



## **Sale of Casino Precincts to HPF Investor Presentation**

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# Transaction Overview

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|                                |  |
|--------------------------------|--|
| Overview                       | <ul style="list-style-type: none"><li>▪ Tsogo will dispose of 7 premium casino precincts (Montecasino; Gold Reef City; Silverstar; Suncoast; Blackrock; Emnotweni and The Ridge) to Hospitality</li><li>▪ Hospitality will lease the casino precincts to Tsogo under triple-net leases<ul style="list-style-type: none"><li>• 20 year minimum lease period</li><li>• Annual escalations at CPI</li><li>• Rental review conducted on 1 Apr 2025 and every 5 years thereafter with reference to the underlying casino precincts EBITDAR</li></ul></li></ul>            |
| Sale Consideration and Funding | <ul style="list-style-type: none"><li>▪ Sale consideration = R23 billion<ul style="list-style-type: none"><li>• Based on an initial rental of R1.94 billion and an agreed forward yield of 8.45%</li></ul></li><li>▪ Hospitality funding<ul style="list-style-type: none"><li>• Equity = R15.0 billion (Tsogo subscribes for 1.2 billion new Hospitality shares at R12.50 per share)</li><li>• Debt = R8.1 billion (combination of new bank debt and new notes issued under Hospitality's DMTN programme) utilised to settle existing Tsogo debt</li></ul></li></ul> |
| Unbundling                     | <ul style="list-style-type: none"><li>▪ Tsogo has undertaken to distribute its entire shareholding (c.87%) in Hospitality to its shareholders as soon as possible following the implementation of the transaction</li></ul>  |
| Timing                         | <ul style="list-style-type: none"><li>▪ <b>21 Sep 2018:</b> Circular and revised listing particulars made available</li><li>▪ <b>23 Oct 2018:</b> General meeting to vote on the transaction</li><li>▪ <b>1 Mar 2019:</b> Anticipated effective date</li><li>▪ <b>1 May 2019:</b> Anticipated unbundling of Hospitality shares by Tsogo</li></ul>  |

# Transaction Rationale

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## ▪ Tsogo Sun Holdings

- Casino regulatory risks including increased taxes and smoking regulations, etc. have been applied to both casino and hotel trading resulting in an undervaluation of the group
- By restructuring the group into a Propco (HPF) and Opco (Gaming & Hotel) structure, shareholders will be able to diversify their holdings on their risk appetite through holding:
  - HPF shares which provide more stable and predictable distributions
  - Tsogo shares which are more exposed to the risks and opportunities of the gaming and hotel industries and the South African macro-economic climate
- On a sum-of-parts valuation, the Tsogo (Opcos) shares plus the HPF (Propco) share is anticipated to be worth more than what a Tsogo share is currently worth, unlocking value for Tsogo shareholders

## ▪ Hospitality Property Fund

- The increased scale of HPF should provide access to global property indices, foreign investors, increased liquidity and potential re-rating of the share

# Transaction Risks

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## ▪ Tsogo Sun Holdings

- Fixed leases significantly increase the proportion of fixed costs in relation to variable costs in the Gaming Opco
- Opcos will become more heavily geared towards the economic environment and become significantly more volatile
- Opcos will not have the balance sheet to make significant investments locally or offshore in either hotels or gaming
- Splitting the mid-cap Tsogo Sun share into two small caps and a REIT may result in reducing the number of potential investors due to investment mandates

## ▪ Hospitality Property Fund

- HPF becomes highly exposed to the financial well-being of Tsogo as Tsogo would be HPF's most significant tenant (approximately 85% of rentals)

# Transaction Mechanics

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- 1
  - Tsogo undertakes an internal restructuring
  - The casino precincts are packaged into two wholly-owned subsidiaries - Listed Investments and Cassava

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- 2
  - Hospitality subscribes for shares worth R23 billion in Merway
  - Hospitality uses an intra-day bridge loan and R8.1 billion raised with bank debt/new notes issues under Hospitality DMTN programme to advance the R23 billion to Merway

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- 3
  - Merway acquires the entire issued share capital of Listed Investments and Cassava for R23 billion

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- 4
  - The vendors (various Tsogo subsidiaries) use the proceeds to:
    - subscribe for shares in Hospitality worth R15.0 billion; and
    - settle existing debt of R8.1 billion

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- 5
  - In preparation for unbundling, the vendors dispose of their Hospitality shares to TSH

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- 6
  - Listed Investments and Cassava amalgamate into HPF Properties

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- 7
  - TSH unbundles its Hospitality shares to its shareholders

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# Lease Terms

|                                     |   |
|-------------------------------------|---|
| <b>Lease type and duration</b>      | <ul style="list-style-type: none"> <li>▪ Each casino precinct will be let to Tsogo in terms of a triple net lease</li> <li>▪ Each head lease is for an initial period enduring to 31 Mar 2023, whereafter the lease may be terminated by either party on 15 years' written notice</li> </ul>  |
| <b>Rent</b>                         | <ul style="list-style-type: none"> <li>▪ Initial aggregate base rental payable for the seven precincts is R1.94 billion per annum</li> <li>▪ Rental escalating annually at CPI. The first escalation date is 1 April 2019</li> </ul>  |
| <b>Rental reviews</b>               | <ul style="list-style-type: none"> <li>▪ On 1 Apr 2025 and every 5 years thereafter, the rental payable shall be reviewed and re-calculated for the immediate subsequent 5 year period</li> <li>▪ The re-calculated rental shall equal the lesser of the aggregate escalated base rental and 70% (1.4:1 – EBITDAR to rent ratio) of the aggregate casino portfolio EBITDAR for the previous year escalated at the escalation rate. Any adjustment will be subject to a 2.5% threshold</li> <li>▪ On the first and second anniversaries of any rental review date, the parties will review the current rental against the aggregate escalated base rental in order to possibly re-set the rental payable upward (with the aggregate escalated base rental as a maximum)</li> </ul> |
| <b>Alterations and/or additions</b> | <ul style="list-style-type: none"> <li>▪ At the cost of Tsogo</li> <li>▪ Right of first refusal for any material improvements to Hospitality</li> <li>▪ Any earnings stemming from any material improvement(s) shall be included for purposes of calculating casino precinct EBITDAR, regardless of who paid for the improvement(s)</li> </ul>  |
| <b>Operating plant</b>              | <ul style="list-style-type: none"> <li>▪ Ownership remains with Tsogo until termination of the head lease(s) in question</li> </ul>   |
| <b>Maintenance</b>                  | <ul style="list-style-type: none"> <li>▪ Maintenance of Casino Precinct and operating plant to an upmarket casino standard at the cost of Tsogo</li> </ul>  |
| <b>Termination</b>                  | <ul style="list-style-type: none"> <li>▪ 15 years written notice post 1 Apr 2023 by either party</li> <li>▪ 5 years written notice in the event of two consecutive downward rental resets (either entire casino portfolio or specific precinct(s) causing the downward re-sets)</li> <li>▪ Tsogo has the right to waive a downward re-set to prevent termination</li> </ul>   |



# Casino Precincts Overview

|                                 | Montecasino  | Suncoast  | Gold Reef City   | Silverstar  | Emnotweni   | The Ridge   | Blackrock   |
|---------------------------------|--|---|--|---|---|---|---|
| Description                     |   |                                        |           |                               |  |                  |                                        |
|                                 | Mixed-use entertainment destination incorporating a wide variety of entertainment facilities. The precinct also includes an office component | The premier entertainment destination in the KwaZulu-Natal province located close to the landmark Moses Mabhida stadium | Mixed-use entertainment precinct, which is home to the popular Lyric and Barnyard theatres | The precinct is a comprehensive entertainment and conferencing venue which caters to the western Gauteng region | Dedicated gaming complex, adjacent to the Riverside Mall shopping centre            | Prime entertainment destination in the eMalahleni area, which is also adjacent to The Highveld Mall | Mixed-use precinct which is located in the largest town in KwaZulu-Natal, which is also the Northern Natal government hub |
| Location                        | Fourways, GP   | Durban, KZN   | Johannesburg, GP   | Muldersdrift, GP  | Nelspruit, MP   | eMalahleni, MP  | Newcastle, KZN  |
| Opened                          | 2000   | 2002  | 2000   | 2008  | 1997  | 1998  | 2006  |
| Casino licensee                 | Tsogo  | Tsogo   | Tsogo  | Tsogo   | Tsogo   | Tsogo   | Tsogo   |
| Casino tables                   | 82   | 57  | 51   | 30  | 19  | 19  | 10  |
| Casino slots                    | 1 700  | 1 622   | 1 600  | 900   | 425   | 436   | 300   |
| Built-up area (m <sup>2</sup> ) | 109 053  | 40 967  | 43 216   | 31 873  | 17 545  | 18 764  | 9 649   |
| Retail GLA (m <sup>2</sup> )    | 31 519   | 11 350  | 10 505   | 12 644  | 40  | 3 310   | 733   |
| Office GLA (m <sup>2</sup> )    | 25 700   | -   | -  | -   | -   | -   | -   |
| Hotels                          | 3  | 1   | 1  | 1   | 2   | 2   | 1   |
| Hotel rooms                     | 619  | 165   | 38   | 34  | 224   | 175   | 80  |

# US Net Lease REITS

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- In the US market, there are at least 3 REITS that focus on triple net leases within the gaming, hospitality and entertainment sector
  - VICI Properties Inc (IPO date – February 2018)
  - MGM Growth Properties LLC (IPO date – 2015)
  - Gaming & Leisure Properties Inc (IPO date – 2013)
- These three US Gaming REITS have features that are similar to Project Aurora:
  - Property assets transferred from a gaming operator into a REIT and leased back
  - Triple net leases, with the tenant also responsible for ongoing capex
  - Initial lease terms of 10 – 15 years followed by multiple long-term renewal options
  - Rental escalations linked to inflation
  - EBITDAR or revenue-to-rent ratio covenants or triggers
  - Tenant's performance is guaranteed by the gaming operator

**VICI**™









# Tsogo Post Sale and Unbundling (Rm)

|                              | F'18<br>Reported     | HPF<br>Deconsoli-<br>dation | Gaming<br>leases and<br>debt | F'18<br>Illustrative | Exceptional<br>Items | F'18<br>Normalised |
|------------------------------|----------------------|-----------------------------|------------------------------|----------------------|----------------------|--------------------|
| <b>Income</b>                | <b>13 975</b>        | <b>(402)</b>                | <b>-</b>                     | <b>13 573</b>        |                      | <b>13 573</b>      |
| Net gaming win               | 7 940                | -                           | -                            | 7 940                |                      |                    |
| Revenue                      |                      | -                           | -                            |                      |                      |                    |
| Rooms                        | 3 160                | -                           | -                            | 3 160                |                      |                    |
| F&B                          | 1 561                | -                           | -                            | 1 561                |                      |                    |
| Rental income                | 549                  | (402)                       | -                            | 147                  |                      |                    |
| Other                        | 765                  | -                           | -                            | 765                  |                      |                    |
| <b>Ebitdar</b>               | <b>5 271</b>         | <b>(362)</b>                | <b>-</b>                     | <b>4 909</b>         |                      | <b>4 909</b>       |
| LTI expense                  | 24                   | -                           | -                            | 24                   |                      | 24                 |
| Property rentals             | (282)                | (464)                       | (1 842) <sup>(1)</sup>       | (2 588)              |                      | (2 588)            |
| Amortisation & depreciation  | (912)                | 76                          | 53                           | (783)                |                      | (783)              |
| Exceptional items            | (439)                | 196                         | -                            | (243)                | 243                  | -                  |
| Net finance costs            | (1 157)              | 164                         | 743                          | (250)                |                      | (250)              |
| Associates and JVs           | 63                   | -                           | -                            | 63                   | (15)                 | 48                 |
| Taxation                     | (410) <sup>(2)</sup> | 158                         | 308                          | 56 <sup>(2)</sup>    | (350) <sup>(2)</sup> | (294)              |
| Non-controlling interests    | (187)                | 166                         | -                            | (21)                 |                      | (21)               |
| <b>Attributable earnings</b> | <b>1 971</b>         | <b>(66)</b>                 | <b>(738)</b>                 | <b>1 167</b>         | <b>(122)</b>         | <b>1 045</b>       |
| Adjustments                  | (5)                  | (117)                       | -                            | (122)                |                      | -                  |
| <b>Adjusted earnings</b>     | <b>1 966</b>         | <b>(183)</b>                | <b>(738)</b>                 | <b>1 045</b>         | <b>(122)</b>         | <b>1 045</b>       |

**Note:** Assuming transaction on 1 April 2017 and excluding once off items

<sup>(1)</sup> R1 944 million rental used in proforma's in the circular. Discounted by CPI for the adjustment above

<sup>(2)</sup> Includes a R307 million deferred tax release which will not repeat in future years

# Tsogo Post Sale and Unbundling (Rm)

|                                      | F'18<br>Reported | HPF<br>Deconsoli-<br>dation | The sale,<br>subscription<br>& debt | Goodwill<br>derecognition<br>&<br>impairments | Deferred tax<br>&<br>transaction<br>costs | F'18<br>Illustrative |
|--------------------------------------|------------------|-----------------------------|-------------------------------------|---|---|----------------------|
| <b>Assets</b>                        |                  |                             |                                     |   |   |                      |
| Property, plant and equipment        | 16 038           | (3 558)                     | (4 867)                             | -   | -   | 7 613                |
| Investment properties                | 5 255            | (5 101)                     | -                                   | -   | -   | 154                  |
| Goodwill and other intangible assets | 6 507            | -                           | -                                   | (2 758)                                       | -   | 3 749                |
| Cash and cash equivalents            | 2 778            | (390) <sup>(1)</sup>        | -                                   | -   | (13)                                      | 2 375                |
| Other assets                         | 3 202            | (177)                       | -                                   | -   | -   | 3 025                |
| <b>Total assets</b>                  | <b>33 780</b>    | <b>(9 226)</b>              | <b>(4 867)</b>                      | <b>(2 758)</b>                                | <b>(13)</b>                               | <b>16 916</b>        |
| <b>Equity</b>                        |                  |                             |                                     |   |   |                      |
| Ordinary share capital and premium   | 6 636            | -                           | -                                   | -   | -   | 6 636                |
| Other reserves                       | (2 040)          | (870)                       | -                                   | -   | -   | (2 910)              |
| Retained earnings                    | 6 280            | (3 123)                     | 3 185                               | (2 758)                                       | 107                                       | 3 691                |
| Non-controlling interests            | 3 318            | (3 036)                     | -                                   | -   | -   | 282                  |
| <b>Total equity</b>                  | <b>14 194</b>    | <b>(7 029)</b>              | <b>3 185</b>                        | <b>(2 758)</b>                                | <b>107</b>                                | <b>7 699</b>         |
| <b>Liabilities</b>                   |                  |                             |                                     |   |   |                      |
| Interest bearing borrowings          | 15 315           | (1 948)                     | (8 052)                             | -   | -   | 5 315                |
| Other liabilities                    | 4 271            | (249) <sup>(1)</sup>        | -                                   | -   | (120)                                     | 3 902                |
| <b>Total liabilities</b>             | <b>19 586</b>    | <b>(2 197)</b>              | <b>(8 052)</b>                      | <b>-</b>                                      | <b>(120)</b>                              | <b>9 217</b>         |
| <b>Total equity and liabilities</b>  | <b>33 780</b>    | <b>(9 226)</b>              | <b>(4 867)</b>                      | <b>(2 758)</b>                                | <b>(13)</b>                               | <b>16 916</b>        |

**Note:** Assuming transaction on 31 March 2018

<sup>(1)</sup> R373 million cash deposits included in other liabilities in the circular reallocated to cash and cash equivalents

# Funding Covenants Post Sale and Unbundling (Rm)

|                       | F'18<br>Reported | HPF<br>Deconsoli-<br>dation | The sale,<br>subscription<br>& debt | Transaction<br>costs | F'18<br>Illustrative |
|-----------------------|------------------|-----------------------------|-------------------------------------|----------------------|----------------------|
| <b>Tsogo Sun</b>      |                  |                             |                                     |                      |                      |
| Net debt              | 12 537           | (1 545)                     | (8 052)                             | (13)                 | 2 927                |
| Ebitda                | 4 989            | (826)                       | (1 842)                             |                      | 2 321                |
| Debt : Ebitda         | 2.5              |                             |                                     |                      | 1.3                  |
| Funding covenant      | 3.0              |                             |                                     |                      | 3.0                  |
| <b>HPF</b>            |                  |                             |                                     |                      |                      |
| Gross debt            | 1 936            |                             | 8 052                               |                      | 9 988                |
| Investment properties | 12 534           |                             | 23 007                              |                      | 35 542               |
| LTV                   | 15.4%            |                             | 35.0%                               |                      | 28.1%                |
| Funding covenant      | 40.0%            |                             |                                     |                      | 40.0%                |



# Financial Impact of the Transaction on Tsogo Shareholders

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- Following the transaction and unbundling shareholders will receive taxable distributions from a REIT rather than dividends out of post tax profits for approximately 45% of the group distributions
  - The impact on shareholders depends on their tax status
  - Interest on borrowings to acquire REIT shares is deductible against the taxable distributions
- Cash distributions from the group will increase as most of the REIT distributable earnings will be distributed in addition to the dividends from the Gaming and Hotel Opcos
  - Dividend policy for the Gaming and Hotel Opcos to be finalised dependent on growth prospects
- The disposal of the assets results in additional cash tax of approximately R41m per year due to the loss of § 13quin and § 13bis allowances which will reduce profits and distributions
- The impact of the unbundling depends on the tax status of the shareholder
  - The distribution in specie of 918 million HPF shares
    - Will be subject to dividends tax unless it is exempt in terms of §10(1)(k)(i) of the ITA
    - Will be at a base cost equal to the market value of an HPF share on the date of distribution
  - The unbundling of 620 million HPF shares
    - Will not be subject to dividends tax
    - Will be at a base cost calculated in terms of the apportionment formula included in §46 of the ITA on the shareholders' base cost of their Tsogo shares





## Appendix A

### Casino Precincts



# Montecasino

## ▪ Precinct Overview

- The Montecasino precinct is a premier mixed-use entertainment destination which includes gaming, leisure, retail, restaurant and hotel facilities
- The Privé, in the main casino area, offers various slots and tables that cater to the more discerning gamer with private and semi-private gaming rooms
- Situated on the corner of William Nicol Drive and Witkoppen Road, the precinct enjoys good access via the Sandton road network
- There is a good mix of restaurants and fast food outlets, with both national franchises as well as independent operators
- There are three hotels on the Precinct: the Palazzo, the Southern Sun Montecasino and the SunSquare Montecasino
- Ancillary entertainment offerings in the precinct include the Teatro and Pieter Toerien theatres, the second largest movie house in the country with 15 cinemas and The Magic Company



## Key Metrics

|                                       |         |
|---------------------------------------|---------|
| Casino tables                         | 82      |
| Casino slots                          | 1 700   |
| Gross built-up area (m <sup>2</sup> ) | 109 053 |
| Retail GLA (m <sup>2</sup> )          | 31 519  |
| Office GLA (m <sup>2</sup> )          | 25 700  |
| Hotel rooms                           | 619     |



# Suncoast

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## ▪ Precinct Overview

- Suncoast Casino and Entertainment World enjoys an attractive location close to the Moses Mabhida and Kings Park stadiums
- The precinct is currently undergoing a redevelopment which started in 2016 and is expected to be completed at the end of 2018
- The redevelopment is expected to attract more high-end demand and will add additional retail space
- The Privé in the main casino area caters to the more discerning gamer and also includes private gaming areas
- The movie theatre in the precinct has the highest occupancy rate in South Africa
- There are two hotels in the precinct: Suncoast Towers and the SunSquare Suncoast



## Key Metrics

|                                       |        |
|---------------------------------------|--------|
| Casino tables                         | 57     |
| Casino slots                          | 1 622  |
| Gross built-up area (m <sup>2</sup> ) | 40 967 |
| Retail GLA (m <sup>2</sup> )          | 11 350 |
| Office GLA (m <sup>2</sup> )          | -      |
| Hotel rooms                           | 165    |

# Gold Reef City

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## ▪ Precinct Overview

- Gold Reef City is located in an old, established suburb 10km south of the Johannesburg CBD
- Also located on the premises is the well-known Apartheid Museum, which is independently managed from the casino itself
- The precinct provides a full entertainment offering including gaming, leisure, retail, restaurant and hotel facilities
- The Privé offers a mix of slots and tables and caters to the more discerning gamer
- Restaurants in the precinct include a good mix of national franchises and independent operators, with some being operated by Tsogo
- The precinct includes a Southern Sun hotel



## Key Metrics

|                                       |        |
|---------------------------------------|--------|
| Casino tables                         | 51     |
| Casino slots                          | 1 600  |
| Gross built-up area (m <sup>2</sup> ) | 43 216 |
| Retail GLA (m <sup>2</sup> )          | 10 505 |
| Office GLA (m <sup>2</sup> )          | -      |
| Hotel rooms                           | 38     |

# Silverstar

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## ▪ Precinct Overview

- The Silverstar Casino precinct is located in the mature and established suburb of Muldersdrift
- The Privé in the main casino area offers a mix of slots and tables, with a semi-private area that includes tables and slots
- The casino targets the West Rand area, with the majority of patrons residing within a 15-km radius
- The precinct also offers corporate event venues which are located in the casino and also has banqueting facilities
- There is a Southern Sun Hotel in the precinct



## Key Metrics

|                                       |        |
|---------------------------------------|--------|
| Casino tables                         | 30     |
| Casino slots                          | 900    |
| Gross built-up area (m <sup>2</sup> ) | 31 873 |
| Retail GLA (m <sup>2</sup> )          | 12 644 |
| Office GLA (m <sup>2</sup> )          | -      |
| Hotel rooms                           | 34     |



# Emnotweni

## ■ Precinct Overview

- The Emnotweni Precinct forms part of an expanding commercial node in Mbombela (formerly Nelspruit) which has seen much new development in recent years
- The precinct adjoins the popular Riverside Mall, and therefore the food and beverage offerings within the actual casino complex is limited
- Ancillary entertainment offerings are provided in space rented from Riverside Mall and therefore do not form part of the casino complex
- The precinct offers a large corporate event venue known as The Arena, which is located inside the casino
- There are two hotels on the precinct: a Southern Sun Hotel and a StayEasy Hotel



## Key Metrics

|                                       |        |
|---------------------------------------|--------|
| Casino tables                         | 19     |
| Casino slots                          | 425    |
| Gross built-up area (m <sup>2</sup> ) | 17 545 |
| Retail GLA (m <sup>2</sup> )          | 40     |
| Office GLA (m <sup>2</sup> )          | -      |
| Hotel rooms                           | 224    |

# The Ridge

## ▪ Precinct Overview

- The Ridge Precinct is located in an area of eMalahleni (formerly Witbank) which has seen a large amount of development in recent years
- The precinct is adjacent to The Highveld Mall and therefore the food and beverage offerings within the actual casino complex is limited
- The food and beverage offerings that are currently in the casino complex are all operated by Tsogo Sun
- The precinct also offers a 1 000 seater venue that is used to host live shows and events
- Ancillary entertainment offerings include a movie theatre, The Magic Company and open-air Putt-Putt course
- There are two hotels in the precinct: the Southern Sun Ridge and a StayEasy Hotel



## Key Metrics

|                                       |        |
|---------------------------------------|--------|
| Casino tables                         | 19     |
| Casino slots                          | 436    |
| Gross built-up area (m <sup>2</sup> ) | 18 764 |
| Retail GLA (m <sup>2</sup> )          | 3 310  |
| Office GLA (m <sup>2</sup> )          | -      |
| Hotel rooms                           | 175    |

# Blackrock

## ▪ Precinct Overview

- Blackrock Casino is located in Newcastle which is the largest town in KwaZulu-Natal
- A portion of the precinct has recently been renovated
- The property also has four corporate event venues
- Newcastle has limited hotel supply, and the Garden Court is one of the few branded hotels in the node



## Key Metrics

|                                       |       |
|---------------------------------------|-------|
| Casino tables                         | 10    |
| Casino slots                          | 300   |
| Gross built-up area (m <sup>2</sup> ) | 9 649 |
| Retail GLA (m <sup>2</sup> )          | 733   |
| Office GLA (m <sup>2</sup> )          | -     |
| Hotel rooms                           | 80    |



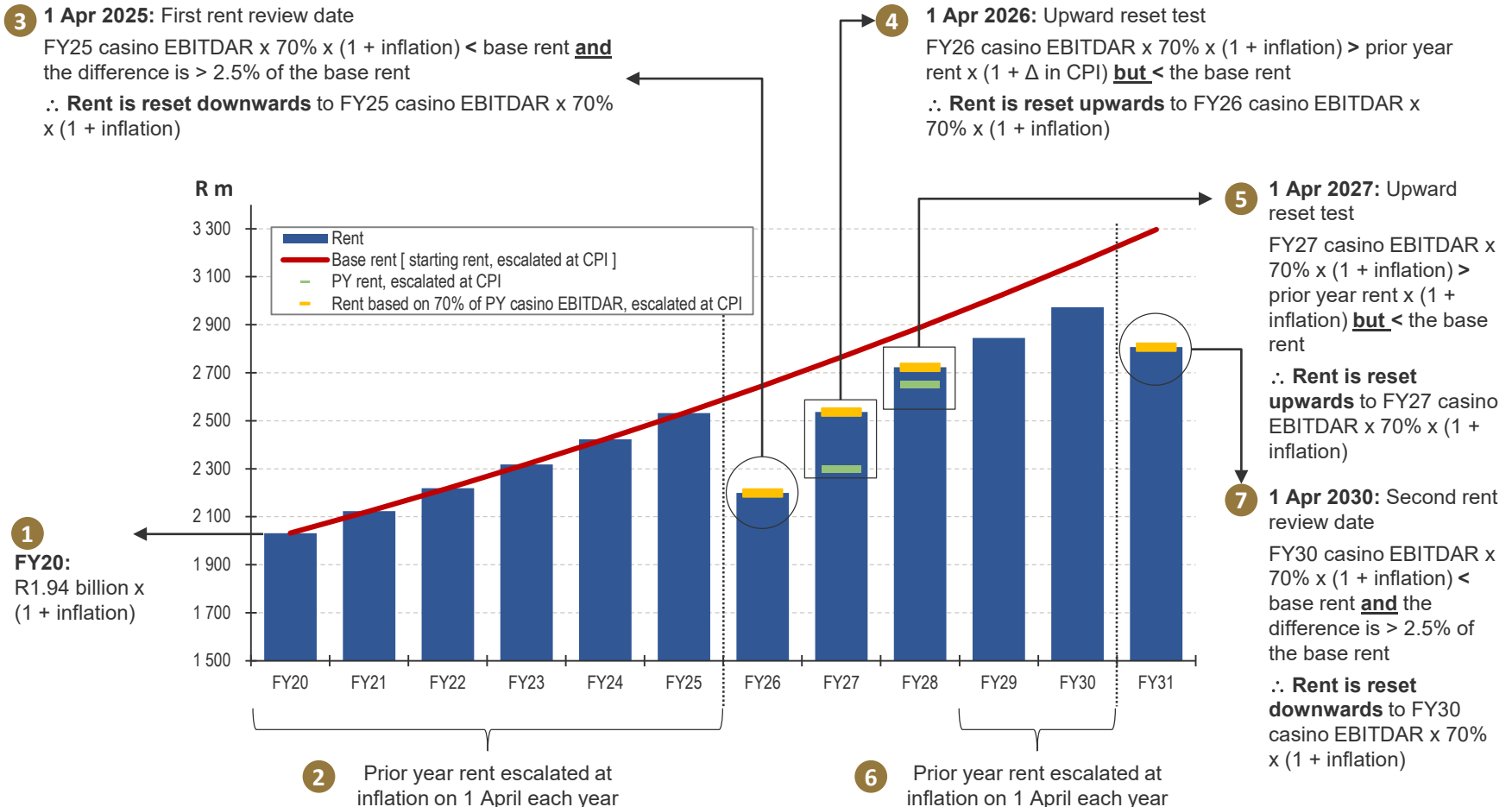


## Appendix B

### Rental Reset Example



# Rental Reset Example



(1) The forecast assumes an inflation rate of 4.50% (mid-point of the SA Reserve Bank's target range)

(2) The resets shown in this example are theoretical, for illustrative purposes only, and do not represent any kind of forecast

