CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 2018

Income R7.7 billion ⬆ **21%**

Ebitdar R2.5 billion ⬆ **14%**

Adjusted HEPS **78.8 cents unchanged**

Interim dividend per share **132 cents**

TSOGO SUN

Tsogo Sun Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 1989/002108/06)
Share code: TSH ISIN: ZAE000156238
("Tsogo Sun" or "the company" or "the group")

www.tsogosun.com

Commentary

REVIEW OF OPERATIONS

Trading during the first half of the financial year was impacted by the continued pressure on the consumer due to the macro-economic environment. The improved sentiment arising from the positive political developments has not yet translated into a significant improvement in trading, although casino gaming win showed good growth during August and September on the prior period. The trading results were positively impacted by the acquisition of Niveus Invest 19 Limited ("Gameco") comprising the Galaxy Bingo and Vukani Slots businesses on 20 November 2017. In the low-revenue growth environment cost control remained a significant focus during the period.

In terms of the group's continued growth strategy R1.2 billion was spent during the period, including:

- the continued construction on the R1.6 billion expansion and refurbishment of the Suncoast Casino and Entertainment World. The project includes past spend with the Salon Privé having opened in August 2018 and the remainder of the project scheduled to open in December 2018. R519 million was spent during the period;
- the development of a US$16 million 125 room StayEasy in Maputo, Mozambique, which opened during April 2018. R52 million was spent during the period;
- gaming machine related expenditure for site expansion in Vukani of R46 million; and
- the group invested R512 million on replacement capex group-wide, including major hotel refurbishments, ensuring our assets remain best in class.

Total income for the six months of R7.7 billion ended 21% above the prior period with a 34% growth in gaming win including the impact of Galaxy and Vukani, a 3% growth in hotel rooms revenue and a 6% growth in food and beverage revenue, offset by a 9% reduction in property rental income.

Earnings before interest, income tax, depreciation, amortisation, property rentals, long-term incentives and exceptional items ("Ebitdar") of R2.5 billion ended 14% up on the prior period for the six months. The overall group Ebitdar margin of 32.5% is 1.9 percentage points ("pp") down on the prior period, of which 0.4pp relates to the increase in the VAT rate from 14% to 15% on 1 April 2018.

Total income for the six months, excluding the impact of Galaxy and Vukani, was 2% up on the prior period with Ebitdar 1% down on the prior period. The impact of the slow income growth was mitigated by good control on overheads.

The underlying operations of the group remain highly geared towards the South African consumer (in gaming) and the corporate market (in hotels). The high level of operational gearing still presents significant growth potential to the group should these sectors of the South African economy improve.

Casino gaming win for the six months increased by 3% on the prior period with slots win unchanged including a 5% increase in handle, offset by a reduction in win percentage, and an increase in tables win by 11% including an increase in both drop and win percentage.

Gauteng recorded growth in provincial gaming win of 6.2% for the six months. Gaming win growth was achieved at Montecasino of 6.3% and at Silverstar of 5.8% with a reduction at Gold Reef City of 1.8%. Gold Reef City was impacted by reduced tables drop.

KwaZulu-Natal provincial gaming win is estimated to have grown by 2.3% for the six months. Provincial statistics have not been published by the KZN Gaming and Betting Board since March 2018. Gaming win growth was achieved at Suncoast Casino and Entertainment World of 1.7%, Golden Horse Casino in Pietermaritzburg of 1.9% and Blackrock Casino in Newcastle of 11.4%. Suncoast was impacted by the refurbishment of the main floor during the period.

Mpumalanga provincial gaming win reduced by 1.8% for the six months. Gaming win growth of 3.0% was achieved at The Ridge Casino in Emalahleni with a reduction at Emnotweni Casino in Nelspruit of 7.5% impacted by the weak economic conditions in that area.

The Eastern Cape provincial gaming win reduced by 2.2% for the six months. Hemingways gaming win increased by 1.9% on the prior period.

The Western Cape reported a growth in provincial gaming win of 1.5% for the six months. The Caledon Casino, Hotel and Spa and Garden Route Casino in Mossel Bay reported growth of 1.3% and 6.1% respectively. The Mykonos Casino in Langebaan reported a reduction in gaming win for the period of 1.6%, albeit off strong growth in the prior year.

Goldfields Casino in Welkom in the Free State experienced difficult trading conditions but grew gaming win by 1.9% on the prior period.

Other Gaming division operations consisting of Sandton Convention Centre, head office costs and dividend income reflected a net cost of R77 million, an increase of R16 million on the prior period.

Overall income for the casino gaming division increased 3% on the prior period to R4.5 billion. Ebitdar was flat on the prior period at R1.6 billion at a margin of 35.1%, 0.9pp below the prior period, negatively impacted by the increase in the VAT rate by 0.6pp. The reduction in margin due to the slow growth in net gaming win was mitigated by good control on overheads.

Overall income for the Galaxy and Vukani gaming businesses for the six months was R405 million and R759 million respectively. Ebitdar was R114 million and R210 million respectively at a margin of 28.1% and 27.7% respectively. The Galaxy and Vukani gaming businesses account for 18.2% of the growth in group income and 14.7% of the growth in group Ebitdar for the six months on the prior period.

As at September 2018 Galaxy operated 23 sites including 17 sites with EBTs ("Electronic Bingo Terminals"), three sites with EBTs and LPMs ("Limited Payout Machines"), one Bingo site with a 40 LPM ISO ("Independent Site Operator"), one 40 LPM ISO and one casino (the Grand Oasis Casino in Kuruman acquired during June 2018). Galaxy operated 3 410 EBTs, 200 LPMs, 154 slots and two electronic tables with 14 positions. As at September 2018 Vukani operated 1 139 sites with 6 033 LPMs.

Overall hotel industry occupancies in South Africa have reduced to 60.0% (2017: 62.3%) for the period. Occupancies in Cape Town have remained weak as a result of the impact of the water shortage and additional supply.

Trading for the group's South African hotels for the period recorded system-wide revenue per available room ("RevPar") flat on the prior period due to a 3% increase in average room rates to R1 051 offset by a reduction in occupancies on the prior period to 62.0% (2017: 64.0%).

Overall revenue for the South African hotels division was flat on the prior period at R1.7 billion assisted by the inclusion of the opening of the SunSquare and StayEasy City Bowl hotels on 1 September 2017. Ebitdar decreased by 8% on the prior period to R504 million at a margin of 29.2% (2017: 32.0%).

The Offshore division of hotels achieved total revenue of R306 million which increased 10% on the prior period, impacted by 7% due to the opening of the StayEasy Maputo hotel during April 2018. This was further favourably impacted by the strengthening of the Rand against the US Dollar. Ebitdar (pre-foreign exchange gains/losses) increased by 51% to R71 million. Foreign exchange gains of R3 million (2017: R2 million) were incurred on the translation of offshore monetary items, principally between local country currencies and the US Dollar.

Combined South African and offshore hotel trading statistics, reflecting the Tsogo Sun group-owned hotels and excluding hotels managed on behalf of third parties and those in HPF managed by third parties, are as follows:

For the period ended 30 September	**2018**	2017
Occupancy (%)	**60.6**	62.8
Average room rate (R)	**1 024**	1 000
RevPar (R)	**620**	628
Rooms available ('000)	**2 445**	2 349
Rooms sold ('000)	**1 481**	1 475
Rooms revenue (Rm)	**1 517**	1 475

Operating expenses including gaming levies and VAT and employee costs, but excluding exceptional items and long-term incentives, increased by 24% on the prior period mainly due to non-organic growth in the business as a result of acquisitions and expansions, offset by savings initiatives. Excluding the non-organic growth and foreign exchange gains/losses, operating expenses increased by 3% due to tight overhead control. Non-organic represents all new business operations commencing during the current and prior year.

Property rentals at R169 million are 32% up on the prior period mainly due to the opening of the SunSquare and StayEasy City Bowl hotels on 1 September 2017 and the inclusion of the Gameco businesses.

Amortisation and depreciation at R529 million is 20% up on the prior period due mainly to the capital spend during the current and the prior year and the inclusion of the Galaxy and Vukani businesses.

The long-term incentive credit in the income statement on the cash-settled incentive scheme of R25 million is R24 million below the prior period credit of R49 million and values the liability (including dividend adjustments) by reference to the company's share price which is adjusted for management's best estimate of the appreciation units expected to vest and future performance of the group. A share price of R24.33 was used to value the liability.

Exceptional losses for the six months of R136 million relate mainly to fair value losses on the revaluation of investment properties of R119 million related to the non-Tsogo leased hotels in HPF, restructure costs of R6 million, transaction costs of R32 million, plant and equipment impairments of R3 million and preopening costs of R1 million, offset by interest rate swap and currency swap fair value adjustments of R25 million. Exceptional losses for the prior period of R73 million relate mainly to preopening costs of R21 million, transaction costs of R13 million, restructure costs of R28 million, plant and equipment disposals and impairments and loan impairments of R8 million and interest rate swap fair value adjustments of R3 million.

Net finance costs of R602 million are 5% above the prior period due to the increase in debt to fund the growth strategy.

The share of profit of associates and joint ventures of R25 million reduced by 4% on the prior period mainly due to earnings from International Hotel Properties Limited and RBH Hotel Group Limited, the group's European hotel investments.

The effective tax rate for the six months of 28.5% (2017: 2.6% negative) is impacted by offshore tax rate differentials and non-deductible expenditure such as casino building depreciation, offset by the pre-tax profits attributable to the HPF non-controlling interests due to its real estate investment trust ("REIT") tax status. The effective tax rate for the six months in the prior period was impacted by the release of deferred tax liabilities of R307 million on the disposal of assets to HPF, pre-tax profits attributable to the HPF non-controlling interests due to its real estate investment trust ("REIT") tax status and offshore tax rate differentials, offset by non-deductible expenditure such as casino building depreciation.

Profit attributable to non-controlling interests of R50 million is R28 million lower than the prior period mainly due to lower HPF profits including the share of the R119 million fair value loss on investment property, offset by the inclusion of Galaxy and Vukani.

Group adjusted headline earnings for the six months at R834 million ended 11% up on the prior period. The adjustments include the reversal of the post-tax and non-controlling interest impacts of the exceptional losses and gains noted above. The number of shares in issue increased by 11% on the prior period and the resultant adjusted headline earnings per share is flat on the prior period at 78.8 cents.

Cash generated from operations for the period of R2.4 billion increased 32% on the prior period. Cash flows utilised for investment activities of R1.2 billion consisted mainly of maintenance capital expenditure and the acquisitions and investments described above.

Interest-bearing debt net of cash at 30 September 2018 totalled R13.3 billion, which is R767 million above the 31 March 2018 balance of R12.5 billion, with R957 million paid in dividends to group shareholders in addition to the investment activities during the period.

PROSPECTS

Given the weak state of the South African economy and many of the commodity focused countries in which the group operates, trading is expected to remain under pressure. Growth will depend on how these economies perform going forward, including the impact of changes in commodity prices, and the level of policy certainty that the government is able to achieve. Nevertheless, the group remains highly cash generative and is confident in achieving attractive returns from the growth strategy once the macro-economic environment improves.

The group continues to implement a variety of projects and acquisitions including:

– the potential to bid for the relocation of one of the smaller casinos in the Western Cape to the Cape Metropole remains an opportunity for the group should the provincial authorities allow such a process; and
– the acquisition of additional hotel properties by International Hotel Properties Limited, which currently owns nine hotels in the United Kingdom, is anticipated in the future and the group may apply additional capital in this regard.

The proposed restructuring of the group through the sale of seven casino properties to Hospitality Property Fund Limited did not receive the necessary shareholder support and the transaction has been terminated.

DIVIDEND

The board of directors has declared an interim gross cash dividend from income reserves of 132.0 (one hundred and thirty-two) cents per share for the six months ended 30 September 2018. It has become apparent during recent interactions with our shareholders that they are in favour of increased cash distributions. In light of the pending completion of the group's last major expansion project, being the Suncoast development, and the fact that the group continues to be highly cash generative, a decision has been taken to substantially increase the interim dividend. The group's dividend policy will be reviewed taking into account cash generation and major capital expenditure or investment opportunities. The dividend has been declared in South African currency and is payable to shareholders recorded in the register of the company at close of business on Friday, 7 December 2018. The number of ordinary shares in issue at the date of this declaration is 1 059 189 290 (excluding treasury shares of 88 468 494). The dividend will be subject to a local dividend tax rate of 20%, which will result in a net dividend of 105.6 cents per share to those shareholders who are not exempt from paying dividend tax. The company's tax reference number is 9250039717.

In compliance with the requirements of Strate, the electronic and custody system used by the JSE, the following dates are applicable in 2018:

Last date to trade cum dividend	Tuesday, 4 December
Shares trade ex dividend	Wednesday, 5 December
Record date	Friday, 7 December
Payment date	Monday, 10 December

Share certificates may not be dematerialised or rematerialised during the period Wednesday, 5 December 2018 to Friday, 7 December 2018, both days inclusive. On Monday, 10 December 2018 the cash dividend will be electronically transferred to the bank accounts of all certificated shareholders where this facility is available.

Where electronic fund transfer is not available, cheques dated 10 December 2018 will be posted on that date. Shareholders who have dematerialised their share certificates will have their accounts at their CSDP or broker credited on Monday, 10 December 2018.

SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial period, not otherwise dealt with within the financial statements that would affect the operations or results of the group significantly.

PRESENTATION

Shareholders are advised that a presentation to various analysts and investors which provides additional analysis and information will be available on the group's website at www.tsogosun.com.

J Booysen
Chief Executive Officer
20 November 2018

RB Huddy
Chief Financial Officer

Notes to the condensed unaudited consolidated interim financial statements

for the six months ended 30 September 2018

1 BASIS OF PREPARATION

The condensed unaudited consolidated interim financial statements for the six months ended 30 September 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 *Interim Financial Reporting,* the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council ("FRSC"), the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. Chief Financial Officer, RB Huddy CA(SA), supervised the preparation of these condensed consolidated interim financial statements. The accounting policies are consistent with IFRS as well as those applied in the most recent audited annual financial statements as at 31 March 2018 other than as described in note 2. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with IFRS. This interim report, together with any forward looking information contained in this report, has not been audited or reviewed by the company's auditors.

2 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

New and amended standards adopted by the group

The group has adopted all the new, revised or amended accounting standards as issued by the IASB which were effective for the group from 1 April 2018, the significant accounting standards being:

– IFRS 9 *Financial Instruments*; and
– IFRS 15 *Revenue from Contracts with Customers*.

The adoption of IFRS 9 and IFRS 15 was applied retrospectively without restating comparative figures. There was no material impact identified on the group's financial statements and therefore the group's opening retained income has not been adjusted. The impact of these new standards is discussed below. No other standards had any material impact on the group.

2.1 IFRS 9 *Financial Instruments*

The adoption of IFRS 9 with effect from 1 April 2018 resulted in changes in accounting policies and had no material impact on the group's financial statements.

Classification and measurement

Investments in unlisted equity instruments were previously classified as available-for-sale financial assets. The group has elected to measure these equity instruments at fair value through other comprehensive income ("FVOCI") as these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of R1.275 billion were reclassified from available-for-sale financial assets to financial assets at FVOCI and the fair value reserve of R9 million was reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 April 2018. These reclassifications have no impact on the measurement of these assets.

The majority of financial assets held by the group include debt instruments being loan receivables and trade and other receivables which continue to qualify for measurement at amortised cost under IFRS 9 because they are held to collect contractual cash flows comprising principal and interest, therefore there is no change to the accounting for these assets, together with cash and cash equivalents.

There was no impact on the group's retained earnings due to classification and measurement of equity instruments and trade and other receivables as at 1 April 2018. The main effects of this reclassification are as follows:

Balance sheet extract	31 March 2018 as previously reported Rm	IFRS 9 Rm	**1 April 2018 under IFRS 9 Rm**
Non-current assets			
Available-for-sale financial assets	1 275	(1 275)	**–**
Financial assets at FVOCI	–	1 275	**1 275**
Other reserves extract			
Other reserves			
Available-for-sale investments fair value reserve	(9)	9	**–**
Financial assets at FVOCI reserve	–	(9)	**(9)**

Hedge accounting

The new hedge accounting rules align the accounting for hedging instruments more closely with the group's risk management practices and the group's interest rate swaps in place at 31 March 2018 continue to qualify as cash flow hedges upon the adoption of IFRS 9, having no impact on the group's previously reported financial statements.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39. The group has elected to apply the IFRS 9 simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for trade receivables measured at amortised cost. The balance of the group's financial assets measured at amortised cost are loan receivables and cash and cash equivalents to which the general model is applied. The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets and no material impact was identified.

2.2 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The group adopted IFRS 15 from 1 April 2018 which resulted in changes in accounting policies. Under IAS 18, revenue was recognised at a point in time given the nature of the services provided and under IFRS 15 revenue will continue to be recognised at a point in time, therefore the adoption of IFRS 15 does not have a material effect on the group's revenue recognition and no change has been made to the group's opening retained income.

3 STANDARDS ISSUED NOT YET EFFECTIVE

IFRS 16 *Leases* must be applied for financial years commencing on or after 1 January 2019 and the group will apply the new standard from 1 April 2019. The group has completed an initial assessment of the potential impact on its financial statements but has as yet not completed its detailed assessment. Thus far, the standard will affect the way the group accounts for its operating leases being mostly the Sandton Convention Centre and some hotel property leases, where the group is the lessee. At 30 September 2018, the group's outstanding commitments under non-cancellable operating lease agreements amounted to R2 558 million, on an undiscounted basis.

The group will apply the practical expedient per IFRS 16 C3 in that the IFRS 16 definition of a lease would only be applied to assess whether contracts entered into after the date of initial application (1 April 2019) are, or contain leases. All contracts previously assessed not to contain leases will not be reassessed. The group will also apply the recognition exemptions for short-term leases (a lease that, at the commencement date, has a lease term of 12 months or less) and leases of low-value items (mainly small items of office equipment and furniture).

4 FAIR VALUE ESTIMATION

The group fair values its investment properties, FVOCI investments and its interest rate swaps. There were no transfers into or out of level 3 financial instruments, other than as shown below.

4.1 Investment properties

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

	30 September 2018 Unaudited Rm	31 March 2018 Audited Rm
Opening net carrying amount	**5 255**	4 969
Acquisition and development of investment properties	**108**	471
Fair value adjustments recognised in profit or loss	**(119)**	(191)
Transfer of owner-occupied property	**416**	–
Acquisition of subsidiary	**–**	6
Closing net carrying amount	**5 660**	5 255

The group's investment properties have been categorised as level 3 values based on the inputs to the valuation technique used. The group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which is added premiums for market risk and equity and debt costs. The discount rate takes into account a risk premium associated with the local economy as well as that specific to the local property market and the hotel industry.

Subsequent to 31 March 2018, valuation adjustments have been made to The Westin and the Protea Hotel Victoria Junction in Cape Town, and the Birchwood Hotel and Conference Centre in Gauteng. The change in the rental income has been largely due to the change in sentiment towards Cape Town stemming from the drought and the impact this had on the summer season in Cape Town, as well as the lower domestic corporate business travelling into 2018. While the trading is expected to recover in 2019 to return to previous levels, the operating margins at these hotels is expected to lag previous levels. The change in the valuation of Birchwood has been as a result of a restructuring of the business that has led to an improvement of the operating margin and is further supported by product improvements to the food and beverage offering as well as a refurbishment of bedrooms.

During the period under review, owner-occupied property was transferred from property, plant and equipment to investment properties and, in accordance with IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*, the property was revalued through other comprehensive income ("OCI") to fair value before being transferred as shown in the statement of other comprehensive income.

4.2 Financial asset at FVOCI

During the 2017 financial year, aligned with the group's desire to increase its exposure in the Western Cape province, the group entered into a transaction with Sun International Limited ("SI") and Grand Parade Investments Limited ("GPI") for the acquisition of a 20% equity interest in each of SunWest International Proprietary Limited ("SunWest") and Worcester Casino Proprietary Limited ("Worcester"). The group has pre-emptive rights but no representation on the board of directors of either company and has no operational responsibilities. The group also has no access to any information regarding the companies except for that to which it has statutory rights as a shareholder. These investments are classified as level 3 fair value measurements and have been accounted for as financial assets at FVOCI.

At the end of each reporting period the non-current asset is remeasured and the increase or decrease recognised in OCI. A discounted cash flow valuation was used to estimate the fair value and no adjustment to the carrying amount was required. The valuation model considers the present value of net cash flows to be generated from SunWest and Worcester, together with its operating capital expenditure taking into account expected growth in gaming win and other revenue generated from non-gaming related activities. The expected net cash flows are discounted using a risk-adjusted discount rate. Among other factors, the discount rate estimation considers risks associated with the gaming and hospitality industry in which SunWest and Worcester operates.

4.3 SI put option

In terms of the acquisition agreement of the SunWest and Worcester interests mentioned above, in the event that any party acquires 35% or more of the issued ordinary shares of SI triggering a change in control of the SI group, the group may elect to put its equity interests in SunWest and Worcester to SI. SI can elect to either settle the put by the issue of new ordinary shares in SI and/or for a cash consideration, based on the aggregate value of Tsogo Sun's interest in SunWest and Worcester. At the end of each reporting period the derivative is remeasured and the increase or decrease recognised in the income statement. The derivative is calculated in accordance with the terms of the put option agreement, effectively a 7.5 times Ebitda multiple valuation of the SunWest and Worcester assets, less net debt, times the 20% shareholding the group holds. No derivative has been recognised as the fair value of the option is Rnil at 30 September 2018 (31 March 2018: Rnil).

4.4 Interest rate swaps

The fair value of the group's derivatives used for hedge accounting is a net liability of R12 million (31 March 2018: net liability of R135 million) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year.

The group has interest rate swaps that are effective with a fair value net liability of R28 million (31 March 2018: liability of R133 million), as well as interest rate swaps from HPF that are not effective with a net asset of R16 million (31 March 2018: liability of R2 million) being level 2 fair value measurements.

5 BUSINESS COMBINATIONS

Acquisition of intellectual property rights to the Golden Island Casino Limited pay-out machines

Vukani concluded agreements with TAB-Austria ("TAB") to acquire the intellectual property rights to the Golden Island Casino Limited pay-out machines for Africa, which include the processes, formulae, methods and information controlled and owned by TAB, currently being manufactured by TAB. The effective date was 21 September 2018.

The acquired business ensures business continuation in the event that TAB is no longer in a position to manufacture and maintain such LPM's for whatever reason. The provisional fair value of the net asset acquired is equal to the fair value of the consideration paid at the date of acquisition. The intangible asset having been identified on this acquisition consisting of the intellectual property has been accounted for in line with the group's accounting policies, the provisional fair value of the asset acquired was obtained by applying a valuation technique performed on a discounted cash flow basis. The acquired business contributed no revenue nor earnings to the group for the period to 30 September 2018, the calculation excluding the funding impact of the acquisition and using the group's accounting policies. The provisional fair value of net assets acquired is as follows:

	Rm
Other intangible assets – intellectual property	**49**
Total identifiable net assets acquired	**49**
Deferred cash purchase consideration	**(36)**
Cash outflow on acquisition of business – investing activities	**13**

No provisional goodwill arose on the acquisition.

6 COMMON CONTROL ACQUISITION

Acquisition of Kuruman from Niveus Investments Limited ("Niveus")

As part of the common control acquisition of certain gaming businesses from Niveus as reported during the prior year, the group paid an amount of R95 million for the purchase of Niveus Invest 1, which owns the Grand Oasis Casino "Kuruman" from Niveus, which required the approvals by the Northern Cape Gambling Board. As these approvals had not been obtained by 31 March 2018, this payment was accounted for as a prepayment. The approval was subsequently obtained on 15 June 2018.

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

The abovementioned acquisition is in keeping with the group's strategy of expanding its gaming operations. The identifiable assets less liabilities assumed at acquisition date is less than the value of the consideration paid at the date of acquisition, and therefore the group recognised a common control reserve in the statement of changes in equity of R26 million:

	Rm
Property, plant and equipment	**59**
Other intangible assets	**6**
Deferred tax assets	**1**
Cash and cash equivalents	**4**
Other non-current liabilities	**(5)**
Other current liabilities	**(2)**
Total identifiable net assets assumed	**63**
Non-controlling interests	**6**
	69
Less: Purchase consideration in the form of cash paid	**(95)**
Common control reserve arising on transaction	**(26)**
Net cash flow:	
Cash consideration prepaid during prior year to acquire Kuruman (refer note above)	**(95)**
Prepayment allocated to acquisition during current period	**95**
Add: Cash balances acquired with Kuruman	**4**
Net inflow of cash during the period	**4**

Excluding the funding impact and by using the group's accounting policies, had the acquisition occurred on 1 April 2018, the group's income would have increased by R14 million with no impact to adjusted earnings.

7 CHANGES IN INTEREST-BEARING BORROWINGS ARISING FROM FINANCING ACTIVITIES

Changes arising from financing activities for the six months ended 30 September 2018 related to interest-bearing borrowings, excluding bank overdrafts from short-term borrowings of R2 268 million (2018: R1 707 million), are as follows:

	Long term Rm	Short term Rm	Total Rm
Balance at 1 April 2018	**12 667**	**941**	**13 608**
Borrowings raised	**513**	**100**	**613**
Borrowings repaid	**(6)**	**(221)**	**(227)**
Currency translation	**195**	**–**	**195**
Reclassification to short term	**(1 368)**	**1 368**	**–**
Other	**(23)**	**32**	**9**
Balance at 30 September 2018	**11 978**	**2 220**	**14 198**
Balance at 1 April 2017	9 439	3 399	12 838
Borrowings raised	5 961	533	6 494
Borrowings repaid	(2 602)	(2 997)	(5 599)
Currency translation	(129)	–	(129)
Other	(2)	6	4
Balance at 31 March 2018	12 667	941	13 608

8 RELATED PARTY TRANSACTIONS

The group had no significant related party transactions during the period under review, other than as mentioned in note 6.

9 SEGMENT INFORMATION

In terms of IFRS 8 *Operating Segments* the chief operating decision maker has been identified as the group's Chief Executive Officer ("CEO") and the Group Executive Committee ("GEC"). Management has determined the operating segments based on the reports reviewed by the chief operating decision maker. There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss from the last annual financial statements.

The group's CEO and GEC assess the performance of the operating segments based on Ebitdar. The measure excludes the effects of long-term incentives and the effects of non-recurring expenditure. The measure also excludes all headline earnings adjustments, impairments and fair value adjustments on non-current and current assets and liabilities. Interest income and finance costs are not included in the results for each operating segment as this is driven by the group treasury function which manages the cash and debt position of the group.

10 CAPITAL COMMITMENTS

The board has committed a total of R2.2 billion for maintenance and expansion capital items at its gaming and hotel properties of which R1.4 billion is anticipated to be spent during the next 12 months. R702 million of the committed capital expenditure has been contracted for.

11 CONTINGENT LIABILITIES

The group had no significant contingent liabilities as at 30 September 2018.

12 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Other than the dividend declaration noted below, the directors are not aware of any matter or circumstance arising since the balance sheet date and the date of this report.

Dividend declaration

Subsequent to the company's reporting date, on 20 November 2018, the board of directors declared an interim gross cash dividend of 132 cents per share in respect of the six months ended 30 September 2018. The aggregate amount of the dividend, which will be paid on 10 December 2018 out of retained earnings at 30 September 2018, not recognised as a liability at the reporting date, is R1 404 million.

Condensed consolidated income statement

for the six months ended 30 September

	Change %	2018 Unaudited Rm	2017 Unaudited Rm
Net gaming win	34	**4 792**	3 564
Rooms revenue	3	**1 517**	1 475
Food and beverage revenue	6	**793**	747
Property rental income		**202**	221
Other revenue		**397**	378
Income	21	**7 701**	6 385
Gaming levies and Value Added Tax		**(1 045)**	(742)
Property and equipment rentals		**(196)**	(156)
Amortisation and depreciation		**(529)**	(441)
Employee costs		**(1 747)**	(1 541)
Other operating expenses		**(2 374)**	(1 900)
Fair value adjustment on investment properties		**(119)**	–
Operating profit	5	**1 691**	1 605
Finance income		**36**	70
Finance costs		**(638)**	(641)
Share of profit of associates and joint ventures		**25**	26
Profit before income tax		**1 114**	1 060
Income tax (expense)/credit		**(318)**	28
Profit for the period		**796**	1 088
Profit attributable to:			
Equity holders of the company		**746**	1 010
Non-controlling interests		**50**	78
		796	1 088
Number of shares in issue (million)		**1 059**	957
Weighted average number of shares in issue (million)		**1 059**	957
Basic and diluted earnings per share (cents)	(33)	**70.4**	105.5

Condensed consolidated statement of comprehensive income

for the six months ended 30 September

	2018 Unaudited Rm	2017 Unaudited Rm
Profit for the period	**796**	1 088
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:	**215**	(35)
Cash flow hedges	**101**	(75)
Currency translation adjustments	**142**	19
Income tax relating to items that may subsequently be reclassified	**(28)**	21
Items that will not be reclassified to profit or loss:	**183**	–
Gains on revaluation of owner-occupied property reclassified to investment property[1]	**236**	–
Income tax relating to items that will not be reclassified	**(53)**	–
Total comprehensive income for the period	**1 194**	1 053
Total comprehensive income attributable to:		
Equity holders of the company	**1 143**	975
Non-controlling interests	**51**	78
	1 194	1 053

(1) Refer note 4.1.

Supplementary information

for the six months ended 30 September

	Change %	2018 Unaudited Rm	2017 Unaudited Rm
Reconciliation of earnings attributable to equity holders of the company to headline earnings and adjusted headline earnings			
Earnings attributable to equity holders of the company		**746**	1 010
Loss on disposal of plant and equipment		**–**	5
Impairment of property, plant and equipment		**3**	1
Fair value adjustment on investment properties		**119**	–
Total tax effects of headline earnings adjustments		**(1)**	(2)
Total non-controlling interest effects of adjustments		**(48)**	–
Share of associates' headline earnings adjustments (net)		**(1)**	(5)
Headline earnings	(19)	**818**	1 009
Other exceptional items included in operating profit		**14**	70
Deferred tax liability derecognised on property, plant and equipment on sale to the group's REIT subsidiary		**–**	(307)
Share of associates' exceptional items (net)		**1**	(1)
Total tax effects of other exceptional items		**(1)**	(13)
Total non-controlling interest effects of other exceptional items		**2**	(4)
Adjusted headline earnings	11	**834**	754
Number of shares in issue (million)		**1 059**	957
Weighted average number of shares in issue (million)		**1 059**	957
Basic and diluted HEPS (cents)		**77.2**	105.4
Basic and diluted adjusted HEPS (cents)		**78.8**	78.8
Reconciliation of operating profit to Ebitdar[1]			
Ebitdar pre-exceptional items is made up as follows:			
Operating profit		**1 691**	1 605
Add/(less):			
Property rentals		**169**	128
Amortisation and depreciation		**529**	441
Long-term incentive credit		**(25)**	(49)
		2 364	2 125
Add: Exceptional losses		**136**	73
Loss on disposal of plant and equipment		**–**	5
Impairment of property, plant and equipment		**3**	1
Fair value adjustment on investment properties		**119**	–
Fair value adjustment on interest rate swaps		**(23)**	3
Pre-opening costs		**1**	21
Restructuring costs		**6**	28
Transaction costs		**32**	13
Other adjustments		**(2)**	2
Ebitdar	14	**2 500**	2 198

[1] *The measure excludes the effects of long-term incentives, non-recurring expenditure, headline earnings adjustments including impairments and fair value adjustments on non-current and current assets and liabilities and other exceptional items.*

Condensed consolidated cash flow statement

for the six months ended 30 September

	2018 Unaudited Rm	2017 Unaudited Rm
Cash flows from operating activities		
Profit before interest and income tax	**1 691**	1 605
Adjust for non-cash movements and dividends received	**751**	544
Increase in working capital	**(48)**	(344)
Cash generated from operations	**2 394**	1 805
Finance income	**36**	70
Finance costs	**(635)**	(638)
	1 795	1 237
Income tax paid	**(313)**	(301)
Dividends paid to shareholders	**(744)**	(676)
Dividends paid to non-controlling interests	**(213)**	(91)
Dividends received	**50**	54
Net cash generated from operating activities	**575**	223
Cash flows from investment activities		
Purchase of property, plant and equipment	**(1 013)**	(654)
Proceeds from disposals of property, plant and equipment	**6**	2
Purchase of intangible assets	**(19)**	(1)
Additions to investment property	**(114)**	(313)
Proceeds from disposal of investment property	**1**	–
Acquisition of Kuruman, net of cash acquired (note 6)	**4**	–
Acquisition of intellectual property (note 5)	**(13)**	–
Other loans and investments repaid/(made)	**(2)**	(1)
Net cash utilised for investment activities	**(1 150)**	(967)
Cash flows from financing activities		
Borrowings raised	**613**	1 335
Borrowings repaid	**(227)**	(1 774)
Cash proceeds from rights issue to non-controlling interests	**–**	995
Acquisition of non-controlling interests	**(2)**	–
Decrease in amounts due by share scheme participants	**1**	–
Net cash generated from financing activities	**385**	556
Net increase in cash and cash equivalents	**(190)**	(188)
Cash and cash equivalents at beginning of the year, net of bank overdrafts	**1 071**	725
Foreign currency translation	**13**	1
Cash and cash equivalents at end of the period, net of bank overdrafts	**894**	538

Condensed consolidated balance sheet

as at 30 September

	30 September 2018 Unaudited Rm	31 March 2018 Audited Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**16 665**	16 038
Investment properties	**5 660**	5 255
Goodwill and other intangible assets	**6 567**	6 507
Investments in associates and joint ventures	**662**	641
Financial assets at FVOCI	**1 275**	–
Available-for-sale financial assets	**–**	1 275
Non-current receivables	**78**	66
Derivative financial instruments	**29**	–
Deferred income tax assets	**150**	142
	31 086	29 924
Current assets		
Inventories	**121**	119
Trade and other receivables	**759**	857
Current income tax assets	**29**	36
Cash and cash equivalents	**3 162**	2 778
	4 071	3 790
Non-current assets held for sale	**65**	66
Total current assets	**4 136**	3 856
Total assets	**35 222**	33 780
EQUITY		
Capital and reserves attributable to equity holders of the company		
Ordinary share capital and premium	**6 636**	6 636
Other reserves	**(1 670)**	(2 040)
Retained earnings	**6 281**	6 280
Total shareholders' equity	**11 247**	10 876
Non-controlling interests	**3 150**	3 318
Total equity	**14 397**	14 194
LIABILITIES		
Non-current liabilities		
Interest-bearing borrowings	**11 978**	12 667
Derivative financial instruments	**40**	132
Deferred income tax liabilities	**1 749**	1 670
Provisions and other liabilities	**479**	468
	14 246	14 937
Current liabilities		
Interest-bearing borrowings	**4 488**	2 648
Trade and other payables	**1 969**	1 876
Current income tax liabilities	**122**	125
	6 579	4 649
Total liabilities	**20 825**	19 586
Total equity and liabilities	**35 222**	33 780

Condensed consolidated statement of changes in equity

	Ordinary share capital and premium Rm
Balance at 1 April 2017 (audited)	4 576
Total comprehensive income	–
Consideration to HPF non-controlling interests in hotels assets	–
Acquisition of non-controlling interests from HPF	–
Consideration to HPF non-controlling interest – Sandton Isle	–
Ordinary dividends	–
Balance at 30 September 2017 (unaudited)	4 576
Balance at 31 March 2018 (audited)	6 636
Total comprehensive income	–
Common control reserve arising on acquisition of Kuruman Casino	–
Acquisition of non-controlling interests – Galaxy	–
Ordinary dividends	–
Balance at 30 September (unaudited)	6 636

Attributable to equity holders of the company				
Other reserves Rm	Retained earnings Rm	**Total Rm**	Non-controlling interests Rm	**Total equity Rm**
874	5 321	**10 771**	2 685	**13 456**
(35)	1 010	**975**	78	**1 053**
(36)	–	**(36)**	1 066	**1 030**
436	–	**436**	(436)	**–**
(15)	–	**(15)**	15	**–**
–	(676)	**(676)**	(91)	**(767)**
1 224	5 655	**11 455**	3 317	**14 772**
(2 040)	6 280	**10 876**	3 318	**14 194**
397	746	**1 143**	51	**1 194**
(26)	–	**(26)**	(6)	**(32)**
(1)	–	**(1)**	–	**(1)**
–	(745)	**(745)**	(213)	**(958)**
(1 670)	6 281	**11 247**	3 150	**14 397**

Segmental analysis

for the six months ended 30 September

	Income[1]	
	2018 Rm	2017 Rm
Casino gaming		
Montecasino	**1 329**	1 265
Suncoast	**832**	821
Gold Reef City	**736**	734
Silverstar	**355**	336
Golden Horse	**198**	192
The Ridge	**196**	188
Emnotweni	**182**	196
Hemingways	**152**	151
Garden Route	**111**	106
The Caledon	**88**	86
Blackrock	**85**	78
Mykonos	**84**	85
Goldfields	**68**	67
Alternative gaming[3]		
Galaxy	**405**	n/a
Vukani	**763**	n/a
Other gaming operations	**113**	105
Total gaming operations	**5 697**	4 410
South African hotels division[4]	**1 725**	1 721
Offshore hotels division	**306**	279
Pre-foreign exchange gains		
Foreign exchange gains		
Corporate[4][5]	**(27)**	(25)
Group	**7 701**	6 385

[1] All revenue and income from gaming and hotel operations is derived from external customers. No one customer contributes more than 10% to the group's total revenue.
[2] All casino units are reported pre-internal gaming management fees.
[3] Gaming division includes Galaxy and Vukani (Gameco) with effect from 20 November 2017.
[4] Includes R27 million (2017: R25 million) intergroup management fees.
[5] Includes the treasury and management function of the group.

	Ebitdar[2]		Ebitdar margin		Amortisation and depreciation	
	2018 Rm	2017 Rm	**2018 %**	2017 %	**2018 Rm**	2017 Rm
	562	524	**42.3**	41.4	**56**	57
	339	357	**40.7**	43.5	**52**	45
	268	262	**36.4**	35.7	**55**	59
	106	96	**30.0**	28.7	**42**	41
	83	82	**41.6**	42.8	**16**	17
	70	69	**36.0**	36.8	**16**	16
	57	69	**31.3**	35.4	**14**	14
	41	43	**26.9**	28.3	**19**	21
	42	41	**37.8**	38.5	**8**	8
	22	22	**24.8**	25.6	**5**	6
	26	27	**31.0**	33.9	**7**	6
	36	39	**42.5**	46.1	**6**	6
	18	19	**26.9**	28.2	**5**	5
	114	n/a	**28.1**	n/a	**20**	n/a
	210	n/a	**27.5**	n/a	**50**	n/a
	(77)	(61)			**10**	10
	1 917	1 589	**33.6**	36.0	**381**	311
	504	550	**29.2**	32.0	**124**	110
	74	49	**24.2**	17.6	**23**	19
	71	*47*	***23.2***	*16.8*		
	3	*2*				
	5	10			**1**	1
	2 500	2 198	**32.5**	34.4	**529**	441

DIRECTORS: JA Copelyn (Chairman)*
J Booysen (Chief Executive Officer)
RB Huddy (Chief Financial Officer)
MSI Gani** MJA Golding** BA Mabuza
(Lead Independent)** VE Mphande**
JG Ngcobo** Y Shaik*
(*Non-executive Director **Independent
Director)

COMPANY SECRETARY: GD Tyrrell

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

TRANSFER SECRETARIES: Link Market
Services South Africa Proprietary Limited,
13th Floor, Rennie House,
19 Ameshoff Street,
Braamfontein, 2001
(PO Box 4844, Johannesburg, 2000)

SPONSOR: Investec Bank Limited,
100 Grayston Drive, Sandton, 2196
(PO Box 785700, Sandton, 2146)

Auditors: PricewaterhouseCoopers Inc.,
4 Lisbon Lane, Jukskei View, 2090
(Private Bag X36, Sunninghill, 2157)