OUR BUSINESS OVERVIEW

Group overview

Our vision

Our vision is to provide quality hospitality and leisure experiences at every one of our destinations.

Who we are

Tsogo Sun is southern Africa's premier gaming, hotel and entertainment group.

The group's heritage dates back to the founding of Southern Sun Hotels ('Southern Sun') in 1969, when South African Breweries Limited ('SAB Limited') and hotel magnate, Sol Kerzner, partnered to create the largest hotel group in the southern hemisphere. Southern Sun commenced operations with six hotels, including the iconic Beverly Hills hotel in Umhlanga Rocks, Durban, and was subsequently involved in the development of many of the most prestigious hotels of the era, including the Cape Sun, Sandton Sun and Sun City. In 1983, Sun International Limited ('Sun International') was split out of Southern Sun as a separate gaming business and Southern Sun remained focused on hotels. By 1985, Southern Sun had expanded to 26 hotels. It then acquired the Holiday Inn South Africa hotel group, thereby establishing a countrywide distribution of 49 hotels, in both the up-market and mid-market segments. In 1991, Southern Sun was delisted from the JSE and became a wholly owned subsidiary of SAB Limited. In the same year, Southern Sun entered into a joint venture with Accor SA, the French hotel group, to develop the Formula1 and Formula Inn range of hotels in South Africa and the first of 23 hotels opened in 1992. In 1999, Southern Sun acquired a 50% interest in a consortium with Liberty called Cullinan which owned three hotels.

In 1995, in anticipation of the introduction of the new gaming dispensation in South Africa, Tsogo Sun Holdings Proprietary Limited (as it was then known) ('Tsogo Sun Holdings') was constituted as a bidding consortium between Southern Sun and numerous black empowerment corporates, associations and individuals (via Tsogo Investment Holding Company Proprietary Limited ('TIH')). Tsogo Sun Holdings contracted with MGM Grand Inc. for casino management expertise and the consortium was successful in obtaining five casino licences. The first such licensed facility, Emnotweni Casino located in Nelspruit, Mpumalanga province, opened in October 1997. This was the first operating casino within the new regulated environment in post-apartheid South Africa. During 2002, the two shareholders of Tsogo Sun Holdings, SABMiller (via SABSA Holdings Limited) and Hosken Consolidated Investments Limited (via TIH), concluded a landmark BBBEE transaction which resulted in TIH acquiring control of Tsogo Sun Holdings, including the hotel business, and the dilution of SABMiller's ownership interest to 49%. HCI, currently the ultimate holding company of TIH, first acquired an indirect 10% interest in Tsogo Sun Holdings during December 2002 and has subsequently obtained a 99% ownership of TIH.

By 2002, the contract with MGM Grand Inc. had been transferred to Tsogo Sun Holdings. In 2009, the group acquired two casino properties owned by Century Casinos Inc. ('Century Casinos'), Blackrock Casino and The Caledon Casino. More recently, the group concluded a landmark merger with Gold Reef Resorts Limited ('Gold Reef') in February 2011, incorporating an additional seven casinos into the group's portfolio – Gold Reef City Casino, Silverstar Casino, Golden Horse Casino, Garden Route Casino, Mykonos Casino, Goldfields Casino and an associate investment in Queens Casino. The group was reverse listed into Gold Reef and subsequently renamed Tsogo Sun Holdings Limited ('Tsogo Sun').

Tsogo Sun's portfolio proudly comprises over 90 hotels with more than 14 200 hotel rooms across all sectors of the market, from luxury to budget in South Africa, the rest of Africa, the United Arab Emirates and the Seychelles; 14 premier gaming and entertainment destinations in six provinces of South Africa; theatres, cinemas, restaurants and bars; and over 240 conference and banqueting facilities, including the Sandton Convention Centre.

Group overview continued

Our owners

	Hosken Consolidated Investments Limited	SABMiller	Public
As at 31 March 2014	41.3%	39.6%	19.1%

TSOGO SUN

	Hosken Consolidated Investments Limited	Public
Post-year end as at 29 August 2014	47.6%	52.4%

Our key shareholders at 31 March 2014 were Hosken Consolidated Investments Limited, a JSE listed investment holding company (through TIH), at 41.3% and SABMiller plc, the London listed brewing company (through SABSA), at 39.6%, with financial institutions and the general public holding 19.1%, excluding treasury shares. A detailed analysis of shareholdings is included on page 85.

The HCI shareholding is of particular importance to the sustainability of the group as it provides the bulk of the 56% broad-based empowered ownership at group level, significantly simplifying our group structure as local empowerment is not required at individual property level, except where specifically required by provincial legislation.

Post-year end, on 15 April 2014, SABMiller announced that it was conducting a strategic review of its investment in Tsogo Sun which culminated in the disposal of all of its ordinary shares in Tsogo Sun on 28 July 2014 through:

- a fully marketed secondary placing of 301.7 million ordinary shares to selected South African and international institutional investors; and
- a specific repurchase of 133.6 million ordinary shares by Tsogo Sun for R2.8 billion.

Following the placing and the repurchase, the shareholding of Tsogo Sun as at 29 August 2014 changed to HCI holding 47.6%, with holdings by financial institutions and the general public increasing to 52.4%.

Although the nature of our shareholding impacts the way we are managed due to the majority of the board being appointed by the majority shareholders, the governance environment is robust and actively encouraged by the majority shareholders. Refer to the corporate governance section on page 63 to page 69.

Our group structure

TSOGO SUN

100%	100%
TSOGO SUN GAMING	TSOGO SUN HOTELS

Tsogo Sun corporate division performs the group management role in accordance with the strategic and operating principles, defined by the board of directors, that guide the group's activities. Operational decision-making is given effect through a group executive committee reporting to the Chief Executive Officer. The operating divisions comprise Tsogo Sun gaming and Tsogo Sun hotels, both of which lead their respective markets. Resources, both financial and human, are allocated to the divisions based on the opportunities available to generate sustainable returns.

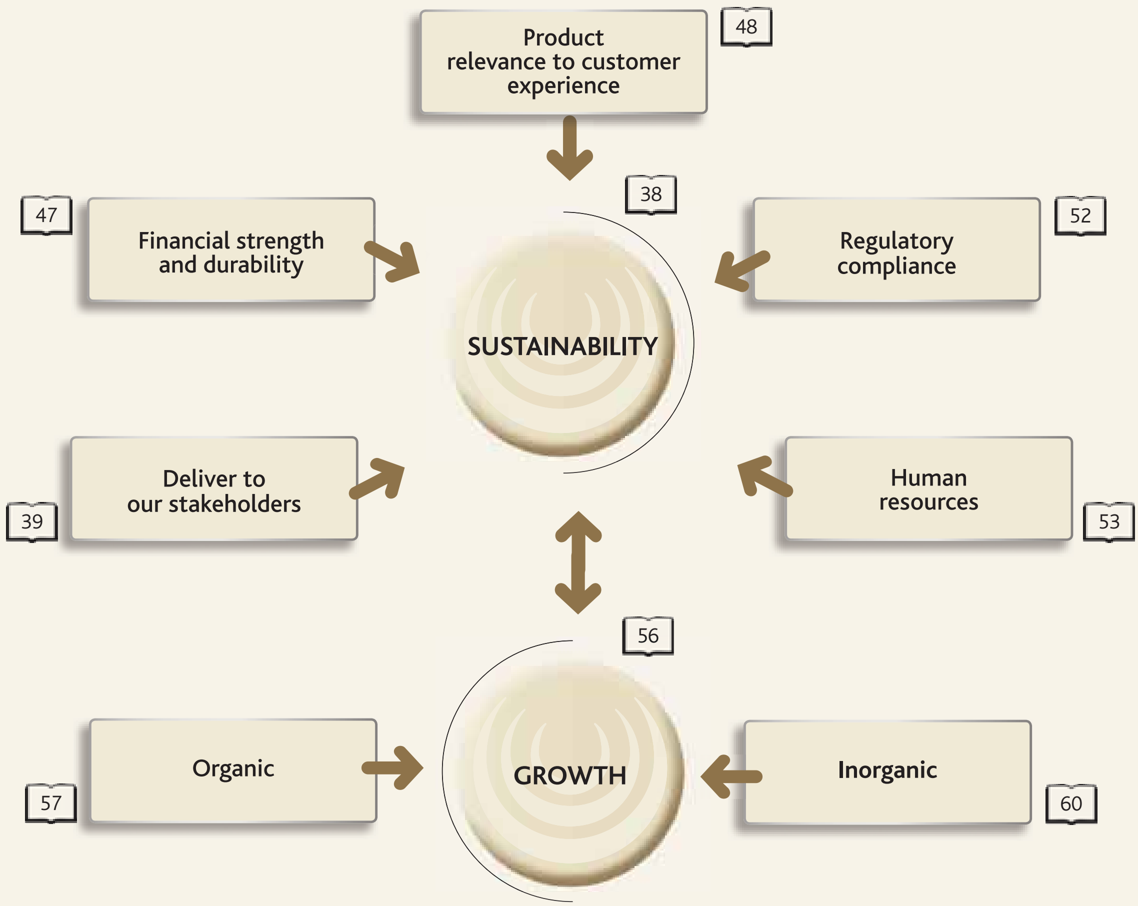
Our strategy

How we create long-term sustainable value

The key pillars of our sustainability include meeting the reasonable requirements of our stakeholders, financial strength and durability, maintaining product relevance to customer experience, regulatory compliance and adequate skilled human resources.

In summary, a business has to stay in business to be able to take advantage of the commercial opportunities that are presented to it. Good businesses fail when they are fragile, inflexible, unethical and/or poorly managed.

Representation of our strategy



Our performance against these strategies is discussed in the our strategy in action section.

The value of a business is the present value of the future cash flows that can be generated by the assets and other capitals owned or controlled. Accordingly, the only true measure of growth for our business over time is the growth in cash flow.

The capitals that generate these cash flows include physical assets such as property, plant and equipment and employees as well as intangible capitals such as licences, brands, trademarks, technology and systems supported by adequate financial capital to pursue growth opportunities and underpinned by quality relationships with key stakeholders. Execution of a robust strategy informed by and responding to material risks and opportunities will lead to optimal utilisation of capitals and generation of cash flow and ultimately value.

Growth in cash flows over time are generated through the optimal operation of the group's capitals or organic growth and building the tangible and intangible asset base of the group through developing and acquiring new businesses or inorganic growth.

While the use of cash flow as the primary measure of growth may appear mercenary, it is only with sustainable and growing cash flows that a business can hope to create value for the organisation, its stakeholders and society and thereby achieve a multitude of additional benefits such as increased levels of employment and meaningful social contributions.

Our business model

We create value through the operation of quality assets in leading locations in key markets and by investing in and building our portfolio across a range of consumer segments.

Inputs

Financial capital
- Equity funding
- Debt funding

Natural capital
- Physical locations
- Energy consumption
- Water consumption
- Biodiversity

Manufactured capital
- Relevant physical hotel, gaming and entertainment product
- Enabling technology
- Infrastructure

Intellectual capital
- Brands
- Proprietary knowledge
- Systems and procedures

Human capital
- Ethical values
- Engaged workforce
- Specialised knowledge and skills

Social and relationship capital
- Licence to trade
- Community
- Customers
- Suppliers
- Partners

Activities and processes

Integration – An integrated approach across the divisions results in leveraging the assets and structure with a common corporate identity. This allows us to enhance the experience we offer to do business with the group and assists the market to understand the scale and diversity of

GAMING DIVISION

Core business

Owns and operates gaming and entertainment complexes across South Africa

Key market differentiator

Integrated gaming and entertainment complexes primarily located in urban areas

Key support processes

Corporate services

Strategy
Resource allocation
Portfolio management
Budget approval

Funding and treasury
Legal and secretarial
Risk management
Corporate affairs and reporting

Finance and internal audit

Information technology

Development and facilities management

Human resources, development and training

Marketing and branding

Procurement

Key business processes

Gaming	Hotels
Gaming operations	*Hotel operations*
Food and beverage	*Food and beverage*
Tenanting	*Conferencing*
Promotions and eventing	*Sales*
VIP services	*Revenue management*
Customer relationship management	*Customer relationship management*
Business intelligence	*Business intelligence*
Compliance	

Gaming / Entertainment Complexes

Licences

Taxes

Regulators 52

Promotions
Customer rewards

Customer experiences

Customers
Individuals 48

39 **Investors**

43, 44 **Partners**
Tenants
Suppliers

39 **Community**
Corporate social investment

63 **Governance**

18 Legislation and regulations 18 Economic conditions 19 Industry

External environment

resources within the group under a unified management our customers across multiple outlets, makes it simpler our operations under a common Tsogo Sun brand.

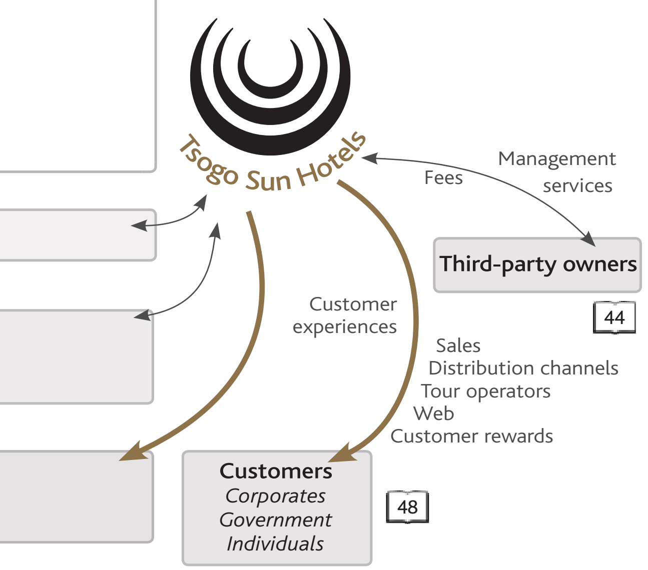
HOTEL DIVISION

Core business

Owns, leases and manages hotels

Key market differentiator

Wide geographic distribution of quality budget to luxury hotel properties



Outputs

Quality hospitality and leisure experiences relevant to our customers at appropriate price points

Gaming 14
- Slots
- Tables
- Restaurants
- Bars
- Events
- Theatres
- Retail
- Conferencing
- Cinemas
- Theme Parks
- Entertainment

Hotels 16
- Accommodation
  - Luxury
  - Full Service
  - Select Service
  - Budget
- Restaurants
- Bars
- Conferencing

Environmental and social impacts

Waste 45

Social impact 43

Outcomes linked to strategic priorities

Deliver to our stakeholders 39
- Stakeholder engagement
- Flow of economic benefits to
  - Community
  - Socially beneficial organisations
- Returns to investors
- Taxation contribution to economy
- Environmental impact
- Transformation

Financial strength and durability 47
- Resources to pursue opportunities
- Prudent gearing levels
- Adequate funding facilities
- Long-term funding maturities

Product relevance to customer experience 48
- Customer satisfaction
- Customer value
- Brand loyalty

Regulatory compliance 52
- Licence to trade

Human resources 53
- Job creation
- Employee engagement
- Employee development
- Employee wellness
- Employment equity

Organic growth 57
- Profit
- Improved margins
- Cash flow

Inorganic growth 60
- Capacity increases
- Developments and acquisitions

20 Technology | 20 Consumer preferences | 20 Societal issues | 20 Environmental challenges

Our business model continued

TSOGO SUN GAMING

Key features

The group's preference is to wholly own its operations thus creating a clearer, simpler operating structure. Empowerment shareholding is achieved at the holding company level, enabling the group empowerment shareholders to participate in all casino operations. Exceptions arise from historical structures and, in the Eastern Cape, where the gaming legislation requires local provincial-based empowerment ownership. Nine of the 14 gaming operations of the group are wholly owned with minority shareholders in Hemingways (35%), Garden Route (15%), Blackrock (2%) and Mykonos (30%), and with Queens Casino being an associate investment of 25%. During the year, the group acquired the remaining minority interest in Suncoast which is now wholly owned.

The gaming and entertainment complexes are primarily located in urban areas and are the entertainment hubs for the communities they serve. The businesses are thus embedded within the local communities and their success is inextricably linked to the wellbeing of the community.

Along with the creation of local jobs and the payment of taxes, we seek to stimulate local enterprise and support economic development, collaborate with provincial and national government and others on shared challenges – all essential to our ongoing ability to trade.

Significant focus is placed on the nature and quality of the facilities and experiences offered at each gaming and entertainment complex. With the vast majority of customers being locally based regular customers, an important component of our operating model is to ensure the properties remain fresh, attractive and interesting to visitors on an ongoing basis.

Management of mutually beneficial relationships with quality restaurant, retail and entertainment tenants is key to retaining footfall at our properties against other leisure offerings.

The customer reward programme in the division reward customers with status, benefits and recognition, and are important as 71% of gaming revenue is contributed by active reward club members. The group relaunched the gaming reward programme during the year.

Compliance with gaming regulations is critical to the retention of the casino licences and is discussed in the regulatory compliance section on page 52.

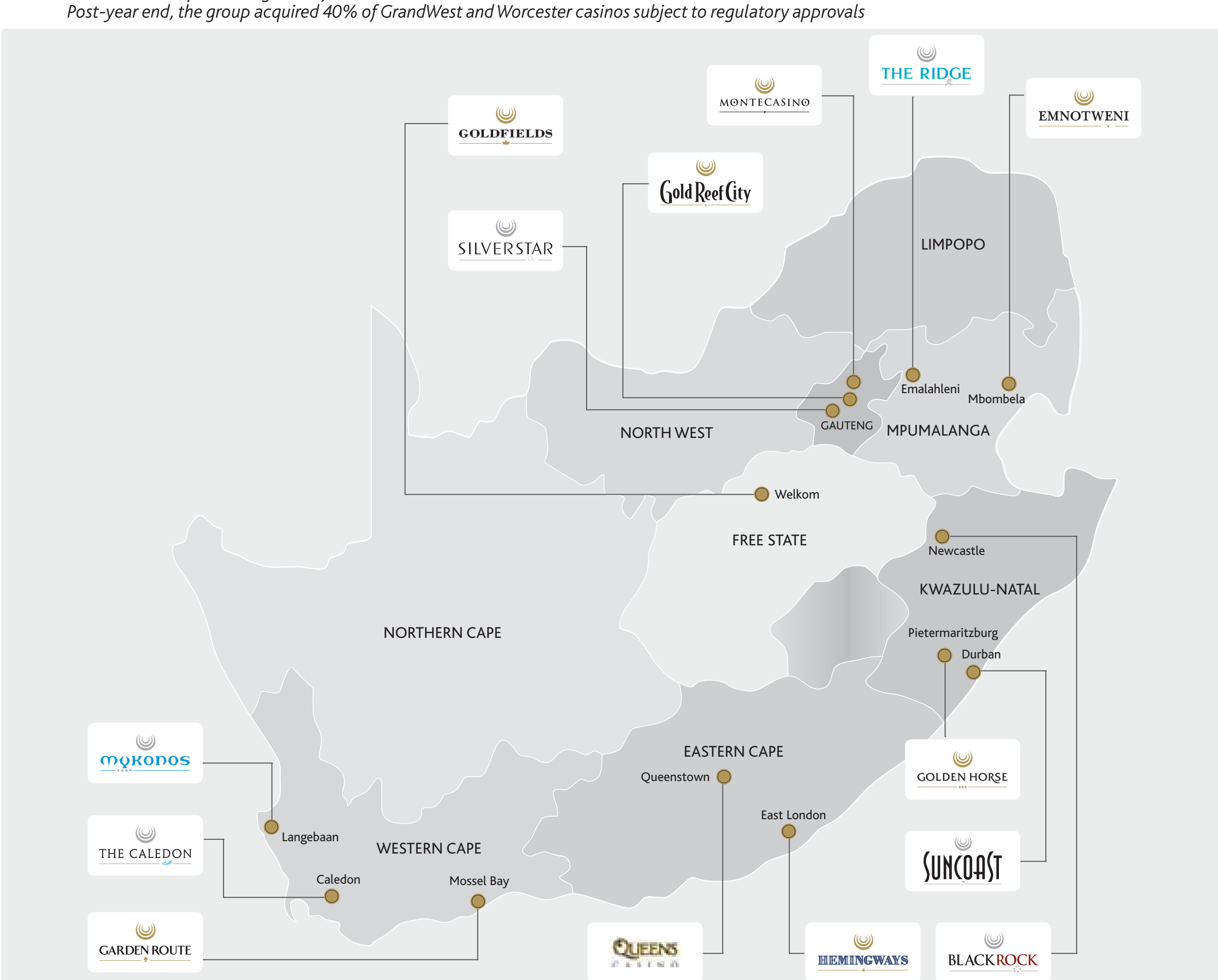
Brands

Gauteng	KwaZulu-Natal	Western Cape	Mpumalanga	Eastern Cape	Free State
MONTECASINO	SUNCOAST	THE CALEDON	EMNOTWENI	HEMINGWAYS	GOLDFIELDS
Gold Reef City	GOLDEN HORSE	GARDEN ROUTE	THE RIDGE	QUEENS CASINO	
SILVERSTAR	BLACKROCK	MYKONOS			

Footprint

	Ownership %	as at 31 March 2014 Tables	Slots	Hotel rooms	Group revenue contribution %	Group Ebitdar contribution %
Montecasino	100	78	1 817	619	22	26
Suncoast	100	57	1 450	165	14	17
Gold Reef City	100	50	1 700	113	12	12
Silverstar	100	25	870	34	6	6
The Ridge	100	19	450	175	4	5
Hemingways	65	16	504	108	3	3
Emnotweni	100	18	425	224	3	4
Golden Horse	100	20	450	96	3	4
Garden Route	85	16	412	43	2	2
Goldfields	100	9	250	–	2	1
Blackrock	98	10	300	80	1	1
The Caledon	100	7	313	95	1	1
Mykonos	70	6	320	–	1	1
Queens	25	6	180	–	*	*
Other gaming operations	100			175	1	(5)
Total		**337**	**9 441**	**1 927**	**75**	**78**

Notes *_Queens Casino is equity accounted_
Ebitdar is stated pre-management fees
Post-year end, the group acquired 40% of GrandWest and Worcester casinos subject to regulatory approvals



Our business model continued

TSOGO SUN HOTELS

Key features

Tsogo Sun hotels does not follow the prevalent international trend of operating the business on an 'asset light' basis, and in South Africa, the portfolio philosophy remains to own all the components of the business, wherever possible. The components of the hotel business are land, buildings, operations, management and brand. Although this portfolio philosophy is more capital intensive than the 'asset light' model, it allows substantially higher return on effort and in the long term retains control of the assets providing extended tenure and resilience through trading cycles.

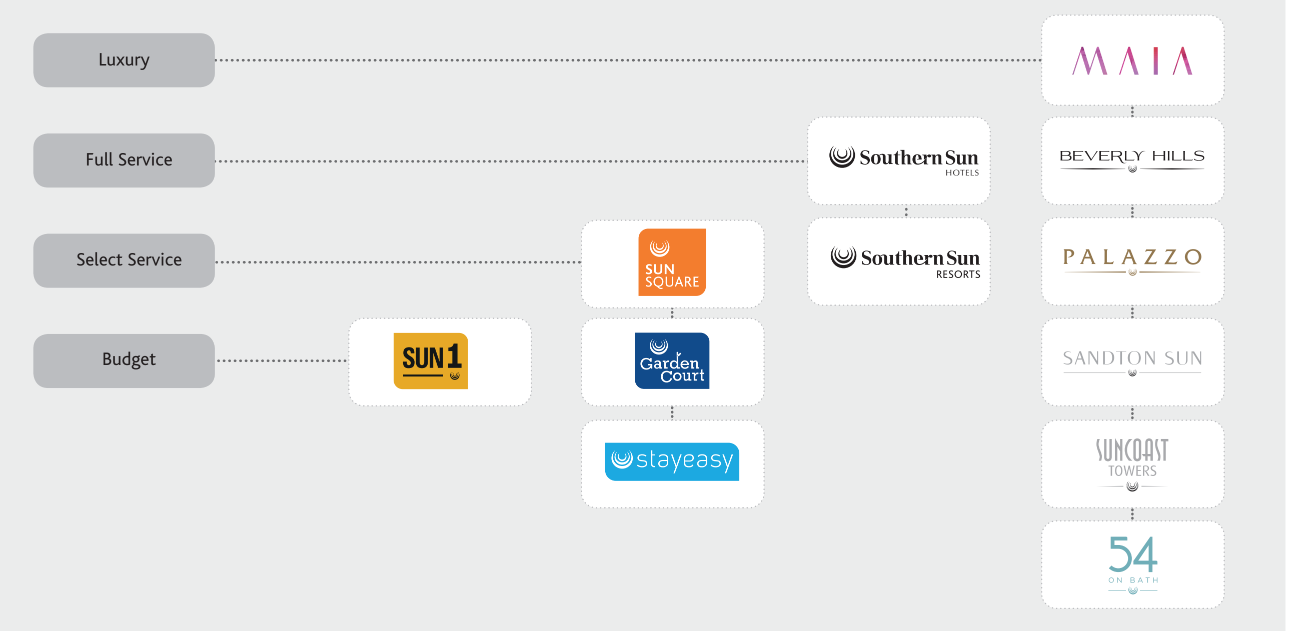
The group leases assets both in South Africa and offshore where it is not possible to own the land and buildings, but then loses the growth of the property value over time. In South Africa the group will only manage operations for third parties if they are strategically important (due to partner requirements or location) and where there is no option to own or lease. We will manage operations for third parties offshore as this is a low risk option to enter new markets, but in the longer term it would be preferable to own the operation and the property. We operate hotels as a franchisee where necessary due to brand differentiation requirements but are not a franchisor of our own brands.

Tsogo Sun hotels' key differentiator in South Africa is our wide distribution of quality, budget through to luxury, hotel products. In addition to quality product, consistent exceptional guest experience remains the focus at all Tsogo Sun hotels to differentiate in an often commoditised industry.

The majority of Tsogo Sun hotels' occupancy depends on the business traveller, government and group and convention markets. Relationships with key customers and travel intermediaries, and access to the correct distribution networks, are critical in driving both occupancies and average room rates throughout the hotel division.

The customer reward programme in the division is important as 28% of hotel revenue is contributed by active reward club members. The group relaunched the hotel reward programme during the year.

Brands

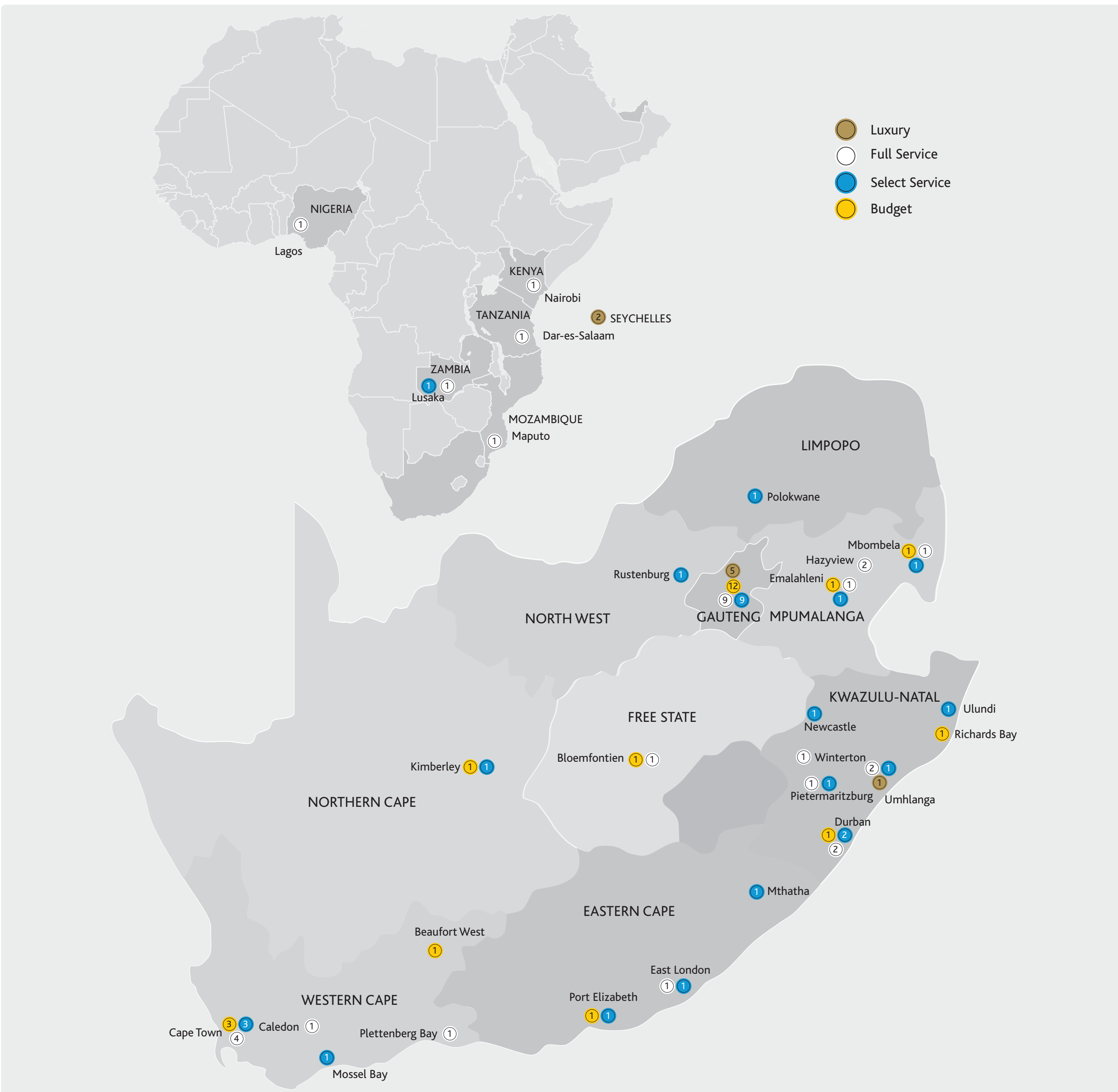


Each luxury hotel offers guests world-class style, unparalleled service and accommodation and signature touches that define luxury travel. The full service hotels offer products and services that meet the needs of tomorrow's savvy global travellers, whether travelling for business or leisure. Our select service hotels delight the self-sufficient traveller with what is needed for a good level of comfort and productivity at great hotels at great rates. Our budget hotels provide easily accessible basic accommodation and can be relied on for a great night's rest at the right price. The group is unique in Africa in providing world-class accommodation across all market segments.

Footprint

	as at 31 March 2014							
	Owned/Leased		Managed		Total		Group revenue contribution %	Ebitdar contribution %
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms		
Luxury	3	410	3	703	6	1 113	1	–
Full Service	22	4 030	5	1 391	27	5 421	10	8
Select Service	20	3 612	7	1 296	27	4 908	7	8
Budget	23	1 690	–	–	23	1 690	2	2
South Africa	68	9 742	15	3 390	83	13 132	20	18
Offshore	7	942	1	130	8	1 072	5	4
Total	**75**	**10 684**	**16**	**3 520**	**91**	**14 204**	**25**	**22**

Note *Post-year end, the group acquired four managed hotels comprising 986 rooms in South Africa and opened the 353-room Southern Sun Abu Dhabi under management contract*



Our business model continued

THE ENVIRONMENT WITHIN WHICH WE OPERATE

Regulatory environment

The South African regulatory environment continues to become more complex with the ongoing introduction of new legislation regulating competition, consumer protection and privacy, among others. Gaming legislation remains the group's primary compliance focus although this regulatory framework is well entrenched and remains relatively stable.

The main regulatory areas of concern are potential amendments to smoking legislation and the amendments to the BBBEE Codes of Good Practice. The total ban on smoking in public places has had a significant short-term impact on gaming win in other countries where it has been implemented, although the impact in South Africa is not expected to be as severe due to the strict smoking restrictions that are already in place. The draft amendments to the BBBEE Codes of Good Practice are important particularly in the context of various gambling boards attempting to impose the achievement of defined levels of empowerment, as measured against the codes, as a licence condition.

The gaming industry in South Africa is highly regulated, both at national and provincial level, and thus has, unlike the hotel industry, high barriers to entry. The National Gambling Act sets the broad framework for the licensing and regulation of gambling in South Africa, but each province has its own legislation relating to casinos, gambling and wagering. The National Gambling Act limits the number of casino licences that may be granted to 40 for South Africa as a whole. The table below sets out details in respect of the number of casino licences in South Africa which are authorised to be issued, have been issued and are available to be issued:

Province	Authorised to be issued	Issued	Available
Gauteng	7	7	–
Eastern Cape	5	4	1
Western Cape	5	5[1]	–
Mpumalanga	4	3	1
Limpopo	3	3	–[2]
Northern Cape	3	3	–[2]
Free State	4	4	1[3]
North West	4	4	–
KwaZulu-Natal	5	5	–
Total	**40**	**38**	**3**

Notes

[1] *The Western Cape provincial government is considering the relocation of an existing Western Cape casino licence to the Cape Metropole*

[2] *The third casino is yet to be built*

[3] *One of the existing licences will lapse upon the issue of the one available licence*

The recent approval by the Gauteng Gambling Board of Sun International's application to relocate its Maroela licence to Menlyn in Pretoria potentially increases the risk of the relocation of other casino licences.

With the exception of the group's Eastern Cape-based licences, its casino licences are issued for an indefinite period, subject to payment to the relevant provincial board or provincial fund of the applicable annual licence fees.

Economic environment

Disposable income growth, significant middle-class growth, developed infrastructure and an operating environment conducive to business have been long-term structural drivers of growth in South Africa and have increased the consumer base and spending power of the population. Between 2002 and 2012, annual disposable income in South Africa more than quadrupled from R673 billion to R3 035 billion, while the South African population grew by 7 million people to a total of 52.5 million. Since 2004, 14 million South Africans have entered LSM 5 to 10. In 2004, 49% of the economically active population between ages 15 and 64 were in LSM 5 to 10. In 2013, that percentage increased to 78%, with LSM 8 to 10 growing from 16% of the 2004 population to 25% of the 2013 population.

Global economic conditions remain weak although they appear to be improving and sentiment-driven shocks continue to fuel volatility. The uncertainty impacts global fund flows to emerging markets which, exacerbated by lower commodity prices and South African-specific social and economic issues, particularly in the mining sector, have resulted in significant Rand weakness. The Rand weakness has the dual impact of driving local inflation and exerting upward pressures on interest rates, which would reduce economic growth. Business confidence remains low with household debt at a high level and unsecured lending defaults continuing.

The underlying operations of the group remain highly geared towards the South African consumer (in gaming) and the corporate market (in hotels). The impact on the group, however, has manifested in significant monthly trading volatility with growth for the second half of the year relatively weak. The weakening of the Rand mainly impacts on the capital cost of gaming machines and on the translation of the income statement of the hotels outside South Africa. We do not believe that the increased unsecured lending has driven growth in the gambling industry as it remains entertainment spend from upper/middle-income consumers, with the main beneficiary of the easy credit being retail sales, mainly clothes and furniture in lower-income segments. The factors noted above mainly impact on the group indirectly due to their impact on the consumer and corporate markets.

Industry

Gaming

A formalised gaming industry has existed in South Africa since it was partially legalised in the independent homelands during the 1970s. Following the introduction of the current regulatory framework in South Africa during the late 1990s, the industry has been formalised and operates in line with global best practice. The formalisation of the industry has provided substantial benefits to the country through the collection of taxes, the development of gaming and entertainment complexes, hotels and tourism infrastructure, and the creation of employment.

The casino market reflected double-digit growth until 2008 when the impact of the global recession slowed growth. The industry proved to be resilient and although growth slowed to low single digits it never went significantly negative. Growth from 2010 has been approximately in line with inflation and is expected to accelerate when economic conditions improve.

The South African formal gaming market is made up of casinos, the national lottery, sports betting, limited payout machines and bingo, and generates annual revenues of approximately R21 billion. Casino gaming accounts for in excess of 70% of the gaming market and Tsogo Sun has a market share of 47% in the six provinces in which it operates. As a result of their geographic distribution, casinos in South Africa mainly compete with providers of other leisure and entertainment activities for patronage, such as shopping centres, restaurants and sporting and concert venues, rather than with other casinos. The group has a significant presence in each of South Africa's largest casino markets. The table below sets out the group's estimate of its share of the total casino gaming win per province:

	For the year ended 31 March 2014	
	Total casino gaming win Rm	Group share of total casino gaming win %
Gauteng	6 907	53
KwaZulu-Natal	3 073	59
Western Cape	2 527	16
Eastern Cape	1 171	24
Mpumalanga	729	81
Free State	475	28
Other	1 618	–
Total	**16 499**	**42**

On 12 May 2014, the group entered into agreements to acquire a 40% interest in each of SunWest International Proprietary Limited and Worcester Casino Proprietary Limited for an aggregate consideration of R2 185 million, which acquisition remains subject to regulatory approvals. The completion of the acquisition will increase the group's share in the Western Cape market to approximately 50%.

Online gaming remains illegal in South Africa and there is no indication as to when enabling legislation will be implemented. There was no discernible impact from the banning of online gaming and it is not considered a significant risk. Limited payout machines and bingo are showing stronger growth as they are rolled out by province and to date appear to have had little impact on casinos as they are targeted at a different segment of the market. What would be of concern to the casino market is if the roll out was on an uncontrolled basis and resulted in a proliferation of large sites, particularly if the maximum bet and maximum payout limits were substantially increased.

Hotels

Following the first democratic elections in 1994 the demand for hotel rooms grew rapidly and rooms sold by the group grew by more than 6% per annum between 1994 and 1999. The market responded to the increased demand through the construction of new hotels although demand growth continued to exceed the growth in supply until 2008 and occupancies and average room rates continued to rise. During 2008, the impact of the global recession constrained demand but construction of new hotels continued until the FIFA World Cup in 2010 as the projects were already in progress. Market occupancies fell from 72% in 2007 to 53% in 2011 due to the combination of constrained demand and the increased supply and average room rate growth. Demand continues to grow, and with little growth in hotel supply, market occupancies have been recovering since 2011 and are now above 60%. We anticipate that demand will continue to grow and that additional supply will again be added to the market when market occupancies approach 70%.

Tsogo Sun hotels has a strong presence throughout South Africa and has a broad portfolio of hotels, particularly in urban centres. Of the approximately 150 000 hotel, bed and breakfast and guesthouse rooms available in South Africa, the formal hotels contributing statistics to STR Global make up approximately 30% of the total market, with 40 750 rooms available as at 31 March 2014. The group's share of this market is approximately 30% and the group thus benefits from a significant presence in the South African hospitality industry and is the only hotel group in South Africa with wide distribution across all grading levels.

Our business model continued

Trading in the majority of the African cities where Tsogo Sun hotels operates outside South Africa remained remarkably resilient through the economic downturn mainly due to limited supply of good hotels. The markets are, however, significantly smaller and the addition of a new hotel has a more significant impact on the market. It remains challenging and expensive to acquire land and build hotels in many countries in Africa which constrains supply. However, many of the countries are experiencing strong economic growth which will drive the demand for and supply of new hotels.

Technology

The use of technology is important in both the gaming and hotel businesses to deliver relevant experiences to customers and to drive business efficiencies. Key technology areas are gaming and hotel property management systems to enable the business, customer relationship management to provide relevant benefits and rewards to customers, business intelligence to drive efficiencies and digital platforms to interact with and provide connectivity to customers.

Technology trends are as follows:

- online booking volumes of hotel rooms continue to increase although they remain below international norms in South Africa;
- customer relationship management is increasingly important in encouraging customer loyalty, particularly due to potential gaming advertising restrictions and the Consumer Protection Act;
- the increased utilisation of mobile devices makes a mobile-friendly website an imperative;
- social networking impacts on marketing channels and requires transparent and realistic responses to issues;
- the importance of data security is increasing due to increased connectivity and POPI; and
- free broadband wireless access has become the norm.

Consumer preferences

In order for gaming and hotel businesses to deliver quality experiences, facilities and services must be relevant to what customers want and are prepared to pay for. Consumer preferences range from the technology preferences noted above to the look and feel of the physical product, the location of buildings, concepts of restaurants and bar offerings, types of entertainment and travel patterns.

Public recognition of brands and their associated reputation are important in attracting and retaining customers.

Societal issues

The weak economic environment, along with political factors, has fuelled labour unrest and disruption in a number of industries in South Africa. The disruption continues to discourage investment and impacts on the high unemployment level and low growth rate in the country. The impact on the gaming and hotel businesses in the markets in which the group operates is limited due to the high level of employee engagement and the location of the majority of the properties in urban areas. The group is, however, indirectly impacted through the effect on the economy.

The gaming industry is exposed to anti-gaming sentiment, which increases the risks of excessive taxation and regulation. The reality, however, is that the issues such as problem gambling are well managed and are substantially exceeded by the benefits in the highly regulated industry through significant tax contributions, infrastructure development, creation of employment, wealth distribution to black economically empowered businesses and PDI shareholders and social investment in the communities that are served. The negative impacts of casino gaming is also less of a societal issue than the other forms of gaming due to the ease of access and lower economic target markets of sports betting, LPMs, bingo and in particular the national lottery.

Environmental issues

The gaming and hotel businesses pose limited risks to the environment due to the service nature of the industry. In particular, Tsogo Sun operates predominantly in urban areas, which further reduces the biodiversity impact. The main environmental impacts are through the consumption of energy and water, the production of waste and travel to our properties.

Although customer choices are not yet significantly impacted by environmental performance, behavioural changes are being driven by social responsibility. The greater challenges to the industry currently are the rising utility costs and uncertainty of the future supply of energy and particularly of water.

Our risk management and materiality

Risk management process

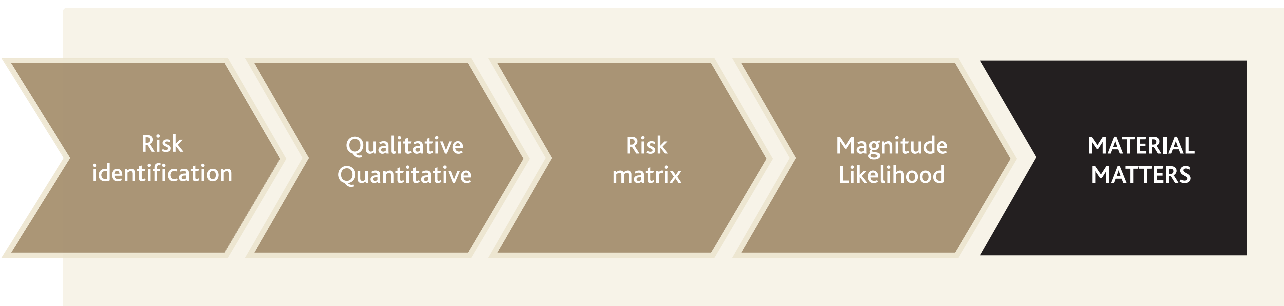
The Tsogo Sun board recognises that the management of business risk is crucial to our continued growth and success and this can only be achieved if all three elements of risk – namely threat, uncertainty and opportunity – are recognised and managed in an integrated fashion.

The audit and risk committee is mandated by the board to establish, coordinate and drive the risk process throughout the group. It has overseen the establishment of a comprehensive risk management system to identify and manage significant risks in the operational divisions, business units and subsidiaries. Internal financial and other controls ensure a focus on critical risk areas, are closely monitored and are subject to management oversight and internal audit reviews.

The systems of internal control are designed to manage rather than eliminate risk, and provide reasonable but not absolute assurance as to the integrity and reliability of the financial statements, the compliance with statutory laws and regulations, and to safeguard and maintain accountability of the group's assets. The board and executive management acknowledge that an integrated approach to the total process of assurance will improve the assurance coverage and quality in addition to being more cost-effective and to this end a combined assurance framework is being finalised.

In addition to the risk management processes embedded within the group, the group executive committee identifies, quantifies and evaluates the group's risks twice a year utilising a facilitated risk assessment workshop. The severity of risks is measured in qualitative as well as quantitative terms, guided by the board's risk tolerance and risk appetite measures. The scope of the risk assessment includes risks that impact on shareholder value or that may lead to a significant loss, or loss of opportunity. Appropriate risk responses to each individual risk are designed, implemented and monitored.

The risk profiles, with the risk responses, are reviewed by the audit and risk committee at least once every six months. In addition to the group risk assessment, risk matrices are prepared and presented to the audit and risk committee for each operational division. This methodology ensures that identified risks and opportunities are prioritised according to the potential impact on the group and cost-effective responses are designed and implemented to counter the effects of risks and take advantage of opportunities.



Determination of materiality

The matters included in our integrated annual report are principally aimed at providers of financial capital in order to support their financial capital allocation assessments. The interests of the providers of financial capital are, however, largely aligned with other key stakeholders in that they also are focused on the creation of value in the long term.

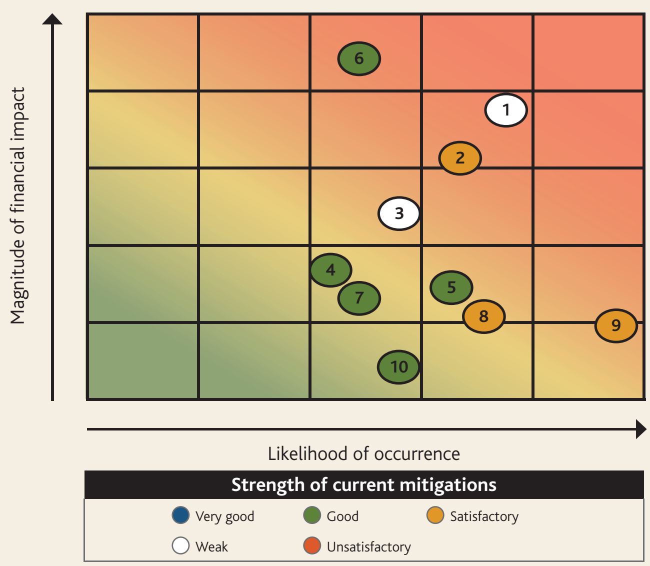
In determining which matters are material for disclosure in our integrated annual report we have considered whether the matter substantively affects, or has the potential to substantively affect, our strategy, our business model, or the forms of capital we utilise and ultimately our ability to create value over time.

The assessment of the magnitude of the impact and the likelihood of the occurrence of the group's top risks informed the identification and prioritisation of the material matters for inclusion in the integrated annual report. The matters identified were compared with those being reported on by organisations in the same or similar industries to ensure that relevant matters have not been excluded from the report.

Our material risks and opportunities

The risk matrix reflecting the assessment of the magnitude of the impact and the likelihood of the occurrence of the group's top risks is as follows:

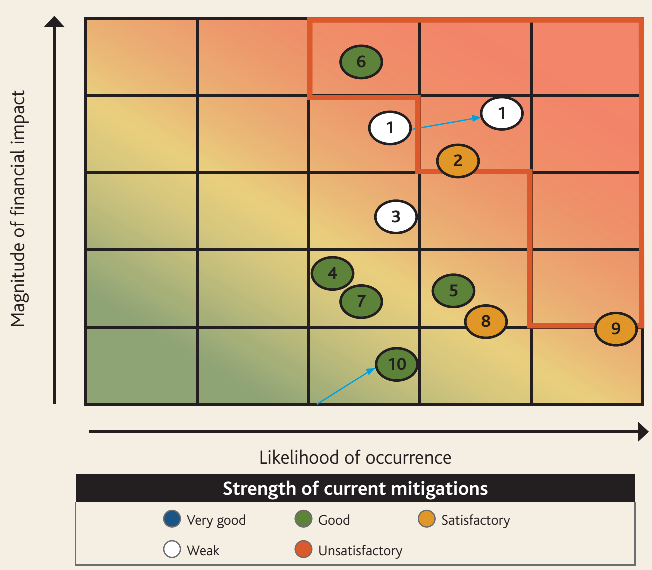
Tsogo Sun group risk landscapes as at March 2014



Top risk scenarios	
1	✤ Macro-economic environment
2	✤ Regulatory change and compliance
3	✤ Adverse tax environment
4	✤ Portfolio management and product relevance
5	✤ Capacity issues
6	✤ Missed opportunities
7	✤ Human resources
8	✤ Unreliable and costly utilities
9	✤ Crime and security
10	✤ Cyber, IT and information management

The movement in the top risks over the year is as follows:

Tsogo Sun group risk landscapes movement from March 2013 to March 2014



Top risk scenarios	
1	✤ Macro-economic environment
2	✤ Regulatory change and compliance
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4	✤ Portfolio management and product relevance
5	✤ Capacity issues
6	✤ Missed opportunities
7	✤ Human resources
8	✤ Unreliable and costly utilities
9	✤ Crime and security
10	✤ Cyber, IT and information management

Our material risks and opportunities continued

The principal risks and opportunities facing the group and considered by the board are detailed below:

Principal risk landscapes	Specific risks we face	Potential impact
Macro-economic environment	✤ Reduced gaming spend ✤ Reduction in travel spend ✤ Growth negatively affected by macro-economic factors ✤ Concentration of operations in South Africa	✤ Lower revenue growth and profitability
Regulatory change and compliance	✤ Additional casino licences or relocation of existing casino licences ✤ Changes in casino licensing conditions ✤ Loss of casino licences ✤ Changes in labour legislation ✤ Not meeting changing BBBEE requirements ✤ Increased complexity of compliance, eg POPI and CPA ✤ Smoking legislation ✤ Advertising restrictions	✤ Lower revenue, higher costs and reduced profitability
Adverse tax environment	✤ Potential increased national and provincial gaming taxes ✤ Increased rates and property taxes ✤ Possible VAT increases	✤ Reduced profitability ✤ Uncertain operating environment resulting in frozen investment spend
Portfolio management	✤ Nodal shifts ✤ Product relevance in target markets ✤ Customers choose other leisure options	✤ Reduced income and profitability ✤ Obsolete hotel stock ✤ Reduced footfall and customers
Capacity issues	✤ Fixed cost nature of the business ✤ Casino capacity constraints ✤ Hotels oversupply in certain markets	✤ Lower revenue growth and profitability
Missed opportunities	✤ New gaming opportunities ✤ Hotels opportunities, local and offshore ✤ Investments in expansion not yielding expected returns ✤ Ineffective integration of acquired businesses	✤ Lower revenue growth and profitability ✤ Missed revenue opportunities ✤ Wasted investment
Human resources	✤ Employment equity challenges at senior levels ✤ Lifestyle diseases, including HIV/Aids, hypertension and diabetes ✤ Unrealistic expectations, social pressure and/or unresolved industrial relations issues leading to violent strikes and unrest ✤ Limited pool of qualified, trained and talented staff	✤ Failure to meet BBBEE targets ✤ Reduced customer satisfaction, disruption to operations and reduced profitability ✤ Work stoppages, reduced profitability and reputational impacts
Unreliable and costly utilities	✤ Unreliable water supplies ✤ Unreliable electrical supply ✤ Rise in electricity and water costs	✤ Disruption to operations and reduced profitability
Crime and security	✤ Casino and hotel robberies ✤ Follow home robberies ✤ Fraud by employees ✤ Fraud from external sources	✤ Lower revenue and profitability ✤ Reputational risk
Cyber, IT and information management	✤ Hacking, Payment Card Industry Data Security Standards and hacktevism ✤ POPI legislation ✤ Sub-optimal online transacting	✤ Reputational risk ✤ Fines and penalties ✤ Reduced income and profitability

Risk responses	Associated strategic priorities
✤ Revised strategic priorities ✤ Review organisational structures ✤ Further focus on cost reduction ✤ Renewed and focused marketing ✤ Reward programmes	✤ Sustainability – Financial strength and durability ✤ Growth – Organic growth
✤ Engage authorities, including gambling boards ✤ Submit comments to law makers through formal comment structures ✤ Robust compliance procedures ✤ Engage law makers through employer and industry bodies ✤ Litigate where required	✤ Sustainability – Deliver to our stakeholders ✤ Sustainability – Regulatory compliance
✤ Lobby government through CASA ✤ Educate legislators regarding gaming impact through direct lobbying ✤ Lodge of appeals on assessments and property valuations ✤ Ensure property values are always accurate and at the disposal of municipalities	✤ Sustainability – Regulatory compliance ✤ Growth – Organic growth
✤ Overview of markets ✤ Interaction with local authorities ✤ Investment in facilities to ensure relevance ✤ Market research to timeously spot trends ✤ Partnerships with other leisure suppliers	✤ Sustainability – Financial strength and durability ✤ Sustainability – Product relevance to customer experience ✤ Growth – Organic growth
✤ Review organisational structures ✤ Further focus on cost reduction ✤ Interaction with gambling boards and city officials ✤ Renewed focus on reward programmes	✤ Growth – Organic growth
✤ Proper and robust evaluation of all new opportunities ✤ Non-financial due diligence of opportunities ✤ Review of plans and opportunities	✤ Sustainability – Financial strength and durability ✤ Growth – Organic growth
✤ Retention of staff through appropriate remuneration structures ✤ Engage with and empower staff ✤ Fast track and develop talented staff ✤ Performance-driven culture ✤ Focused employment equity strategy	✤ Sustainability – Human resources ✤ Growth – Organic growth
✤ Demand-side management programmes to reduce consumption ✤ Water handling/storage capacity for emergency supply ✤ Self-reliance on generators for emergency electricity supply	✤ Sustainability – Product relevance to customer experience ✤ Growth – Organic growth
✤ Physical security and surveillance procedures ✤ Coordination with the South African Police Service ✤ Crime intelligence ✤ Internal control frameworks ✤ Internal audit procedures	✤ Sustainability – Regulatory compliance
✤ IT security ✤ Payment card industry standard compliance ✤ Appointment of Information Officer ✤ Review of online transaction opportunities ✤ Increased IT auditing and assurance	✤ Sustainability – Regulatory compliance ✤ Growth – Organic growth

Our key relationships

We create value through our relationships with our stakeholders. Building trust, mutual respect and credibility with our stakeholders is vital to our long-term sustainability.

All interactions with our stakeholders are based on our values which guide our behaviour ensuring our stakeholders know what to expect from us. We have taken our stakeholders' views into account in formulating our strategic priorities. We welcome any feedback at **investors@tsogosun.com**

An overview of our key stakeholder groups, their interests and concerns and how we engage with them is provided in the table below.

Stakeholder group	Why it is important for us to engage
Investors and funding institutions	*Investors and funding institutions are the providers of capital necessary for our growth and we need transparent communication and to understand potential concerns*
Government and regulatory bodies	*Government provides us with our licence to trade and the enabling regulatory framework within which to operate and we need to ensure compliance and understand the broader economic, social and environmental issues*
Customers	*We need to understand our customers' needs, perceptions and behaviours in order to deliver experiences relevant to them thereby enhancing our brands and driving revenue*
Communities	*Engagement assists us to focus our efforts in empowering local communities which contributes to our long-term viability*
Employees and unions	*Our employees are core to delivering our customer experiences and we need to understand their needs, challenges and aspirations and for them to be aligned with our strategy*
Suppliers and business partners	*Our suppliers and business partners enable us to deliver consistent customer experiences*

How we engage with our stakeholders	Our stakeholders' key interests and concerns	Link to strategy
✤ JSE news services ✤ Media releases and published results ✤ Integrated annual reports ✤ Annual General Meetings ✤ Dedicated analyst and investor presentations ✤ One-on-one meetings ✤ Online investor portal	✤ Sustainable growth and returns on investment ✤ Dividends ✤ Risks and opportunities of expansion ✤ Transparent executive remuneration ✤ Corporate governance and ethics ✤ Liquidity and gearing	Financial strength and durability 47 Organic growth 57 Inorganic growth 60
✤ Establish constructive relationships ✤ Comment on developments in legislation ✤ Participate in forums ✤ Written responses in consultation processes ✤ Presentations and feedback sessions ✤ Regulatory surveillance, reporting and interaction ✤ Membership of industry bodies, eg CASA, Fedhasa, BLSA, etc	✤ Taxation revenues ✤ Compliance with legislation ✤ Compliance with licence conditions ✤ Job creation ✤ Investment in public and tourism infrastructure ✤ Investment in disadvantaged communities ✤ Advancing transformation ✤ Social impacts ✤ Reduction in energy and water consumption	Deliver to our stakeholders 39 Regulatory compliance 52 Human resources 53
✤ Satisfaction surveys ✤ Reward programmes ✤ Customer relationship managers ✤ Call centres ✤ Website and active Twitter and Facebook engagement ✤ One-on-one interaction	✤ Quality product ✤ Consistent quality experience ✤ Simpler and quicker to deal with us ✤ Value offerings ✤ Long-term security of supply	Product relevance to customer experience 48
✤ Events and sponsorships ✤ Media channels ✤ Corporate social investment initiatives ✤ National Responsible Gaming Programme	✤ Investment in disadvantaged communities ✤ Employment opportunities ✤ Sponsorships ✤ Responsible gaming	Deliver to our stakeholders 39
✤ Communication from executives ✤ Intranet and internal newsletters and posters ✤ Induction programmes ✤ Ongoing training and education ✤ Employee surveys ✤ Performance management programmes ✤ Anti-fraud, ethics and corruption hotline ✤ Trade union representative meetings ✤ Staff engagement programmes	✤ Job security ✤ Engagement ✤ Performance management ✤ Clear understanding of reward structures ✤ Health and safety performance ✤ Access to HIV counselling and wellness programmes ✤ Career planning and skills development ✤ Preferred employer	Human resources 53
✤ One-on-one meetings ✤ Tender and procurement processes ✤ Anti-fraud, ethics and corruption hotline ✤ Supplier forums	✤ Timely payment and favourable terms ✤ Fair treatment ✤ Broad-based black economic empowerment compliance	Deliver to our stakeholders 39

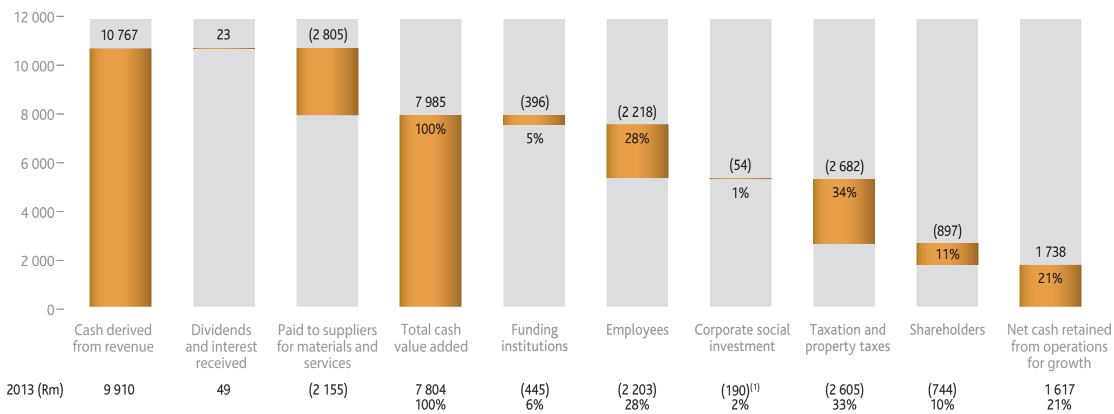
Our key relationships continued

In addition to providing exceptional experiences to our customers, the group generates direct and indirect financial benefits for our stakeholders including:

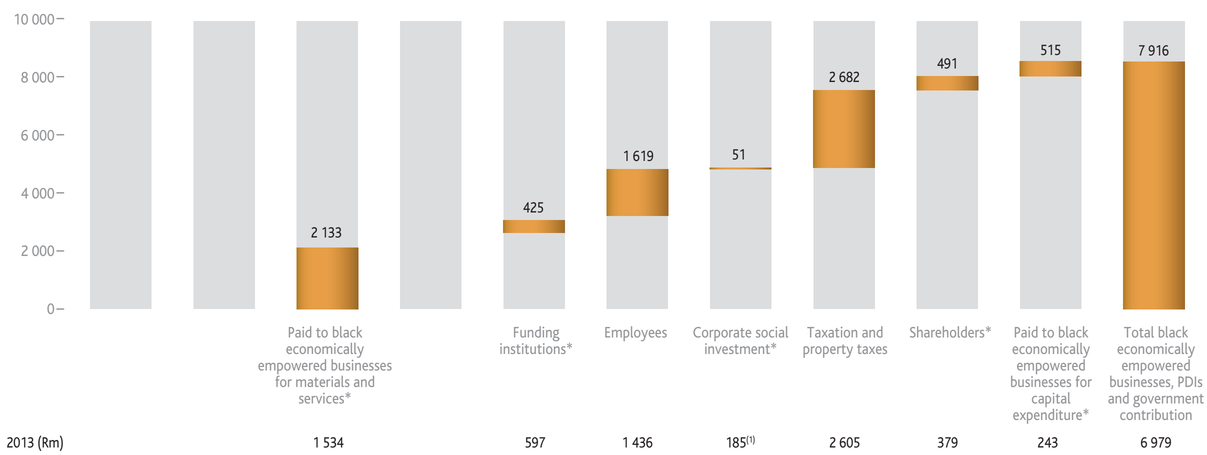
- returns for our shareholders and funding institutions;
- substantial income tax, dividends taxes, gaming levies and VAT, employees' tax and property rates and taxes to national and provincial government;
- corporate social investment within the communities we serve;
- employment within the communities we serve;
- sustainable business for our national and local business partners and suppliers which creates wealth and additional employment; and
- continuous investment to maintain and expand our portfolio of properties.

A substantial portion of the value added wealth generated by the group is spent with/distributed to black economically empowered businesses, PDIs and government. The value added by the group and the contribution to black economically empowered businesses, PDIs and government is as follows:

Value added for the year ended 31 March 2014 (Rm)



Value added to black economically empowered businesses, PDIs and government for the year ended 31 March 2014 (Rm)



As per the Department of Trade and Industry generic code

(1) *Including the R150 million paid to the Gauteng Gambling Board to be allocated to charitable or socio-economic infrastructure projects*