibility to implement the IT governance framework to management under the oversight of the audit committee.

The divisional director: IT, who reports directly to the chief executive, is responsible for IT operations within the group and specifically the implementation of business focused IT strategies and ensuring proper system security, data integrity and business continuity. He is furthermore responsible for consolidating feedback relating to the performance of IT within the company, so that reactive or proactive steps may be taken to ensure that the company derives the maximum value from IT, while at the same time managing its risks and ensuring that the IT function is focused on IT investment initiatives, internal engagement to promote collaborative IT planning and the promotion of IT effectively to capitalise on economies of scale across the group.

The board is satisfied that IT governance is being addressed appropriately and is suitably aligned to the achievement of the company's objectives and that the systems of internal control over information technology are adequate and effective and that there has not been a material breakdown in the functioning of the internal control systems during the year under review.

INTERNAL AUDIT FUNCTION

The internal audit function provides support to the audit committee, board as well as all operations within the group by evaluating significant business, strategic and control risks. This assists management in the development and implementation of effective internal controls, the identification of financial reporting risks and in ensuring the adequacy of controls to address the risk of material misstatement of financial results. KPMG Services Proprietary Limited performs the company's internal audit function. Despite being administratively accountable to the divisional director: financial, internal audit has unrestricted access to the chief executive, the financial director, as well as the chairman of the audit committee.

Audits are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, with hotels being audited once every three years, unless circumstances dictate otherwise. Reports, presented at each audit committee meeting, are prepared in accordance with a defined set of audit criteria which highlight audit area ratings per hotel and summarise internal audit activities. Corrective action is taken where significant internal control weaknesses are identified and follow-up audits may be conducted if deemed necessary.

Based on the results of the 18 internal audit reviews completed during the year, which yielded an overall average level of compliance with the key controls tested of 93% (2016: 84%), the internal audit function and the audit committee concluded that the overall internal control effectiveness is good.

The audit committee reviews the effectiveness of the internal audit function to ensure that adequate, objective internal audit assurance standards and procedures exist and annually approves the internal audit plan and fee for the ensuing year.

Where mandated by the audit committee, internal audit carries out special assignments. One risk-based review, covering IT governance, was undertaken during the year. The primary objective of the review was to identify whether the company had designed and implemented appropriate IT governance structures, policies and procedures to ensure that IT is managed in a controlled manner and is aligned to business objectives. The overall conclusion was that the IT governance structures, policies and procedures currently in place, are adequate.

In terms of the IT disaster recovery review undertaken in the prior year but not reported on, internal audit concluded that despite the nature and number of weaknesses identified during the review, an overall rating of adequate was assigned in respect of IT disaster recovery.

The audit committee upon assessing the independence of the internal audit function has concluded that, notwithstanding KPMG acting as internal and external auditors to the company and taking the ratio of fees between non-audit services and audit services into account, it is satisfied that the independence of the function has not been compromised.

DEALING IN SECURITIES AND INSIDER TRADING

The company has a board-approved policy on dealing in company securities, which requires directors and the group company secretary to obtain prior written clearance from the chairman of the board before dealing in City Lodge shares during an open period. The chairman of the board requires prior written clearance from any other designated director.

All dealings in securities are effected through the office of the group company secretary who assumes responsibility for the enforcement of the policy, maintains a record of requests for dealing and clearances which, with regard to directors' dealings, is tabled at each meeting of the board, and arranges for the publication of the relevant announcement via the company's sponsor on the JSE's Stock Exchange News Service.

Directors, the group company secretary and senior employees are prohibited from dealing in the company's securities during closed periods as defined by the Listings Requirements and at any time when those persons possess inside information. General investor interaction during closed periods is limited to discussions on strategy and/or historical, publicly available information.

CONFLICTS OF INTEREST AND OTHER DIRECTORSHIPS

In addition to the annual declaration, declaration of interests in contracts and details of other directorships, is a standing board agenda item.

Directors are required to recuse themselves from discussions on those matters where they are, or may potentially be, conflicted after they have provided any material information relating to the matter or known to them or if requested to make any observations or pertinent insights relating to the matter, by the other directors.

Executive directors may, with the chairman's permission, having due regard to whether the appointment may conflict with the business of the company and/or have a negative impact on the director's ability to effectively meet his/her responsibilities, accept external board appointments.

Although no limitations are imposed on the number of other appointments directors may accept, they are required to engage with the chairman with regard to their external appointments in order to ensure that acceptance of the additional appointments will not impact his/her ability to devote sufficient time to the company.

The chairman of the board is satisfied that the NEDs have devoted the requisite amount of time to discharge their responsibilities to the company and that no director has a material interest in any contract entered into by the company.

Exco also subscribes to the practice of disclosing interests in other companies, board memberships and interests in contracts at the beginning of each Exco meeting in addition to making an annual written declaration in this regard.

STAKEHOLDER ENGAGEMENT

The company acknowledges the importance of acting with integrity towards its various stakeholders, details of which are provided on pages 12 and 13, and is committed to providing timely, transparent, consistent, relevant and credible information.

The board, as ultimate custodian of stakeholder relations, has delegated responsibility for proactively dealing with the group's various stakeholders to the executive and divisional directors, group company secretary, hotels and outsourced public relations function.

Various methods of engagement have been adopted and include face-to-face meetings, results presentations with major institutional shareholders after the release of results, hosting investor and analyst sessions, the annual general meeting, engaging with the broader stakeholder community through its marketing efforts, advertising and via various social media platforms and directly with guests via guest questionnaires.

LITIGATION

The company is, in the ordinary course of business, subject to legal proceedings, which for a number of reasons, including risks and uncertainties, cannot be reliably predicted.

The company is not and has not during the year under review, been involved in any legal or arbitration proceedings that will or may have a material effect on the operations or financial position of the company, nor are there any such known proceedings pending.

SPONSOR

The company's sponsor advises the board on compliance with the Listings Requirements. During the year, Nedbank Corporate and Investment Banking replaced JP Morgan Equities South Africa Proprietary Limited as the company's sponsor.

COMPLIANCE

The company is committed to complying with applicable laws, regulations and codes of best practice. A regulatory universe has been developed to assist with the group's compliance initiatives and delegated to appropriate compliance owners.

REMUNERATION report

INTRODUCTION

This report details the activities of the remuneration and nomination committee ("Remcom") and provides an overview of the company's philosophy, principles and approach with regard to remuneration, specifically highlighting remuneration applicable to executive directors ("ED"), the executive committee ("Exco") and NEDs, as well as its implementation during the year.

REMUNERATION GOVERNANCE

Remcom is responsible for overseeing the governance of remuneration matters. It is specifically responsible for ensuring that the company remunerates its EDs and senior executives fairly and responsibly, and that the remuneration policies in place serve the company's long-term interests. In discharging its responsibility, Remcom reviews the remuneration policy and its implementation on an annual basis. It also considers management's recommendations and in turn makes recommendations to the board on the fees payable to the NEDs, which recommendation is subject to shareholder approval.

Specifics with regard to the composition, role and responsibilities of the committee, activities undertaken during the year and the remuneration policy are disclosed on pages 68 and 69.

REMUNERATION POLICY

The remuneration policy, which is to be read in conjunction with the employee's letter of appointment, employee handbook containing the company's code of conduct, applicable employment legislation and the rules of the short-term and long-term incentive schemes, will be tabled to shareholders for a non-binding advisory vote at the annual general meeting scheduled to take place on 9 November 2017. At the 2016 annual general meeting held on 10 November, 98,23% of shareholders represented or present, voted in favour of the resolution.

Reward philosophy and strategy statement

The company's policy is to pay a market rate comparable to similar roles within the market and aims to set its guaranteed pay at the upper quartile in respect of Exco, and between the mean and upper quartile within a normal distribution range of the relevant industry (hotels and hospitality) in respect of the remaining employees.

City Lodge is committed to developing, implementing and upholding total reward strategies and practices which:

- are consistent with, and aligned to the vision, mission, values and business objectives of the company;
- pursue the best interests of the company, its shareholders, and its internal and external stakeholder base;
- offer an appropriate mix of fixed remuneration and variable remuneration, which includes short-term and long-term incentives;
- are fair, equitable and justifiable;
- are market-related;
- are driven by, and show a commitment to, rewarding performance, integrity and quality innovation;
- offer competitive benefits; and
- articulate a distinctive value proposition for current and prospective employees.

Total reward strategy and remuneration mix

The total reward strategy is aimed at:

- providing an integrated approach for reward management that effectively attracts, motivates, engages and retains the talent required to achieve the desired business results;
- aligning reward practices with business strategy through a process of analysis, thereby ensuring that they serve the business objectives; and
- adhering to legal, ethical and best practice standards, and reflecting good corporate governance and citizenship by complying with and exceeding industry and statutory minimum standards.

Remuneration structure

All employees are issued with a letter of appointment detailing their remuneration as well as notice period, which is one month for all staff, except for general manager, head office managers and heads of departments where two months' notice applies and Exco where three months' notice applies.

The various components of remuneration applicable to the group are as follows:

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
Fixed					
Total guaranteed pay ("TGP") (monthly salary, retirement funding based on pensionable salary, medical aid, death and disability cover)	The basis of the company's ability to attract and retain the required skills. Reflects the individual's role and position.	1 August to 31 July	Reviewed annually, having regard to the approved increase mandate, benchmark data received from independent remuneration consultants, where applicable, macro-economic factors, inflation, affordability, scarcity of skills, complexity of role, experience and performance.	Payment takes place monthly and comprises a mix of cash salary as well as compulsory and discretionary benefits.	Employees below manager level*/** General managers* Senior and head office management* Exco ED
Variable					
Short-term incentive Performance appraisal linked ("PAL") bonus	Drive a "pay for performance" culture and reward the achievement of business objectives.	Biannually, 1 July to 31 December and 1 January to 30 June.	To create a performance culture and reward employees for achieving strong annual results when compared against predetermined targets and in so doing, aligning employee focus and shareholder experience.	Cash settlement capped at a percentage of GP depending on individual's role. The standard target payout level is generally expressed as a percentage of salary and then moderated by the performance score.	Assistant general managers General managers Senior and head office management The merit of putting a qualifying employee forward for participation is debated between the divisional director: operations or head of division and the CE and once reviewed by the external auditors, qualifying candidates are recommended to Remcom for approval.

** Thirteenth cheque over and above base pay and benefits.*

*** Employees share ownership opportunities exist through the 10th Anniversary Employees' Share Trust and Injabulo Staff Trusts, subject to qualification criteria being met.*

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
Variable (continued)					
Short-term incentive (continued) Executive committee performance management scheme ("ECPMS")	Drive a "pay for performance" culture and reward the achievement of business objectives and in so doing align employee focus with shareholder expectations while simultaneously promoting retention through share ownership.	Financial measure: 1 July to 31 December and 1 January to 30 June Non-financial measure: 1 July to 30 June	Financial targets (65% weighting) are measured biannually with reference to the group average achieved for PAL. Non-financial measures (35% weighting) comprise individual key performance areas ("KPAs") which in turn have reference to the group's strategic objectives. Targets for measuring the achievement of the non-financial performance criteria are individually tailored and are predetermined prior to the commencement of an incentive period, in consultation with the chief executive. Achievement of these targets incrementally trigger awards. A point scale of 0 to 7 points per KPA is utilised to measure achievement against each set and agreed KPA. Below target threshold: ▪ 0 points; ▪ Target threshold: 1 point; ▪ On-target: 5 points; and ▪ Stretch target: 7 points.	Financial measure: February and August Non-financial measure: August	Exco

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
Variable (continued)					
Short-term incentive (continued) Executive director incentive scheme ("EDIS")	Drive a "pay for performance" culture and reward the achievement of business objectives and in so doing aligns employee focus with shareholder expectations while simultaneously promoting retention through share ownership.	Annually: 1 July to 30 June	Financial drivers (65% weighting) comprise the weighting assigned to the group pool drivers, namely normalised group EBITDA (70%) and normalised fully diluted HEPS (30%), with the percentage target performance scale reflecting a bonus rating of 75% if the percentage target achieved is 85% for EBITDA and 90% for HEPS. The percentage threshold performance scale will reflect a bonus rating of 100% if the percentage target achieved is 100% for both EBITDA and HEPS. The percentage stretch performance scale will reflect a bonus rating of: ▪ 175% if the percentage target achieved is 110% for EBITDA and 115% for HEPS; and ▪ 250% if the percentage target achieved is 115% for EBITDA and 130% for HEPS.	August	ED

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
Variable (continued) *Short-term incentive (continued)* Executive director incentive scheme ("EDIS") (continued)			Non-financial measures (35% weighting) include, but are not limited to, the achievement of, alternatively progress made towards the achievement of, strategic objectives, group performance against peers/competitors, increase in profit, completing projects within budget and/or prior to deadline and other key performance drivers of the business, eg ROE. Scale used in evaluating achievement: ■ Threshold target percentage achieved = 80% of each driver; ■ On-target percentage achieved = 100% of each driver; and ■ Stretch target percentage achieved = 120% of each driver.		

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
Variable (continued) *Long-term incentive (“RSP” and “SAR”)*	Align interests with shareholders.	Annual awards with three-year vesting periods and subject to vesting conditions being met.	RSP: earning of a bonus in the preceding financial year. SAR: achievement of threshold or target performances measured at time of award.	Settlement takes place as directed by participant.	General managers Senior and head office management Exco ED

Re-pricing, re-granting and back dating of awards is prohibited. No awards are allocated or exercised during closed periods.

Bonus tables

The bonus achievable for each of the STI schemes is reflected in the tables below:

Bonus achievable percentage – PAL

Scale (total PAL score of 100%)	**Assistant general managers – bonus % – half-yearly annual salary**	**General managers – bonus % – half-yearly annual salary**	**Head office management – bonus % – half-yearly annual salary**
65% – 69%	2,50	5,00	Group average up to a maximum of 40
70% – 74%	5,00	10,00	
75% – 79%	8,75	17,50	
80% – 84%	12,50	25,00	
85% – 89%	16,25	32,50	
90% – 95%+	20,00	40,00	

Bonus achievable – ECPMS

Overall PAL scale	Bonus % of half-annual TGP	Exco – bonus %
65% – 68%	10	Financial element (65% of TGP): measured biannually with reference to PAL group average Non-financial element (35% of TGP): measured annually Total STI capped at 50%
69% – 72%	12,50	
73% – 76%	16,25	
77% – 80%	24,50	
+80%	32,5	

Table explanation:

- If the group achieves an average PAL score below 65% then the payout percentage is 0% of 50% of total guaranteed package ("TGP").
- If the group achieves an average 65% to 68% PAL score for the relevant six-month period then the payout percentage is 10% of 50% of TGP.
- If the group achieves an average 69% to 72% PAL score for the relevant six-month period then the payout percentage is 12,5% of 50% of TGP.
- If the group achieves an average 73% to 76% PAL score for the relevant six-month period then the payout percentage is 16,25% of 50% of TGP.
- If the group achieves an average 77% to 80% PAL score for the relevant six-month period then the payout percentage is 24,5% of 50% of TGP.
- If the group achieves an average 80% PAL score or greater for the relevant six-month period then the payout percentage is 32,5% of 50% of TGP.

Bonus achievable – EDIS

- Financial element (65% of TGP) achievement of HEPS/EBITDA;
- Non-financial element (35% of TGP) comprises strategic objectives and other key performance drivers; and
- Bonus capped at 120% of TGP.

Long-term incentive ("LTI")

Each of the LTI plans in place are governed by their own set of rules, as approved by shareholders and in line with the Listings Requirements.

	Share Appreciation Rights ("SARs") Scheme	**Restricted Share Plan ("RSP")**
Description	Participants receive a conditional right to receive shares in the company, equal to the difference between the exercise price and the grant price multiplied by the number of SAR awards exercised.	Participants will receive a full share and become a shareholder on the award date, but subject to forfeiture in the event that the employee leaves the employment of the company within a specified period. These shares entitle participants to share in dividends and to exercise voting rights. However, the participant cannot sell or encumber the shares prior to vesting.
Purpose	To attract, retain and incentivise employees.	To attract, retain and incentivise employees. To provide selected employees with the opportunity of receiving shares in the company. The RSP was initially used as a retention mechanism or as a tool to attract prospective employees, but is now being used as a tool to incentivise and retain employees.
Eligibility	Executive directors Divisional directors Senior management	Executive directors Divisional directors Senior management Head office management General managers
Company limit	The aggregate number of shares which may be allocated under the SAR and RSP at any time may not exceed 2 997 074 shares. This limit excludes shares purchased in the market and shares forfeited.	
Individual limit	The maximum number of shares which may be allocated to any one individual in respect of unvested SAR and RSP awards may not exceed 428 154 shares.	
Settlement method	The rules of the LTI plans do cater for the following: ▪ Market purchase of shares. ▪ Issue/subscription of new shares. However, the company's preference is to settle all awards under the SAR and RSP from a market purchase of shares. The rules of the RSP have been drafted wider to also include the use of treasury shares as a settlement method. As a fall-back provision only, the employee may be paid cash in lieu of shares (SARs and DBP).	
Termination of employment	Participants terminating employment prior to the vesting date of a particular award will be classified as a good or bad leaver. Bad leavers will forfeit all awards on the date of termination of employment. In the case of good leavers, a *pro rata* portion of all unvested awards will vest on the date of termination of employment. The *pro rata* portion will reflect the number of months served since the date of grant and the extent to which the performance conditions (if any) have been met. The balance of the awards will lapse. In the case of the SAR, all vested awards should be exercised within six months from the date of termination of employment.	

	Share Appreciation Rights (“SARs”) Scheme	Restricted Share Plan (“RSP”)
Change of control	In the case of a change of control, a *pro rata* portion of all unvested awards will vest on the date of change of control. The *pro rata* portion will reflect the number of months served since the date of grant and the extent to which the performance conditions have been met. The portion that does not vest early will continue to be subject to the terms of the letter of grant unless these are no longer considered appropriate in which case Remcom shall make an adjustment to the number of awards.	
Variation in share capital	In the event of a variation in share capital, the participants will continue to participate in the various LTI plans. However, Remcom may, where the company’s value has been materially affected, make an adjustment to the number of awards to give a participant an equivalent fair value of the equity capital as to which he/she would have been entitled prior to the event.	
Allocation methodology	Annual, subject to the discretion of Remcom. (SAR face value % of TGP x TGP)/ grant price.	Restricted shares: retention and attraction: *ad hoc*, as determined by Remcom. Bonus shares: annually subject to the discretion of Remcom and subject to the earning of a cash bonus as measured against the defined performance criteria of the STI. Value of bonus = bonus match % x total bonus. Bonus shares = (individual bonus/total bonus)/number of bonus shares acquired.
Grant price	The volume weighted average share price for the 10 business days prior to the date of grant.	N/a
Vesting period	Three years	Three years
Lapse period	Seven years	N/a
Performance conditions	Growth in normalised, fully diluted, headline earnings per share (“HEPS”). Two HEPS targets will be set: ▪ Threshold – consumer price index (“CPI”) over the three-year performance period; ▪ Target – CPI + 2 percentage points per annum over the three-year performance period; and ▪ 25% will vest if threshold performance is achieved and 100% will vest if target performance is achieved. Linear vesting will occur between the threshold and the target.	The earning of an STI, which is subject to defined performance criteria, is the proxy for participation. No other performance conditions, save for continued employment, are imposed.

Executive Share Incentive Scheme ("ESIS")
In terms of the ESIS eligible employees were granted share options, without performance conditions. Allocations were subject to a two-year waiting period whereafter options could be exercised as follows:

- Year 2: 20%
- Year 3: 20%
- Year 4: 20%
- Year 5: 40%

Share options are subject to being exercised within 10 years from grant date and continued employment, failing which they lapse.

The ESIS is closed with no further awards having been made since 2007. Existing vested and unexercised options, however, remain in effect until they have been exercised or lapse. The last of the options is expected to be exercised by November 2017, failing which they will lapse.

Pay-for-performance
In alignment with a value creation and pay-for-performance culture, the company places a greater emphasis on variable pay for executive directors, which Remcom monitors on a continuous basis.

Employee share ownership – City Lodge 10th Anniversary Employees' Share Trust ("10th Anniversary Trust") and Injabulo Staff Share Scheme ("Injabulo Trust")
All employees not participating in the company's LTI plans and who, at the relevant date, being the first day of the month following that during which the company pays its final dividend, have been in the full-time employ of the company for at least 12 months, are eligible to participate in the 10th Anniversary Trust and when it unwinds, the Injabulo Trust.

10th Anniversary Trust
The 10th Anniversary Trust holds approximately 1,17% of the company's issued share capital, which was acquired through an interest-free loan from the company, the details of which can be found in the directors' report on page 94.

The Injabulo Trust
The Injabulo Trust was established with the implementation of the City Lodge black economic empowerment transaction whereby the Vuwa special-purpose vehicle ("SPV") and the University of Johannesburg School for Tourism and Hospitality ("the Hotel School") together with the Staff Trust SPV acquired 15% of the company's issued share capital. The Injabulo Trust is the sole shareholder of the Staff Trust SPV, which holds 5,87% of the company's issued share capital. The note on page 123 provides more information in this regard.

Subject to the provisions of the respective trust deeds, including, *inter alia*, funding arrangements, beneficiaries are entitled to the following:

- A proportion of all dividends received.
- A proportion of the growth in the value of the shares held, distributed in the form of shares.

No income and/or growth distributions will be made under the Injabulo Trust until the loan in respect of the shares held by the Staff Trust SPV has been repaid in full.

NON-EXECUTIVE DIRECTOR ("NED") REMUNERATION

Appointment and term
The appointment of directors is a matter for the board as a whole, assisted where appropriate by Remcom, and subject at all times to the approval of shareholders. Board appointments are governed by the Act, JSE Listings Requirements and the company's MoI, which provide for at least one-third of the NEDs to retire by rotation at the company's annual general meeting. The directors so retiring may, if eligible, offer themselves for re-election.
New directors hold office until the first annual general meeting following their appointment. They may offer themselves for re-election.

Termination of office may occur at retirement age, alternatively will occur if a director is prohibited by law from being a director, fails to be re-elected, is found to be guilty of misconduct or fails to attend meetings without good reason, or poor performance.

NEDs do not have service contracts, but are issued with letters of appointment detailing, among other things, their responsibilities.

REMUNERATION report continued

They do not participate in the company's STI and LTI schemes.

Fees and basis of remuneration
Fees payable to the NEDs are reviewed annually and are not linked to the company's share price or performance.

In recognition of their ongoing responsibilities and contribution outside of meetings, as well as historically good meeting attendance, NEDs receive an annual fee, not a base fee and fee per meeting attended. The same applies to sub-committees, with a premium being paid to the chairmen. The fee paid to the chairman of the board is inclusive of all board and committee attendances as well as other responsibilities across the group.

The fee structure is as far as possible aligned with the market, taking cognisance of the size and market capitalisation of the various companies included in the sample, as well as macro-economic factors, CPI, the financial position of the company and additional responsibilities placed on board members by new legislation and corporate governance principles.

Based on management's recommendations on fees, Remcom and in turn the board reviewed and proposed the same to shareholders at the annual general meeting.

Fees are:
- paid quarterly, in arrears, in cash;
- pro-rated in line with the period served in the case of appointments or resignations during a financial year.

The fee structure, as approved by shareholders, remains in place for the financial year.

Expenses
Travel, hotel and other expenses reasonably and necessarily incurred on company business is covered by the company, subject to production of the appropriate supporting documentation in accordance with the documented travel policy.

Premiums for directors and officers' insurance cover are also paid by the company.

IMPLEMENTATION

Fixed pay (total guaranteed package)
In order to attract, motivate, engage and retain the talent required to achieve its overall business objectives, the company must offer market-related and competitive remuneration packages.

City Lodge follows a total cost-to-company approach to structure remuneration for Exco and certain specialist staff and a basic plus approach in the case of the remaining workforce.

Guaranteed pay is reviewed annually taking the approved increase mandate, macro-economic factors and performance into account. Mandated increases take effect on 1 August.

Exco members are formally graded using the 21st Century Pay Solutions Execumeasure system ("Execumeasure"), as well as in terms of the Patterson grading model in an effort to ensure effective benchmarking.

The annual review of Exco's fixed remuneration, which takes place between May and July of each year, is benchmarked to the market. In carrying out its mandate to promote fair and responsible remuneration, Remcom engaged the services of 21st Century Pay Solutions and PE Corporate Services to benchmark and advise on the level of pay for Exco.

Remcom authorised Exco total cost of employment increases, effective 1 August 2017, of between 6% and 8% (2016: between 6% and 9%), which averaged out at 6,5%, with higher increases being awarded to certain packages which were found to be lagging the market.

The board further, on recommendation of Remcom, approved a general salary increase of 6,5% for manager level employees (2016: 7%), 7,25% (2016: 7,25%) for minimum wage earners and 7% (2016: 7%) for the balance, with effect from 1 August 2017.

Moving the Group Life and Disability cover resulted in enhanced employee benefits in terms of additional funeral, dread disease and educational cover.

Variable pay (short-term and long-term incentives, which promote a pay-for performance culture)

Short-term incentive ("STI")

STIs are self-funded and budgeted for.

PAL bonus

Hotel performance averaged at 68,62% and 65,26% respectively for the two measurement periods, with only a few units achieving scores in excess of 80%. This translated into a group average pay out of 9,35% and 6,62% of half-annual salary respectively, reflective of challenging operating conditions.

ECPMS

Achievement of non-financial measures averaged at 12,42% of TGP.

EDIS

ED performance yielded an average bonus percentage payable of 33% of TGP for the year under review.

Long-term incentive ("LTI")

There have been no changes to policies regarding SAR and RSP. The details of the allocations made during the financial year are set out as follows:

SAR Scheme

Annual awards are made with reference to the face value of the award and determined using the below formula:

TGP x set multiple = number of SARs to be allocated.

106 964 awards were granted to 12 participants during the year ended 30 June 2017.

Performance conditions

- *Threshold performance condition*
  Average annual percentage growth in normalised fully diluted headline earnings per share ("HEPS") (as reported in the published annual financial statements for the year ended 30 June 2016, being 859,9 cents) over a three-year period exceeds the average annual growth in the consumer price index ("CPI") per annum over the same three-year period.

- *Target performance condition*
  Average annual percentage growth in normalised fully diluted HEPS (as reported in the published annual financial statements for the year ended 30 June 2016, being 859,9 cents) over a three-year period exceeds the average annual growth in CPI + 2 percentage points per annum over the same three-year period.

2014 SAR Award

Following confirmation on the achievement of the performance conditions imposed in respect of the 2014 grant, the Remcom is satisfied that the performance conditions have been achieved and as a result vested in full on 1 September 2017.

RSP

The RSP operates in conjunction with the STI. There are no performance criteria other than the earning of a cash bonus as measured against the defined performance criteria of the STI and continued employment with the company.

In total, 45 268 shares were allocated to 69 participants during the financial year.

Having considered the provisions of the Act with regard to the disclosure of the remuneration of directors and prescribed officers and the definition of prescribed officer, the board has concluded that Exco members are deemed prescribed officers and that the disclosure requirements around remuneration be observed.

Note 18 on pages 126 to 130 sets out further detail on executive director and senior executive remuneration including STI and awards made under the LTI.

Employee share ownership – 10th Anniversary Share Trust

In total, 925 employees received a total distribution of 19 shares and R2 485 cash, from the 10th Anniversary Trust during the reporting period (2015: 912 employees received a cash distribution amounting to R2 330).

NON-EXECUTIVE DIRECTORS ("NEDs")

The fees currently paid, as approved by shareholders at the annual general meeting held on 10 November 2016, together with the proposed fees for the 2017/2018 financial year, reflecting increases in fees payable ranging from 6% to 7,5%, are detailed hereunder.

	1 July 2017 per annum (R)	1 July 2016 per annum (R)	(%)
Services as a director	**235 400**	220 000	7,0
Chairman of audit committee	**165 000**	155 500	6,0
– Other audit committee members	**75 900**	71 600	6,0
Chairman of remuneration committee	**145 650**	137 400	6,0
– Other remuneration committee members	**65 800**	61 500	7,0
Chairman of the risk committee	**112 900**	106 500	6,0
– Other risk committee members	**51 500**	48 100	7,0
Chairman of social and ethics committee	**74 500**	69 600	7,0
Chairman	**952 300**	890 000	7,0
Lead independent director	**307 450**	286 000	7,5

* Ad hoc *committee fees per hour: R1 890 capped at R37 485.*

The board, having considered both the King III recommendation that NEDs' fees comprise a base fee as well as an attendance fee, and attendance by the NEDs over the past year, has determined that the current policy with regard to NED fees remain unchanged. Accordingly, it recommends that NEDs continue to be paid a fixed fee for their services on the board and committees and that the chairman of the board be paid an inclusive fee for his services.

STATEMENT OF COMPLIANCE

Remcom, having considered the principles and guidelines detailed in the remuneration policy, is satisfied that there has been no material deviation in the application of the policy during the year under review and having reviewed the report, including details relating to executive director and prescribed officer emoluments, confirms its inclusion in the Integrated Report.

F W J Kilbourn
Chairman of the remuneration committee

4 September 2017

SOCIAL and ethics committee report

for the year ended 30 June 2017

The social and ethics committee ("SEC") is a formal committee operating in accordance with a board-approved mandate to assist the board with the monitoring, developing, reviewing and improving the group's social, ethical and sustainability practices. The board, in addition to its statutory responsibilities, assumes responsibility for ensuring that the company's ethics are effectively managed and does so through exercising ethical leadership, integrity and judgement in directing the company. Employees are in turn expected to act in a manner that upholds the company's values as contained in the City Lodge code of ethics and business conduct ("the code"). The code details the standards of behaviour expected of employees and is provided to employees at the commencement of their employment with the company.

This report outlines how the SEC has discharged its responsibilities as set out in section 72 of the Act and regulation 43 of the Companies Regulations 2011 issued in terms of the Act with further detail to be found on pages 70 to 72 and pages 48 to 58 which covers progress in this regard.

With the approval of the revised code, which sets out and reinforces the group's values and what is considered ethical behaviour, efforts will be directed to creating awareness, facilitating training on understanding and adherence to the code and implementing the "annual declaration of adherence to the code".

The committee is of the view that the group takes its environmental, social and governance responsibilities seriously and that appropriate policies, plans and programmes have been put in place to contribute to social and economic development, good corporate citizenship, environmental responsibility, fair labour practices and good consumer relations.

No incidents or acts indicating a material breach in the required standard of ethical behaviour were brought to the attention of the committee during the period under review nor were any instances of substantive non-compliance with legislation and regulation or non-adherence to codes of best practice.

Based on its monitoring activities, the SEC has no reason to believe that any such non-compliance or non-adherence has occurred and that the group is addressing the matters required to be monitored as detailed in its mandate in the appropriate manner and that it has effectively discharged its responsibilities.

K I M Shongwe
Chairman of the social and ethics committee

4 September 2017

ANNUAL financial statements
Audited

CONTENTS

These annual financial statements were published on 11 September 2017, were audited in compliance with the requirements of the Companies Act, 71 of 2008, and prepared under the supervision of Andrew Widegger CA(SA).

DIRECTORS' responsibility statement

for the year ended 30 June 2017

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of City Lodge Hotels Limited, comprising the statements of financial position at 30 June 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and the accounting policies and notes to the financial statements, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company and its subsidiaries' ability to continue as going concerns and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group financial statements and financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and annual financial statements were approved by the board of directors on 4 September 2017 and signed on its behalf by:

C Ross
Chief executive
Authorised director

A C Widegger
Financial director
Authorised director

CERTIFICATE by the company secretary

I, the undersigned, in my capacity as company secretary, hereby confirm to the best of my knowledge and belief that in terms of the Companies Act, 71 of 2008 (the "Companies Act"), for the financial year ended 30 June 2017, the company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Companies Act and that all such returns and notices appear to be true, correct and up to date.

M C van Heerden
Company secretary

4 September 2017

REPORT of the audit committee

for the year ended 30 June 2017

This report is provided by the audit committee in compliance with the Companies Act, 71 of 2008, and as recommended by King III.

MEMBERSHIP

The committee comprises S G Morris (chairman), G G Huysamer, F W J Kilbourn and N Medupe, each of whom are independent non-executive directors and all of whom are financially literate and possess the necessary experience to contribute to the committee's deliberations. The committee met three times during the year with the chief executive, financial director, divisional director: financial and representatives from external audit and internal audit attending each meeting by invitation.

MANDATE AND TERMS OF REFERENCE

Further information with regards to the audit committee, including its terms of reference and procedures, is described more fully in the governance report on pages 67 and 68 of this Integrated Report.

STATUTORY DUTIES

The audit committee is satisfied that it considered, executed and discharged its responsibilities during the year in accordance with its mandate as described above.

The committee has considered the independence of the company's external auditors, KPMG Inc., and is satisfied that, for the year under review, the external auditors are independent. The committee adopts a work plan annually, in advance, in order to manage the discharge of its responsibilities under the Companies Act, King III, its own charter and the JSE Listings Requirements.

It approved the external auditors' fees for 2017 and the non-audit-related services performed by the external auditors during the year in accordance with the policy established and approved by the board.

The committee, excluding management invitees, met with both the external and internal auditors in order to discuss any issues relevant to the audit as well as to consider the resources and adequacy of the finance function, in particular the expertise and experience of the financial director. It concluded that both were adequate.

The committee, excluding both the external and internal auditors, met with management invitees in order to discuss any issues relevant to the audit as well as to consider the quality and effectiveness of the external and internal audit process and concluded that both were adequate.

After assessing the requirements set out in the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors, and recommends the reappointment of the external auditors at the next annual general meeting.

INTERNAL CONTROL

The audit committee has considered and approved the group's system of internal financial controls, based on the reports received from the external auditors and reports on hotel visits by the internal auditors, and confirms that no material breakdown of internal controls has taken place during the year.

SOLVENCY AND LIQUIDITY

The committee is satisfied that the board has performed a solvency and liquidity test on the company and has concluded that the company satisfies the test after payment of the final dividend.

INTEGRATED REPORTING

The Integrated Report comprises the:

- corporate report;
- governance report;
- social and ethics report;
- remuneration report;
- supplementary information to the Integrated Report; and
- the annual financial statements.

Following our review, and having regard to all material factors and risks that may impact the integrity of the Integrated Report, we accordingly recommend the Integrated Report and group annual financial statements of City Lodge Hotels Limited for the year ended 30 June 2017 to the board of directors for approval on 4 September 2017.

S G Morris
Chairman of the audit committee

4 September 2017

DIRECTORS’ report

for the year ended 30 June 2017

NATURE OF BUSINESS

The group owns and operates high-quality, affordable hotels targeted at the business community and leisure traveller.

FINANCIAL RESULTS

Group profit before taxation for the year amounted to R425,4 million (2016: R452,1 million) while consolidated headline earnings totalled R295,3 million (808,0 cents per share, diluted) compared with headline earnings of R315,1 million (862,5 cents per share, diluted) for the previous year.

On a normalised basis, the consolidated headline earnings totalled R362,2 million (833,6 cents per share, diluted) compared with normalised headline earnings of R373,7 million (859,9 cents per share, diluted) for the previous year.

The company’s interest in its subsidiaries’ profit after taxation amounted to R29,0 million (2016: R55,2 million).

INTEREST-BEARING BORROWINGS

During 2015 the group was granted an approved facility of R1 140 million to be utilised in funding the group’s expansion with final repayment due five years after each initial drawdown. An amount of R50 million was utilised during the year, increasing the amount due to R320 million. Further details are included in note 11.

DIVIDENDS

An interim dividend of 272,0 cents per share (2016: 269,0 cents) was declared on 16 February 2017, payable to ordinary shareholders registered on 10 March 2017. A final dividend of 228,0 cents per share (2016: 248,0 cents) was declared on 16 August 2017, payable to ordinary shareholders registered on 8 September 2017.

SHARE CAPITAL

There was no change in the authorised share capital of the company during the year under review.

The issued share capital increased by 165 540 shares as reflected in note 9.

The shares issued during the year were to participants in the executive employee share incentive scheme, in terms of share options exercised, at prices of between R58,59 and R80,99 per share.

The City Lodge 10th anniversary employees’ share scheme

At a general meeting of shareholders on 18 December 1995, a share scheme was created for all employees other than those employees who participate in the City Lodge executive employee share incentive scheme. The company issued 1 000 000 new ordinary shares to the trust which were funded by means of an interest-free loan from the company for an amount of R34 million.

The following distributions were made in terms of the scheme:

Distribution date	Shares per eligible employee	Total shares distributed
December 1995	30	15 420
November 2005	55	38 445
November 2006	138	88 734
November 2007	214	137 388
November 2010	48	36 336
November 2012	80	72 960
November 2013	69	61 846
November 2015	25	22 800
November 2016	19	17 575
		491 504

In applying IAS 39 – *Financial Instruments: recognition and measurement*, the carrying value of the loan in the company is R34,0 million (2016: R34,0 million) based on amortised cost.

SUBSIDIARIES

Details relating to interest in subsidiaries are included in note 3.

DIRECTORATE AND SECRETARY

The directors in office during the year under review were: G G Huysamer, F W J Kilbourn, S Marutlulle (appointed 1 October 2016), N Medupe, S G Morris, B T Ngcuka (chairman), V M Rague, C Ross (chief executive), K I M Shongwe and A C Widegger (financial director).

In terms of the memorandum of incorporation, Mr G G Huysamer, Mr F W J Kilbourn and Dr K I M Shongwe retire at the forthcoming annual general meeting but are eligible and available for re-election.

DIRECTORS' INTEREST

The directors' individual interest in the ordinary share capital of the company at 30 June were as follows:

	Beneficial			
	Direct		Indirect	
	2017	2016	**2017**	2016
G G Huysamer	**–**	–	**–**	–
F W J Kilbourn	**17 000**	17 000	**17 500**	17 500
S Marutlulle	**–**	–	**–**	–
N Medupe	**–**	–	**102 247***	102 247*
S G Morris	**–**	–	**–**	–
B T Ngcuka	**–**	–	**444 521***	444 521*
V M Rague	**–**	–	**–**	–
C Ross	**205 294**	158 095	**15 000**	11 084
K I M Shongwe	**–**	–	**153 371***	153 371*
A C Widegger	**193 326**	166 729	**–**	–
Total	**415 620**	341 824	**732 639**	728 723

* *Mrs Medupe, Mr Ngcuka and Dr Shongwe's indirect shareholding reflects their proportionate share of the 2 556 185 shares owned by Vuwa Investments Proprietary Limited.*

Directors were interested in nil (2016: 129 040) options to acquire ordinary shares in the company at 30 June 2017 under the executive share incentive scheme. This scheme has been replaced by the share appreciation rights scheme, the deferred bonus plan and the restricted share plan. Details of options held by individual directors are included in note 18.

No material changes in directors' interests have taken place between the reporting date and the date of issue of this Integrated Report.

GOING CONCERN

The directors consider that the company and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the group and company financial statements. The directors have satisfied themselves that the company and its subsidiaries are in a sound financial position and that they have access to sufficient cash and borrowing facilities to meet their foreseeable cash requirements.

EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

INDEPENDENT auditor's report

to the shareholders of City Lodge Hotels Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of City Lodge Hotels Limited ("the group" and "company") set out on pages 100 to 150, which comprise the statements of financial position at 30 June 2017, and the statements of comprehensive income, the statements of changes in equity, the statements of cash flows for the year then ended, and the accounting policies, notes to the financial statements and the segment analysis.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of City Lodge Hotels Limited at 30 June 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

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

Valuation assessment of the retirement benefit obligation at date of closure of the fund
(Applicable to the consolidated and separate financial statements)

Refer to the accounting policy for defined-benefit plans on page 106 and to note 24 to the financial statements.

The key audit matter	How we addressed the matter in our audit
As disclosed in note 24, the group and company had an obligation in respect of a defined-benefit pension scheme ("the fund") which came to an end on 10 January 2017 when the Financial Services Board approved the winding down of the fund. A closing valuation of the fund was required to be performed in order to determine the value to be transferred to the new defined-contribution fund in respect of active members, including the surplus allocated to transferring members. The closing valuation was sensitive to changes in underlying assumptions, and management exercised significant judgement when determining assumptions to be applied, particularly the discount rates, future salary and pension increases and mortality rates. Due to the level of judgement involved in applying the assumptions on the closure of the defined-benefit fund, this is considered a key audit matter in the audit of the consolidated and separate financial statements.	Our audit procedures performed in respect of the closing valuation of the fund included: - testing the accuracy and completeness of the membership data used by the actuaries in performing their assessment of the scheme based on payroll records; - working with our own actuarial experts to evaluate the assumptions used by management in valuing the group's and company's defined-benefit obligations directly before settlement date, including the discount rate, future salary and pension increases and mortality rates, in relation to external market data; and - assessing the disclosure in respect of the closure of the fund and related assumptions made in terms of the requirements of the financial reporting framework.

Impairment of trade receivables
(Applicable to the consolidated and separate financial statements)

Refer to the accounting policy for the impairment of non-derivative financial assets on page 103 and to note 27.4 to the financial statements.

The key audit matter	How we addressed the matter in our audit
Due to the nature of the group's and company's business, a significant amount of trade receivables are in respect of travel agencies and large corporate entities. Slow economic growth, inflationary pressures and increased interest rates have had a negative impact on travel spend, and these economic conditions increase the risk of default in the payment of trade receivables. Given these pressures, the impairment allowance at year-end of R6,8 million and R6,7 million in the consolidated financial statements and separate financial statements respectively, increased significantly from the prior year. The impairment allowance recognised was based on management judgements about the history of default for long outstanding amounts, including consideration of payments received after year-end. Due to the level of judgement involved in assessing the recoverability of the trade receivables, the impairment of trade receivables was considered to be a key audit matter in our audit of the consolidated and separate financial statements.	Our audit procedures with regard to the impairment of trade receivables included, among others: ▪ re-performing the ageing of trade receivables to verify the accuracy of the ageing which is the basis for identifying overdue trade receivables; ▪ agreeing a sample of outstanding sales invoices at year-end to subsequent cash receipts; and ▪ assessing the reasonableness of the assumptions used by management in determining the impairment allowance by predicting our own impairment allowance based on long outstanding amounts and customers handed over for collection, and comparing our impairment assessment to that calculated by management.

Impairment of other investments
(Applicable to the consolidated financial statements)

Refer to the accounting policy for the impairment of non-derivative financial assets on page 103 and to note 8 to the financial statements.

The key audit matter	How we addressed the matter in our audit
The group, through a wholly owned subsidiary, has deposits with Chase Bank (Kenya) Limited ("Chase Bank") amounting to KES384,8 million (R48,2 million) at year-end. As indicated in note 8 , Chase Bank was placed under receivership on 7 April 2016 and re-opened on 27 April 2016 under a receiver manager, which is evaluating buyers for Chase Bank. These deposits have been classified as other investments in the consolidated financial statements. The group's ability to access the deposits is restricted and due to uncertainty about whether the deposits are fully recoverable given the receivership process, an impairment of R24,0 million has been recognised at year-end. The impairment recognised was based on management's estimation of the recoverability of the deposit in light of the information available to management about the progress of the receivership process at year-end. Given the level of judgement involved in determining the recoverable amount of the deposit, the impairment of other investments was considered a key audit matter in our audit of the consolidated financial statements.	Our audit procedures performed with regard to the impairment assessment of other investments included: ▪ inspecting the communications between the directors of the subsidiary, the receiver manager and the Central Bank of Kenya to gain an understanding of, and progress made in respect of, the receivership process for Chase Bank; ▪ inspecting media releases about the process of identifying a potential buyer in order to understand the progress made in finalising the transaction; ▪ using this information to evaluate whether a successful and timeous conclusion may be reached by the receivership process and whether appropriate risk factors were considered by management in determining the extent of the impairment required at year-end; and ▪ assessing the appropriateness of the disclosures made on this matter, included in note 8 to the consolidated financial statements.

Other information
The directors are responsible for the other information. The other information comprises the certificate of the company secretary, the report of the audit committee and the directors' report as required by the Companies Act of South Africa, and the rest of the information included in the Integrated Report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt

- on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in *Government Gazette* number 39475, dated 4 December 2015, we report that KPMG Inc. has been the auditor of City Lodge Hotels Limited for 31 years.

KPMG Inc.
Registered Auditors

MOddy

Per: Michael Oddy
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

4 September 2017

ACCOUNTING policies

for the year ended 30 June 2017

REPORTING ENTITIES

City Lodge Hotels Limited ("the company") is a company domiciled in South Africa. The group financial statements of the company as at and for the year ended 30 June 2017 comprise the company and its subsidiaries (together referred to as the group).

The group owns and operates high-quality, affordable hotels targeted at the business community and leisure traveller.

Where reference is made to "group", it should be interpreted as company, where the context requires and unless otherwise stated.

BASIS OF PREPARATION

Functional and presentation currency

These financial statements are presented in Rand, which is the company's functional and group's presentation currency, rounded to the nearest thousand.

Basis of measurement

These financial statements are prepared on the historical cost basis, except for derivative financial instruments carried at fair value and the defined-benefit plan measured at the fair value of plan assets less the present value of the defined-benefit obligation.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements, in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is in relation to the following:

- Measurement of share-based payments (note 24).
- Measurement of impairment allowance of trade receivables (note 27.4)
- Measurement of impairment loss on other investments (note 8).
- Measurement of defined-benefit fund (note 24).

Statement of compliance

The group and company financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board, the Listings Requirements of JSE Limited, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa. These group and company financial statements were authorised for issue by the board of directors on 4 September 2017.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out on the following pages have been applied consistently by all group entities to all periods presented in these financial statements.

Basis of consolidation

The group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and liabilities assumed. For a business combination achieved in stages, the pre-existing equity interest in the acquiree is measured at fair value at the acquisition date. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The group financial statements include the financial statements of the company and its subsidiaries.

Investments in subsidiaries are carried at cost less accumulated impairment adjustments in the company separate financial statements.

Subsidiaries
Subsidiaries are entities controlled by the group. The group controls an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Goodwill
Goodwill 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 and if a business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree.

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 and according to the differing risk and reward profiles.

Foreign 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 reporting date with the resultant translation differences being credited or charged to profit or loss.

Foreign subsidiaries – translation
One-off items in the statement of comprehensive income and cash flow statements of foreign subsidiaries expressed in currencies other than the SA Rand are translated to SA Rand at the rates of exchange prevailing on the day of the transaction. All other items are translated at average rates of exchange for the relevant reporting period. Assets and liabilities of these undertakings are translated at closing rates of exchange at each reporting date. All translation exchange differences arising on the retranslation of opening net assets together with differences between statement of comprehensive income 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Structured entities
The group has established a number of structured entities for the purposes of the BEE transaction. The group does not have any direct or indirect shareholdings in these entities. The group has guaranteed the funding of the structured entities and as such is deemed to control these structured entities resulting in the incorporation of the structured entities into the company and group financial statements.

Transactions eliminated on consolidation
Intragroup transactions and balances, and any unrealised income or expenses arising from intragroup transactions, are eliminated in preparing the group financial statements.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Where significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Freehold land is stated at cost and is not depreciated. Freehold and leasehold buildings are stated at cost and depreciated over periods of up to 50 years as deemed appropriate to reduce carrying values to estimated residual values over their useful lives.

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognised. All other costs are recognised in profit or loss as an expense as incurred.

Borrowing costs incurred on funds raised to erect hotel buildings (qualifying assets) are capitalised up to the date that the activities necessary to prepare the hotel for its intended use are substantially complete.

Government grants are recognised when there is reasonable assurance that they will be received and the group will comply with the conditions associated with the grant. Such grants are deducted from the cost of the asset.

Depreciation is charged to profit or loss to write off the cost of the asset to its estimated residual value on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Depreciation commences the month following acquisition. The estimated useful lives are currently as follows:

- Buildings — 10 to 50 years
- Furniture and equipment — Three to five years

Leasehold improvements are written off over the initial period of the lease.

The residual values, depreciation methods, and useful lives are reassessed annually.

Gains and losses arising on the disposal of property, plant and equipment are included in profit or loss.

Leases

Operating leases as lessee

Leases, where the lessor retains the risk and rewards of ownership of the underlying asset, are classified as operating leases.

Operating lease payments are expensed in profit or loss on a straight-line basis over the period of the leases. Other contingent operating lease payments are charged against profit or loss as they are incurred.

Intangible assets

Internally developed trademarks are not recognised. Expenditure to enhance and maintain such trademarks is charged in full against profit or loss.

Expenditure on research activities is recognised in profit or loss as incurred.

Software development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, software development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives are as follows:

■ Software development costs	Five to 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment

Non-derivative financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more loss events have had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and equity-accounted investees, the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate or estimated using a price to earnings ratio that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Pre-opening expenses

Pre-opening expenses of new hotels are charged directly against profit or loss as incurred.

Inventories
Inventory is stated at the lower of cost and net realisable value, on a first-in first-out basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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

Taxation
Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current taxation comprises taxation payable calculated on the basis of the expected taxable income for the year, using the taxation rates enacted or substantively enacted at the reporting date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the reporting date. Deferred taxation is recognised in profit or loss except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income, or a business combination that is an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in equity or other comprehensive income.

Deferred taxation is not recognised for the following temporary differences:
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused taxation losses and deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation 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 entity, 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.

Dividends withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012.

The company withholds dividends tax on behalf of its shareholders on dividends declared. Amounts withheld are not recognised as part of the company's tax charge, but rather as part of the dividend paid, recognised directly in equity.

Financial instruments
Measurement
Financial instruments are initially measured at fair value plus, for financial instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below:

Non-derivative financial assets
The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

Investments

Investments that meet the criteria for classification as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses.

Financial assets designated as financial assets at fair value through profit or loss are carried at fair value with any gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed. Attributable transaction costs are recognised in profit or loss when incurred.

Trade, loan and other receivables

Trade, loan and other receivables are measured at amortised cost, using the effective interest method, less impairment losses.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognised if the group's obligations expire or are discharged or cancelled.

Non-derivative financial liabilities

The group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated as fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

Borrowings are measured at amortised cost using the effective interest method.

Any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss as interest expense over the period of the borrowings.

Trade and other payables are measured at amortised cost, using the effective interest method.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share capital and equity

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares

Preference share capital is classified as a liability as it is redeemable on a specific date or at the option of the shareholders and as the dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

Revenue

Revenue comprises revenue received from hotel accommodation, food and beverage sales, but excludes value added tax, and is recognised once the service is rendered.

Revenue is measured at the fair value of the consideration received or receivable, net of returns, allowances and trade discounts. Revenue is recognised on the provision of accommodation and related services in the ordinary course of the group's activities when recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement and the amount of revenue can be measured reliably.

For the customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (Lodger-points) and the other components of the sale. The group supplies all of the awards, being accommodation itself. The amount allocated to the Lodger-points is estimated by reference to the fair value of the accommodation for which they could be redeemed, since the fair value of the Lodger-points themselves is not directly observable. The fair value of the accommodation is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognised only when the Lodger-points are redeemed and the group has fulfilled its obligations to supply the accommodation or when it is no longer probable that the points under the programme will be redeemed. The amount of revenue recognised in those circumstances is based on the number of Lodger-points that have been redeemed in exchange for accommodation, relative to the total number of Lodger-points that is expected to be redeemed.

Rental income
Rental income from property leased out under operating leases is recognised on a straight-line basis over the term of the lease in the company. The property leased is owner-occupied property.

Financial income and expense
Financial income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, dividends on preference shares classified as liabilities and unwinding of discounts on provisions. All borrowing costs, not directly attributable to the acquisition, construction or production of qualifying assets, are recognised in profit or loss using the effective interest method.

Employee benefits
Short-term employee benefits
The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The liability for employee entitlements to salaries, bonuses and annual leave represent the amounts which the group has a present obligation to pay as a result of employees' services provided to the reporting date. The liability has been calculated at undiscounted amounts based on current salary rates.

Retirement benefits
Defined-contribution plans
Contributions to defined-contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Defined-benefit plans
The group's net obligation in respect of the defined-benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted in respect of the defined-benefit pension plan. The discount rate is the yield at the reporting date on the All Bond Index ("ALBI") that have maturity dates approximating to the terms of the group's obligations and are denominated in the same currency in which the benefits are expected to be paid in respect of the defined-benefit pension plan. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined-benefit liability, which comprise actuarial gains and losses and in the case of the defined-benefit pension plan, the return on plan assets (excluding interest), are recognised immediately in OCI. The group determines the net interest expense (income) on the net defined-benefit liability (asset) for the period by applying the discount rate used to measure the defined-benefit obligation at the beginning of the annual period to the then net defined-benefit liability (asset), taking into account any changes in the net defined-benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined-benefit plans are recognised in profit or loss.

Where the calculation results in an asset for the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan available to the employer.

Share-based payment transactions
The share incentive schemes allow certain employees to acquire shares of the company. The fair value of rights granted are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the rights. The fair value of the rights granted is measured using the stated models, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share rights that vest, except where forfeiture is due only to share prices not achieving the threshold for vesting.

Share-based payment arrangements in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the group.

Earnings per share
The group presents basic, diluted and normalised earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding, excluding shares held by the BEE structured entities, during the period.

Diluted EPS is determined by dividing profit for the year by the weighted average number of ordinary shares outstanding, excluding shares held by the BEE structured entities, plus all potential dilutive ordinary shares, which comprise share options granted to employees.

Normalised EPS is calculated by dividing profit for the year, excluding the effects of the BEE transactions or those of a non-recurring/core nature, by the weighted average number of ordinary shares outstanding during the period.

Normalised diluted EPS is determined by dividing profit for the year, excluding the effects of the BEE transactions or those of a non-recurring/core nature, by the weighted average number of ordinary shares outstanding, plus all potential dilutive ordinary shares, which comprise share options granted to employees.

Headline earnings per share is calculated in terms of circular 2/2015.

Operating segments
An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the group’s other components.
All operating segments’ operating results are reviewed regularly by the chief operating decision-makers to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision-makers include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

STATEMENTS of financial position

at 30 June 2017

		Group		Company	
R000	Note	**2017**	2016	**2017**	2016
ASSETS					
Non-current assets		**1 978 493**	1 895 445	**1 712 939**	1 772 606
Property, plant and equipment	1	**1 917 022**	1 844 140	**1 179 163**	1 243 696
Intangible assets and goodwill	2	**50 486**	45 558	**50 224**	45 558
Interest in subsidiaries	3			**449 352**	449 352
Investments		**200**	–	**200**	–
Loan receivable	4			**34 000**	34 000
Deferred taxation	5	**10 785**	5 747	**–**	–
Current assets		**372 367**	306 648	**202 450**	160 456
Inventories	6	**6 845**	7 734	**3 830**	3 682
Trade receivables	27.4	**95 092**	97 408	**90 582**	89 389
Other receivables	7	**130 549**	35 948	**66 793**	38 735
Taxation receivable		**–**	4 389	**–**	–
Other investments	8	**24 217**	56 860		
Cash and cash equivalents		**115 664**	104 309	**41 245**	28 650
Total assets		**2 350 860**	2 202 093	**1 915 389**	1 933 062
EQUITY					
Capital and reserves		**934 311**	871 828	**682 366**	609 007
Share capital and premium	9	**179 377**	167 958	**179 377**	167 958
BEE investment and incentive scheme shares		**(526 729)**	(524 228)	**(508 051)**	(505 550)
Other reserves	10	**114 411**	145 016	**114 718**	109 453
Retained earnings		**1 167 252**	1 083 082	**896 322**	837 146
LIABILITIES					
Non-current liabilities		**560 688**	1 196 572	**323 931**	1 144 758
Interest-bearing borrowings	11	**320 000**	270 000	**109 000**	250 000
BEE interest-bearing borrowings	12	**–**	44 120	**–**	44 120
BEE preference shares	13	**–**	397 500	**–**	397 500
BEE shareholder’s loan	14	**–**	37 893	**–**	37 893
BEE B preference share dividend accrual	13	**–**	200 171	**–**	200 171
Other non-current liabilities	15	**89 517**	102 203	**78 905**	92 909
Deferred taxation	5	**151 171**	144 685	**136 026**	122 165
Current liabilities		**855 861**	133 693	**909 092**	179 297
BEE interest-bearing borrowings	12	**44 120**	–	**44 120**	–
BEE preference shares	13	**382 200**	–	**382 200**	–
BEE shareholder’s loan	14	**43 528**	–	**43 528**	–
BEE preference share dividend accrual	13	**236 466**	–	**236 466**	–
Trade and other payables	16	**142 004**	133 693	**190 693**	178 081
Taxation payable		**7 543**	–	**12 085**	1 216
Total liabilities		**1 416 549**	1 330 265	**1 233 023**	1 324 055
Total equity and liabilities		**2 350 860**	2 202 093	**1 915 389**	1 933 062

STATEMENTS of comprehensive income

for the year ended 30 June 2017

		Group		Company	
R000	Note	**2017**	2016	**2017**	2016
Revenue		**1 520 410**	1 493 163	**1 382 226**	1 343 506
Administration and marketing costs		**(94 844)**	(98 019)	**(89 452)**	(91 857)
BEE transaction charges	17	**(587)**	(858)	**(587)**	(858)
Operating costs excluding depreciation		**(825 850)**	(773 490)	**(743 844)**	(722 003)
		599 129	620 796	**548 343**	528 788
Depreciation and amortisation		**(102 779)**	(96 399)	**(94 554)**	(87 871)
Results from operating activities	17	**496 350**	524 397	**453 789**	440 917
Interest income	19.1	**6 603**	2 268	**13 276**	11 888
Interest expense	19.2	**(77 558)**	(74 523)	**(77 530)**	(74 523)
Profit before taxation		**425 395**	452 142	**389 535**	378 282
Taxation	20	**(130 254)**	(136 854)	**(119 484)**	(114 234)
Profit for the year		**295 141**	315 288	**270 051**	264 048
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Defined-benefit plan remeasurements	24	**(573)**	6 827	**(573)**	6 827
Income tax on other comprehensive income		**160**	(1 912)	**160**	(1 912)
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences		**(35 870)**	34 093		
Total comprehensive income for the year		**258 858**	354 296	**269 638**	268 963
Earnings per share (cents)					
– basic	21	**809,8**	868,3		
Diluted earnings per share (cents)					
– basic	21	**807,5**	862,9		

STATEMENTS of cash flows
for the year ended 30 June 2017

		Group		Company	
R000	Note	**2017**	2016	**2017**	2016
Cash generated by operations	26.1	**608 697**	654 621	**532 726**	577 272
Interest received		**6 603**	2 268	**13 276**	9 558
Interest paid		**(35 915)**	(37 593)	**(35 887)**	(37 593)
Taxation paid	26.2	**(117 034)**	(129 657)	**(95 689)**	(104 474)
Dividends paid	22	**(192 955)**	(184 316)	**(192 859)**	(184 497)
Cash inflows from operating activities		**269 396**	305 323	**221 567**	260 266
Cash utilised in investing activities		**(267 630)**	(191 893)	**(34 877)**	(160 513)
Investment to maintain operations	26.3	**(38 008)**	(81 963)	**(34 442)**	(80 203)
Investment to expand operations	26.4	**(164 353)**	(110 345)	**(346)**	(80 535)
Expenditure refundable on operating leases		**(65 268)**	–	**–**	–
Investments and loans	26.5	**(200)**	–	**(200)**	(3)
Proceeds on disposal of property, plant and equipment	26.3	**199**	415	**111**	228
Cash inflows/(outflows) from financing activities		**16 905**	(40 659)	**(174 095)**	(54 309)
Proceeds on issue of shares		**11 419**	3 956	**11 419**	3 956
Purchase of incentive scheme shares		**(29 074)**	(43 525)	**(29 074)**	(43 525)
Proceeds from interest-bearing borrowings		**50 000**	20 000	**–**	–
Repayments of interest-bearing borrowings		**–**	–	**(141 000)**	–
Redemption of BEE preference shares		**(15 300)**	(14 600)	**(15 300)**	(14 600)
Distribution by BEE structured entity		**(140)**	(140)	**(140)**	(140)
Settlement of retirement benefit obligation		**–**	(6 350)		
Net increase in cash and cash equivalents		**18 671**	72 771	**12 595**	45 444
Cash and cash equivalents at beginning of year		**104 309**	73 346	**28 650**	(16 794)
Reclassification of cash and cash equivalents to other investments		**–**	(56 860)		
Effect of movements in exchange rates on other investments		**8 663**	–		
Effect of movements in exchange rates on cash held		**(15 979)**	15 052		
Cash and cash equivalents at end of year		**115 664**	104 309	**41 245**	28 650

STATEMENTS of changes in equity

for the year ended 30 June 2017

R000	Note	Share capital and premium	BEE investment and incentive scheme shares	Other reserves	Retained earnings	Total
Group						
Balance at 30 June 2015		164 002	(515 728)	108 051	971 117	727 442
Total comprehensive income for the year		–	–	34 093	320 203	354 296
Profit for the year		–	–	–	315 288	315 288
Other comprehensive income						
Defined-benefit plan remeasurements, net of tax		–	–	–	4 915	4 915
Foreign currency translation differences		–	–	34 093	–	34 093
Transactions with owners, recorded directly in equity		3 956	(8 500)	2 872	(208 238)	(209 910)
Issue of new ordinary shares	9	3 956	–	–	–	3 956
Incentive scheme shares		–	(8 500)	(11 243)	(23 782)	(43 525)
Share compensation reserve	10	–	–	14 115	–	14 115
Dividends paid	22	–	–	–	(184 316)	(184 316)
Distribution by BEE structured entity		–	–	–	(140)	(140)
Balance at 30 June 2016		167 958	(524 228)	145 016	1 083 082	871 828
Total comprehensive income for the year		**–**	**–**	**(35 870)**	**294 728**	**258 858**
Profit for the year		**–**	**–**	**–**	**295 141**	**295 141**
Other comprehensive income						
Defined-benefit plan remeasurements, net of tax		**–**	**–**	**–**	**(413)**	**(413)**
Foreign currency translation differences		**–**	**–**	**(35 870)**	**–**	**(35 870)**
Other movements		**–**	**–**	**–**	**(1 095)**	**(1 095)**
Deferred tax on settlement and curtailment of defined-benefit fund		**–**	**–**	**–**	**(1 095)**	**(1 095)**
Transactions with owners, recorded directly in equity		**11 419**	**(2 501)**	**5 265**	**(209 463)**	**(195 280)**
Issue of new ordinary shares	9	**11 419**	**–**	**–**	**–**	**11 419**
Incentive scheme shares		**–**	**(2 501)**	**(10 205)**	**(16 368)**	**(29 074)**
Share compensation reserve	10	**–**	**–**	**15 470**	**–**	**15 470**
Dividends paid	22	**–**	**–**	**–**	**(192 955)**	**(192 955)**
Distribution by BEE structured entity		**–**	**–**	**–**	**(140)**	**(140)**
Balance at 30 June 2017		**179 377**	**(526 729)**	**114 411**	**1 167 252**	**934 311**

STATEMENTS of changes in equity continued

for the year ended 30 June 2017

R000	Note	Share capital and premium	BEE investment and incentive scheme shares	Other reserves	Retained earnings	Total
Company						
Balance at 30 June 2015		164 002	(497 050)	106 581	776 602	550 135
Total comprehensive income for the year		–	–	–	268 963	268 963
Profit for the year		–	–	–	264 048	264 048
Other comprehensive income						
Defined-benefit plan remeasurements, net of tax		–	–	–	4 915	4 915
Transactions with owners, recorded directly in equity		3 956	(8 500)	2 872	(208 419)	(210 091)
Issue of new ordinary shares	9	3 956	–	–	–	3 956
Incentive scheme shares		–	(8 500)	(11 243)	(23 782)	(43 525)
Share compensation reserve	10	–	–	14 115	–	14 115
Dividends paid	22	–	–	–	(184 497)	(184 497)
Distribution by BEE structured entity		–	–	–	(140)	(140)
Balance at 30 June 2016		167 958	(505 550)	109 453	837 146	609 007
Total comprehensive income for the year		**–**	**–**	**–**	**269 638**	**269 638**
Profit for the year		**–**	**–**	**–**	**270 051**	**270 051**
Other comprehensive income						
Defined-benefit plan remeasurements, net of tax		**–**	**–**	**–**	**(413)**	**(413)**
Other movements		**–**	**–**	**–**	**(1 095)**	**(1 095)**
Deferred tax on settlement and curtailment of defined-benefit fund		**–**	**–**	**–**	**(1 095)**	**(1 095)**
Transactions with owners, recorded directly in equity		**11 419**	**(2 501)**	**5 265**	**(209 367)**	**(195 184)**
Issue of new ordinary shares	9	**11 419**	**–**	**–**	**–**	**11 419**
Incentive scheme shares		**–**	**(2 501)**	**(10 205)**	**(16 368)**	**(29 074)**
Share compensation reserve	10	**–**	**–**	**15 470**	**–**	**15 470**
Dividends paid	22	**–**	**–**	**–**	**(192 859)**	**(192 859)**
Distribution by BEE structured entity		**–**	**–**	**–**	**(140)**	**(140)**
Balance at 30 June 2017		**179 377**	**(508 051)**	**114 718**	**896 322**	**682 366**

NOTES to the financial statements

for the year ended 30 June 2017

	Group		Company	
R000	**2017**	2016	**2017**	2016
1. PROPERTY, PLANT AND EQUIPMENT				
At cost				
Land	**295 764**	295 764	**1 178**	1 178
Buildings	**1 614 555**	1 619 536	**1 395 912**	1 393 648
– freehold	**1 274 569**	1 279 550	**1 055 926**	1 053 662
– leasehold	**339 986**	339 986	**339 986**	339 986
Buildings under construction	**227 368**	81 525	**1 805**	1 719
Furniture and equipment	**339 796**	545 300	**270 306**	472 513
	2 477 483	2 542 125	**1 669 201**	1 869 058
Accumulated depreciation				
Buildings	**373 896**	330 180	**349 519**	308 186
– freehold	**204 804**	183 805	**180 427**	161 811
– leasehold	**169 092**	146 375	**169 092**	146 375
Furniture and equipment	**186 565**	367 805	**140 519**	317 176
	560 461	697 985	**490 038**	625 362
Carrying value				
Land	**295 764**	295 764	**1 178**	1 178
Buildings	**1 240 659**	1 289 356	**1 046 393**	1 085 462
– freehold	**1 069 765**	1 095 745	**875 499**	891 851
– leasehold	**170 894**	193 611	**170 894**	193 611
Buildings under construction	**227 368**	81 525	**1 805**	1 719
Furniture and equipment	**153 231**	177 495	**129 787**	155 337
	1 917 022	1 844 140	**1 179 163**	1 243 696

R000	Land	Buildings	Furniture and equipment	Total
1. PROPERTY, PLANT AND EQUIPMENT continued				
Movements for the year				
Group – carrying value				
Opening balance – 1 July 2015	295 764	1 270 539	173 948	1 740 251
Additions*	–	126 727	52 051	178 778
Disposals	–	–	(186)	(186)
Depreciation	–	(42 613)	(51 887)	(94 500)
Gain on foreign exchange movement	–	16 228	3 569	19 797
Closing balance – 30 June 2016	295 764	1 370 881	177 495	1 844 140
Additions*	–	160 286	32 055	192 341
Disposals	–	–	(448)	(448)
Depreciation	–	(44 433)	(53 251)	(97 684)
Loss on foreign exchange movement	–	(18 707)	(2 620)	(21 327)
Closing balance – 30 June 2017	**295 764**	**1 468 027**	**153 231**	**1 917 022**
Company – carrying value				
Opening balance – 1 July 2015	1 178	1 029 661	151 772	1 182 611
Additions*	–	96 917	50 291	147 208
Disposals	–	–	(151)	(151)
Depreciation	–	(39 397)	(46 575)	(85 972)
Closing balance – 30 June 2016	1 178	1 087 181	155 337	1 243 696
Additions*	–	2 350	22 746	25 096
Disposals	–	–	(101)	(101)
Depreciation	–	(41 333)	(48 195)	(89 528)
Closing balance – 30 June 2017	**1 178**	**1 048 198**	**129 787**	**1 179 163**

At 30 June 2017 properties with a carrying amount of R163,2 million (2016: R166,6 million) are subject to a registered bond to secure bank loans (refer to note 11).

A register of the land and buildings is available for inspection at the registered office of the company, a copy of which will be supplied to members of the public on request.

* *Interest was capitalised in additions to buildings during the current and prior years (refer to note 19).*

R000	Group 2017	Group 2016	Company 2017	Company 2016
2. INTANGIBLE ASSETS AND GOODWILL				
At cost				
Software development costs	**54 412**	44 392	**54 084**	44 392
Goodwill	**3 418**	3 418	**3 418**	3 418
	57 830	47 810	**57 502**	47 810
Accumulated amortisation and impairment				
Software development costs	**7 344**	2 252	**7 278**	2 252
Goodwill	**–**	–	**–**	–
	7 344	2 252	**7 278**	2 252
Carrying value				
Software development costs	**47 068**	42 140	**46 806**	42 140
Goodwill	**3 418**	3 418	**3 418**	3 418
	50 486	45 558	**50 224**	45 558

R000	Software development cost	Goodwill	Total
2. INTANGIBLE ASSETS AND GOODWILL continued			
Movements for the year			
Group – carrying value			
Opening balance – 1 July 2015	29 160	3 418	32 578
Additions	14 879	–	14 879
Amortisation	(1 899)	–	(1 899)
Closing balance – 30 June 2016	42 140	3 418	45 558
Additions	**10 020**	**–**	**10 020**
Amortisation	**(5 095)**	**–**	**(5 095)**
Gain on foreign exchange movement	**3**	**–**	**3**
Closing balance – 30 June 2017	**47 068**	**3 418**	**50 486**
Company – carrying value			
Opening balance – 1 July 2015	29 160	3 418	32 578
Additions	14 879	–	14 879
Amortisation	(1 899)	–	(1 899)
Closing balance – 30 June 2016	42 140	3 418	45 558
Additions	**9 692**	**–**	**9 692**
Amortisation	**(5 026)**	**–**	**(5 026)**
Closing balance – 30 June 2017	**46 806**	**3 418**	**50 224**

For the purposes of impairment testing, goodwill has been allocated to the Courtyard Hotels acquired and assessed as a single cash-generating unit ("CGU"). The recoverable amount was estimated at R137,350 million based on the present value of future earnings using a price-earnings model.

A price to earnings ratio of 18,7, being the average over a five-year period, was applied to budgeted earnings. The key assumptions used in determining the budgeted earnings are average occupancy and room rate. Average occupancy is determined by assessing historic performance and current market trends, while room rates are in line with the group's rate policy. No impairment loss was identified in the current year.

SENSITIVITY ANALYSIS

An analysis of the resultant effect on the value of the CGU for changes in the key valuation assumptions is presented below:

CGU value R000	Movement	Increase	Decrease
Budgeted earnings	1%	1 374	(1 374)
Price to earnings ratio	0,5 times	3 672	(3 672)

R000	Issued share capital	% held	Company 2017	Company 2016
3. INTEREST IN SUBSIDIARIES				
Shares at cost less accumulated impairment losses				
Anchor Park Investments 105 Proprietary Limited	R100	70	*****	*
Budget Hotels Proprietary Limited	R100	100	**1 073**	1 073
City Lodge Hotels (Africa) Proprietary Limited	R100	100	*****	*
City Lodge Hotels (Botswana) Proprietary Limited	BWP1	100	*****	*
CLHG Mozambique Lda■	MZN1 000 000	1	**3**	3
CLHG Tanzania Limited■	TZS100 000 000	0,1	*****	*
Courtyard Management Company Proprietary Limited	R100	100	*****	*
Fairview Hotel Limited, Kenya	KES2 600 000	100	**383 465**	383 465
Gallic Courtyard (Arcadia) Share Block Proprietary Limited	R1 518	100	**1**	1
Gallic Courtyard (Bruma Lake) Share Block Proprietary Limited	R2 584	100	**3**	3
Gallic Courtyard (Rosebank) Share Block Limited	R3 816	100	**4**	4
Gallic Courtyard (Sandown) Share Block Limited	R3 067	100	**3**	3
Newshelf 892 Proprietary Limited#	R100			
Newshelf 935 Proprietary Limited#	R100			
Property Lodging Investments Proprietary Limited	R100	100	**2 000**	2 000
Vuwa Hotels Proprietary Limited#	R100			
			386 552	386 552
Loan				
Property Lodging Investments Proprietary Limited			**62 800**	62 800
Interest in subsidiaries			**449 352**	449 352
The loan is unsecured, bears interest at 12% per annum (2016: 12%) and is repayable on demand on or before 31 July 2023. There is, however, no intention to request repayment during the next 12 months.				
Amounts included in other receivables and payables				
Amounts due by subsidiaries			**33 022**	10 696
Amounts due to subsidiaries			**(72 257)**	(57 648)

These amounts are unsecured, interest-free and repayable on demand.

The company also has an indirect, 100% shareholding in City Lodge Holdings (Share Block) Proprietary Limited, City Lodge Hotels (Namibia) Proprietary Limited and City Lodge Hotels (Uganda) Limited.

* *Less than R1 000.*
# *City Lodge has guaranteed the funding of these BEE entities, resulting in their incorporation.*
■ *The majority shareholder is City Lodge Hotels (Africa) Proprietary Limited.*

	Company	
R000	**2017**	2016
4. LOAN RECEIVABLE		
City Lodge 10th anniversary employees' share trust	**34 000**	34 000
Balance at beginning of year	**34 000**	31 670
Notional credit to interest received in the current year	**–**	2 330

The City Lodge 10th anniversary employees' share trust loan is secured by the pledge of 508 974 (2016: 526 549) shares having a market value of R71 322 527 (2016: R81 888 900), is interest-free and is repayable upon demand by the company at any time after the expiry of 20 years from the date of adoption of the scheme, being 18 December 1995, or in the event of the share price falling below R34,00 per share. There is, however, no intention to request repayment during the next 12 months.

In line with the requirements of IFRS 10 *Consolidated Financial Statements*, the City Lodge 10th anniversary employees' share trust has been consolidated in the current and prior year.

The loan amount is measured at amortised cost. The future value and nominal recoverable amount of the loan is R34,0 million.

	Group	
R000	**2017**	2016
5. DEFERRED TAXATION		
Movement in deferred taxation assets		
Balance at beginning of year	**5 747**	4 745
Current year temporary differences – profit or loss	**11 110**	881
Reclassification of prior year deferred tax liability	**(6 847)**	–
Foreign exchange movement	**775**	121
Balance at end of year	**10 785**	5 747
Analysis of deferred taxation assets		
Capital allowances	**(1 964)**	3 372
Deductible accruals	**7 265**	–
Operating lease accrual	**2 335**	2 045
Non-deductible accruals	**937**	750
Prepayments	**(120)**	(119)
Tax loss	**2 565**	–
Unrealised foreign exchange gain	**(233)**	(301)
	10 785	5 747

R000	Group 2017	Group 2016	Company 2017	Company 2016
5. DEFERRED TAXATION continued				
Movement in deferred taxation liabilities				
Balance at beginning of year	**144 685**	127 635	**122 165**	106 055
Current year temporary differences – profit or loss	**12 398**	13 818	**12 926**	12 878
– other comprehensive income	**935**	1 912	**935**	1 912
Acquisition through business combination	**–**	1 320	**–**	1 320
Reclassification to deferred tax asset	**(6 847)**	–		
Balance at end of year	**151 171**	144 685	**136 026**	122 165
Analysis of deferred taxation liabilities				
Capital allowances	**188 888**	185 134	**173 743**	162 886
Defined-benefit pension scheme†	**–**	(2 939)	**–**	(2 939)
Income received in advance	**(4 858)**	(4 607)	**(4 858)**	(4 607)
BEE shareholder's loan	**1 812**	3 390	**1 812**	3 390
Operating lease accrual	**(22 093)**	(23 070)	**(22 093)**	(23 070)
Prepayments	**2 015**	1 984	**2 015**	1 984
Share options	**(4 549)**	(4 887)	**(4 549)**	(4 887)
Non-deductible accruals	**(10 044)**	(10 602)	**(10 044)**	(10 592)
Unrealised foreign exchange gain	**–**	282		
	151 171	144 685	**136 026**	122 165

The expected manner of recovery of the deferred tax asset and settlement of the liability will be through use.
The tax rate used to calculate the deferred tax balance is:
South Africa – 28% (2016: 28%)
Botswana – 22% (2016: 22%)
Kenya – 30% (2016: 30%)
Tanzania – 30% (2016: 30%)

R000	Group 2017	Group 2016	Company 2017	Company 2016
6. INVENTORIES				
Food, liquor and beverages	**6 845**	7 734	**3 830**	3 682

† *Items included in other comprehensive income.*

R000	Group 2017	Group 2016	Company 2017	Company 2016
7. OTHER RECEIVABLES				
Loans due from related parties (refer to note 28)			**33 022**	10 696
Prepayments	**14 318**	11 741	**10 614**	10 352
Sundry receivables	**116 231**	24 207	**23 157**	17 687
	130 549	35 948	**66 793**	38 735

The group has spent R65 million (included in sundry receivables) in respect of the construction of buildings to be leased. It is funding the expenditure during construction and will be refunded the entire amount, by the landlords, on completion.

R000	Group 2017	Group 2016	Company 2017	Company 2016
8. OTHER INVESTMENTS				
	24 217	56 860		
Balance at beginning of year	**56 860**	–		
Cash and cash equivalents transferred	**–**	56 860		
Effect of movement in exchange rates	**(8 663)**	–		
Impairment loss	**(23 980)**	–		

Other investments comprise bank balances of KES384,8 million held with Chase Bank Limited (in receivership). The bank was put under receivership on 7 April 2016 by the Central Bank of Kenya and was reopened on 27 April 2016 under a receiver manager. No interest is currently earned on these balances.

Owing to the uncertainty in the timing and amount of funds to be recovered, the group deemed it prudent to provide for an impairment of 50% of the balance held. In assessing the recoverability thereof, the directors considered representations made by the receiver manager of the Central Bank of Kenya and the fact that the bank continues to operate normally under receivership. It is currently anticipated that the process of appointing a buyer for the bank will be completed by 30 September 2017.

	Group		Company	
R000	**2017**	2016	**2017**	2016
9. SHARE CAPITAL AND PREMIUM				
Share capital				
Authorised				
50 000 000 ordinary shares of 10 cents each	**5 000**	5 000	**5 000**	5 000
Issued				
43 572 293 (2016: 43 406 753) ordinary shares of 10 cents each	**4 357**	4 341	**4 357**	4 341
Balance at beginning of year 43 406 753 (2016: 43 346 593) ordinary shares of 10 cents each	**4 341**	4 335	**4 341**	4 335
Options exercised during the period 165 540 (2016: 60 160) of 10 cents each	**16**	6	**16**	6
Share premium	**175 020**	163 617	**175 020**	163 617
Balance at beginning of year	**163 617**	159 667	**163 617**	159 667
Premium on issue of new ordinary shares	**11 403**	3 950	**11 403**	3 950
	179 377	167 958	**179 377**	167 958
10. OTHER RESERVES				
Share-based payment reserve	**87 777**	82 512	**87 777**	82 512
Balance at beginning of year	**82 512**	79 640	**82 512**	79 640
Expense for the year – share incentive scheme (refer to note 17)	**15 470**	14 115	**15 470**	14 115
Reserve transferred to retained earnings on exercise of vested rights	**(10 205)**	(11 243)	**(10 205)**	(11 243)
The share-based payment reserve relates to the accumulated cost for the future settlement of obligations arising from the share incentive schemes.				
Equity component of BEE shareholder's loan	**26 941**	26 941	**26 941**	26 941
The equity component of the shareholder's loan relates to the equity contribution received from Vuwa Investments Proprietary Limited in respect of the BEE transaction concluded in July 2008.				
Foreign currency translation reserve	**(307)**	35 563		
Balance at beginning of year	**35 563**	1 470		
Foreign currency translation differences	**(35 870)**	34 093		
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.				
	114 411	145 016	**114 718**	109 453

	Group		Company	
R000	**2017**	2016	**2017**	2016
11. INTEREST-BEARING BORROWINGS				
Secured bank loan				
The Loan A is a revolver facility of R250 million in total and bears interest at the one, three or six-month JIBAR plus 1,75 (2016: 1,75) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 2020.	**250 000**	250 000	**–**	–
The Loan B is a revolver facility of R200 million in total and bears interest at the one, three or six-month JIBAR plus 2,45 (2016: 2,45) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 2021.	**70 000**	20 000	**–**	–
Interest repayments are made according to the interest period selected on the drawdown notice.				
The loan facility has been granted to City Lodge Hotels (Africa) Proprietary Limited.				
The loan is secured over land and buildings with a carrying amount of R163,2 million (2016: R166,6 million), and has been guaranteed by City Lodge Hotels Limited.				
The required bank covenants have been met.				
Unsecured loan				
This loan to City Lodge Hotels Limited from City Lodge Hotels (Africa) Proprietary Limited is made under the same interest and repayment terms as Loan A above. It was raised to facilitate the transfer of the borrowings from the former to the latter as part of the facility put in place to fund future expansion (refer to note 28).			**109 000**	250 000
	320 000	270 000	**109 000**	250 000
Less: Amounts to be repaid within one year	**–**	–	**–**	–
Non-current liabilities	**320 000**	270 000	**109 000**	250 000
12. BEE INTEREST-BEARING BORROWINGS				
The loans are secured by a guarantee provided by City Lodge Hotels Limited.	**44 120**	44 120	**44 120**	44 120
The loans bear interest at the six-month JIBAR rate plus 2,5 percentage points. Interest repayments are made every six months in arrears.				
The loan capital is repayable by 31 December 2017.				
	44 120	44 120	**44 120**	44 120
Less: Amounts to be repaid within one year	**(44 120)**	–	**(44 120)**	–
Non-current liabilities	**–**	44 120	**–**	44 120

	Group		Company	
R000	**2017**	2016	**2017**	2016
13. BEE PREFERENCE SHARES				
Proceeds from the issue of redeemable preference shares	**440 700**	440 700	**440 700**	440 700
Redeemed during prior years	**(43 200)**	(28 600)	**(43 200)**	(28 600)
Redeemed during current year	**(15 300)**	(14 600)	**(15 300)**	(14 600)
	382 200	397 500	**382 200**	397 500

On 8 July 2008, the City Lodge group effected a Black Economic Empowerment scheme with Vuwa Hotels Proprietary Limited, Newshelf 935 Proprietary Limited and Newshelf 892 Proprietary Limited. In terms of the scheme, 15% (6 390 362) of the then issued share capital of City Lodge was acquired by the three structured entities in terms of a scheme of arrangement. A and B cumulative redeemable preference shares were issued by the structured entities to fund a portion of the purchase price of the investment in City Lodge Hotels Limited. These have been guaranteed by City Lodge resulting in the deemed control of the structured entities by the company and their incorporation for accounting purposes. Standard Bank of South Africa subscribed for R195,0 million amortising, seven-year A preference shares bearing interest at 70% of the prime interest rate and R245,7 million cumulative zero coupon five-year B preference shares bearing interest at 71% of the prime interest rate. The final redemption date is 31 December 2017. Ordinary dividends received by the structured entities must be used to service and repay the preference shares. There is a lock-in period applicable to the disposal of shares held by Vuwa Hotels Proprietary Limited until 31 December 2017, whereby shares may only be disposed of to black persons. The fair value of the shares held amounts to R895,5 million on 30 June 2017.

A once-off, share-based, equity-settled option expense was recognised during the 2009 financial year amounting to R25,84 million.

An amount of R239,3 million (2016: R203,3 million) was accrued in respect of preference dividends payable as at 30 June 2017. Of this, R2,9 million (2016: R3,1 million) in respect of A preference shares is included under trade and other payables (refer to note 16) due in September 2017 and R236,5 million (2016: R200,2 million) in respect of B preference shares is due in December 2017.

	Group		Company	
R000	**2017**	2016	**2017**	2016
Voluntary redemption of A and B preference shares may be made, with full redemption of the preference shares required by 31 December 2017. The minimum scheduled redemptions in respect of A and B preference shares are as follows:				
– not later than one year	**382 200**	–	**382 200**	–
– between one and five years	**–**	397 500	**–**	397 500
– later than five years	**–**	–	**–**	–

	Group		Company	
R000	**2017**	2016	**2017**	2016
14. BEE SHAREHOLDER'S LOAN				
Vuwa Investments Proprietary Limited				
Loan granted	**50 000**	50 000	**50 000**	50 000
Equity component of BEE shareholder's loan	**(37 418)**	(37 418)	**(37 418)**	(37 418)
Notional interest expense – prior years	**25 311**	20 406	**25 311**	20 406
Notional interest expense – current year	**5 635**	4 905	**5 635**	4 905
The BEE shareholder's loan represents the equity contribution by Vuwa Investments Proprietary Limited to the Vuwa structured entity as part funding to purchase shares in City Lodge Hotels Limited.				
The loan is measured at amortised cost of R43,528 million (2016: R37,893 million). The notional debit to interest expense at a rate of 14,35% per annum was R5 635 (2016: R4 905). The future value of the loan is R50 million.				
The loan is unsecured, bears notional interest at 14,35%, and is repayable on demand after 31 December 2017.				
	43 528	37 893	**43 528**	37 893
15. OTHER NON-CURRENT LIABILITIES				
Operating lease accrual	**89 517**	91 709	**78 905**	82 415
Defined-benefit obligation (refer to note 24)	**–**	10 494	**–**	10 494
	89 517	102 203	**78 905**	92 909
16. TRADE AND OTHER PAYABLES				
Trade payables	**8 631**	7 951	**2 455**	6 395
Loans due to related parties (refer to note 28)			**72 257**	57 648
Sundry accruals	**79 763**	78 114	**76 555**	76 069
Other trade payables	**50 750**	44 481	**36 566**	34 822
BEE preference dividend payable	**2 860**	3 147	**2 860**	3 147
	142 004	133 693	**190 693**	178 081

R000	Group 2017	Group 2016	Company 2017	Company 2016
17. RESULTS FROM OPERATING ACTIVITIES				
Is arrived at after charging/(crediting)				
Auditors' remuneration	**4 335**	4 374	**3 546**	3 586
Audit fees	**3 332**	3 082	**2 616**	2 319
Fees for other services	**1 003**	1 292	**930**	1 267
BEE transaction charges	**587**	858	**587**	858
Defined-benefit plan expense (refer to note 24)	**4 819**	10 444	**4 819**	10 444
Defined-contribution plan expense	**21 095**	14 713	**21 095**	14 713
Depreciation and amortisation	**102 779**	96 399	**94 554**	87 871
– buildings	**44 433**	42 613	**41 333**	39 397
– furniture and equipment	**53 251**	51 887	**48 195**	46 575
– computer software	**5 095**	1 899	**5 026**	1 899
Food, liquor and beverages	**69 512**	69 538	**53 619**	51 685
Gain on settlement and curtailment of defined-benefit fund	**(11 628)**	–		
Impairment loss on other investments (refer to note 8)	**23 980**	–		
Operating lease rentals	**99 474**	88 363	**119 590**	105 713
– land	**28 211**	23 851	**55 179**	48 322
– hotel buildings	**68 313**	60 913	**61 461**	53 792
– office buildings	**2 950**	3 599	**2 950**	3 599
Pre-opening expenses	**–**	2 947	**–**	2 947
Loss/(profit) on disposal of property, plant and equipment	**249**	(229)	**(10)**	(77)
Salaries, wages and related benefits	**350 966**	337 476	**318 650**	305 435
– employed	**305 200**	294 411	**274 338**	263 799
– subcontracted	**45 766**	43 065	**44 312**	41 636
Rent paid/(received)	**2 085**	(1 670)	**2 085**	(1 670)
Share-based payment expense (refer to note 24)	**15 470**	14 115	**15 470**	14 115
– City Lodge 10th anniversary employees' share trust	**4 306**	3 158	**4 306**	3 158
– City Lodge bonus share plan	**7 167**	6 006	**7 167**	6 006
– City Lodge deferred bonus plan	**–**	52	**–**	52
– City Lodge share appreciation rights scheme	**3 997**	4 899	**3 997**	4 899

18. DIRECTORS' EMOLUMENTS

R000	Basic salary	Per-formance bonus	Fringe benefits and allow-ances	Pension fund contri-butions	Total annual remune-ration	Current year share-based payment expense*	Total
Executive directors							
2017							
C Ross	**4 478**	**1 801**	**439**	**717**	**7 435**	**3 084**	**10 519**
A C Widegger	**3 467**	**1 387**	**34**	**555**	**5 443**	**2 213**	**7 656**
	7 945	**3 188**	**473**	**1 272**	**12 878**	**5 297**	**18 175**
2016							
C Ross	4 159	3 354	63	665	8 241	3 110	11 351
A C Widegger	3 238	2 596	34	518	6 386	2 228	8 614
	7 397	5 950	97	1 183	14 627	5 338	19 965

Executive directors are full-time salaried employees, engaged on the company's standard terms and conditions of employment.

** This expense represents the IFRS 2 costs for the year of any option or right given or reversed (refer to note 24).*

Non-executive directors

	Fees	
R000	**2017**	2016
G G Huysamer	**340**	312
F W J Kilbourn	**495**	478
S Marutlulle*	**165**	–
N Medupe	**398**	366
S G Morris	**485**	447
B T Ngcuka (payment made to Vuwa Investments Proprietary Limited)	**890**	830
V M Rague	**268**	100
K I M Shongwe	**338**	310
W Tlou∆	**–**	184
	3 379	3 027

** Appointed on 1 October 2016.*
∆ Resigned on 11 May 2016.

No other payments were made to directors.

18. DIRECTORS' EMOLUMENTS continued

Executive committee

In line with the requirements of the Companies Act and King III, the group discloses the remuneration paid to prescribed officers who are defined as the group's executive committee. Prescribed officers are full-time salaried employees, engaged on the company's standard terms and conditions of employment.

R000	Basic salary	Per-formance bonus	Fringe benefits and allow-ances	Pension fund contri-butions	Total annual remune-ration	Current year share-based payment expense*	Total
2017							
A J Balabanoff	**1 839**	**365**	**185**	**294**	**2 683**	**463**	**3 146**
A W Dooley	**1 549**	**590**	**32**	**163**	**2 334**	**382**	**2 716**
M S Kobilski	**1 565**	**374**	**133**	**250**	**2 322**	**385**	**2 707**
N R B Parbhoo	**1 338**	**415**	**29**	**214**	**1 996**	**317**	**2 313**
R V Phinn	**1 747**	**257**	**27**	**279**	**2 310**	**427**	**2 737**
R Ruthven▪	**1 176**	**257**	**58**	**123**	**1 614**	**204**	**1 818**
L G Sangweni-Siddo	**1 562**	**340**	**5**	**164**	**2 071**	**150**	**2 221**
P M Schoeman∆	**1 033**	**109**	**10**	**108**	**1 260**	**19**	**1 279**
P Tate	**1 863**	**365**	**17**	**298**	**2 543**	**450**	**2 993**
M van Heerden▪	**1 311**	**430**	**61**	**138**	**1 940**	**232**	**2 172**
	14 983	**3 502**	**557**	**2 031**	**21 073**	**3 029**	**24 102**
2016							
A J Balabanoff	1 716	613	41	275	2 645	443	3 088
G D Bisset∆	566	–	13	91	670	–	670
A W Dooley	1 446	445	32	152	2 075	370	2 445
M S Kobilski	1 463	565	2	234	2 264	367	2 631
N R B Parbhoo	1 249	395	29	200	1 873	311	2 184
R V Phinn	1 612	559	27	258	2 456	403	2 859
L G Sangweni-Siddo•	1 146	244	1	76	1 467	–	1 467
P M Schoeman	1 451	474	15	152	2 092	362	2 454
P Tate	1 741	536	17	278	2 572	440	3 012
	12 390	3 831	177	1 716	18 114	2 696	20 810

** This expense represents the IFRS 2 costs for the year of any option or right given or reversed (refer to note 24).*
▪ Appointed on 1 July 2016.
∆ Resigned during the year.
• Appointed on 16 September 2015.

18. DIRECTORS' EMOLUMENTS continued

	Date of grant	Grant price (R)	Holding at 30 June 2016	Exercised	Holding at 30 June 2017	Lapse date	Number vesting at 30 June 2017
Share appreciation rights							
C Ross	1/09/2011	63,61	79 163	**(79 163)**	–	1/09/2018	–
	1/09/2012	85,66	92 313	**(92 313)**	–	1/09/2019	–
	1/09/2013	120,83	39 929	–	**39 929**	1/09/2020	**39 929**
	1/09/2014	123,17	42 108	–	**42 108**	1/09/2021	–
	1/09/2015	143,99	39 081	–	**39 081**	1/09/2022	–
	1/09/2016	164,33	–	–	**36 812**	1/09/2023	–
A C Widegger	1/09/2010	74,62	39 155	**(39 155)**	–	1/09/2017	–
	1/09/2011	63,61	53 905	–	**53 905**	1/09/2018	**53 905**
	1/09/2012	85,66	62 110	–	**62 110**	1/09/2019	**62 110**
	1/09/2013	120,83	26 136	–	**26 136**	1/09/2020	**26 136**
	1/09/2014	123,17	27 539	–	**27 539**	1/09/2021	–
	1/09/2015	143,99	25 207	–	**25 207**	1/09/2022	–
	1/09/2016	164,33	–	–	**23 633**	1/09/2023	–
			526 646	**(210 631)**	**376 460**		**182 080**

18. DIRECTORS' EMOLUMENTS continued

	Date of grant	Exercise price (R)	Holding at 30 June 2016	Exercised	Holding at 30 June 2017	Lapse date	Number vesting at 30 June 2017
Directors' share options							
C Ross	9/11/2006	58,59	52 650	**(52 650)**	–	9/11/2016	–
	8/05/2007	80,31	28 000	**(28 000)**	–	8/05/2017	–
			80 650	**(80 650)**	–		–
A C Widegger	9/11/2006	58,59	31 590	**(31 590)**	–	9/11/2016	–
	8/05/2007	80,31	16 800	**(16 800)**	–	8/05/2017	–
			48 390	**(48 390)**	–		–

	Date of award	Number of restricted shares	Share acquisition price (R)	Vesting date
Restricted share plan – bonus shares				
A J Balabanoff	5/09/2016	1 492	164,79	4/09/2019
A W Dooley	5/09/2016	1 085	164,79	4/09/2019
M S Kobilski	5/09/2016	1 377	164,79	4/09/2019
N R B Parbhoo	5/09/2016	962	164,79	4/09/2019
R V Phinn	5/09/2016	1 362	164,79	4/09/2019
C Ross	5/09/2016	10 210	164,79	4/09/2019
R Ruthven■	5/09/2016	496	164,79	4/09/2019
L G Sangweni-Siddo	5/09/2016	595	164,79	4/09/2019
P M Schoeman∆	5/09/2016	1 155	164,79	4/09/2019
P Tate	5/09/2016	1 306	164,79	4/09/2019
M C van Heerden■	5/09/2016	557	164,79	4/09/2019
A C Widegger	5/09/2016	7 902	164,79	4/09/2019
		28 499		
Lapsed during the year		(1 155)		
		27 344		

∆ *Resigned during the year.*
■ *Appointed on 1 July 2016.*

18. DIRECTORS' EMOLUMENTS continued

	Date of award	Number of restricted shares	Share acquisition price (R)	Vesting date
Restricted share plan – bonus shares				
A J Balabanoff	4/09/2015	2 242	148,31	3/09/2018
A W Dooley	4/09/2015	1 824	148,31	3/09/2018
M S Kobilski	4/09/2015	1 622	148,31	3/09/2018
N R B Parbhoo	4/09/2015	1 256	148,31	3/09/2018
R V Phinn	4/09/2015	2 094	148,31	3/09/2018
C Ross	4/09/2015	11 488	148,31	3/09/2018
P M Schoeman$^{\Delta}$	4/09/2015	1 650	148,31	3/09/2018
P Tate	4/09/2015	2 143	148,31	3/09/2018
A C Widegger	4/09/2015	9 016	148,31	3/09/2018
		33 335		
Lapsed during the year		(1 650)		
		31 685		
Restricted share plan – bonus shares				
A J Balabanoff	8/10/2014	1 594	124,41	7/10/2017
A W Dooley	8/10/2014	1 432	124,41	7/10/2017
M S Kobilski	8/10/2014	1 455	124,41	7/10/2017
N R B Parbhoo	8/10/2014	1 267	124,41	7/10/2017
R V Phinn	8/10/2014	1 428	124,41	7/10/2017
C Ross	8/10/2014	11 386	124,41	7/10/2017
P M Schoeman$^{\Delta}$	8/10/2014	1 337	124,41	7/10/2017
P Tate	8/10/2014	1 594	124,41	7/10/2017
A C Widegger	8/10/2014	9 020	124,41	7/10/2017
		30 513		
Lapsed during the year		(1 337)		
		29 176		

No consideration was received by the company on the award of the restricted share plan ordinary shares (refer to note 24).

$^{\Delta}$ *Resigned during the year.*

R000	Group 2017	Group 2016	Company 2017	Company 2016
19. INTEREST				
19.1 Interest income				
Bank interest	**6 598**	2 055	**5 735**	1 485
IAS 39 – *Effective Interest* (refer to note 4)			**–**	2 330
Interest from subsidiaries			**7 536**	7 860
Other	**5**	213	**5**	213
	6 603	2 268	**13 276**	11 888
19.2 Interest expense				
Long-term borrowings	**33 243**	26 358	**23 736**	25 912
Short-term borrowings	**28**	27	**–**	27
IAS 39 – *Effective Interest* (refer to note 14)	**5 635**	4 905	**5 635**	4 905
Preference dividend	**48 159**	44 368	**48 159**	44 368
	87 065	75 658	**77 530**	75 212
Interest capitalised to property, plant and equipment	**(9 507)**	(1 135)	**–**	(689)
	77 558	74 523	**77 530**	74 523
Interest is capitalised to property, plant and equipment at 9,55% per annum.				
20. TAXATION				
Current	**128 980**	123 821	**106 558**	101 416
Adjustment for prior years	**–**	69	**–**	(60)
Dividends withholding tax	**(14)**	27		
Deferred – current	**1 288**	12 937	**12 926**	12 878
	130 254	136 854	**119 484**	114 234
Reconciliation of taxation rate				
Domestic statutory tax rate	**28**	28	**28**	28
Adjusted for:				
– BEE transactions	**3,5**	3,1	**3,8**	3,6
– exempt income	**(0,1)**	–	**–**	–
– effect of tax rates in foreign jurisdictions	**0,1**	0,2		
– disallowable expenses	**0,4**	0,3	**0,4**	0,1
– deductible expense for share appreciation right scheme shares purchased during the year	**(1,3)**	(1,3)	**(1,5)**	(1,5)
Effective rate of taxation	**30,6**	30,3	**30,7**	30,2

21. BASIC, HEADLINE AND NORMALISED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 30 June 2017 was based on profit for the year of R295,141 million (2016: R315,288 million), and a weighted average number of shares of 36 448 000 (2016: 36 309 000) for basic earnings per share, and 36 548 000 (2016: 36 537 000) for diluted earnings per share.

	Group	
R000	**2017**	2016
21. BASIC, HEADLINE AND NORMALISED EARNINGS PER SHARE continued		
Determination of headline earnings and normalised headline earnings		
Profit for the year	**295 141**	315 288
Loss/(profit) on sale of property, plant and equipment	**249**	(229)
Taxation effect	**(75)**	67
Headline earnings	**295 315**	315 126
BEE transaction charges	**587**	858
Notional interest charge on BEE shareholder's loan	**5 635**	4 905
Interest on BEE interest-bearing borrowings	**4 597**	4 248
Preference dividends paid/payable by the BEE entities	**48 159**	44 368
Deferred tax on BEE transactions	**(1 578)**	(1 373)
Notional interest income on 10th anniversary employees' share trust loan	**–**	2 330
10th anniversary employees' share trust transaction charges and dividends withholding tax	**7**	49
IFRS 2 share-based payment charge for the 10th anniversary employees' share trust	**4 306**	3 158
Impairment of other investment in Chase Bank Kenya (net of tax)	**16 786**	–
Gain on settlement and curtailment of defined-benefit fund	**(11 629)**	–
Normalised headline earnings	**362 185**	373 669
Number of shares for EPS calculations (000)		
Undiluted weighted average	**36 448**	36 309
Restricted share plan/bonus shares	**88**	84
Share appreciation rights	**12**	51
Share options	**–**	93
Diluted	**36 548**	36 537
Number of shares for normalised EPS calculations (000)		
Undiluted weighted average	**36 448**	36 309
BEE shares treated as treasury shares	**6 390**	6 390
10th anniversary employees' share trust treated as treasury shares	**509**	527
Normalised undiluted weighted average	**43 347**	43 226
Restricted share plan	**88**	84
Share appreciation rights	**12**	51
Share options	**–**	93
Normalised diluted weighted average	**43 447**	43 454
Headline earnings per share (cents)	**810,2**	867,9
Diluted headline earnings per share (cents)	**808,0**	862,5
Normalised headline earnings per share (cents)	**835,5**	864,5
Normalised diluted headline earnings per share (cents)	**833,6**	859,9

R000	Group 2017	Group 2016	Company 2017	Company 2016
22. DIVIDENDS				
Number 55 of 248,0 cents per share (2016: 230,0 cents) declared on 12 August 2016 and paid on 9 September 2016	**107 662**	99 702	**107 662**	99 702
Number 56 of 272,0 cents per share (2015: 269,0 cents) declared on 16 February 2017 and paid on 10 March 2017	**118 427**	116 683	**118 427**	116 683
Dividends attributable to treasury shares	**(33 134)**	(32 069)	**(33 230)**	(31 888)
	192 955	184 316	**192 859**	184 497
On 16 August 2017, dividend number 57 of 228,0 cents per share in respect of the year ended 30 June 2017 was declared totalling R99 344 828 payable on 11 September 2017. These financial statements do not reflect this dividend payable.				
23. COMMITMENTS				
Capital				
Authorised				
– contracted	**503 529**	389 075	**6 300**	7 500
– not contracted	**152 048**	469 465	**119 248**	30 840
	655 577	858 540	**125 548**	38 340
Future capital expenditure will be financed out of funds generated from operations and external borrowings and it is anticipated that approximately R629 million will be spent by 30 June 2018.				
Operating leases as lessee				
The company is party to various operating leases of periods between 20 and 99 years in respect of land and hotel buildings and five years, in respect of office buildings.				
Schedule of minimum lease payments in respect of land, hotel building and office building leases:				
– not later than one year	**102 761**	95 145	**97 050**	89 607
– between one and five years	**320 226**	361 264	**293 095**	334 956
– later than five years	**487 001**	546 285	**430 699**	480 102
	909 988	1 002 694	**820 844**	904 665
Guarantees				
Total financial institution-backed guarantees provided to third parties on behalf of the company amounted to R451,7 million. The directors do not believe any exposure to loss is likely.				
The issued guarantees have the following expiry dates:				
– not later than one year	**439 050**	62 133	**439 050**	62 133
– between one and five years	**12 449**	397 500	**12 449**	397 500
– later than five years	**203**	12 652	**203**	12 652

24. EMPLOYEE BENEFITS

Retirement benefit information

The group and company provide retirement benefits for 5% (2016: 6%) of the group's permanent employees through a defined-benefit pension scheme that is subject to the Pension Funds Act, 1956, as amended. This fund was closed to new membership on 28 February 2004 and a new defined-contribution fund was established. Company contributions to this new fund are fixed at a rate of 10,5% of pensionable salaries and 44% (2016: 38%) of the group's permanent employees are members. Employees who are not members of the above funds are members of the appropriate industry fund.

A statutory actuarial valuation of the defined-benefit fund was undertaken every three years. At 31 July 2016, the effective date of the most recent statutory actuarial valuation, the retirement benefit fund was found to have a surplus of R3,7 million.

The fund was managed by a board of trustees, consisting of a combination of member elected and employer appointed trustees. The board has a fiduciary duty to act in the best interest of all stakeholders.

The employer was responsible to fund the balance of the costs of paying the defined benefits. Adverse fund experience (eg higher than expected salary increases or lower than expected investment returns) therefore exposed the employer to higher than expected future required contributions.

The winding down of the fund was approved by the Financial Services Board on 10 January 2017. All active members and their corresponding liabilities were transferred out of the fund, to a defined-contribution fund with effect from 1 July 2015. It was further agreed that any surplus in the fund would be allocated to transferring members upon liquidation of this fund. The valuation was performed on a winding-up basis given the registrar's approval.

The estimate in terms of IAS 19, as at 31 December 2016, as shown below, indicates that the fund had a surplus of R4 143 000 (2016: R10 494 000 deficit). Any movements between the valuation date and the approval date were considered not to be significant. The actuarial loss due to change in demographic assumptions was Rnil (2016: Rnil). The actuarial gains and (losses) due to changes in financial assumptions and experience were R9 405 000 and (R3 591 000) respectively.

	Group and company	
R000	**2017**	2016
Current estimated employee benefit obligation:		
Present value of obligation	**–**	(159 536)
Fair value of plan assets	**–**	149 042
Liability at year-end (refer to note 15)	**–**	(10 494)
Recognised in profit or loss:		
Current service cost	**(4 248)**	(9 078)
Interest on obligation	**(8 798)**	(14 760)
Expected return on plan assets	**8 227**	13 394
	(4 819)	(10 444)
Recognised in the statement of financial position:		
Opening net liability	**(10 494)**	(15 062)
Expense	**(4 819)**	(10 444)
Contributions paid	**4 257**	8 185
Amount recognised in other comprehensive income	**3 570**	6 827
Gain on settlement and curtailment of defined-benefit fund	**11 629**	–
Surplus allocated to members	**(4 143)**	–
Closing net liability	**–**	(10 494)

R000	Group and company 2017	2016
24. EMPLOYEE BENEFITS continued		
Retirement benefit information continued		
Movement in the liability for defined-benefit obligations:		
Liability for defined-benefit obligations at 1 July	**159 536**	159 284
Service cost	**4 248**	9 078
Interest cost	**8 798**	14 760
Benefits paid	**(13 279)**	(17 799)
Benefits paid on transfer of fund	**(153 489)**	–
Actuarial gain	**(5 814)**	(5 787)
Liability for defined-benefit obligations at 30 June	**–**	159 536
Movement in plan assets:		
Fair value of plan assets at 1 July	**149 042**	144 222
Expected return on plan assets	**8 227**	13 394
Contributions	**4 258**	8 185
Benefits paid	**(1 651)**	(17 799)
Benefits paid on transfer of fund	**(153 489)**	–
Actuarial (loss)/gain	**(2 244)**	1 040
Surplus allocated to members	**(4 143)**	–
Fair value of plan assets at 30 June	**–**	149 042
	%	%
Plan assets comprise:		
Cash	**100**	100
All assets were held in banker and money market portfolios in anticipation of the transfer of all assets and liabilities.		
Principal actuarial assumptions at the reporting date:		
Discount rate	**11,2**	11,2
Expected return on plan assets	**11,2**	11,2
Future salary increases	**9,9**	10,2
Future pension increases	**6,7**	6,9
Mortality rates post-retirement	**PA(90) ultimate mortality table rated down by 1 year**	PA(90) ultimate mortality table rated down by 1 year

The expected return on plan assets was set equal to the discount rate. The actual return earned on plan assets for the year was 8,3%.

No sensitivity analysis is presented due to the fact that no further deviation from assumptions would exist after the settlement date.

Medical aid

Certain of the group's employees are members of the Discovery Health Medical Scheme. There are no obligations for post-retirement medical aid contributions.

24. EMPLOYEE BENEFITS continued

Share-based payments

Equity-settled share appreciation right scheme

The group plan provides for a grant price equal to the 10-day volume weighted average market price of the group's shares on grant date. The vesting period is generally three to five years. The vesting of the share appreciation right ("SAR") is subject to the achievement of specified performance conditions. The performance conditions are that the normalised headline earnings per share ("HEPS") should increase by between the Consumer Price Index ("CPI") per annum and 2 percentage points per annum above CPI over a three-year performance period. 25% of the SAR will vest if the former performance condition is satisfied and 100% of the SAR will vest if the latter is satisfied, with linear vesting between them. If the SARs remain unexercised after a period of seven years from grant, they expire. Furthermore, unexercised SARs are forfeited if the employee leaves the group before they expire. Fair value is measured using an American binomial valuation model. Expected volatilities are 90% based on short, medium and long-term historical volatilities, with cognisance taken of market conditions to explain the variance from historical data. No other features, other than disclosed, of the option grant was incorporated into the measurement of fair value. The share-based, equity-settled expense for the year ended 30 June 2017 in profit or loss is R3 997 213 (2016: R4 899 365).

	2017		2016	
	Number of SARs	**Weighted average strike price (R)**	Number of SARs	Weighted average strike price (R)
Outstanding at beginning of period	**771 159**	**98,68**	1 187 563	86,47
Granted during period	**106 964**	**164,33**	105 016	143,99
Forfeited during period	**(29 315)**	**142,78**	(20 642)	98,63
Exercised during period	**(266 482)**	**76,10**	(500 778)	79,02
Expired during period	**–**	**–**	–	–
Outstanding at end of period	**582 326**	**104,42**	771 159	98,68
Exercisable at end of period	**270 060**	**80,41**	443 646	76,25

	2017	2016
Average remaining life (years)	**3,04**	3,28
American binomial model inputs as follows:		
Volatility (%)	**24**	24
Risk-free rate (%)	**8,19**	8,00
Dividend yield (%)	**2,73**	2,79
Expected life (years)	**7**	7
Strike price (Rand)	**164,33**	143,99
Average share price (Rand)	**164,33**	143,99
Option price (Rand)	**54,81**	46,99

24. EMPLOYEE BENEFITS continued

Share-based payments continued

Equity-settled 10th anniversary employee share plan

The group plan provides for an annual share distribution equal to half of the financial year's capital growth, if any, of the portfolio of City Lodge shares held by the trust. The distributions to eligible employees (employees in the service of the group for at least one year) are equity-settled three months after year-end, provided that the portfolio's market value at year-end exceeds the market value at the previous year-end. Entitlements are forfeited if the employee leaves the group's service before a distribution takes place. The vesting period is one year. Expected volatility was determined by calculating the historical volatility of the group's share price over the previous two years. Fair value is measured using a European binomial valuation model. The share-based, equity-settled expense for the year ended 30 June 2017 in profit or loss is R4 305 982 (2016: R3 158 246).

	2017 Number of shares	2016 Number of shares
Outstanding at beginning of period	**526 549**	549 349
Distributed during period	**(17 575)**	(22 800)
Acquired during period	**–**	–
Outstanding at end of period	**508 974**	526 549

	2017		2016	
	Per share	**Total portfolio**	Per share	Total portfolio
European binomial model inputs as follows:				
Volatility (%)	**27**	**27**	23	23
Risk-free rate (%)	**7,45**	**7,45**	6,49	6,49
Dividend yield (%)	**2,73**	**2,73**	2,56	2,56
Expected life (years)	**1**	**1**	1	1
Effective strike price (Rand)	**160,88**	**81 888 900**	138,76	73 060 670
Share price (Rand)	**155,44**	**79 121 459**	145,02	76 354 018
Effective option price (Rand)	**8,46**	**4 306 242**	6,00	3 158 246

24. EMPLOYEE BENEFITS continued

Share-based payments continued

Equity-settled restricted share plan

Certain employees will become owners of ordinary shares, which were acquired on the market, for award. From the grant date, they will immediately benefit from dividends and have shareholder voting rights, thus providing direct alignment between participants and shareholders. The employee will give no consideration for the grant or settlement of an award. In the case of resignation or dismissal, all unvested awards will be forfeited. The vesting period is generally three years. The share-based, equity-settled expense for the year ended 30 June 2017 in profit or loss is R7 166 758 (2016: R6 005 778).

	2017		2016	
	Number of shares granted	**Average share price (R)**	Number of shares granted	Average share price (R)
Unvested at beginning of period	**145 194**	**133,56**	88 189	124,03
Granted during period	**45 268**	**164,79**	57 005	148,31
Forfeited during period	**(12 367)**	**134,88**	–	–
Vested during period	**(37 320)**	**122,15**	–	–
Unvested at end of period	**140 775**	**146,32**	145 194	133,56

25. BORROWING POWERS

The borrowings of the company are not limited by its memorandum of incorporation.

26. NOTES TO THE STATEMENTS OF CASH FLOWS

R000	Group 2017	Group 2016	Company 2017	Company 2016
26.1 Cash generated by operations				
Profit before taxation	**425 395**	452 142	**389 535**	378 282
Adjusted for:				
– depreciation and amortisation	**102 779**	96 399	**94 554**	87 871
– movement in operating lease accrual	**(2 192)**	(255)	**(3 510)**	(3 081)
– interest income	**(6 603)**	(2 268)	**(13 276)**	(11 888)
– interest expense	**77 558**	74 523	**77 530**	74 523
– Loss/(profit) on disposal of property, plant and equipment	**249**	(229)	**(10)**	(77)
– movement in defined-benefit liability	**(10 494)**	(4 568)	**(10 494)**	(4 568)
– defined-benefit remeasurements	**(573)**	6 827	**(573)**	6 827
– impairment of other investment	**23 980**	–		
– share-based payment expense	**15 470**	14 115	**15 470**	14 115
– unrealised foreign currency loss	**658**	(877)		
– fair value gain on remeasurement of property, plant and equipment	**–**	(29)	**–**	(29)
Operating cash flows before working capital changes	**626 227**	635 780	**549 226**	541 975
Decrease/(increase) in inventories	**889**	(612)	**(148)**	(277)
(Increase) in trade and other receivables	**(27 017)**	(4 721)	**(29 251)**	6 511
Increase in trade and other payables	**8 598**	24 174	**12 899**	29 063
	608 697	654 621	**532 726**	577 272
26.2 Taxation paid				
Balance overpaid/(owing) at beginning of year	**4 389**	(1 351)	**(1 216)**	(4 334)
Taxation payable per statements of comprehensive income	**(128 966)**	(123 917)	**(106 558)**	(101 356)
Balance owing/(overpaid) at end of year	**7 543**	(4 389)	**12 085**	1 216
	(117 034)	(129 657)	**(95 689)**	(104 474)
26.3 Investment to maintain operations				
Additions to property, plant and equipment				
– land and buildings	**(2 004)**	(34 317)	**(2 004)**	(34 317)
– furniture and equipment	**(25 984)**	(32 767)	**(22 746)**	(31 007)
– computer software	**(10 020)**	(14 879)	**(9 692)**	(14 879)
	(38 008)	(81 963)	**(34 442)**	(80 203)
Less: Proceeds on disposal				
Furniture and equipment	**199**	415	**111**	228
	(37 809)	(81 548)	**34 331**	(79 975)

R000	Group 2017	Group 2016	Company 2017	Company 2016
26. NOTES TO THE STATEMENTS OF CASH FLOWS continued				
26.4 Investment to expand operations				
Additions to property, plant and equipment				
– land and buildings	**(158 283)**	(91 061)	**(346)**	(61 251)
– furniture and equipment	**(6 070)**	(19 284)	**–**	(19 284)
	(164 353)	(110 345)	**(346)**	(80 535)
26.5 Investments and loans				
Increase in investments	**(200)**	–	**(200)**	(3)
	(200)	–	**(200)**	(3)
27. FINANCIAL INSTRUMENTS				
27.1 Classes of financial instruments				
Financial assets				
Loan – Property Lodging Investments Proprietary Limited			**62 800**	62 800
Loans receivable	**–**	–	**34 000**	34 000
Trade receivables	**95 092**	97 408	**90 582**	89 389
Other receivables	**116 231**	24 207	**56 179**	28 383
Other investments	**24 217**	56 860	**–**	–
Cash and cash equivalents	**115 664**	104 309	**41 245**	28 650
Non-derivative financial liabilities				
Interest-bearing borrowings	**(320 000)**	(270 000)	**(109 000)**	(250 000)
BEE interest-bearing borrowings	**(44 120)**	(44 120)	**(44 120)**	(44 120)
BEE preference shares	**(382 200)**	(397 500)	**(382 200)**	(397 500)
BEE shareholder’s loan	**(43 528)**	(37 893)	**(43 528)**	(37 893)
BEE B preference share dividend accrual	**(236 466)**	(200 171)	**(236 466)**	(200 171)
Trade and other payables	**(142 004)**	(133 693)	**(190 693)**	(178 081)

The fair value of the financial assets and liabilities approximates their carrying amount.

27. FINANCIAL INSTRUMENTS continued

27.2 Market risk – is the risk that changes in market rates such as interest rates, foreign exchange rates and equity prices will affect the group's income and value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

(a) Interest rate risk – fluctuations in interest rates impact the value of short-term investments and financing activities, giving rise to the interest rate risk. The group generally adopts a policy of ensuring that its exposure to changes in interest rates is limited by either fixing the rate or by linking the rate to the average medium term, risk-free rate over the period of the respective loan.

(b) Currency risk

Currency risk related to investments in foreign entities

The group has interest in entities which operate in various countries. A significant portion of the group's foreign revenue is earned in countries which have stable currencies. It is not the group's policy to hedge investments in foreign subsidiaries.

Currency risk related to foreign transactions

Each group entity operates predominantly within its own common monetary area and therefore the group has no significant currency risk with regards to operational activities. At year-end, all group entities had no foreign currency trade receivables or payables. It is not the group's policy to hedge transactions which are denominated in a currency other than the entities' functional currency, which mainly occurs with purchases.

27. FINANCIAL INSTRUMENTS continued

27.3 Liquidity risk – is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity by managing its working capital, capital expenditure and cash flows, is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. Ultimate responsibility for liquidity risk management rests with the board of directors. Typically the group ensures that it has sufficient cash on hand to meet operational expenses, including the servicing of financial obligations. The group also has access to overdraft facilities, which may be used to meet its financial obligations if necessary.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

R000	Carrying amount	Contractual undiscounted cash flows	Less than one year	Between one and five years	More than five years
Group					
At 30 June 2017					
Non-derivative financial liabilities					
Borrowings	**320 000**	**420 802**	**31 288**	**389 514**	**–**
BEE interest-bearing borrowings	**44 120**	**46 415**	**46 415**	**–**	**–**
BEE preference shares	**382 200**	**390 601**	**390 601**	**–**	**–**
BEE shareholder's loan	**43 528**	**50 000**	**50 000**	**–**	**–**
BEE B preference share dividend accrual	**236 466**	**255 082**	**255 082**	**–**	**–**
Trade payables	**142 004**	**142 004**	**142 004**	**–**	**–**
	1 168 318	**1 304 904**	**915 390**	**389 514**	**–**
At 30 June 2016					
Non-derivative financial liabilities					
Borrowings	270 000	368 204	24 163	344 041	–
BEE interest-bearing borrowings	44 120	50 671	4 374	46 297	–
BEE preference shares	397 500	420 355	12 929	407 426	–
BEE shareholder's loan	37 893	50 000	–	50 000	–
BEE B preference share dividend accrual	200 171	255 489	–	255 489	–
Trade payables	133 693	133 693	133 693	–	–
	1 083 377	1 278 412	175 159	1 103 253	–

27. FINANCIAL INSTRUMENTS continued

27.3 Liquidity risk continued

R000	Carrying amount	Contractual undiscounted cash flows	Less than one year	Between one and five years	More than five years
Company					
At 30 June 2017					
Non-derivative financial liabilities					
Borrowings	**109 000**	**140 993**	**10 655**	**130 338**	**–**
BEE interest-bearing borrowings	**44 120**	**46 415**	**46 415**	**–**	**–**
BEE preference shares	**382 200**	**390 601**	**390 601**	**–**	**–**
BEE shareholder's loan	**43 528**	**50 000**	**50 000**	**–**	**–**
BEE B preference share dividend accrual	**236 466**	**255 082**	**255 082**	**–**	**–**
Trade payables	**190 693**	**190 693**	**190 693**	**–**	**–**
	1 006 007	**1 073 784**	**943 446**	**130 338**	
At 30 June 2016					
Non-derivative financial liabilities					
Borrowings	250 000	340 642	22 645	317 997	–
BEE interest-bearing borrowings	44 120	50 671	4 374	46 297	–
BEE preference shares	397 500	420 355	12 929	407 426	–
BEE shareholder's loan	37 893	50 000	–	50 000	–
BEE B preference share dividend accrual	200 171	255 489	–	255 489	–
Trade payables	178 081	178 081	178 081	–	–
	1 107 765	1 295 238	218 029	1 077 209	–

27. FINANCIAL INSTRUMENTS continued

27.3 Liquidity risk continued

The interest rate profile of the group is as follows:

	Group		Company	
R000	**2017**	2016	**2017**	2016
Variable rate instruments				
Assets	**115 664**	104 309	**41 245**	28 650
Liabilities	**(746 320)**	(711 620)	**(535 320)**	(691 620)
Fixed rate instruments				
Assets			**62 800**	62 800
Liabilities	**(43 528)**	(37 893)	**(43 528)**	(37 893)

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in the interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amount shown below. This analysis assumes that all other variables remain constant.

	Group		Company	
R000	**2017**	2016	**2017**	2016
50 bps increase	**1 717**	1 276	**1 232**	1 253
50 bps decrease	**(1 717)**	(1 276)	**(1 232)**	(1 253)

27.4 Credit risk – credit risk is the risk of financial loss to the group if a counterparty to a financial asset fails to meet its contractual obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all travel agents or customers requiring credit. Reputable financial institutions are used for investing and cash-handling purposes. At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

27. FINANCIAL INSTRUMENTS continued

27.4 **Credit risk** continued

	Group		Company	
R000	**2017**	2016	**2017**	2016
Loan – Property Lodging Investments Proprietary Limited			**62 800**	62 800
Loan receivable	**–**	–	**34 000**	34 000
Other receivables	**116 231**	24 207	**56 179**	28 383
Trade receivables	**95 092**	97 408	**90 582**	89 389
Other investments	**24 217**	56 860		
Cash and cash equivalents	**115 664**	104 309	**41 245**	28 650
	351 204	282 784	**284 806**	243 222
The carrying amount of trade receivables represents the maximum credit exposure at reporting date which was:				
Trade receivables				
Not past due	**60 999**	61 495	**57 542**	56 452
0 – 30 days past due	**25 767**	23 819	**25 161**	22 879
31 – 120 days past due	**8 326**	12 094	**7 879**	10 058
Gross	**15 102**	16 032	**14 608**	13 931
Impairment allowance	**(6 776)**	(3 938)	**(6 729)**	(3 873)
	95 092	97 408	**90 582**	89 389
Trade receivables by type of customer				
Travel agents	**74 676**	68 092	**74 215**	67 303
Large corporates and companies	**20 416**	29 316	**16 367**	22 086
	95 092	97 408	**90 582**	89 389
Trade receivables by geographical region – South Africa	**90 582**	89 389	**90 582**	89 389
Trade receivables by geographical region – Kenya	**3 284**	6 354		
Trade receivables by geographical region – Botswana	**1 226**	1 665		
	95 092	97 408	**90 582**	89 389
The movement in the impairment allowance in respect of trade receivables during the year was as follows:				
Balance at beginning of year	**3 938**	5 319	**3 873**	4 917
Impairment allowance raised/(reversal)	**2 845**	(1 423)	**2 856**	(1 044)
Foreign exchange movement	**(7)**	42		
Balance at end of year	**6 776**	3 938	**6 729**	3 873

Trade receivables more than 90 days past due are considered for impairment taking into account history of default and subsequent payment. Amounts past due and not impaired are considered to be recoverable by management.

27.5 **Capital management** – the group's objective when managing capital, which consists of ordinary shares, preference shares, retained earnings and other reserves, is to safeguard the group's ability to continue as a going concern and to provide acceptable returns for shareholders. The board of directors monitors the level of dividends to ordinary shareholders.

28. RELATED PARTIES

28.1 Identity of related parties with whom material transactions have occurred

The company is the holding company of Anchor Park Investments 105 Proprietary Limited, Budget Hotels Proprietary Limited, City Lodge Hotels (Africa) Proprietary Limited, City Lodge Hotels (Botswana) Proprietary Limited, Courtyard Management Company Proprietary Limited, Fairview Hotel Limited, Gallic Courtyard (Arcadia) Share Block Proprietary Limited, Gallic Courtyard (Bruma Lake) Share Block Proprietary Limited, Gallic Courtyard (Rosebank) Share Block Limited, Gallic Courtyard (Sandown) Share Block Limited and Property Lodging Investments Proprietary Limited.

Courtyard Management Company Proprietary Limited is the management company of the Courtyard Hotels.

Budget Hotels Proprietary Limited and Property Lodging Investments Proprietary Limited lease land to City Lodge Hotels Limited.

Interest-bearing loans exist between City Lodge Hotels Limited and Property Lodging Investments Proprietary Limited and City Lodge Hotels (Africa) Proprietary Limited.

All of the above entities are related parties to the company. Other than the directors' remuneration (refer to note 18) and information below, there are no other related parties with whom material transactions have taken place.

28.2 Types of related-party transactions

Management fees and operating lease rental payments have been made and interest has been received from/paid to certain related parties.

28. RELATED PARTIES continued

	Company	
R000	**2017**	2016
28.3 Material related-party transactions		
Subsidiary companies		
Management fees paid to related parties		
Courtyard Management Company Proprietary Limited	**2 702**	3 220
Management fees received from related parties		
City Lodge Hotels (Botswana) Proprietary Limited	**1 132**	1 188
Operating lease rentals paid to related parties		
Budget Hotels Proprietary Limited	**1 973**	1 879
Property Lodging Investments Proprietary Limited	**27 301**	24 818
	29 274	26 697
Interest received from related parties		
Property Lodging Investments Proprietary Limited	**7 536**	7 860
Interest paid to related parties		
City Lodge Hotels (Africa) Proprietary Limited	**19 139**	21 664
Licence fees received from related parties		
Fairview Hotel Limited	**663**	780

28. RELATED PARTIES continued

	R000	Company 2017	Company 2016
28.4	**Loan to subsidiary**		
	Property Lodging Investments Proprietary Limited	**62 800**	62 800
28.5	**Loan from subsidiary**		
	City Lodge Hotels (Africa) Proprietary Limited	**109 000**	250 000
28.6	**Amounts due to**		
	Subsidiary companies		
	Budget Hotels Proprietary Limited	**12 894**	11 430
	Property Lodging Investments Proprietary Limited	**41 642**	28 170
	City Lodge Holdings (Share Block) Proprietary Limited	**4 065**	4 065
	Courtyard Management Company Proprietary Limited	**13 645**	13 972
	Gallic Courtyard (Arcadia) Share Block Proprietary Limited	**1**	1
	Gallic Courtyard (Bruma Lake) Share Block Proprietary Limited	**3**	3
	Gallic Courtyard (Rosebank) Share Block Limited	**4**	4
	Gallic Courtyard (Sandown) Share Block Limited	**3**	3
		72 257	57 648
28.7	**Amounts due by**		
	Subsidiary companies		
	City Lodge Hotels (Africa) Proprietary Limited	**32 218**	4 000
	City Lodge Hotels (Botswana) Proprietary Limited	**804**	6 696
		33 022	10 696

The amounts due to and by subsidiary companies are unsecured, interest-free and repayable on demand.

28. RELATED PARTIES continued

	Group		Company	
R000	**2017**	2016	**2017**	2016
28.8 Transactions with key management				
Key management, other than directors, is defined as first-line management of the company and its principal operations. First-line management largely constitutes operational executive management.				
Key management compensation is as follows (refer to note 18):				
– short-term employee benefits, including salaries and bonuses	**21 073**	18 114	**21 073**	17 444
– equity compensation benefits	**3 029**	2 696	**3 029**	2 696
	24 102	20 810	**24 102**	20 140

29. GOING CONCERN

The directors consider that the company and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the group and company's financial statements. The directors have satisfied themselves that the company and its subsidiaries are in a sound financial position and that they have access to sufficient cash and borrowing facilities to meet their foreseeable cash requirements.

30. RELEVANT STANDARDS AND INTERPRETATIONS EFFECTIVE FOR YEARS ENDING AFTER 30 JUNE 2017

At the date of authorisation of these financial statements for the year ended 30 June 2017, the following standards and interpretations were in issue but not yet effective for the company:

	Standard/interpretation	Effective date
IFRS 15	*Revenue from contracts with customers*	1 January 2018
IFRS 9	*Financial instruments*	1 January 2018
IFRS 2	*Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16	*Leases*	1 January 2019

All the standards listed above are applicable to the company and will be adopted on their effective dates. Management is of the view that the effects on disclosure would be minimal, and would result in some enhanced disclosure. The effects on recognition and measurement would be limited, save for the adoption of IFRS 16. IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019. The transitional requirements are different for lessees and lessors. The group and company are assessing the potential impact on the financial statements resulting from the application of IFRS 16.

SEGMENT analysis

for the year ended 30 June 2017

The segment information has been prepared in accordance with IFRS 8 *Operating Segments* which defines the requirements for the disclosure of financial information of an entity's operating segments.

The standard requires a "management approach" whereby segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision-maker/s who have been identified as the group's executive directors. These individuals review the group's internal reporting by hotel brand in order to assess performance and allocate resources. Depreciation for reportable segments is an asymmetrical expense as assets are not classified by segment. The depreciation charge for each reportable segment relates to furniture, fittings and equipment, while the majority of the charge for central office and other relates to hotel buildings. The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

	Courtyard		City Lodge		Town Lodge		Road Lodge		Central Office and other		Total	
R000	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Revenue	**67 139**	76 703	**790 685**	750 948	**228 297**	227 583	**296 104**	288 272	**138 185**	149 657	**1 520 410**	1 493 163
EBITDAR	**25 274**	33 124	**470 078**	445 741	**110 094**	111 339	**166 863**	162 286	**(76 656)**	(46 930)	**695 653**	705 560
Land and hotel building rental									**(96 524)**	(84 764)	**(96 524)**	(84 764)
EBITDA											**599 129**	620 796
Depreciation	**(3 846)**	(4 239)	**(22 612)**	(21 779)	**(7 316)**	(6 662)	**(11 670)**	(11 732)	**(57 335)**	(51 987)	**(102 779)**	(96 399)
Results from operating activities											**496 350**	524 397

Geographical information

	South Africa		Rest of Africa		Total	
R000	**2017**	2016	**2017**	2016	**2017**	2016
Revenue	**1 382 225**	1 343 506	**138 185**	149 657	**1 520 410**	1 493 163
Non-current assets – property, plant and equipment	**1 299 533**	1 371 592	**617 489**	472 548	**1 917 022**	1 844 140

EBITDAR represents earnings after BEE transaction charges but before interest, taxation, depreciation, amortisation and rental.

EBITDA represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation.

SHAREHOLDERS' analysis

as at 30 June 2017

SHAREHOLDER SPREAD

Beneficial shareholders with holdings exceeding 1%	Number of shares owned	% of total issued shares
Enderle S.A. Proprietary Limited	3 816 479	8,76
Government Employees Pension Fund (PIC)	2 900 437	6,66
Vuwa Investments Proprietary Limited	2 556 185	5,87
The Injabulo Staff Trust*	2 556 120	5,87
Aberdeen Funds	2 222 902	5,10
Old Mutual Group	2 147 450	4,93
Fidelity Worldwide Investment	1 613 431	3,70
Government of Norway	1 497 667	3,44
JP Morgan	1 486 191	3,41
University of Johannesburg School for Tourism and Hospitality	1 278 060	2,93
BNP Paribas (Custodian)	1 095 326	2,51
Somerset Funds	991 499	2,28
Vanguard	741 328	1,70
Dimensional Fund Advisors	668 376	1,53
Sanlam Group	625 840	1,44
Coronation Fund Managers	548 116	1,26
Trustees City Lodge 10th Anniversary*	508 974	1,17
Nedbank Group	505 118	1,16
Rezco	495 088	1,14
MMI	471 631	1,08
Total	28 726 218	65,94

* *Non-public, which in terms of the JSE Listings Requirements includes,* inter alia*, the directors of the company, the trustees of any employees' share scheme, employees of the issuer where a restriction is imposed on the trading of the listed securities and any person or entity that is interested in 10% or more of a particular class of securities.*

Investment management shareholdings exceeding 3%	Total shareholding	%
City Lodge Hotels BEE SPVs	6 390 365	14,67
Enderle H R	3 816 479	8,76
Aberdeen Asset Management	2 425 734	5,57
PIC	2 261 716	5,19
Melville Douglas Investment Management	2 063 592	4,74
Abax Investments	1 746 014	4,01
Fidelity Worldwide Investment	1 613 431	3,70
J.P. Morgan Asset Management	1 486 177	3,41
Prudential Investment Managers	1 441 607	3,31
Old Mutual Investment Group	1 364 819	3,13
Total	24 609 934	56,49

SHAREHOLDERS' analysis continued

as at 30 June 2017

SHAREHOLDER SPREAD

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	8 520	80,30	1 574 155	3,61
1 001 – 10 000 shares	1 789	16,86	5 011 923	11,50
10 001 – 100 000 shares	241	2,27	6 438 892	14,78
100 001 – 1 000 000 shares	53	0,50	16 182 530	37,14
1 000 001 shares and above	7	0,07	14 364 793	32,97
Total	**10 610**	**100,0**	**43 572 293**	**100,0**

PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders*	178	1,68	10 064 234	23,10
– Directors	3	0,03	448 120	1,03
– Other	175	1,65	9 616 114	22,07
Public shareholders	10 432	98,32	33 508 059	76,90
Total	**10 610**	**100,0**	**43 572 293**	**100,0**

* *Non-public, which in terms of the JSE Listings Requirements includes,* inter alia*, the directors of the company, the trustees of any employees' share scheme, employees of the issuer where a restriction is imposed on the trading of the listed securities and any person or entity that is interested in 10% or more of a particular class of securities.*

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of issued capital
South Africa	31 494 664	72,28
United States of America and Canada	5 363 998	12,31
United Kingdom	665 732	1,50
Rest of Europe	5 798 046	13,31
Rest of world	259 853	0,60
Total	**43 572 293**	**100,00**

MEMBERS’ diary

FINANCIAL YEAR-END		30 June
ANNUAL GENERAL MEETING		November
REPORTS		
Announcement of results for the half-year		February
Announcement of annual results		August
Annual financial statements		September
DIVIDENDS		
Declaration	Interim	February
	Final	August
Payment	Interim	March/April
	Final	September/October

NOTICE of annual general meeting

CITY LODGE HOTELS LIMITED

Registration number: 1986/002864/06
Share code: CLH ISIN: ZAE000117792

Notice is hereby given to shareholders recorded in the company's securities register on 1 September 2017, that the thirty-first annual general meeting of shareholders of City Lodge Hotels Limited will be held at The Lodge, Bryanston Gate Office Park, corner Homestead Avenue and Main Road, Bryanston on Thursday, 9 November 2017 at 14:00 for purposes of dealing with the following business and considering and, if deemed fit, passing with or without modification, the resolutions set out hereunder.

Meeting participants (including shareholders and proxies) are, in accordance with the provisions of section 63(1) of the Companies Act, 71 of 2008 ("the Act") required to provide reasonably satisfactory identification before being entitled to attend or participate in the shareholders' meeting.

Acceptable forms of identification include valid identity documents issued by the Department of Home Affairs, driver's licences and passports.

IMPORTANT DATES AND TIMES

Record date for attending and voting at the meeting ("meeting record date") Friday, 3 November 2017.

Last date for lodging forms of proxy with transfer secretary, Tuesday, 7 November 2017 (refer note 4 on page 164).

AGM to be held at 14:00 on Thursday, 9 November 2017.

Announce results of AGM on SENS on Friday, 10 November 2017.

AS ORDINARY BUSINESS

1. To present the consolidated audited annual financial statements for the year ended 30 June 2017 (as set out on pages 90 to 150 of the Integrated Report), together with the directors' and external auditors' reports and the reports of the audit committee and social and ethics committee, as distributed.

2. **Ordinary resolution number 1: Re-election of retiring directors**
   To elect, by way of a series of votes, the following directors who retire by rotation in accordance with the provisions of the Act, and the company's MoI, and who, being eligible, offer themselves for re-election:

   Ordinary resolution number 1.3 "RESOLVED THAT Mr G G Huysamer be and is hereby re-elected as a director of the company".

   Ordinary resolution number 1.4 "RESOLVED THAT Mr F W J Kilbourn be and is hereby re-elected as a director of the company".

   Ordinary resolution number 1.5 "RESOLVED THAT Dr K I M Shongwe be and is hereby re-elected as a director of the company".

   Brief biographies in respect of each retiring director appear on pages 34 and 35 of the Integrated Report.

3. **Ordinary resolution number 2: Re-appointment of external auditor**
   Upon the recommendation of the audit committee to re-appoint KPMG Inc. as the independent auditors of the company for the ensuing year to hold office until the next annual general meeting, with Mr Michael Oddy as the designated partner and to authorise the audit committee to determine the auditors' terms of engagement and remuneration.

   "RESOLVED THAT KPMG Inc. be and are hereby re-appointed as the auditors of the company for the ensuing year, with Mr Michael Oddy as the designated partner and that the audit committee be and is hereby authorised to determine the auditors' terms of engagement and remuneration."

4. **Ordinary resolution number 3: Appointment of group audit committee members**
   To elect, by way of a series of votes, and subject, where necessary, to their re-election as directors of the company in terms of ordinary resolution 1, the following independent non-executive directors as members of the audit committee to hold office until the next annual general meeting:

   Ordinary resolution number 3.1 "RESOLVED THAT Mr S G Morris be and is hereby elected as a member and the chairman of the audit committee".

   Ordinary resolution number 3.2 "RESOLVED THAT Mr G G Huysamer be and is hereby elected as a member of the audit committee".

   Ordinary resolution number 3.3 "RESOLVED THAT Mr F W J Kilbourn be and is hereby elected as a member of the audit committee".

   Ordinary resolution number 3.4 "RESOLVED THAT Ms N Medupe be and is hereby elected as a member of the audit committee".

   As special business, to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

NOTICE of annual general meeting continued

5. Ordinary resolution number 4: Signature of documents

"RESOLVED THAT any one director and/or the group company secretary be and is hereby authorised to do all such things and sign all such documents and take all such action as they consider necessary to implement all the resolutions set out in this notice convening this annual general meeting at which this ordinary resolution will be considered."

6. Endorsement of remuneration policy

To endorse, through a non-binding advisory vote, to ascertain the shareholders' view, the company's remuneration policy (excluding the remuneration of the non-executive directors) and its implementation, as set out in the remuneration report contained on pages 76 to 88 of the Integrated Report.

In terms of the King III Report, an advisory vote on the company's remuneration policy should be obtained from shareholders. The vote allows shareholders to express their views on the remuneration policies adopted and the implementation thereof, but will not be binding on the company.

7. Special resolution number 1: Approval of non-executive directors' remuneration

"RESOLVED THAT the remuneration payable to non-executive directors be approved as follows:

1 July 2017 to 30 June 2018 (R)	**Annual fee payable with effect from 1 July 2017**	Hourly rate payable with effect from 1 July 2017
Chairman of the board	**952 300**	
Services as lead independent director	**307 450**	
Services as a director	**235 400**	
Chairman of the audit committee	**165 000**	
– Other audit committee members	**75 900**	
Chairman of the remuneration committee	**145 650**	
– Other remuneration committee members	**65 800**	
Chairman of the risk committee	**112 900**	
– Other risk committee members	**51 500**	
Chairman of the social and ethics committee	**74 500**	
Ad hoc/temporary committee		1 890 capped at 37 485

The reason for and effect of the proposed resolution is to ensure that the level of fees paid to non-executive directors remains market related and accords with the greater accountability and risk attached to the position.

The reason for proposing an ad hoc/temporary committee fee over and above the remuneration ordinarily paid to the non-executive directors, is to set a fee for participating in an ad hoc/temporary committee should circumstances necessitate the formation of one to consider a specific issue falling outside the scope of existing committees.

The board, on the recommendation of the remuneration and nominations committee, which in turn considered executive management's recommendation in this regard has accepted the fees proposed in special resolution number 1 and recommends the same for approval by shareholders.

Refer to page 126 for full particulars on the remuneration paid to non-executive directors during the year under review and to the remuneration report on pages 76 to 88 of the Integrated Report for further detail on the company's remuneration practices.

8. Special resolution number 2: Financial assistance

"RESOLVED THAT: to the extent required by sections 44 and/or 45 of the Act, the board of the company may, subject to compliance with the requirements of the company's MoI, the Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance in such amounts as the board of the company may from time to time resolve, by way of loan, guarantee, the provision of security or otherwise, to:

(i) any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company, for any purpose or in connection with any matter, including, but not limited to, the subscription of any option, or any securities issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company; and/or

(ii) any person who is a participant in any of the company's share or other employee incentive scheme, for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company, where such financial assistance is provided in terms of any such scheme that does not satisfy the requirements of section 97 of the Act, at any time during the period commencing on the date of the passing of this resolution and ending on the next annual general meeting."

The reason for and the effect of special resolution number 2
Notwithstanding the title of section 45 of the Act, being “Loans or other financial assistance to directors”, on a proper interpretation, the body of the section also applies to financial assistance provided by a company to any related or inter-related company or corporation, a member of a related or inter-related corporation and to a person related to any such company, corporation or member.

Further, section 44 of the Act may also apply to the financial assistance so provided by a company to any related or inter-related company or corporation, a member of a related or inter-related corporation, or a person related to any such company, corporation or member, in the event that the financial assistance is provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company.

Both sections 44 and 45 of the Act provide, inter alia, that the particular financial assistance must be provided only pursuant to a special resolution of shareholders, adopted within the previous 2 (two) years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board is satisfied that:

(i) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test (as contemplated in the Act); and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

As part of the normal conduct of the business of the group, the company, where necessary, usually provides guarantees and other support undertakings to third parties which enter into financial agreements with its local and foreign subsidiaries and joint ventures or partnerships in which the company or members of the group have an interest. This is particularly so where funding is raised by the foreign subsidiaries of the company, whether by way of borrowings or the issue of bonds or otherwise, for the purposes of the conduct of their operations. In the circumstances and in order to, inter alia, ensure that the company and its subsidiaries and other related and inter-related companies and entities continue to have access to financing for purposes of refinancing existing facilities and funding their corporate and working capital requirements, it is necessary to obtain shareholder approval as set out in this special resolution number 2. The company would like the ability to continue to provide financial assistance, if necessary, also in other circumstances, in accordance with section 45 of the Act.

Furthermore, it may be necessary for the company to provide financial assistance to any of its present or future subsidiaries, and/or to any related or inter-related company or corporation, and/or to a member of a related or inter-related company, to subscribe for options or securities of the company or another company related or inter-related to it. Under the Act, the company will require a special resolution referred to above to be adopted.

Accordingly, the approval of shareholders is sought to ensure that the company, its subsidiaries and other related and inter-related companies is able to effectively organise its internal financial administration.

9. Special resolution number 3: General authority to repurchase shares

"RESOLVED THAT the company is hereby authorised by way of a general authority to acquire ordinary shares in the share capital of the company subject to the provisions of the Act and the JSE Listings Requirements, provided:

- the general authority shall be valid only until the next annual general meeting or for 15 months from the date of this special resolution, whichever period is shorter;
- the repurchase being effected through the order book operated by the JSE trading system, without prior understanding or arrangement between the company and the counterparty;
- the company being authorised thereto by its MoI;
- repurchases not being made at a price greater than 10% (ten percent) above the weighted average of the market value of the shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- an announcement being published as soon as the company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases;
- repurchases not exceeding 20% (twenty percent) in aggregate of the company's issued ordinary share capital in any one financial year;
- the company's sponsor confirming the adequacy of the company's working capital for purposes of undertaking their purchase of shares in writing to the JSE upon entering the market to proceed with the repurchase;
- the company remaining in compliance with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread after such repurchase;
- the company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the prohibited period are fixed and full details of the programme have been announced on SENS prior to the commencement of the prohibited period;
- the company only appointing one agent to effect any repurchases on its behalf; and
- a resolution is passed by the board authorising the repurchase, that the company and its subsidiaries have passed the solvency and liquidity test and that since performing the test there have been no material changes to the financial position of the company."

The directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the foregoing general authority, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the annual general meeting:

- the company and its subsidiaries will be able, in the ordinary course of business, to pay its debts;
- the consolidated assets of the company and its subsidiaries, fairly valued in accordance with generally accepted accounting practice, will exceed the consolidated liabilities of the company; and
- the company and its subsidiaries' ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, some of which may appear elsewhere in the Integrated Report, is provided in terms of section 11.26 of the JSE Listings Requirements for purposes of this general authority:

- directors and management – pages 34 to 37;
- major beneficial shareholders – page 151;
- directors' interests in ordinary shares – page 95; and
- share capital of the company – page 121.

Litigation statement

The directors, whose names appear on pages 34 and 35 of the Integrated Report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had a material effect on the group's financial position in the 12 (twelve) months preceding the date of this notice of annual general meeting.

Directors' responsibility statement

The directors, whose names appear on pages 34 and 35 of the Integrated Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information.

Material changes

Other than the facts and developments reported on in the annual financial statements, there have been no material changes in the affairs, financial or trading position of the company and its subsidiaries since the date of signature of the Integrated Report and up to the date of posting.

Reason for and effect of special resolution number 3

The reason for and effect of the special resolution is to grant the company and its subsidiaries a general authority in terms of the Act and the JSE Listings Requirements to acquire shares in the company.

The general authority is also required by the company to perform its settlement obligations to employees participating in the company's various share or employee incentive schemes.

The board has no specific intention, at present, for the company to repurchase any of its shares but considers it necessary in order that it can avail itself of the authority should an opportunity present itself during the year, which the board deems to be in the best interests of the company and its shareholders, taking prevailing market conditions and other factors into consideration.

VOTING AND PROXIES

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend, speak and vote in his stead.

A proxy need not be a shareholder of the company.

The form of proxy is only to be completed by those shareholders who are: holding shares in certificated form; or recorded on the sub-register in dematerialised form in "own name", and is attached for convenience.

All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a letter of representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Proxy forms are requested to be forwarded to reach the company's transfer secretaries by not later than 14:00 on Tuesday, 7 November 2017.

The completion of a proxy form will not preclude a shareholder from attending the annual general meeting.

ELECTRONIC PARTICIPATION

The company intends to offer shareholders or their proxies reasonable access to attend the annual general meeting through electronic conference call facilities, in accordance with the provisions of the Act. In the event that a shareholder or his/her proxy wishes to participate electronically in the annual general meeting, he/she is required to deliver written notice to the company at City Lodge Hotels Limited, Bryanston Gate Office Park, Building 7 ("The Lodge"), corner Homestead Avenue and Main Road, Bryanston, alternatively mvanheerden@clhg.com, marked for the attention of Mrs Melanie van Heerden, the company secretary, by no later than 14:00 on 3 November 2017 that he/she wishes to participate via electronic communication at the AGM ("the electronic notice"). In order for the electronic notice to be valid it must contain: (a) if the shareholder is an individual, a certified copy of his identity document and/or passport; (b) if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution, which resolution must set out who from the relevant entity is authorised to represent the relevant entity at the annual general meeting via electronic communication; and (c) a valid email address and/or facsimile number ("the contact address/number").

NOTICE of annual general meeting continued

Voting on shares will not be possible via electronic communication and accordingly shareholders participating electronically and wishing to vote their shares at the annual general meeting will need to be represented at the annual general meeting, either in person, by proxy or by letter of representation. The company shall use its reasonable endeavours on or before 14:00 on 7 November 2017 to notify a shareholder, who has delivered a valid electronic notice, at its contact address/number, of the relevant details through which the shareholder can participate via electronic communication. The company reserves the right not to provide for electronic participation at the annual general meeting in the event that it determines that it is not practical to do so, or an insufficient number of shareholders or proxies request to so participate.

The cost of participating through the electronic conference call facilities will be for the account of the shareholder or his/her proxy.

By order of the board

M C van Heerden
Group company secretary

Bryanston
11 September 2017

FORM of proxy – City Lodge Hotels Limited

For use at the thirty-first annual general meeting of members to be held on Thursday, 9 November 2017 at The Lodge, Bryanston Gate Office Park, corner Homestead Avenue and Main Road, Bryanston, at 14:00.

I/we, the undersigned

of

being the registered holder/s of ordinary shares

hereby appoint

or failing him,

or failing them, the chairman of the meeting as my/our proxy to act for me/us and vote for me/us on my/our behalf as indicated below at the annual general meeting of the company to be held on Thursday, 9 November 2017 at 14:00 and at any adjournment thereof.

		In favour of	Against	Abstain
1.	Adoption of the annual financial statements			
2.	Ordinary resolution number 1 – Re-election of retiring directors			
2.1	Mr G G Huysamer			
2.2	Mr F W J Kilbourn			
2.3	Dr K I M Shongwe			
3.	Ordinary resolution number 2 – To re-appoint KPMG Inc. as the independent auditors of the company for the ensuing year with Mr M Oddy as the engagement partner and to authorise the directors to determine the auditors' remuneration			
4.	Ordinary resolution number 3 – Appointment of group audit committee members			
4.1	Mr S G Morris			
4.2	Mr G G Huysamer			
4.3	Mr F W J Kilbourn			
4.4	Ms N Medupe			
5.	Ordinary resolution number 4 – Signature of documents			

		In favour of	Against	Abstain
6.	Endorsement of remuneration policy			
7.	Special resolution number 1 – Approval of non-executive directors' remuneration			
7.1	Chairman (inclusive of all board and committee roles)			
7.2	Lead independent director			
7.3	Services as director			
7.4	Chairman of audit committee			
7.5	Other audit committee members			
7.6	Chairman of remuneration committee			
7.7	Other remuneration committee members			
7.8	Chairman of risk committee			
7.9	Other risk committee members			
7.10	Chairman of social and ethics committee			
7.11	Ad hoc/temporary committee			
8.	Special resolution number 2 – Financial assistance			
9.	Special resolution number 3 – General authority to repurchase shares			

Signature Date

Assisted by me (where applicable)

FORM of proxy – City Lodge Hotels Limited continued

1. This form of proxy is to be completed only by certificated shareholders or dematerialised shareholders whose shares are recorded in their "own name".
2. Shareholders whose dematerialised shares are held in the name of a nominee and who wish to attend the annual general meeting must contact their Central Securities Depository Participant ("CSDP") or broker who will furnish them with the necessary letter of authority to attend the annual general meeting. Alternatively they have to instruct their CSDP or broker as to how they wish to vote. This must be done in terms of the agreement between the shareowner and the CSDP or the broker.
3. Shareholders who wish to attend and vote at the meeting must ensure that their letters of authority from their CSDP or broker reach the transfer secretaries, Computershare Investor Services Proprietary Limited ("Computershare") by no later than 14:00 on Tuesday, 7 November 2017.
4. Each shareholder is entitled to appoint a proxy (who need not be a shareholder of the company) to attend, speak and vote (either on a poll or by show of hands) in place of that shareholder at the annual general meeting. Certificated shareholders or own-name dematerialised shareholders may attend and vote at the annual general meeting, alternatively appoint a proxy to attend, speak and, in respect of the applicable resolutions, vote in their stead by completing the attached form of proxy. If a shareholder is unable to attend the annual general meeting but wishes to be represented thereat, he/she must complete and return the attached form of proxy, in accordance with the instructions contained therein, to Computershare, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, to be received by them by no later than 14:00 on Tuesday, 7 November 2017, alternatively the form of proxy can be handed to the company secretary immediately before commencement of the annual general meeting. However, please bear in mind that the reason why shareholders are requested to return their form of proxy before the meeting is because the company has over 10 000 shareholders and the scrutineers must consider each proxy to determine whether it is validly given and whether the voting rights have been correctly inserted. Significant delays could be caused at the annual general meeting, if these checks have to be carried out by the scrutineers prior to the commencement of or while the annual general meeting is in progress.
5. A shareholder may insert the name of a proxy of the shareholder's choice in the space provided, with or without deleting "the chairman of the meeting". All deletions must be individually initialled by the shareholder, failing which they will not have been validly effected. Should a proxy not be specified, this will be exercised by the chairman of the annual general meeting. The person whose name appears first on the form of proxy and who is present at the annual general meeting shall be entitled to act as proxy to the exclusion of the persons whose names follow.
6. Voting instructions for each of the resolutions must be completed by filling in an "X", alternatively the number of votes (one per ordinary share) under the "In favour of", "Against" or "Abstain" headings on the form of proxy. If no instructions are filled in on the form of proxy, the chairman of the annual general meeting, if the chairman is the authorised proxy, or any other proxy shall be authorised to vote in favour of, against or abstain from voting as he/she deems fit.
7. A shareholder or his/her proxy is entitled but not obliged to vote in respect of all the ordinary shares held by the shareholder. The total number of votes for or against the resolutions and in respect of which any abstention is recorded may, however, not exceed the total number of shares held by the shareholder.
8. 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 Computershare or waived by the chairman of the annual general meeting.
9. The chairman of the annual general meeting may reject or accept any form of proxy that is completed and/or received other than in accordance with these instructions and notes.
10. Any alterations or corrections to this form of proxy must be initialled by the signatory(ies).
11. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person instead of the duly appointed proxy.
12. Form of proxy must be returned to Computershare, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), by no later than 14:00 on Tuesday, 7 November 2017.
13. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by Computershare.
14. A proxy may not delegate his/her authority to act on behalf of the shareholder to another person.

ADMINISTRATION

CITY LODGE HOTELS LIMITED
Incorporated in the Republic of South Africa
Registration number 1986/002864/06
ISIN: ZAE 000117792 Share code: CLH

DIRECTORS
B T Ngcuka (Chairman), C Ross (Chief executive)*,
F W J Kilbourn, G G Huysamer, S Marutlulle, N Medupe,
S G Morris, V M Rague+ Dr K I M Shongwe, A C Widegger*
**Executive* + *Kenyan*

COMPANY SECRETARY
M C van Heerden

REGISTERED OFFICE
The Lodge
Bryanston Gate Office Park
Corner Homestead Avenue and Main Road
Bryanston, 2191
PO Box 97
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Telephone: +27 11 557 2600
Facsimile +27 11 557 2601
Email: info@clhg.com
Websites: www.clhg.com
www.bid2stay.co.za

TRANSFER SECRETARIES
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

AUDITORS
KPMG Inc.

BANKERS
The Standard Bank of South Africa Limited

ATTORNEYS
ENS Africa

SPONSOR
Nedbank Corporate and Investment Banking

Bastion

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