

City Lodge Hotels Limited
("City Lodge" or the "Company" or the "Group")
(Reg. No. 1986/002864/06)
(Incorporated in the Republic of South Africa)
Share Code: CLH ISIN Code: ZAE000117792

DISTRIBUTION OF INTEGRATED REPORT, NO CHANGE STATEMENT, NOTICE OF ANNUAL GENERAL MEETING AND UNWIND OF THE COMPANY'S B-BBEE TRANSACTION, INDIRECT SPECIFIC REPURCHASE OF 35,393,908 CITY LODGE SHARES AND DISTRIBUTION OF CIRCULAR

DISTRIBUTION OF INTEGRATED REPORT, NO CHANGE STATEMENT, NOTICE OF ANNUAL GENERAL MEETING ("AGM")

Shareholders are advised that the Company's integrated report for the year ended 30 June 2020, incorporating the audited annual financial statements and notice of AGM is available on the Company's website <https://clhg.com/financials>. Hard copies are available upon request to the Company Secretary at Bryanston Gate Office Park, Building 7 (The Lodge), Corner Homestead Avenue and Main Road, Bryanston. The annual financial statements and auditor's report contain no material changes from the reviewed group preliminary results and auditors review opinion published on SENS on 3 September 2020.

The integrated report was distributed today, 13 November 2020, and notice is hereby given that the 34th AGM of City Lodge shareholders will be held electronically on Friday, 11 December 2020 at 10:00 to transact the business as stated in the notice of the AGM. Shareholders are referred to the notice of AGM which contains full details of electronic participation in the AGM.

UNWIND OF THE COMPANY'S B-BBEE TRANSACTION, INDIRECT SPECIFIC REPURCHASE OF 35,393,908 CITY LODGE SHARES AND DISTRIBUTION OF CIRCULAR

1. Introduction and background

1.1. In 2008, City Lodge entered into a B-BBEE transaction in terms of which Newshelf 935 (RF) (Proprietary) Limited ("**Education SPV**"), Newshelf 892 (RF) Proprietary Limited ("**Staff SPV**") and Vuwa Investments (RF) (Proprietary) Limited ("**Vuwa SPV**") (collectively "**the BEE SPVs**") acquired 6,390,365 ordinary shares ("**Shares**") in City Lodge (representing approximately 15% of the issued share capital of City Lodge at the time) ("**2008 B-BBEE**")

Transaction"), which acquisition was funded through preference shares issued to the Standard Bank of South Africa Limited ("**the Funder**"), the redemption of which was effectively guaranteed by City Lodge as were certain loans granted subsequently by the Funder to the BEE SPVs (collectively the "**BEE Debt**").

- 1.2. The BEE SPVs, as the Company's selected BEE partners, were established for the sole purpose of acquiring shares in City Lodge and to date own no other material assets.
- 1.3. Subsequent to the renounceable rights offer undertaken by the Company during August 2020 ("**Rights Offer**"), the number of Shares held by the BEE SPVs increased to 35,393,908 shares ("**BEE City Lodge Shares**"), comprising 5,80% of the issued share capital of the Company post the Rights Offer. The BEE SPVs funded the take up of their rights under the Rights Offer through the sale of a portion of their letters of allocation associated with the Rights Offer.
- 1.4. The BEE Debt, amounting to R752.2m on 30 June 2020 is repayable on or before 31 January 2021 ("**Maturity Date**"). It is expected that the BEE Debt balances, by applying the current coupon and interest rates, will increase to R776.3 million by 31 January 2021.
- 1.5. The 2008 B-BBEE Transaction is currently materially out of the money, with the value of the BEE SPVs shareholding in City Lodge being ZAR95.6 million as at 22 October 2020, against the amount outstanding of the BEE Debt. In the context of the current market backdrop and operating conditions, it is extremely unlikely that there will be equity value in the B-BBEE Transaction by the Maturity Date. Unless the BEE Debt is settled prior to the Maturity Date, the Funder will call on the guarantee provided by City Lodge for the obligations of the BEE SPVs in relation to the settlement of the BEE Debt ("**Guarantee**") and the Company will be obliged to settle the BEE Debt on behalf of the BEE SPVs.
- 1.6. The Company is therefore proposing the unwind of the 2008 B-BBEE Transaction through the subscription by the Company of 99,99% of the ordinary shares in the BEE SPVs ("**Subscription**"), resulting in the indirect repurchase of the BEE City Lodge Shares by the Company ("**Indirect**

Specific Repurchase”). The Subscription price will be equal to the BEE Debt outstanding by the BEE SPVs on the date of the Subscription and will be used by the BEE SPVs to be settle their BEE Debt in full (“**BEE Unwind**”) immediately thereafter. This is proposed as an alternative to a direct settlement of the BEE Debt under the Guarantee, which would not have given the Company an outright right to take ownership of the BEE City Lodge Shares.

2. Terms of the Indirect Specific Repurchase

2.1. Prior to embarking on the Rights Offer, the Company secured its ability to achieve the BEE Unwind in this manner (i.e. through the Subscription), through the conclusion of the Subscription option agreements with the BEE SPVs, in terms of which the Company was granted, at its sole election, the right to subscribe for 99,99% of the ordinary shares in the respective BEE SPVs on or prior to the Maturity Date, and with the Subscription proceeds to be used by the BEE SPVs to settle their BEE Debt. Accordingly, the Company acquired the option to subscribe for:

- 999,900 ordinary shares in the Education SPV, comprising 99,99% of the Education SPV shares after the Subscription, for a subscription amount equal to the BEE Debt owing by the Education SPV on the date of the Subscription;
- 999,900 ordinary shares in the Staff SPV, comprising 99,99% of the Staff SPV shares after the Subscription, for a subscription amount equal to the BEE Debt owing by the Staff SPV on the date of the Subscription; and
- 999,900 ordinary shares in the Vuwa SPV, comprising 99,99% of the Vuwa SPV shares after the Subscription, for a subscription amount equal to the BEE Debt owing by the Vuwa SPV on the date of the Subscription;

2.2. Following receipt of the required shareholder approval (see paragraph 5 below), the Company intends to issue the requisite notices to the BEE SPVs for the exercise of the options that will give rise to the Subscription.

3. Conditions Precedent and effective date

3.1. The BEE Unwind is subject to:

- approval by the City Lodge shareholders as contemplated in paragraph 5 below; and
- the Indirect Specific Repurchase resolution not being revoked by the directors as a result of shareholders exercising their appraisal rights in terms of section 164 of the Companies Act, 2008 (Act 71 of 2008), as amended ("**the Act**").

3.2. A further announcement will be made by the Company providing salient dates and times of the implementation of the Indirect Specific Repurchase once the conditions precedent have been met and the notices have been issued to the BEE SPVs.

4. Pro Forma Financial Effects

4.1. The pro forma financial effects ("**Pro Forma Financial Effects**") below have been prepared to illustrate the pro forma financial effects relating to certain events subsequent to the Company's financial year end of 30 June 2020, in order to establish an appropriate post balance sheet events starting position for the pro forma financial effects ("**Subsequent Events**"). The column titled '**After the Subsequent Events**' presents the starting position for pro forma financial effects of the BEE Unwind as reflected in the '**After the BEE Unwind**' columns detailed below.

4.2. The Pro Forma Financial Effects are provided for illustrative purposes only and, because of their nature, may not fairly present the financial position or results of operations of the Group. The Pro Forma Financial Effects have been prepared to illustrate the impact of the BEE Unwind on the published financial information of the Group for the year ended 30 June 2020, adjusted for the Subsequent Events, based on the assumption that the Subsequent Events and BEE Unwind took place on 30 June 2020 for purposes of the net asset value ("**NAV**") and tangible NAV ("**TNAV**") and on 1 July 2019 for purposes of the basic and diluted earnings per share ("**EPS**"), headline EPS ("**HEPS**").

4.3. The Pro Forma Financial Effects has been prepared using the accounting policies of the City Lodge Group, which comply with International Financial Reporting Standards and are consistent with those applied in City Lodge's

consolidated annual financial statements for the year ended 30 June 2020.

- 4.4. A summary of the impact of the BEE Unwind on the basic and diluted **EPS, HEPS, NAV** and **TNAV** is set out below.

Cents	Before the BEE Unwind (1)	After the Subsequent Events (2)	After the Subsequent events and the BEE Unwind (3)	% Change (4)
Basic and diluted EPS:	(1 329.4)	(82.1)	(74.5)	9%
Basic and diluted HEPS:	(388.1)	(21.9)	(14.2)	35%
Basic and diluted normalised HEPS	(181.1)	(10.1)	(11.6)	(15%)
NAV Share (cents)	1 549.5	299.6	299.5	(0%)
TNAV per Share (cents)	1 393.0	289.6	289.5	(0%)
Normalised NAV per Share (cents)	3 332.0	425.7	425.6	(0%)

Notes:

- 1) The "Before" column sets out the audited basic and diluted EPS, basic and diluted HEPS, basic and diluted normalised HEPS, NAV per share, TNAV per share and normalised NAV per share and for the year ended 30 June 2020, extracted without adjustment from the consolidated financial results of the Group.
- 2) Illustrates the pro forma financial position of the Group subsequent to the implementation of the Subsequent Events in order to establish an appropriate post balance sheet events starting position for the pro forma financial effects relating to the BEE Unwind.
- 3) Illustrates the pro forma financial effects of the Group, as adjusted for the Subsequent Events, after the BEE Unwind.
- 4) Illustrates the effect of percentage change between column 2 and column 3, being the difference between the opening column after the Subsequent Events, and the BEE Unwind.

- 4.5. The full pro forma financial information relating the Subsequent Events and the BEE Unwind, including the notes thereto and the independent reporting accountants' report on the pro forma financial information are set out in Annexures 2 and 3 to the Appendix (as defined below).

- 4.6. The Company has 38 215 383 treasury share in issue, which includes the BEE City Lodge Shares which have always been consolidated into the Group accounts. The BEE Unwind accordingly has no impact on the number of treasury shares.
- 4.7. The Pro Forma Financial Effects are the responsibility of the directors.

5. Shareholder approval requirements and distribution of circular

- 5.1. In terms of the JSE Limited ("JSE") Listings Requirements, the Subscription will be regarded as an Indirect Specific Repurchase, in terms of Section 5 of the JSE Listings Requirements, which requires the approval by way of a special resolution of City Lodge shareholders (the "**Indirect Repurchase Resolution**"), being the approval of at least 75% of the votes cast by all shareholders present in person, or represented by proxy, excluding the votes of any shareholder and its associates that are participating in the repurchase, being the BEE SPVs and their associates. None of the BEE SPVs are related parties as defined by the JSE Listings Requirements. As the BEE SPVs own, as their only material assets, shares in City Lodge, the transaction is, in substance a specific repurchase under Section 5 and not as a transaction within the ambit of Section 9 of the JSE Listings Requirements.
- 5.2. City Lodge is authorised to undertake the Indirect Specific Repurchase in terms of article 40 and 42 its Memorandum of Incorporation.
- 5.3. In addition, as the Indirect Specific Repurchase will result in the Company acquiring, indirectly, in excess of 5% of the entire issued share capital of the Company, the Indirect Specific Repurchase is, in terms of section 48(8)(b) of the Act, subject to the provisions of section 114, read with sections 115 and 164 of the Act.
- 5.4. Therefore, the Indirect Specific Repurchase requires the distribution of a circular to City Lodge Shareholders, which is required to include, inter alia, a report by an Independent Expert on the Indirect Specific Repurchase.

5.5. The circular has been included in the form of an appendix to City Lodge's integrated annual report and notice of AGM ("**Appendix**"), which has been distributed today, 13 November 2020. The resolutions required to give effect to the BEE Unwind are contained in the notice of AGM and will be voted on during the AGM. Shareholders are referred to paragraph 6 titled 'Salient dates and times' setting out salient dates and times of the AGM.

6. Salient dates and times

The salient dates and times of the AGM are set out below.

	2020
Record date to determine which shareholders are entitled to receive notice of AGM with its accompanying Appendix	Friday, 6 November
Notice of AGM with its accompanying Appendix distributed to City Lodge shareholders and announced on SENS	Friday, 13 November
Last day to trade to participate in and vote at the AGM	Tuesday, 1 December
Record date to be eligible to participate in and vote at the AGM	Friday, 4 December
Where applicable, forms of proxy and/or participation application forms to be lodged with the transfer secretaries of City Lodge by 10:00 on (refer Notes 2 and 5 below)	Wednesday, 9 December
Last date and time for City Lodge shareholders to give notice to the Company objecting to the special resolution approving the Indirect Specific Repurchase, by 10:00 on	Friday, 11 December

AGM to be held at 10:00 on	Friday, 11 December
Results of AGM announced on SENS	Friday, 11 December
The following dates assume that the Indirect Specific Repurchase becomes unconditional, and that the Indirect Repurchase Resolution does not require Court approval or a review	
Expected unconditional date of the Indirect Specific Repurchase (refer note 7 below)	Friday, 11 December
If the Indirect Repurchase Resolution is approved by Shareholders at the AGM and is not revoked	
Last date for City Lodge shareholders who voted against the Indirect Repurchase Resolution (" Dissenting Shareholders ") to require the Company to seek Court approval for the Indirect Repurchase Resolution in terms of section 115(3)(a) of the Act, if at least 15% of the total votes of City Lodge shares at the AGM were exercised against the Indirect Repurchase Resolution	Monday, 21 December
Last day for the Company to send notice of adoption of the Indirect Repurchase Resolution to Dissenting Shareholders, in accordance with section 164(4) of the Act	Tuesday, 29 December
Last day for City Lodge shareholders who voted against the Indirect Repurchase Resolution to apply to	Tuesday, 29 December

Court for leave to apply to the Court for a review of the Indirect Repurchase Resolution in terms of section 115(3)(b) of the Act	
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Notes:

1. The above dates and times are subject to amendment. Any such amendment will be published on SENS and in the press.
2. The time and date suggested for lodgement of proxy forms is an administrative matter. A shareholder may however submit a form of proxy at any time up to commencement of the AGM to the transfer secretaries of City Lodge or to the Chairperson of the AGM.
3. If the AGM is adjourned or postponed, forms of proxy submitted for the initial AGM will remain valid in respect of any adjournment or postponement of the AGM.
4. All times given are local times in South Africa.
5. Shareholders who wish to electronically participate in and/or vote at the AGM are required to complete the electronic participation application form affixed to the notice of AGM and email same to proxy@computershare.co.za as soon as possible, but in any event no later than 10:00 Wednesday, 9 December 2020 for administration purposes.
6. Shareholders who acquire City Lodge shares after the last day to trade to participate in and vote at the AGM, namely, Tuesday, 1 December 2020, will not be entitled to participate in and vote at the AGM.
7. The Company may after this date issue the BEE SPVs with a subscription notice to implement the BEE Unwind, which will be issued by the Company between the date on which the conditions precedent (as contained in paragraph 4 of the Appendix) have been met and the Maturity Date.

7. Responsibility Statement

The independent board of directors and the board of directors of City Lodge have considered all statements of fact and opinion in this announcement; collectively and individually, accept full responsibility for the accuracy of the information given; certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and have made all reasonable enquiries in this regard; and certify that, to the best of their knowledge and belief, the announcement contains all information required in terms of the Act and the JSE Listings Requirements.

Bryanston

13 November 2020

Sponsor

Nedbank Corporate & Investment Banking

Corporate Advisor and Transaction Sponsor

Questco Proprietary Limited

Legal Adviser

Edward Nathan Sonnenbergs Inc

Independent Expert

BDO Corporate Finance Proprietary Limited

Independent Reporting Accountants and Auditors

KPMG Inc.