CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

Suncoast Casino, Hotels & Entertainment: Durban's premier and best hospitality destination

Continuing operations	**Six months ended 30 September 2021 Rm**	Six months ended 30 September 2020 Rm	Change on prior year %	Six months ended 30 September 2019 Rm	Sept 2021 change on Sept 2019 %
Income	**3 823**	1 565	144	5 958	(36)
Operating costs	**(2 543)**	(1 374)	(85)	(3 978)	36
EBITDA	**1 280**	191	570	1 980	(35)
Adjusted EBITDA (including leases)	**1 243**	151	723	1 920	(35)
EBITDA margin	**33%**	12%	21 pp	33%	0 pp
Net finance cost (excluding leases)	**(398)**	(477)	17	(540)	26
Headline earnings/(loss)	**323**	(543)	159	675	(52)
Adjusted EBITDA to HE conversion rate	**26%**	–	–	35%	(9) pp
Dividend per share (cents)	**–**	–	–	26	(100)
Capex and investments	**(83)**	(86)	3	(414)	80
NIBD and guarantees	**(10 262)**	(11 830)	13	(11 264)	9
September 2021 reset covenants achieved					

TSOGO SUN GAMING

Tsogo Sun Gaming Limited
(Incorporated in the Republic of South Africa)
(Registration number 1989/002108/06)
Share code: TSG ISIN: ZAE000273116
JSE Alpha code: TSGI
("Tsogo Sun Gaming" or "the company" or "the group")
www.tsogosungaming.com

Commentary

33%
EBITDA
margin

REVIEW OF OPERATIONS

Introduction

Tsogo Sun Gaming's half year results were adversely impacted by the closure of the group's businesses from 28 June 2021 to 25 July 2021 as a result of the third wave of the Covid-19 pandemic.

The group, however, still managed to achieve income of R3.8 billion (up 144% from the six months ended 30 September 2020, but still 36% below pre-Covid levels for the six months ended 30 September 2019) and adjusted EBITDA (after IFRS 16 adjustments) of R1.2 billion (up 723%, but still 35% below pre-Covid levels).

The headline earnings for the period amounted to R323 million, which is a great improvement from the R543 million headline loss reported for the prior year interim period. The various trading restrictions emanating as a result of the ongoing National State of Disaster, which included various curfews, alcohol bans, trading and capacity restrictions, and the total lockdown for the better part of July 2021 resulted in a R352 million reduction in headline earnings compared to the pre-Covid comparable six months ended 30 September 2019.

The EBITDA margin of 33% achieved for the September 2021 interim reporting period is in line with the pre-Covid September 2019 period, which is an exceptional achievement in a restricted environment.

Operating expenses

Management has continued to focus on cost reductions and operational efficiencies during the reporting period, resulting in a significantly reduced cost base. As the group gradually returns to a normal state (hopefully in the 2023 financial year) after continuous restrictions affecting the business over an extended period, certain expenses, some of which are beyond our control (such as utility costs), will continue to increase, offsetting some of the saving initiatives achieved. The visibility of where the operating cost base will finish when we return to a normalised trading environment, remains difficult to determine accurately at this point in time.

Casinos

In addition to the other restrictions imposed, losing between three to five hours of peak trading time daily for casinos as a result of the varying curfews negatively impacts the business and employees' livelihoods, and will continue to do so should further restrictions and/or lockdowns be imposed.

It is impossible to ascertain with certainty when gaming win will fully recover after all restrictions are finally lifted as predicted to happen sometime in the 2023 financial year, since the casinos have not had one full month of unrestricted trading for the past 20 months. However, during adjusted level 1 restrictive regulations with a 23:00 closing time, there were certainly some encouraging trading levels.

Casinos *continued*

Other income streams, comprising mainly food and beverage, rooms, tenanting income and cinemas, remained under pressure during the period under review.

Developments within the digital and technology space are progressing to position the group to benefit in the long term.

Bingo

The violence and looting which took place in July 2021 resulted in the destruction and closure of two bingo sites in KwaZulu-Natal. These sites were only reopened in November 2021. The region's other bingo sites were also negatively impacted due to shopping centres in KwaZulu-Natal opting to close earlier than required in order to mitigate security threats.

The Bingo division completed the development of its flagship, state-of-the-art "The Marco Polo" site at Sandton City in Gauteng in November 2021. Even though the site is located on a mezzanine level, efficient operational support is expected from the new landlord which should support the profitability of the business.

Limited Pay Out Machines ("LPMs")

The LPM division achieved EBITDA of R236 million for the six months despite the restrictive regulations, including curfews and alcohol bans affecting restaurants and bars.

This division performs above pre-Covid levels in terms of gaming win when permitted to operate until 23:00 daily under adjusted level 1 restrictions.

Finance costs

Net finance costs (excluding leases) for the period amounted to R398 million, a significant decrease from the prior period reported of R477 million. Interest rate swap hedges amounting to R4.0 billion matured in June 2021, which resulted in an interest cost improvement. With effect from July 2021, R3.5 billion interest rate swap hedges remain in place.

CAPITAL EXPENDITURE, INVESTMENTS AND SALE OF ASSETS

Capital expenditure and investments of R83 million (excluding capital creditors paid during the period but capitalised in the prior financial year end of R30 million) for the period comprised bingo development projects, gaming machine purchases and unavoidable maintenance capex.

With the ongoing cash flow constraints, no major development projects are planned for the second half of the 2022 financial year. Investment opportunities within the industry are continuously being evaluated. Non-core assets to the value of R58 million, comprising mainly surplus land, are held for sale and will be offloaded at acceptable prices.

DEBT AND COVENANTS

The group achieved the financial covenant resets for the September 2021 period.

The next net leverage requirements are for the net debt to adjusted EBITDA ratio to be lower than 3.8 times, and for the adjusted EBITDA to cover interest by not less than 3 times for the rolling 12 months to December 2021. At the date of this report, the directors are not aware of any circumstances whereby the group should not be able to achieve these December 2021 covenant requirements.

Preliminary approval has been obtained from lenders for a reset of the net leverage covenant of 31 March 2022 to 3.6 times net debt to adjusted EBITDA, if required. This is subject to various additional deliverables by 28 February 2022, including a further reduction of net debt levels to lower than or equal to R9.7 billion and a first partial early repayment of at least R300 million of the three-year term loans and secured notes due in November 2022.

The group has done well to reduce net interest bearing debt and guarantees by R1.5 billion from R11.8 billion as at 30 September 2020 to R10.3 billion at 30 September 2021, notwithstanding the restrictive trading conditions.

The group's focus remains to reduce its medium to long-term debt levels, thereby reducing risk and funding costs.

REGULATORY

Notwithstanding that the group continues to provide significant economic and employment benefits to the provinces in which it operates, it is disappointing to note that various regulators continue to attempt to introduce even more regulatory hurdles for the gaming industry. This is whilst unregulated illegal gambling operations continue to thrive.

DIVIDENDS

The board of directors has not declared an interim dividend in respect of the six months ended 30 September 2021.

PROSPECTS

The country moved to adjusted alert level 2 lockdown on 13 September 2021 and to level 1 on 1 October 2021, resulting in the business gaining an extra hour of peak time trading with each adjustment. The prospects of the group can be best explained by reference to the September and October 2021 month performances, taking into account that the gaming businesses are still required to close at 23:00.

PROSPECTS *continued*

Net gaming win achieved for the month of October 2021was the highest yet since Covid-19 was first detected in South Africa, although not yet reaching pre-Covid levels due to time and capacity constraints which are still in place.

The average performance for September and October was:

	Rm
Income	**790**
Net gaming win	**706**
EBITDA	**279**
EBITDA margin	**35%**

NIBD and guarantees at 31 October 2021
R9.96 billion

Net interest bearing debt and guarantees reduced further to R9.96 billion as at 31 October 2021, which is R0.97 billion lower than at the 31 March 2021 year end. The focus to further substantially reduce debt will continue.

The progress being made with the rollout of the Covid-19 vaccine is encouraging and it is hoped that this will assist in limiting the potential for a devastating fourth wave. If this can be achieved, the group is well positioned for an improved performance in the second half of the 2022 financial year. We look forward to the lifting of the National State of Disaster, hopefully during or before the 2023 financial year, so the group can once again trade at full capacity, to the benefit of all our stakeholders.

CG du Toit
Chief Executive Officer
25 November 2021

G Lunga
Chief Financial Officer

Condensed consolidated income statement

for the six months ended 30 September

	2021 Unaudited Rm	2020 Unaudited Rm
Net gaming win	**3 332**	1 464
Food and beverage revenue	**136**	21
Rooms revenue	**111**	22
Other revenue[(1)]	**84**	17
Other income[(2)]	**160**	41
Income	**3 823**	1 565
Gaming levies and Value Added Tax	**(727)**	(316)
Employee costs	**(675)**	(416)
Other operating expenses[(3)]	**(1 138)**	(649)
Amortisation and depreciation[(4)]	**(392)**	(447)
Operating profit/(loss)	**891**	(263)
Finance income	**10**	12
Finance costs[(5)]	**(422)**	(507)
Share of loss of associates	**–**	(6)
Profit/(loss) before income tax	**479**	(764)
Income tax (expense)/credit	**(143)**	197
Profit/(loss) for the period	**336**	(567)
Profit/(loss) attributable to:		
Equity holders of the company	**325**	(550)
Non-controlling interests	**11**	(17)
	336	(567)
Basic and diluted earnings/(loss) attributable to the ordinary equity holders of the company per share (cents)	**31.1**	(52.6)

[(1)] *Comprises mainly revenues from Theme Park, cinemas, parking and other sundry revenue*

[(2)] *Comprises mainly property rentals, and in the current year, the group's business interruption insurance claim being the settlement of R111 million in respect of the negative impact of the Covid-19 pandemic on the trading of the group's businesses*

[(3)] *Includes costs which are directly linked to income being LPM site owners' commission R224 million (2020: R88 million), monitoring fees for sites R45 million (2020: R18 million) and equipment rentals R38 million (2020: R12 million)*

[(4)] *Includes R23 million (2020: R21 million) depreciation in respect of IFRS 16* right-of-use assets

[(5)] *Includes R14 million (2020: R18 million) finance costs in respect of IFRS 16* lease liabilities

Condensed consolidated statement of comprehensive income

for the six months ended 30 September

	2021 Unaudited Rm	2020 Unaudited Rm
Profit/(loss) for the period	**336**	(567)
Other comprehensive profit/(loss) for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:	**70**	(186)
Cash flow hedges	**97**	(258)
Income tax relating to items that may subsequently be reclassified to profit or loss	**(27)**	72
Items that may not be reclassified to profit or loss:	**63**	(39)
Equity instruments at FVOCI	**63**	(50)
Income tax relating to items that may not subsequently be reclassified to profit or loss	**–**	11
Total comprehensive income/(loss) for the period	**469**	(792)
Total comprehensive income/(loss) attributable to:		
Equity holders of the company	**458**	(775)
Non-controlling interests	**11**	(17)
Total comprehensive income/(loss) attributable to equity holders	**469**	(792)

Condensed consolidated balance sheet

	Notes	As at 30 September 2021 Unaudited Rm	As at 31 March 2021 Audited Rm
ASSETS			
Non-current assets			
Property, plant and equipment		**8 298**	8 560
Right-of-use assets		**209**	224
Investment properties	5.1	**352**	350
Goodwill	4	**1 461**	1 461
Other intangible assets	4	**2 893**	2 903
Investments in associates		**33**	33
Financial assets at FVOCI	5.2	**738**	675
Non-current receivables		**44**	52
Deferred income tax assets		**170**	130
		14 198	14 388
Current assets			
Inventories		**78**	81
Trade and other receivables[(1)]		**384**	531
Current income tax assets		**50**	100
Cash and cash equivalents		**604**	516
		1 116	1 228
Assets classified as held for sale		**58**	59
		1 174	1 287
Total assets		**15 372**	15 675
EQUITY			
Capital and reserves attributable to equity holders of the company			
Ordinary share capital and premium		**6 487**	6 487
Other reserves		**(4 328)**	(4 461)
Accumulated loss		**(230)**	(555)
Total shareholders' equity		**1 929**	1 471
Non-controlling interests		**107**	113
Total equity		**2 036**	1 584
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings	6	**10 300**	10 300
Lease liabilities		**252**	266
Derivative financial instruments	5.3	**174**	228
Deferred income tax liabilities		**1 173**	1 107
Provisions and other non-current liabilities		**87**	42
		11 986	11 943
Current liabilities			
Interest-bearing borrowings	6	**429**	1 007
Lease liabilities		**43**	40
Trade and other current payables[(1)]		**851**	1 068
Current income tax liabilities		**27**	33
		1 350	2 148
Total liabilities		**13 336**	14 091
Total equity and liabilities		**15 372**	15 675

[(1)] *Reductions in trade and other receivables and trade and other current payables are mainly due to the receipt of the business interruption reinsurance recoveries by the group of R174 million and the settlement of the business interruption insurance claims by the group of R177 million respectively – refer note 7* Related Party Transactions

Condensed consolidated statement of changes in equity

for the six months ended 30 September

	Attributable to equity holders of the company					
	Ordinary share capital and premium Rm	**Other reserves Rm**	**Accumulated loss Rm**	**Total Rm**	**Non-controlling interests Rm**	**Total equity Rm**
Balance at 1 April 2020 (audited)	6 487	(4 081)	(576)	1 830	126	1 956
Total comprehensive income	–	(225)	(550)	(775)	(17)	(792)
Acquisition of common control entity	–	(26)	–	(26)	–	(26)
Acquisition of non-controlling interests	–	–	–	–	(22)	(22)
Ordinary dividends	–	–	–	–	(4)	(4)
Balance at 30 September 2020 (unaudited)	6 487	(4 332)	(1 126)	1 029	83	1 112
Balance at 1 April 2021 (audited)	6 487	(4 461)	(555)	1 471	113	1 584
Total comprehensive income	–	133	325	458	11	469
Ordinary dividends	–	–	–	–	(17)	(17)
Balance at 30 September 2021 (unaudited)	**6 487**	**(4 328)**	**(230)**	**1 929**	**107**	**2 036**

Condensed consolidated cash flow statement

for the six months ended 30 September

	Note	**2021 Unaudited Rm**	2020 Unaudited Rm
Cash flows from operating activities			
Profit/(loss) before income tax		**479**	(764)
Adjusted for finance income and costs, equity accounted earnings and non-cash movements		**851**	893
(Increase)/decrease in working capital		**(20)**	52
Cash generated from operations		**1 310**	181
Finance income		**8**	12
Finance costs[(1)]		**(817)**	(351)
Income tax paid		**(99)**	(54)
Dividends paid to non-controlling interests		**(12)**	(4)
Net cash generated from/(utilised in) operating activities		**390**	(216)
Cash flows from investment activities			
Purchase of property, plant and equipment		**(111)**	(74)
Proceeds from disposals of property, plant and equipment		**2**	1
Additions to investment property		**(2)**	–
Acquisition of common control entity, net of cash acquired		**–**	(39)
Other loans and investments (made)/repaid		**(1)**	1
Proceeds from disposals of non-current assets held for sale		**3**	–
Net cash utilised for investment activities		**(109)**	(111)
Cash flows from financing activities			
Borrowings raised		**–**	600
Borrowings repaid	6	**(250)**	(300)
Principal elements of lease payments	6	**(15)**	(4)
Net cash (utilised in)/generated from financing activities		**(265)**	296
Net increase/(decrease) in cash and cash equivalents		**16**	(31)
Cash and cash equivalents at beginning of period, net of bank overdrafts		**458**	503
Cash and cash equivalents at end of period, net of bank overdrafts		**474**	472

(1) *Increase over prior year relates mainly to the settlement of interest of R400 million paid in the current period which was capitalised in the prior year – refer note 6*

Reconciliation of earnings attributable to equity holders of the company to headline earnings

for the six months ended 30 September

	2021 Unaudited Rm	2020 Unaudited Rm
Profit/(loss) attributable to equity holders of the company	**325**	(550)
(Less)/add: Headline adjustments		
Gain on disposal of property, plant and equipment	**(3)**	(1)
Impairment of property, plant and equipment	**–**	7
Impairment of intangible assets	**–**	1
Total tax effects of headline earnings adjustments	**1**	–
Headline earnings/(loss)	**323**	(543)
Number and weighted average number of shares in issue (million)	**1 046**	1 046
Basic and diluted headline earnings/(loss) per share (cents)	**30.9**	(51.9)

Reconciliation of operating profit/(loss) to EBITDA

for the six months ended 30 September

	2021 Unaudited Rm	2020 Unaudited Rm
EBITDA pre-exceptional items is made up as follows:		
Operating profit/(loss)	**891**	(263)
Add: Amortisation and depreciation	**392**	447
	1 283	184
(Less)/add: Headline adjustments	**(3)**	7
Gain on disposal of property, plant and equipment	**(3)**	(1)
Impairment of property, plant and equipment	**–**	7
Impairment of intangible assets	**–**	1
EBITDA	**1 280**	191

EBITDA excludes the effects of items which are regarded as unusual, are infrequent and are considered to distort the numbers if they were not adjusted (there were no adjustments in the current or prior periods to EBITDA), and headline adjustments in terms of Circular 1/2021 *Headline Earnings*.

Segmental analysis

for the six months ended 30 September

There has been no change in the basis of measurement of segment profit or loss since the previous financial year end. The segment income and EBITDA for the period under review is as follows:

	Income[1]		EBITDA[2][3]	
	2021 Unaudited Rm	2020 Unaudited Rm	**2021 Unaudited Rm**	2020 Unaudited Rm
Casinos	**2 715**	1 151	**1 088**	201
Gauteng	**1 383**	618	**534**	108
KwaZulu-Natal	**777**	300	**338**	63
Mpumalanga	**231**	96	**90**	14
Western Cape	**202**	85	**90**	16
Eastern Cape	**83**	36	**24**	1
Free State	**39**	16	**12**	(1)
Bingo	**317**	117	**86**	(8)
LPMs	**754**	294	**236**	64
Other gaming operations	**37**	3	**(130)**	(66)
Group	**3 823**	1 565	**1 280**	191

[1] *All revenue and income from operations is derived from external customers. No one customer contributes more than 10% to the group's total revenue and income*

[2] *Refer reconciliation of operating profit to EBITDA*

[3] *All casino units are reported pre-internal gaming management fees*

Disaggregation of revenue from contracts with customers

for the six months ended 30 September

The group derives revenue over time, with the exception of food and beverage revenue which is recognised at a point in time. The group has no contract assets. The table below presents revenue by segment which excludes gaming win and other income as these are accounted for under different accounting policies, which are included in the segmental analysis. Disaggregation of revenue from contracts with customers for the period under review is as follows:

	Food and beverage recognised at a point in time		Rooms revenue recognised over time		Other revenue recognised over time		Revenue from contracts with customers	
	2021 Rm	2020 Rm	**2021 Rm**	2020 Rm	**2021 Rm**	2020 Rm	**2021 Rm**	2020 Rm
Casinos	**115**	17	**111**	22	**81**	17	**307**	56
Gauteng	**52**	6	**35**	6	**70**	11	**157**	23
KwaZulu-Natal	**30**	4	**28**	3	**5**	2	**63**	9
Mpumalanga	**15**	3	**32**	10	**3**	3	**50**	16
Western Cape	**10**	3	**7**	2	**2**	1	**19**	6
Eastern Cape	**6**	1	**9**	1	**1**	–	**16**	2
Free State	**2**	–	**–**	–	**–**	–	**2**	–
Bingo	**21**	4	**–**	–	**2**	–	**23**	4
Other gaming operations	**–**	–	**–**	–	**1**	–	**1**	–
Group	**136**	21	**111**	22	**84**	17	**331**	60

	2021 Rm	2020 Rm
Reconciliation to segmental analysis:		
Net gaming win	**3 332**	1 464
Revenue from contracts with customers per above	**331**	60
Other income	**160**	41
Total income per segmental analysis	**3 823**	1 565

Notes to the condensed unaudited consolidated interim financial statements

for the six months ended 30 September 2021

1 BASIS OF PREPARATION

The Condensed Unaudited Consolidated Interim Financial Statements for the six months ended 30 September 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council ("FRSC"), IAS 34 *Interim Financial Reporting*, the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa 2008, as amended. Chief Financial Officer, G Lunga CA(SA), supervised the preparation of the Condensed Unaudited Consolidated Interim Financial Statements. The accounting policies are consistent with IFRS as well as those applied in the most recent audited Consolidated Annual Financial Statements as at 31 March 2021, other than as described in note 2. The Condensed Unaudited Consolidated Interim Financial Statements should be read in conjunction with the Consolidated Annual Financial Statements for the year ended 31 March 2021, 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.

In preparing these Condensed Unaudited Consolidated Interim Financial Statements, the significant judgements made by management in applying the group's accounting policies are similar to those detailed in the group's consolidated annual financial statements for the year ended 31 March 2021, other than as mentioned in this report.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The group has adopted all the new, revised or amended accounting standards which were effective for the group from 1 April 2021, including Interest Rate Benchmark Reform – Phase 2 (Amendment, effective for financial years beginning on or after 1 January 2021). No pronouncement had any material impact on the group.

3 STANDARDS ISSUED NOT YET EFFECTIVE

Other than as noted below, the group does not anticipate that any standards or amendments to existing standards that have been published and are mandatory for the group's accounting periods beginning on or after 1 April 2022 or later periods, which the group has not early adopted, would have a material impact on the group.

IFRS 17 *Insurance Contracts*

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023. The impact of IFRS 17 is currently being assessed but is not known at this time.

IAS 1 (Amendment) *Presentation of Financial Statements*

The amendment clarifies how to classify debt and other liabilities as current or non-current.

IAS 1 amended must be applied for financial years commencing on or after 1 January 2023.

4 IMPAIRMENTS OF NON-CURRENT ASSETS

In terms of IAS 36 *Impairment of Assets*, the group assesses at the end of each reporting period whether there is any indication that an asset may be impaired, and assesses its goodwill and intangible assets with indefinite lives for impairment irrespective of whether there is any indication of impairment or not. The group makes estimates and assumptions concerning the future, with the significant estimates discussed below. The group had no impairment charges for the period under review, and the prior comparative period had impairments of R8 million. Due to impairments of non-current assets not being significant, these have been included within "Other operating expenses" in the income statement.

4 IMPAIRMENTS OF NON-CURRENT ASSETS continued

Goodwill and casino licences

Goodwill and casino licences are allocated and monitored based on the group's cash-generating units ("CGUs"). The outbreak of Covid-19 continued to significantly affect the South African economy and the gaming and hospitality industry. The group's ability to trade during the period under review was adversely impacted by the closure of the group's businesses from 28 June 2021 to 25 July 2021, as a result of the third wave of the Covid-19 pandemic. The group, however, still managed to achieve strong recoveries in income and EBITDA growth compared to the prior six months reported period, but still below pre-Covid levels for the same comparable period being six months ended 30 September 2019. These factors are taken into account in the impairment testing of goodwill and intangibles, being mainly casino licences, most of which are indefinite lived.

The recoverable amount of the CGUs is determined based on the higher of the fair value less cost of disposal and value-in-use. These calculations use management-approved cash flow projections based on five-year forecasts. The expected capital cost spend in the CGUs is based on the historical experience of maintaining each property, taking into account current spend, limited to essential maintenance in order to preserve cash. Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rate.

In light of the Covid-19 impact, the key assumptions used for value-in-use calculations were reviewed by management at the reporting date and estimated as follows:

- Trading assumptions – management forecast income, operating expenses and EBITDA margins based on past and current performance and its expectations of market developments, taking into account the Covid-19 pandemic and the ongoing regulatory restrictions. The progress being made with the rollout of the Covid-19 vaccine is encouraging, and it is hoped that this will assist in limiting the potential for a fourth wave which has been provided for in the forecast cash flows. Management has continued to focus on cost reductions and operational efficiencies during the reporting period, resulting in a significantly reduced cost base. As the group gradually returns to a normal state after continuous restrictions affecting the business over an extended period, certain expenses, some of which are beyond the group's control (such as utility costs) will continue to increase, offsetting some of the saving initiatives achieved. Taking the aforementioned into account, the group's forecast models assume a strong recovery in trading during the 2022 financial year off an extremely low base, mainly due to the gradual easing of trading restrictions and cost savings initiatives which result in improved EBITDA margins. As a result of this, EBITDA is forecast having higher growth rates for 2022 and 2023, levelling off to normal levels with effect from 2024;
- Risk-adjusted discount rate – the discount rate is calculated by using a weighted average cost of capital ("WACC") of the respective CGUs. WACC is calculated using a bond risk-free rate and an equity premium adjusted for specific risks relating to the relevant CGUs (share beta and small stock premium). The average pre-tax discount rate has reduced marginally in comparison with the prior year end due to a lower risk free rate and the group's lower cost of debt. The group believes these rates will return to more normal levels over the medium term; and
- Long-term growth rate – cash flows beyond the first five-year period are extrapolated using estimated long-term growth rates in order to calculate the terminal recoverable amount. The growth rate estimations consider risks associated with the gaming and entertainment industry in which the CGUs operate and are consistent with forecasts included in publicly reported information specific to the entertainment and hospitality industries in which each CGU operates. The group considers the long-term growth rate unchanged at 4.7% compared to 31 March 2021 due to the negative effects of Covid-19, offset by the positive effects the government's vaccination programme and the anticipated gradual reopening up of the economy.

Based on the above assumptions, it was determined that at the reporting date, no further impairments to either goodwill or casino licences or impairment reversals to casino licences were deemed necessary since the previous year end. A reasonable possible change in any key assumption on which management has based its determination of the CGU's recoverable amounts would not cause any CGU's carrying amount to exceed its recoverable amount due to sufficient headroom.

5 FAIR VALUE ESTIMATION

The group fair values its investment properties (categorised as level 3 values in the fair value hierarchy), fair value through other comprehensive income ("FVOCI") investments (categorised as level 3 values in the fair value hierarchy) and its derivative financial instruments (interest rate swaps categorised as level 2 values in the fair value hierarchy). There were no transfers into or out of level 3 for any fair value assets during the period under review.

5.1 Investment properties

The group rents out commercial office space at its investment properties and has elected to measure investment properties at fair value. Fair values are estimated triennially by an external appointed valuator, and by management during the intervening years.

The fair value of the group's investment properties is determined using capitalised values of the projected rental income together with assessments of development land. Vacancies are considered based on the historical and current vacancy factors as well as the nature, location, size and popularity of the properties. The Covid-19 pandemic continues to significantly impact the South African economy. This impact was also taken into account when determining the fair value of the group's investment properties.

At 30 September 2021, there were no changes to the significant unobservable inputs which were identified since the prior financial year end and therefore no further adjustments to the fair value was deemed necessary. The significant unobservable inputs remained as follows:
– Capitalisation rates applied to rental income vary between 10.0% and 10.5%; and
– Vacancy rate applied of between 5% and 10%.

Inter-relationship between key unobservable inputs and fair value measurement
The estimated fair value would increase/(decrease) if:
– Expected rental income was higher/(lower);
– Expected vacancy rate was lower/(higher); and
– The capitalisation rate was lower/(higher).

Sensitivities
The table below indicates the sensitivities of the aggregate investment property portfolio by increasing or decreasing value inputs as follows:

	Increase Rm	Decrease Rm
1pp change in the capitalisation rate	**(27)**	**33**
1pp change in the vacancy rate	**(4)**	**4**

5.2 Financial asset at FVOCI

At the end of each reporting period, the group's 20% investment in each of SunWest and Worcester casinos is remeasured to fair value and the increase or decrease recognised in other comprehensive income. The assets have been remeasured at 30 September 2021 to R738 million from a fair value of R675 million at 31 March 2021, a R63 million increase (31 March 2021: R223 million decrease). A discounted cash flow valuation was used to estimate the fair value. The valuation model considers the present value of net cash flows to be generated from SunWest and Worcester, together with their 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 post-tax discount rate. Among other factors, the discount rate estimation considers risks associated with the gaming and hospitality industry in which SunWest and Worcester operate. The reason for the fair value gain is mainly as a result of improved forecast cash flows arising from a higher adjusted base year compared to that which was expected at 31 March 2021, a marginally lower discount rate and lower debt levels, offset by lower estimated forecast growth in free cash flows.

5 FAIR VALUE ESTIMATION continued

5.2 Financial asset at FVOCI continued

The significant unobservable inputs used in the fair value measurement of the group's investment in SunWest and Worcester as at 30 September 2021 are as follows:

- Expected income, including gaming win, hotel rooms revenue and other income increases by 40% for the 2022 financial year, 18% for 2023 financial year, 7% for 2024 financial year then levels out to normal trading level increases of 3% over the following years (31 March 2021: increased by 92% for the 2022 financial year, 13% for 2023 financial year, 11% for 2024 financial year and then leveled out to normal trading increases of 3% over the following years);
- Expected operating expenditure costs increase by 15% for the 2022 financial year, 6% for 2023 financial year, 7% for 2024 financial year and then levels out to normal trading increases of 4% (31 March 2021: increased by 44% for the 2022 financial year, 7% for the 2023 financial year, 17% for the 2024 financial year and then leveled out to normal trading increases of 4%);
- Risk-adjusted discount rate of 14.7% (31 March 2021: 14.8%) post-tax; and
- Long-term growth rate of 4.7%, unchanged.

The table below indicates the sensitivities for the valuation by increasing or decreasing the above inputs by 1pp:

	30 September 2021		31 March 2021	
	Increase Rm	**Decrease Rm**	Increase Rm	Decrease Rm
Expected gaming win growth	**46**	**(45)**	48	(47)
Operating expenditure cost growth	**(30)**	**29**	(36)	35
Risk-adjusted discount rate	**(69)**	**85**	(68)	83
Long-term growth rate	**66**	**(54)**	60	(49)

5.3 Derivative financial instruments

The fair value of the group's derivatives used for hedge accounting (interest rate swaps) is a liability of R174 million (31 March 2021: liability of R271 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 financial year end. The reason for the decrease in the liability is due to the aligning of the group's effective interest rates to the lower market rates since the prior financial year end, mostly due to expensive swaps of R4.0 billion maturing during the period under review. No amount has been expensed in profit or loss due to ineffectiveness of the group's derivatives for the reporting period to 30 September 2021 (six months ended 30 September 2020: Rnil).

6 CHANGES IN INTEREST-BEARING BORROWINGS ARISING FROM FINANCING ACTIVITIES

Changes arising from financing activities for the period ended 30 September 2021 related to interest-bearing borrowings, excluding bank overdrafts from short-term borrowings of R130 million (31 March 2021: R58 million), are as follows:

	Non-current portion Rm	**Current portion Rm**	**Total Rm**
At 1 April 2021	**10 300**	**949**	**11 249**
Borrowings repaid	**–**	**(250)**	**(250)**
Interest accrued	**–**	**49**	**49**
Interest paid	**–**	**(449)**	**(449)**
At 30 September 2021	**10 300**	**299**	**10 599**

	Non-current portion Rm	Current portion Rm	Total Rm
At 1 April 2020	11 200	530	11 730
Borrowings raised	600	50	650
Borrowings repaid	(700)	(800)	(1 500)
Reclassification to short-term	(800)	800	–
Interest capitalised[(1) (2)]	–	400	400
Interest accrued[(2)]	–	49	49
Interest paid	–	(80)	(80)
At 31 March 2021	10 300	949	11 249

[(1)] *Interest capitalised pursuant to the agreement reached with the lenders during the prior financial year, which was settled by 31 August 2021*

[(2)] *Disaggregated interest capitalised and interest accrued*

Changes arising from lease liabilities for the period ended 30 September 2021 are as follows:

	Non-current portion Rm	**Current portion Rm**	**Total Rm**
At 1 April 2021	**266**	**40**	**306**
New leases raised	**9**	**–**	**9**
Principal elements of lease payments	**–**	**(15)**	**(15)**
Lease concessions practical expedient applied	**–**	**(5)**	**(5)**
Reclassification to current	**(23)**	**23**	**–**
At 30 September 2021	**252**	**43**	**295**

6 CHANGES IN INTEREST-BEARING BORROWINGS ARISING FROM FINANCING ACTIVITIES continued

Changes arising from lease liabilities for the year ended 31 March 2021 are as follows:

	Non-current portion Rm	Current portion Rm	Total Rm
At 1 April 2020	232	91	323
New leases raised	54	8	62
Acquisition of subsidiary	4	2	6
Principal elements of lease payments	(3)	(21)	(24)
Remeasurement of leases	1	1	2
Termination of leases	(3)	(9)	(12)
Lease concessions practical expedient applied	(1)	(66)	(67)
Lease finance costs – non-cash portion	–	16	16
Reclassification to current	(18)	18	–
At 31 March 2021	266	40	306

7 RELATED PARTY TRANSACTIONS

The group had no significant related party transactions during the period under review, nor entered into any new significant related party transactions during this period, other than as mentioned below.

The group operates a short-term insurance cell captive for its own account, and also underwrites short-term insurance business for the Tsogo Sun Hotels Limited ("THL") group, only to the extent of the run-off business remaining as subsequent to the prior year end, THL and its subsidiaries exited the group's insurance cell captive for their insurance requirements. Claims payable to THL were settled during the period under review of R179 million, including the business interruption claims of R177 million which were recognised previously.

8 CAPITAL COMMITMENTS

The board has committed a total of R142 million for capital items which is anticipated to be spent during the next 12 months, subject to trading conditions. R93 million of the committed capital expenditure has been contracted for.

9 GOING CONCERN

The directors have considered the going concern status of the group, taking into account the group's current financial position and their best estimate of the group's cash flow forecasts in terms of their current knowledge and expectations of the ongoing developments relating to the Covid-19 pandemic.

Promulgated regulatory restrictions, including varying curfews, alcohol bans and capacity limitations, have been considered in the group's cash flow forecast. Based on the forecast performed, the directors are of the opinion that the group has sufficient access to facilities and liquidity to fund operations for the ensuing 12 months. The cash flow and liquidity projections for the group were prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses. As a result of the lockdown imposed from 28 June 2021 to 25 July 2021, the group may not be within its original debt covenants by 31 March 2022, and may accordingly have to come to an arrangement in respect thereof with its lenders.

9 GOING CONCERN continued

Preliminary approval has been obtained from lenders for a reset of the net leverage covenant of 31 March 2022 to 3.6 times net debt to adjusted EBITDA, if required. This is subject to various additional deliverables by 28 February 2022, including a further reduction of net debt levels to lower than or equal to R9.7 billion and a first partial early repayment of at least R300 million of the three-year term loans and secured notes due in November 2022. At the date of this report, the directors are not aware of any circumstances whereby the group should not be able to achieve these reset March 2022 covenant requirements.

The group has reduced its net interest bearing debt and guarantees significantly from the R10.9 billion at 31 March 2021 to approximately R10.0 billion at 31 October 2021 under difficult, restrictive trading conditions. The group has been trading under adjusted level 1 restrictions since 1 October 2021. The group's focus remains on reducing its medium to long-term debt levels, thereby reducing risk and funding costs.

After taking the above factors into account, the directors consider the going concern method to be appropriate for the presentation of the Condensed Unaudited Consolidated Interim Financial Statements.

10 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The directors are not aware of any matters or circumstances arising since the end of the financial period, not otherwise dealt with within these Condensed Unaudited Consolidated Interim Financial Statements that would affect the operations or results of the group significantly.

Forward-looking statements

This announcement contains forward-looking statements and information in relation to the group. By its very nature, such forward-looking statements and information require the company to make assumptions that may not materialise or that may not be accurate. Such forward-looking information and statements involve known and unknown risks, uncertainties and other important factors beyond the control of the company that could cause the actual performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements. Past performance of the company cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of the full announcement and no statement is intended to be a profit forecast. Forward-looking statements are the responsibility of the board and have not been reviewed and reported on by the external auditors in accordance with ISAE 3400 *The Examination of Prospective Financial Information*. The group neither accepts any responsibility for any loss arising from the use of the information contained in this report nor undertakes to update or revise any of its forward-looking statements publicly.

Notes

Notes

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JA Copelyn (Chairman)*
CG du Toit (Chief Executive Officer)
G Lunga (Chief Financial Officer)
MJA Golding** BA Mabuza (Lead Independent)**
F Mall** VE Mphande** Y Shaik* RD Watson**
*(*Non-executive Director **Independent Non-executive Director)*

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