



**TSOGO SUN HOLDINGS LIMITED**

(Incorporated in the Republic of South Africa)

(Registration No. 1989/002108/06)

JSE Share Code: TSH

ISIN: ZAE000156238

("Tsogo" or the "Company")

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**DISPOSAL OF CASINO PRECINCT PROPERTIES TO HOSPITALITY PROPERTY FUND  
AND WITHDRAWAL OF CAUTIONARY**

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**1. INTRODUCTION**

Further to the cautionary announcements issued by Tsogo, the last of which was issued on SENS on 31 May 2018, the board of directors of Tsogo (the "**Board**") is pleased to announce that Akani Egoli Proprietary Limited ("**Akani-Egoli**"), Silverstar Casino Proprietary Limited ("**Silverstar**"), Tsogo Sun Casinos Proprietary Limited ("**TSC**"), Tsogo Sun KwaZulu Natal Proprietary Limited ("**TSKZN**") and Tsogo Sun Newcastle Proprietary Limited ("**TSNEW**"), all of which are wholly-owned subsidiaries of Tsogo (the "**sellers**") and Tsogo, Listed Investments Proprietary Limited ("**Listed**") and Cassava Investments Proprietary Limited ("**Cassava**"), have entered into a sale of shares and subscription agreement (the "**subscription agreement**") with Hospitality Property Fund Limited ("**Hospitality**") and its wholly-owned subsidiary Merway Fifth Investments Proprietary Limited ("**Merway**") for the disposal by the sellers to Hospitality of a portfolio of seven mixed-use casino precinct properties (the "**casino precinct properties**") for an aggregate purchase consideration of R23 billion (the "**purchase consideration**") (the "**transaction**").

The salient terms of the subscription agreement are set out in paragraph 3 below.

**2. RATIONALE**

The transaction is in line with the Board's strategy to restructure Tsogo into three separate and distinct operating divisions, being a Property Division, a Gaming Division and a Hotel Management Division.

The Board anticipates that the separation of Tsogo into these three focused divisions (and separate listed entities) will unlock value and provide greater investment choice for Tsogo shareholders. On conclusion of the transaction, Hospitality is expected to own investment properties with a total fair market value of approximately R36 billion.

Upon completion of the transaction, Tsogo will hold approximately 87% of the shares in Hospitality. It is Tsogo's ultimate intention to unbundle their shareholding in Hospitality to its shareholders and has warranted to Hospitality to do so at a time and in a manner that does not have any adverse consequences to Hospitality.

### 3. TERMS OF THE TRANSACTION

- 3.1 Cassava and Listed will own the casino precinct properties. In terms of the subscription agreement, Merway will acquire the entire issued share capital of each of Cassava and Listed in terms of an "*intra group transaction*" as provided for in section 45 of the Income Tax Act, 1962, as amended. The transaction will be effective from the date of the fulfilment or waiver, as the case may be, of the conditions precedent set out in paragraph 4 below (the "**effective date**").
- 3.2 The purchase consideration was determined using the fair value of the casino precinct properties being R23 billion, based on an agreed forward yield of 8.45%.
- 3.3 The purchase consideration will be settled by Merway on the effective date as follows:
  - 3.3.1 an amount of R3 169 700 000 will be paid in cash to Silverstar, TSNEW and TSC pro rata to their holdings in Cassava; and
  - 3.3.2 an amount R19 837 261 538 will be paid in cash to Akani-Egoli, TSKZN and TSC pro rata to their holdings in Listed.
- 3.4 On the effective date, each of Akani-Egoli, Silverstar, TSKZN, TSNEW and TSC will use its share of the purchase consideration (amounting in the aggregate to R23 006 961 538):
  - 3.4.1 to subscribe for 1 196 362 000 Hospitality ordinary shares at a subscription price of R12.50 per share, which shares when issued, shall constitute not less than 67.4% of the entire issued share capital of Hospitality at such time (the "**subscription**"); and
  - 3.4.2 to settle its debt with the balance of R8 052 436 538.
- 3.5 Following implementation of the internal group restructure referred to in paragraph 4.1 below, each of the casino precinct properties will be let by Listed and Cassava as landlord ("**landlord**") to an indirect wholly-owned subsidiary of Tsogo, being Grapplebrook Proprietary Limited ("**LeaseCo**" or "**tenant**") in terms of a head lease agreement (the "**head lease**"). The tenant, Cassava and Listed will also enter into a head lease rental aggregation agreement governing the rentals, escalations, reviews and resets in respect of each of the casino precinct properties (the "**rental aggregation agreement**").

3.6 The salient terms of the head lease and rental aggregation agreement are set out below:

- 3.6.1 the head lease will permit the tenant to sub-let each of the casino precinct properties with the consent of the landlord;
- 3.6.2 the head lease, which will be a triple net lease, will be concluded for an initial period enduring until 31 March 2023, whereafter the head lease can be terminated by either the landlord or the tenant on 15 years' written notice;
- 3.6.3 the initial aggregate base rental payable by the tenant for the casino precinct properties will be R1.9 billion per annum (the "**initial aggregate base rental**"), one twelfth of which amount will be payable monthly in advance on the 1<sup>st</sup> business day of each month;
- 3.6.4 the initial aggregate base rental will escalate annually on the 1<sup>st</sup> day of April of each year by the percentage change in the consumer price index which is applicable for the preceding 12 months (the "**escalation rate**") subject to the terms of a rental review referred to in paragraph 3.6.5 below;
- 3.6.5 on the 7<sup>th</sup> anniversary of 1 April 2018 (i.e. on 1 April 2025), and thereafter on each successive 5<sup>th</sup> anniversary of that date ("**rental review date**"), the aggregate annual rental payable by the tenant in terms of the head lease for the year commencing on such anniversary, will be reviewed by the landlord and the tenant ("**head lease anniversary rental review**") and will be recalculated to be the lesser of:
  - 3.6.5.1 an amount equal to the initial aggregate base rental escalated annually at the escalation rate on the 1<sup>st</sup> day of April of each year, irrespective of and disregarding any rental reset (upwards or downwards, as described in paragraphs 3.6.6 and 3.6.7 below) which has occurred during the period of the head lease ("**aggregate escalated base rental**"); and
  - 3.6.5.2 an amount equal to 70% of the aggregate EBITDAR (earnings before interest, income tax, depreciation, amortisation, property rentals paid, long term incentives and exceptional items and after deducting management fees and licence fees charged by companies within the Tsogo group of companies ("**Tsogo Group**") in respect of the casino precincts properties) earned by the Tsogo Group in

respect of the casino precinct properties in respect of the year terminating on the day preceding the anniversary date concerned, escalated at the escalation rate on the anniversary date concerned, (**“head lease re-set”**); provided that:

3.6.5.2.1 the EBITDAR as published by Tsogo in respect of the casino precinct properties will be prepared on the same basis and applying the same criteria as applied in years prior to the effective date; and

3.6.5.2.2 the proportion that the aggregate management fees charged by companies within the Tsogo Group bears to the aggregate EBITDAR of all casino precinct properties will not be increased after the effective date without the consent of the landlord,

3.6.6 if the difference between the amount of the aggregate escalated base rental and the amount of the aggregate EBITDAR rental is:

3.6.6.1 less than 2,5%, then the rental will not be adjusted nor reset downwards and instead the rental and the rental payable by the tenant for the ensuing relevant 5 year period shall be equal to the rental payable in the previous year escalated at the escalation rate; or

3.6.6.2 equal to or greater than 2,5%, then the rental will be adjusted and reset downwards in accordance with the resulting calculation and the rental payable by the tenant for the ensuing relevant 5 year period will be adjusted and reset downwards (**“downwards rental reset”**)

3.6.7 if:

3.6.7.1 on a rental review date; or

3.6.7.2 on the first anniversary of any rental review date; or

3.6.7.3 on the second anniversary of any rental review date,

(irrespective of whether or not the review on any rental review date resulted in a downwards rental reset, a head lease upwards rental reset or a cure rental as contemplated in paragraph 3.6.10 below) and, if the then rental is less than the aggregate escalated base rental at such time, then the relevant parties will again review and recalculate the rental payable despite such review and recalculation procedure not coinciding with a review date ("**extraordinary rental review**"). The rental calculation amount resulting from the extraordinary rental review will only be implemented if it has the effect of increasing the rental upwards when compared with the rental payable in the last month immediately preceding the date of the extraordinary rental review ("**upwards rental review**"), provided that:

- 3.6.7.4 the upwards rental review will not have the effect of resulting in a rental greater than the aggregate escalated base rental for the same period;
- 3.6.7.5 the extraordinary rental review will only be used to implement an upwards rental reset and cannot be used to implement a downwards rental reset; and
- 3.6.7.6 an extraordinary rental review and resulting upwards rental reset can be used and implemented consecutively in each of the two years in order to achieve an upwards rental reset, provided that the maximum aggregate rental payable for those two years may not be greater than an amount equal to the aggregate escalated base rental for the same two year period;

3.6.8 subject to paragraph 3.6.10 below, in the event of a downwards rental reset occurring on any two consecutive rental review dates, the landlord will be entitled, by giving five years written notice to the tenant, either to terminate:

- 3.6.8.1 all of the head leases and the head lease rental aggregation agreement in respect of all of the casino precincts; or
- 3.6.8.2 the particular head lease/s in respect of the particular casino precinct/s whose performance was the cause of the second relevant downwards rental reset;

in which case such notice of termination must be received by the tenant within a period of three months of the second of such rental review dates in order to constitute a valid notice of termination. For the sake of clarity, the

earliest that the landlord will be entitled to give any such five years notice of termination will be on 1 April 2030;

- 3.6.9 if a head lease relating to a particular casino precinct/s is terminated in accordance with paragraph 3.6.8 above, then:
  - 3.6.9.1 no further rental will be due by the tenant in respect of such head lease from the date of such termination;
  - 3.6.9.2 all calculations made in terms of paragraphs 3.6.5.2.1 and 3.6.5.2.2 and 3.6.7 will be adjusted to exclude that particular casino precinct/s and the particular head lease as well as the rentals relating thereto, either future or retrospectively;
- 3.6.10 notwithstanding the provisions of paragraph 3.6.8 above, the tenant will have the right to waive any head lease downward re-set in respect of any head lease anniversary rental review cycle, thereby preventing an early termination as contemplated in paragraph 3.6.8 above should it elect to make (and in fact makes), within a period of 3 weeks from date of the second of the relevant head lease downward re-set, payment for the ensuing year, of an aggregate annual rental which is equal to the aggregate annual rental that was paid in terms of the head lease for the year terminating on the day preceding the day upon which the head lease downward re-set would have been implemented, escalated at the escalation rate, instead of making payment of the head lease downward re-set amount that would have been implemented for the ensuing year, continuing to escalate annually thereafter in terms of paragraph 3.6.4 above until the occurrence of the next head lease anniversary rental review;
- 3.6.11 the tenant will be liable for all utility deposits and charges incurred or payable in respect of the casino precinct properties;
- 3.6.12 the tenant (or its nominee) may, at its own cost, make any alterations, renovations or additions to any of the developments on any of the casino precinct properties ("**improvements**") and may install any fixtures, fittings and equipment without the landlord's consent;
- 3.6.13 where such alterations, renovations or additions to any of the developments on the casino precinct properties are of a material nature ("**material improvements**"), the tenant (or its nominee) shall be obliged to offer the landlord the opportunity to pay for such material improvements, together with an appropriate rental increase payable by the tenant to the landlord

(“**material improvement offer**”). In the event that the landlord fails to accept or decline or elects not to accept the material improvement offer, then the tenant (or its nominee) shall be entitled to effect the material improvements at its own cost or to make such material improvement offer to a third party on terms no more favourable to those offered to the landlord. Any earnings from the improvements shall be included for the purpose of calculating the EBITDAR, whether or not such improvements were paid for by the tenant, the landlord or by a third party;

3.6.14 subject to the aforesaid, prior to the expiration or termination of a head lease, the tenant shall have the election to either remove all material improvements and reinstate the relevant casino precinct to substantially the same condition in which it was before the material improvement was effected, failing which all improvements will be forfeited to the landlord for no consideration. The tenant (or its nominee) will be entitled to remove all fixtures, fittings and equipment upon termination of a head lease;

3.6.15 neither the tenant nor any other Tsogo Group company, will:

3.6.15.1 establish a casino within 25 kilometres of a particular casino precinct property while continuing to operate a casino at that casino precinct property; or

3.6.15.2 procure that the casino operated by it at a casino precinct property in a particular province, ceases to operate and is substantially relocated to premises other than at that casino precinct property.

3.6.16 ownership in and to the operating plant and the fixtures, fittings and equipment will at all times remain with Tsogo. Tsogo will not remove the operating plant from the casino precinct properties other than for the purposes of repairing it or replacing it. On termination of any head lease for any reason whatsoever, Tsogo will transfer ownership of the operating plant relating to the casino precinct property, forming the subject of such head lease (“**relevant operating plant**”), by way of constructive or physical delivery to the landlord for no consideration. Tsogo warrants that it is the owner of the relevant operating plant and that it will remain the owner of the operating plant throughout the term of the head lease and that the relevant operating plant is and will at all times during the term of the head lease remain unencumbered in any way and that Tsogo will be able to give free and unencumbered ownership of the relevant operating plant to the

landlord on termination of the head lease. In addition on termination of a head lease for any reason whatsoever, Tsogo will cede to the landlord all guarantees, warranties and/or undertakings which Tsogo may hold from time to time from any supplier or contractor in respect of the relevant operating plant;

3.6.17 the landlord will grant the tenant a right of first refusal to acquire each of the casino precinct properties of which the landlord wishes to dispose; and

3.6.18 Tsogo undertakes to and in favour of Hospitality, not to dispose, either directly or indirectly, of any or all of (i) the casino precinct properties' businesses and/or (ii) its interest in Grapplebrook, without the consent of Hospitality, which will not unreasonably be withheld.

3.7 Tsogo and Hospitality have agreed to warranties and indemnities that are standard for a transaction of this nature.

#### **4. CONDITIONS PRECEDENT**

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

- 4.1 Tsogo concluding its internal group restructure on substantially the same terms as those contained in the draft restructure agreements initialled by Tsogo and Hospitality;
- 4.2 the registration and transfer of those casino precinct properties which are not already owned by Cassava and Listed, into the name of Cassava and Listed (as the case may be) being effected in the relevant Deeds Registry;
- 4.3 the requisite majorities of Tsogo shareholders shall have passed all resolutions (including those required by the JSE Listings Requirements and the Companies Act) required to authorise and approve the transaction and its implementation;
- 4.4 the requisite majorities of Tsogo shareholders and directors shall have passed the necessary resolution/s referred to in section 45(3)(a)(ii) and 45(3)(b) of the Companies Act, authorising Tsogo to provide financial assistance to Grapplebrook and the Vendors in the form of the guarantee by Tsogo for its obligations of Grapplebrook in terms of the head lease;
- 4.5 to the extent necessary, the requisite approvals of the JSE and the SARB for implementation of the transaction shall have been obtained by Tsogo;



- 4.6 the requisite majorities of Hospitality shareholders shall have passed all resolutions (including those required by the JSE Listings Requirements and the Companies Act) required to authorise and approve the transaction and its implementation;
- 4.7 to the extent necessary, the requisite approvals of the JSE and the SARB for implementation of the transaction shall have been obtained by Hospitality;
- 4.8 Hospitality shall have confirmed in writing to Tsogo that Hospitality will have concluded all the necessary funding agreements with their bankers to enable the advance to Merway of the funds required to cover the purchase consideration payable by Merway in terms of the transaction;
- 4.9 following receipt of written confirmation, Tsogo shall have confirmed in writing to Hospitality that both Cassava and Listed will be unconditionally released from all obligations furnished by them under the Tsogo Group security pool, and that the casino precinct properties shall be released from any guarantees, pledges and/or mortgage bonds furnished as security thereunder against payment of the purchase consideration; and
- 4.10 The Takeover Regulations Panel issuing a compliance certificate in relation to the transaction in terms of section 121(b) of the Companies Act.

## **5. PRO FORMA FINANCIAL EFFECTS**

The pro forma financial effects of the transaction on a Tsogo shareholder are the responsibility of the Board and have been prepared for illustrative purposes only to provide Tsogo shareholders with information on the pro forma effects of the transaction had the transaction been effective on 1 April 2017 for the earnings effects and on 31 March 2018 for the net asset value effects. Due to their nature, the pro forma financial effects may not fairly present Tsogo's financial position, changes in equity, financial performance or cash flows after implementation of the transaction.

The pro forma financial effects have been prepared in accordance with the JSE Listings Requirements, the Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants and the measurement and recognition requirements of International Financial Reporting Standards that are consistent with those applied in the audited results of Tsogo for the year ended 31 March 2018.

The table below reflects the pro forma financial effects of the transaction:

	Before the transaction ("Before")	Pro Forma after the transaction ("After")	% change
Basic and diluted earnings per share (cents)	198.3	179.4	(9.5)%
Basic and diluted headline earnings per share (cents)	197.8	191.2	(3.3)%
Weighted average number of shares in issue (million)	994	994	-
Net asset value per share (Rand)	10.3	11.3	9.7%
Net tangible asset value per share (Rand)	4.1	5.1	24.1%
Number of shares in issue (million)	1 059	1 059	-

**Notes and assumptions:**

1. The Tsogo financial information reflected in the "Before" column has been extracted from the published reviewed condensed consolidated financial results of Tsogo for the year ended 31 March 2018.
2. The Tsogo financial information reflected in the "After" column has been calculated on the basis that the transaction and any other conditions to implement these have been completed.
3. The effects on earnings, diluted earnings, headline earnings, diluted headline earnings and distributable earnings per share are based on the following assumptions:
  - 3.1 Before, Tsogo has a 59.15% effective holding in Hospitality and consequently, Hospitality's non-controlling interest ("**Hospitality NCI**") has a 40.85% effective holding in Hospitality. After, Tsogo will hold a 86.69% effective holding in Hospitality and as a result Hospitality NCI is entitled to:
    - 3.1.1 13.3% of the rental income of the Casino Precinct Properties acquired through the acquisition of Cassava and Listed by Hospitality amounting to R259 million; and
    - 3.1.2 27.54% less of the existing Hospitality property portfolio profit amounting to R107 million with the drop in Hospitality NCI effective holding from 40.85% to 13.3%.

- 3.2 Tsogo will utilise R8 billion of the purchase consideration to settle debt with a weighted average cost of 9.4% per annum.
- 3.3 Hospitality will raise R23 billion in respect of the purchase consideration through the subscription amounting to R15 billion and third party financing of R8 billion at a weighted average cost of 8.96% per annum. Due to the rate differential there is a finance cost saving of R48 million pre-tax. Hospitality NCI is allocated their 13.3% share of the R8 billion finance costs for the financial year amounting to R69 million.
- 3.4 Tax allowances on the casino precinct properties sold to Hospitality are no longer deductible for Tsogo with ownership of the properties transferring to Merway. This results in the reversal of the current deferred tax liability temporary differences on the casino precinct properties of R55 million and the reversal of certain S13 quin/bis allowances as per the Income Tax Act amounting to R41 million in additional current tax on the allowances that will no longer be deductible with the casino precinct properties transfer to Merway.
- 3.5 Once off transaction costs assumed of R28 million pre-tax with R2 million attributable to Hospitality NCI.
4. The effects on net asset value per share and tangible net asset value per share are based on the following assumptions:
- 4.1 The casino precinct properties are recognised in Hospitality at the fair value of the purchase consideration, being R23 billion (which are currently recognised by Tsogo at a net asset value of R5.0 billion) .
- 4.2 Subsequent to the transaction, Hospitality NCI is attributed 13.3% of the net asset value of Hospitality (post the acquisition of the casino precinct properties), resulting in a R1.062 billion decrease in equity attributed to Hospitality NCI.
- 4.3 Once off transaction costs, assumed of R28 million pre-tax are recognised in retained earnings with R2 million attributable to Hospitality NCI.

## **6. RECOMMENDATION AND FAIRNESS OPINION**

Hospitality is a subsidiary of Tsogo, and Hosken Consolidated Investments Limited (“**HCI**”) is a material Tsogo shareholder. As such, Hospitality is an associate of HCI and the transaction constitutes a transaction with a related party for Tsogo in terms of paragraph 10.1(b)(vii) of the JSE Listings Requirements.

Accordingly, Tsogo has appointed PSG Capital Proprietary Limited as the independent expert (“**Independent Expert**”) to make the appropriate recommendations in the form of a fairness opinion as required in terms of paragraph 10.4 of the JSE Listings Requirements.

The Independent Expert is in the process of finalising its opinion on the transaction, which opinion, together with the views of the Board on the transaction will be detailed in the circular to be sent to Tsogo shareholders. Based on the initial assessment of the transaction, subject to the Independent Expert opinion, the Board is supportive of the transaction.

## **7. CATEGORISATION OF THE TRANSACTION**

In terms of the JSE Listings Requirements, the transaction constitutes a Category 1 related party transaction and therefore Tsogo shareholder approval is required. A circular convening a general meeting and providing further information on the transaction (including a report prepared by the Independent Expert as to the fairness of the transaction) will be sent to Tsogo shareholders in due course.

## **8. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

Shareholders are referred to the various cautionary announcements issued by Tsogo in relation to the transaction, the last of which was issued on SENS on 31 May 2018 and are advised that, on the basis of the above, caution is no longer required to be exercised when dealing in Tsogo's shares.

9 July 2018

### **Corporate advisor and sponsor to Tsogo**

Investec Bank Limited

### **Corporate Law Advisors to Tsogo**

Taback and Associates Proprietary Limited

Werksmans Attorneys

### **Independent Expert**

PSG Capital

### **Independent reporting accountant**

PWC