

**TSOGO SUN HOLDINGS LIMITED**

(Incorporated in the Republic of South Africa)

(Registration No. 1989/002108/06)

JSE Share Code: TSH

ISIN: ZAE000156238

("Tsogo")

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**PROPOSED DISPOSAL OF CERTAIN TSOGO CASINO, HOTEL AND OFFICE PROPERTIES TO HOSPITALITY PROPERTY FUND LIMITED ("HPF"), THE UNBUNDLING OF TSOGO'S ENTIRE INTEREST IN HPF AND CAUTIONARY ANNOUNCEMENT**

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1. **Introduction**

1.1 Shareholders of Tsogo are advised that the boards of directors of Tsogo and HPF have agreed, in principle, to the acquisition by HPF of certain of the casino precinct properties ("**Properties**"), currently owned by the Tsogo group of companies ("Tsogo Group"), in consideration for the issue by HPF of new shares in HPF ("**Proposed Transaction**").

1.2 The Properties are the following:

1.2.1 **Montecasino Precinct:** Montecasino, Palazzo, Southern Sun Montecasino, SunSquare Montecasino, Palazzo Towers East & West Offices and The Pivot Offices;

1.2.2 **Gold Reef City Casino Precinct:** Gold Reef City Casino and Southern Sun Gold Reef City;

1.2.3 **Silverstar Casino Precinct:** Silverstar Casino and Southern Sun Silverstar;

1.2.4 **Suncoast Casino Precinct:** Suncoast Casino, Suncoast Towers and SunSquare Suncoast;

1.2.5 **Blackrock Casino Precinct:** Blackrock Casino and Garden Court Blackrock;

1.2.6 **Emnotweni Casino Precinct:** Emnotweni Casino, Southern Sun Emnotweni and StayEasy Emnotweni; and

1.2.7 **The Ridge Casino Precinct:** The Ridge Casino, Southern Sun The Ridge and StayEasy Emalahleni.

## 2. Broad Outline of the Proposed Transaction

It is contemplated that:

- 2.1 the Tsogo Group will undertake an internal group restructuring pursuant to which the Properties will become owned by an indirect wholly-owned subsidiary of Tsogo ("**PropCo**");
- 2.2 the Properties will be let to an indirect wholly-owned subsidiary of Tsogo ("**LeaseCo**"), in terms of a head lease;
- 2.3 the salient terms of the head lease will be:
  - 2.3.1 the head lease will be concluded between PropCo ("**Landlord**") and LeaseCo ("**Tenant**");
  - 2.3.2 the head lease will permit the Tenant to sub-let each of the Properties in terms of separate sub-leases to various Tsogo Group operating companies;
  - 2.3.3 the head lease will be concluded for an initial period enduring until 31 March 2023, whereafter the head lease can be terminated by either party on 15 years' written notice;
  - 2.3.4 the initial aggregate base rental payable by the Tenant for the Properties will be R1.9 billion per annum, which is approximately 65% of the aggregate casino precinct EBITDAR (earnings before interest, tax, depreciation amortisation and rent) in the first year of the head lease, post-management and license fees, in respect of all the Properties, one twelfth of which amount will be payable monthly in advance on the 1<sup>st</sup> business day of each month;
  - 2.3.5 the initial aggregate base rental will escalate annually on the 1st day of April of each year by the Consumer Price Index ("**CPI**"), subject to the terms of an Anniversary Rental Review referred to in paragraph 2.3.6 below;
  - 2.3.6 on the 7<sup>th</sup> anniversary of 1 April 2018 and thereafter on each further 5<sup>th</sup> anniversary of that date, the aggregate annual rental payable by the Tenant in respect of the Properties for the year commencing on such anniversary, will be reviewed ("**Anniversary Rental Review**") and be recalculated to reflect the lesser of:

2.3.6.1 an amount equal to the aggregate annual rental that was paid in respect of the Properties for the year terminating on the day preceding such anniversary, escalated at the rate of CPI; and

2.3.6.2 an amount equal to 70% of the EBITDAR earned by the Properties in respect of the year terminating on the day preceding such anniversary ("**Re-set**"), escalated at the rate of CPI;

provided that a downward Re-set will not be applied, and the aggregate annual rental payable by the Tenant in respect of the Properties for the year commencing on the 7th anniversary or any subsequent 5<sup>th</sup> anniversary (as the case may be) will be the amount calculated in terms of paragraph 2.3.6.1, in circumstances where the difference between the amount calculated in terms of paragraph 2.3.6.1 above and the amount calculated in terms of paragraph 2.3.6.2 above does not exceed an amount of two point five percent of the amount calculated in terms of paragraph 2.3.6.1.

2.3.7 where there has been a downward Re-set to the aggregate annual rental payable as contemplated in paragraph 2.3.6.2 above as a result of any Anniversary Rental Review (a "Downward Re-set"), then:

2.3.7.1 in applying the Anniversary Rental Review calculation contained in paragraph 2.3.6 above in respect of the following Anniversary Rental Review, the amount to be used in respect of paragraph 2.3.6.1 will be the amount that the CPI escalated annual aggregate rental, would have been, had there been no downward Re-set and this will be compared to the amount calculated in terms of paragraph 2.3.6.2 as provided for in paragraph 2.3.6; and

2.3.7.2 the annual rental payable in each of the respective years commencing on the first and on the second anniversary dates of that Downward Re-set occurring shall again be reviewed in accordance with paragraph 2.3.6, with the preceding year's EBITDAR used for purposes of paragraph 2.3.6.2 and the Re-set only to be effected if it is an upward Re-set.

2.3.8 subject to the provisions of paragraph 2.3.9 below, in the event of a downward Re-set occurring in any two consecutive Anniversary Rental Review cycles of the head lease, the Landlord will be entitled, either:

2.3.8.1 to give 5 years' written notice of termination of the head lease in its entirety, effective from the end of the second of such Anniversary Rental Review cycles; or

2.3.8.2 to give 5 years' written notice of termination of the head lease in respect only of the casino precinct Properties whose performance was the cause of the second Downward Re-set concerned, effective from the end of the second of such Anniversary Rental Review cycles;

provided, however, that any such notice must be received by the Tenant within a period of 3 months of the end of the second of such Anniversary Rental Review cycles in order to constitute a valid notice of termination;

2.3.9 notwithstanding the provisions of paragraphs 2.3.7 and 2.3.8 above, the Tenant will have the right to waive any Downward Re-set in respect of any Anniversary Rental Review cycle of the head lease, thereby preventing an early termination of the head lease as contemplated in paragraph 2.3.8 above should it elect to make (and make) payment of an aggregate annual rental which is equal to the aggregate annual rental that was paid in respect of the Properties for the year terminating on the day preceding the day upon which the Downward Re-set would have been implemented, escalated at the rate of CPI, instead of making payment of the Downward Re-set amount that would have been implemented for the year commencing on such anniversary, continuing to escalate thereafter in terms of paragraph 2.3.5;

2.3.10 the head lease will be a triple net lease;

2.3.11 the Tenant will be liable for all utility deposits and charges incurred or payable in respect of the Properties;

2.3.12 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 Properties, and may install any fixtures, fittings and equipment without the Landlord's consent;

2.3.13 where such alterations or additions to any of the Properties constitutes material improvements of such casino precinct Property, the Tenant (or its nominee) may elect to offer the sale of that development opportunity to the Landlord and its lease-back. In the event that the Landlord does not acquire the development opportunity and the sale and lease-back, then the Tenant (or

its nominee) will be free to erect those improvements at its cost and to restore such casino precinct Property to its original condition at the end of the head lease;

2.3.14 subject to the aforesaid, all improvements will be forfeited to the Landlord for no consideration on termination of the head lease. The Tenant (or its nominee) will be entitled to remove all fixtures, fittings and equipment upon termination of the head lease;

2.3.15 the Tenant will be entitled to sublet the Properties and/or any portion/s thereof, or grant concessions for such premises (including any improvements, or part thereof) without the consent of the Landlord; and

2.3.16 the Landlord will grant the Tenant a right of first refusal to acquire each of the Properties of which the Landlord wishes to dispose.

2.4 The Tsogo Group will dispose of its shares in PropCo to HPF in terms of an asset-for-share transaction in terms of Section 42 of the Income Tax Act, 1962, as amended ("**Income Tax Act**"), in exchange for new shares in HPF. Such HPF shares will be transferred to Tsogo in terms of an intra-group transaction in terms of Section 45 of the Income Tax Act.

2.5 Tsogo intends, thereafter, to distribute its entire shareholding in HPF to Tsogo's shareholders, in terms of an unbundling transaction in terms of Section 46 of the Income Tax Act ("**Unbundling**"), subject to the requisite shareholder approvals being obtained in terms of Sections 112 and 115(2)(a) of the Companies Act, 2008, as amended ("**Companies Act**").

2.6 Following implementation of the Proposed Transaction, it is intended that the Tsogo Group will maintain its debt to EBITDA ratio at a level which does not exceed 3.5 and the Tsogo Group will be required to obtain the consent of HPF should it wish to exceed this level, which consent shall not be unreasonably withheld or delayed.

### 3. **Rationale for undertaking the Proposed Transaction**

3.1 By restructuring the Tsogo Group into a propco (HPF) and opco (Tsogo), shareholders who are historically gaming and hotel investors and who want exposure to the respective business models and cyclical nature of the businesses, will be able to diversify their holdings accordingly.

- 3.2 Post the implementation of the Proposed Transaction and the Unbundling, Tsogo shareholders will hold:
- 3.2.1 HPF shares which will provide stable and predictable distributions in line with inflation; and
- 3.2.2 Tsogo shares which are more exposed to the risks and opportunities of the gaming industry and the South African macro-economic climate.
- 3.3 The overall result being that on a sum-of-parts valuation, the Tsogo (opco) share plus the HPF (propco) share is anticipated to be worth more than a Tsogo share is currently worth, unlocking value for Tsogo shareholders.

#### 4. **Conditions Precedent to the Proposed Transaction**

- 4.1 The Proposed Transaction is subject to, *inter alia*, a formal written agreement being concluded between the relevant companies in the Tsogo Group and HPF, upon terms acceptable to Tsogo and HPF ("**Agreement**"). Such Agreement will be subject to the normal terms for transactions of the nature of the Proposed Transaction and otherwise as may be agreed between Tsogo and HPF.
- 4.2 The Agreement, itself, will be subject to the fulfilment (or waiver) of certain conditions precedent, including, without limitation:
- 4.2.1 HPF undertaking a due diligence investigation of the Properties and being satisfied with the results of such investigation;
- 4.2.2 the obtaining, on terms acceptable to Tsogo and HPF, of all requisite regulatory and other consents and shareholder approvals;
- 4.2.3 the sub-committee of independent directors of the HPF board of directors ("**HPF Board**"), as established by the HPF Board, approving of the terms of the Agreement;
- 4.2.4 the board of directors of Tsogo approving the terms of the Agreement;
- 4.2.5 the obtaining of the requisite independent expert opinions in terms of the Companies Act and the Listings Requirements of the JSE Limited ("**Listings Requirements**"); and
- 4.2.6 such other conditions precedent as may be agreed between Tsogo and HPF.

5. **HPF Consideration Shares**

Based on an equity valuation of PropCo of R15 billion (being the value of the PropCo property portfolio of R23 billion net of PropCo debt of R8 billion), the number of HPF consideration shares to be issued to the Tsogo Group will be approximately 1.2 billion at an issue price of R12.50 per share. This will result in Tsogo's total shareholding in HPF being approximately 1.5 billion HPF shares (approximately 87% of HPF's total issued share capital, net of treasury shares), which shareholding Tsogo intends to distribute to its shareholders in terms of the Unbundling.

6. **Classification of the Proposed Transaction**

The Proposed Transaction will be classified as a Category 1 Transaction and a Related Party Transaction for Tsogo in terms of the Listings Requirements and will require the approval of shareholders.

7. **Forward-looking Information and Statements**

Shareholders are advised that any forward-looking information or statements contained in this announcement have not been reviewed or reported on by Tsogo's independent auditors.

8. **Further Details of the Proposed Transaction and Cautionary Announcement**

The full details of the Proposed Transaction will be provided to shareholders once the Agreement has been finalised and signed. Accordingly, shareholders should exercise caution when dealing in Tsogo shares until a further announcement is made.

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**Corporate advisor and transaction  
sponsor to Tsogo**

Investec Bank Limited

**Corporate Law Advisor to Tsogo**

Taback and Associates Proprietary Limited