

ANNEXURE: ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2018

The principal accounting policies adopted in preparation of these financial statements are set out below:

GROUP ACCOUNTING

Subsidiaries

Subsidiaries are those entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the minority's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

The company accounts for subsidiary undertakings at cost less impairments.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Equity-accounted investments

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The cost of associates or joint ventures that were former subsidiaries of the group is the fair value of the percentage investment retained on the date that control is lost. If the ownership interest in an associate or joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate. The group's investment in associates includes goodwill identified on acquisition.

The group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

ANNEXURE: ACCOUNTING POLICIES CONTINUED

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Profits and losses resulting from upstream and downstream transactions between the group and its associate or joint venture are recognised in the group's financial statements only to the extent of unrelated investors' interests in the associates or joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Impairment

The group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of equity-accounted investments' in the statement of comprehensive income.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Joint arrangements

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is assessed for impairment on an annual basis or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. The calculation of gains and losses on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets

Indefinite life intangible assets are not amortised and are assessed annually for impairment.

Expenditure on leasehold premiums anticipated, successful gaming licence bids, computer software and acquired management contracts are capitalised and amortised using the straight-line method as follows:

	Lease period
Leasehold premiums	Period of the lease
Gaming licence bids	Period of the licence and/or up to a maximum of 20 years
Management contracts	Period of initial contract
Computer software	4 to 10 years
Brands	Indefinite life
Goodwill	Indefinite life

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the group and which have probable economic benefits exceeding the costs beyond one year are recognised as intangible assets. Direct costs include employee costs of the software development team and an appropriate portion of the relevant overheads.



Bid costs on gaming licence bids are capitalised and subsequently amortised using the straight-line method over their useful lives, but not exceeding 20 years. Intangible assets are not revalued.

INVENTORY

Inventory comprises merchandise, consumables and food and beverage stock. Merchandise and consumables are valued at the lower of cost and net realisable value on a first-in, first-out basis or on a weighted average basis. Food and beverage stock is valued at the lower of cost and net realisable value on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less any costs necessary to make the sale.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African Rand which is the group's presentation currency.

Transactions and balances

Transactions denominated in foreign currencies are translated at the rate of exchange ruling on the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period or payment date. Gains or losses arising on translation are credited to or charged to the statement of comprehensive income.

Foreign entities

The financial statements of foreign entities which are not accounted for as entities operating in hyperinflationary economies, that have a functional currency different from the presentation currency are translated into South African Rand as follows:

- assets and liabilities (including fair value adjustments arising from the acquisition of a foreign entity), at exchange rates ruling at the last day of the reporting period;
- income, expenditure and cash flow items at the weighted average exchange rates; and
- transactions with minorities and other equity items are reported using the exchange rate at the date of the transaction.

The results, cash flows and financial position of the group entities which are accounted for as entities operating in hyperinflationary economies and that have functional currencies different from the presentation currency of the group are translated into the presentation currency of its immediate parent at rates of exchange ruling at the reporting date. As the presentation currency of the group or that of the immediate parent is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year.

All resulting exchange differences are reflected as part of other comprehensive income. On disposal, such translation differences are recognised in the statement of comprehensive income as part of the cumulative gain or loss on disposal.

PROPERTY, PLANT AND EQUIPMENT

Freehold land is included at cost and not depreciated.

All other items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land) less the residual values over their useful life, using the straight-line method. The principal useful lives over which the assets are depreciated are as follows:

Freehold and leasehold buildings	10 to 50 years
Infrastructure	5 to 50 years
Plant and machinery	4 to 25 years
Furniture and fittings	5 to 15 years
Operating equipment ¹	Based on usage (between 1 and 3 years)
Assets held under finance leases	Shorter of the asset's useful life and the term of the lease

¹ Operating equipment includes uniforms, casino chips, kitchen utensils, crockery, cutlery and linen.

ANNEXURE: ACCOUNTING POLICIES CONTINUED

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Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Costs arising subsequent to the acquisition of an asset are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is then derecognised. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use. Borrowing costs and certain direct costs relating to major capital projects are capitalised during the period of development or construction.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows CGU.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

PRE-OPENING EXPENDITURE

Pre-opening expenditure is charged directly against income and separately disclosed. These costs include all marketing, operating and training expenses incurred prior to the opening of a new hotel or casino development.

IFRS 9: FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. It is noted that management have not applied IFRS 9 hedge accounting and have opted to continue using the IAS 39 requirements for fair value macro-hedges until such time as the Macro-hedges project is finalised by the IFRS board.

The adoption of IFRS 9: Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The adoption of IFRS 9 had the following impact on the company/group:

- change in classification of the measurement categories for financial instruments; and
- change from the IAS 39 incurred loss model to the ECL model to calculate impairments of financial instruments.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories.



The main effects resulting from this assessment are as follows:

	Measurement category		Notes	Carrying amounts		
	Original (IAS 39)	New (IFRS 9)		Original	New	Difference*
Non-current financial assets						
Loan receivables	Amortised cost	Amortised cost	18, a	60	60	–
Current financial assets						
Loan receivables	Amortised cost	Amortised cost	18, a	6	3	(3)
Other receivables	Amortised cost	Amortised cost	18, b	430	430	–
Trade receivables	Amortised cost	Amortised cost	18, c	388	413	25
Casino debtors	Amortised cost	Amortised cost	18, d	20	23	3
Cash and cash equivalents	Amortised cost	Amortised cost	20	696	696	–
Non-current financial liabilities						
Borrowings	Amortised cost	Amortised cost	23	11 737	11 737	–
Forward purchase liability	FVPL	FVPL	16	4 838	4 838	–
Derivative financial instrument	FVOCI	FVOCI	15	14	14	–
Current financial liabilities						
Trade payables	Amortised cost	Amortised cost	25, e	540	540	–
Derivative financial instrument	FVOCI	FVOCI	15	20	20	–
Borrowings	Amortised cost	Amortised cost	23	3 258	3 258	–

* The differences noted in this column are the result of applying the new ECL model. The reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements.

Notes:

a Loan receivables consist of loans with a contractual period greater than 12 months. These are represented by mainly preference shares issued within the group and enterprise development loans.

b Other receivables relate to miscellaneous receivables held by the respective subsidiaries. These include, among others, rental and concessionaire receivables, sundry receivables and remote point receivables.

c Trade receivables consist mainly of large tour operators.

d Casino receivables consist of a selection of VIP casino customers.

e Trade and other payables consist of standard operational payables, contract and concessionaire payables.

ANNEXURE: ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2018

The impact on the group's retained earnings due to classification and measurement of equity instruments and trade and other receivables as at 1 January 2018 is as follows:

	31 December 2017 as previously reported Rm	IFRS 9 adjustment Rm	1 January 2018 Under IFRS 9 Rm
Balance sheet extract			
Non-current assets			
Loans receivable	60	–	60
Trade and other receivables*	408	28	436
Available-for-sale financial assets	–	–	–
Financial assets at FVOCI	–	–	–
Current assets			
Loans receivable	6	(3)	3
Other reserves extract			
Retained earnings		25	

* Refer to note 18 on the analysis of trade receivables, as presented as net receivables and casino debtors.

Impairment of financial assets

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The group assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as FVOCI, is impaired.

In the case of equity securities classified at FVOCI, a significant or prolonged decline in fair value of a financial asset below its cost is considered an indicator that the asset is impaired. If any such evidence exists the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is recognised in the statement of comprehensive income. Impairment losses are not reversed through the statement of comprehensive income.

The group has complied with all IFRS 9: Financial Instruments impairments requirements. Refer to note 18.

The IFRS 9 three-stage impairment approach was followed:

- stage 1 covers instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk. Twelve-month ECLs are recognised
- stage 2 covers financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event. Lifetime ECLs are recognised in this stage; and
- stage 3 covers financial assets that have objective evidence of impairment at the reporting date. Lifetime ECLs are recognised in this stage.

A detailed assessment was performed and all the group's financial assets were assessed as a 'stage 1 instrument'. Subsequently no further assessment was needed in terms of the stage 2 and 3 approach.

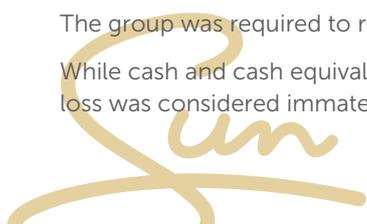
Categories

The group has the following types of financial assets that are subject to IFRS 9's new ECL model:

- trade receivables:
 - net trade receivables
 - casino debtors
- debt instruments carried at amortised cost.

The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was considered immaterial given the low probability of default of the group's banking partners.



(i) Trade receivables

Due to the intrinsic nature of trade receivables, where they should mature within a period of less than 12 months, the group has adopted the general approach to measuring ECLs which uses a lifetime ECL allowance for all trade receivables. This approach included the following:

- separating different categories of trade receivables with similar loss patterns;
- calculating default rates within specific time frames over a specific year using historical credit loss experience; and
- adjusting the default rates with forward looking macroeconomic forecasts.

This resulted in a decrease of the loss allowance on 1 January 2018 by R28 million for trade and other receivables. The allowance decreased by a further R29 million to R206 million during the current reporting period.

Note 18 provides details about the calculation of the allowance.

(ii) Debt instruments carried at amortised cost

Most of the debt instruments within the group represent inter-company loans that eliminate in these consolidated financial statements. At a group level amortised debt instruments include enterprise development loans. The process described below has been consistently applied to loans and other receivables as described above.

Loans with a contractual period

Debt investments held at amortised cost with fixed maturity dates.

Management has assessed the credit risk of these loans and based upon the factors listed below, considered them to be low risk and that there has not been a significant increase in credit risk relating to these loans.

- there have been no significant financial difficulties noted with the issuer or the borrower;
- there have been no breach of contracts or defaults by the borrower;
- it is not probable that any of the borrowers will enter bankruptcy or other financial reorganisation;
- there is still an active market for the borrowers; and
- no existence of deep discounts on the financial assets concerned.

Therefore these loans are considered to be stage 1 loans in terms of IFRS 9 and the impairment provision is determined as 12 month's ECLs using the general approach using the formula $PD\% \times LGD\% \times EAD$.

- the PD ('probability of default') – that is, the likelihood that the borrower would not be able to repay in the very short payment period;
- the LGD ('loss given default') – that is, the loss that occurs if the borrower is unable to repay in that very short payment period; and
- the EAD ('exposure at default') – that is, the outstanding balance at the reporting date.

The PD percentage was supplied by external actuarial consultants. The process and model used in determining these percentages were fully in compliance with the Moody's risk model.

The LGD was calculated after considering the existence of collateral, guarantees and letters of support given by group companies. The EAD is simply the outstanding balance at the reporting date.

Loans repayable on demand

For loans that are repayable on demand, ECLs are based on the assumption that repayment of the loan is demanded at the reporting date.

Management has assessed the credit risk of these loans and based upon the same factors listed above, considered them to be low risk and that there has not been a significant increase in credit risk relating to these loans.

The first step in the process is to assess whether or not the borrower has sufficient accessible highly liquid assets to repay the loan if demanded at the reporting date. If this is proved to be the case then the ECL was considered to be immaterial.

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However, if the borrower could not repay the loan if demanded at the reporting date, the lender considered the following recovery strategies in determining the ECLs.

The maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of loans repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded (that is typically one day or less). Therefore the impairment provision is based on the assumption that the loan is demanded at the reporting date, and reflects the losses (if any) that have resulted from this.

Where the cash of the borrower was not considered adequate for the lender to fully recover the outstanding balance, the sale of the liquid assets was then considered. Where the liquid assets less the current liabilities indicated that the lender would fully recover the outstanding balance, of the loan, the ECL was considered to be immaterial.

Lastly, where both the available cash and the sale of the liquid assets were not considered adequate for the lender to fully recover the outstanding balance; a fire sale of less liquid assets was then considered and used in calculating the LGD percentage to be used in calculating the ECL using the formula $PD\% \times LGD\% \times EAD$.

The PD percentage was supplied by external actuarial consultants as described above.

The LGD was calculated using the results of a fire sale of all the assets as well as considering the existence of collateral, guarantees and letters of support given by group companies. The EAD is simply the outstanding balance at the reporting date.

(iii) Debt instruments carried at FVPL and FVOCI

The group does not have any debt instruments that are carried at FVPL or FVOCI.

Financial liabilities

Borrowings

Borrowings, net of transaction costs, are recognised initially at fair value. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Preference shares, which are redeemable on a specific date or at the option of the shareholder or which carry non-discretionary dividend obligations, are classified as borrowings. The dividends on these preference shares are recognised in the statement of comprehensive income as interest expense. Dividends are subject to a 20% withholdings tax.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Trade payables

Trade payables of the group are unsecured and carried at amortised cost. Trade payables are classified as current liabilities and are usually settled within 60 days of recognition.

Derivative financial instrument

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income. The ineffective portion is recognised immediately in profit or loss in the respective line items. Amounts deferred to the hedging reserves are recognised through profit and loss in the same period in which the hedged item affects profit and loss. Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

IFRS 9 provides an accounting policy choice allowing entities to continue with the hedge accounting requirements of IAS39 until such time as the macro-hedging project is finalised. As of the date of the financial statements, the group has opted to continue in the application of IAS 39 for hedge accounting practices.



Forward purchase liability

A forward purchase contract is a contract that specifies that the parent will acquire the minority shareholding at a date in the future at a price with no ability for either party to avoid the transaction. The ownership risk and rewards of the shares relating to the forwards should be analysed to determine whether they remain with the minority or have transferred to the parent. The minority is recognised to the extent that the risks and rewards relating to ownership remain with them.

The terms of the forward contract should be analysed to assess whether they provide the parent with access to the economic benefits and risks associated with the actual ownership of the shares during the contract period. The minority interest is derecognised to the extent that the risks and rewards relating to ownership no longer remain with the outside shareholders. Irrespective of whether the minority interest is recognised, a financial liability is recorded to reflect the forward. The liability is recognised for the present value of the forward price. All subsequent changes to the liability are recognised in profit and loss.

CURRENT AND DEFERRED TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity.

Deferred tax is provided in full, using the balance sheet method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Current tax and deferred tax are calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised in the foreseeable future.

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Income tax credits related to assets are presented in the statement of financial position by deducting the income tax credit in arriving at the asset's carrying amount. The income tax credit income is recognised in the same period in which the asset is depreciated. This relates to our Latam operations.

LEASES

Leases of assets where the company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at commencement and are measured at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in borrowings. The interest element of the lease payment is charged to the statement of comprehensive income over the lease period. The assets acquired under finance leasing contracts are depreciated over the shorter of the useful life of the asset, or the lease period. Where a lease has an option to be renewed, the renewal period is considered when the period over which the asset will be depreciated is determined.

Leases of assets under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

EMPLOYEE BENEFITS

Defined benefit scheme

The group operates a closed defined benefit pension scheme. The defined benefit pension scheme is funded through payments to a trustee-administered fund, determined by reference to periodic actuarial calculations. The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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The asset or liability, as applicable, recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and past service costs are recognised in the statement of comprehensive income in the period in which they arise.

Past service costs are recognised immediately in the statement of comprehensive income.

In applying the asset ceiling, the present value of the retirement benefit surplus that may be recognised as an asset is limited to the lower of the amount as determined above, or the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus any cumulative unrecognised net actuarial losses and past service costs.

Defined contribution scheme

The group operates a number of defined contribution schemes. The defined contribution plans are provident funds under which the group pays fixed contributions into separate entities. The contributions are recognised as an employee benefit expense when they are due. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Post-retirement medical aid contributions

The group provides limited post-retirement healthcare benefits to eligible employees. The entitlement to these benefits is usually conditional upon the employee remaining in service up to retirement age and the employee must have joined the group before 30 June 2003. Employees are eligible for such benefits on retirement based upon the number of completed years of service. Employees who joined the group after 1 July 2003 are not entitled to any co-payment subsidy from the group upon retirement.

The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are recognised in the statement of comprehensive income. These obligations are valued annually by independent qualified actuaries.

Long-service awards and farewell function and gifts

The group recognises a liability and an expense for long-service awards as well as farewell functions and gifts where cash is paid, or a gift is provided to employees at certain milestone dates in their careers within the group. The method of accounting and frequency of valuation are similar to those used for defined benefit schemes. The actuarial valuation to determine the liability is performed annually. This liability has been disclosed under contract liabilities and other liabilities in the balance sheet.

Share-based payments

The group operates equity-settled, share-based compensation plans. The fair value of the services received in exchange for awards made is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the grants, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. At the end of each reporting period, the group revises its estimates of the number of awards that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.



SHARE CAPITAL

Ordinary shares are classified as equity. Redeemable preference shares which carry a non-discretionary dividend obligation, are classified as liabilities (see accounting policy for borrowings).

External costs directly attributable to the issue of new shares, other than in a business combination, are shown as a deduction from the proceeds, net of income taxes, in equity.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid including any directly attributable incremental costs apart from brokerage fees (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

CHANGE IN OWNERSHIP INTEREST

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Sun International.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

INCOME RECOGNITION – ADOPTION OF IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

The group has adopted IFRS 15 fully retrospectively from 1 January 2018.

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management performed a detailed assessment of each revenue stream in terms of the following criteria:

- the unique contract with the customer was identified;
- the various performance obligations in the contract were separately identified;
- the transaction price for the contract was determined;
- the transaction price was allocated to the various separately identifiable performance obligations; and
- we were satisfied that revenue is recognised once the relevant performance obligations are met.

ANNEXURE: ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2018

The following income streams were identified and assessed against the scope of IFRS 15:

Net gaming win, including limited payout machines (LPM'S) and SunBet income.

Gaming transactions represent an agreement between the customer and Sun International whereby, based on the outcome of an event (such as the results of accumulated cards in a hand of play for a table game or the outcome of the individual bet on a slot machine game), either the gaming entity retains the amount bet by the customer or the bet is returned to the customer along with an additional amount effectively representing the gaming entity's side of the bet in the agreement. Accordingly, a single bet transaction either results in a net inflow of consideration to the gaming entity or a net outflow of amounts to the customer. Accordingly, income recognised and reported for gaming transactions is the difference between gaming wins and losses. This is referred to as net gaming win or loss.

Bets placed by customers (cash in) and winnings paid to customers (cash out) are separately identifiable. However, the VAT is levied on the net win as this is in compliance with the agreement that was made with the South African Revenue Services (SARS). SARS allows casinos to account for VAT by applying the tax fraction over the net gaming wins and provincial gaming levies are calculated on a similar basis, hence the treatment of VAT and levies as direct costs. These costs are disclosed separately on the face of the income statements as direct costs.

Fixed-odds wagering contracts are typically outside the scope of the revenue standard for IFRS reporting entities. Under IFRS, when a gaming entity takes a position against its customer, the resulting unsettled position is likely to meet the definition of a derivative. Therefore, those contracts should be accounted for under the financial instruments standards rather than the revenue standard.

This is further supported by the FASB/IASB paper 47, whereby the IASB employees noted that wagering contracts (or parts thereof) that meet the definition of a financial instrument within the scope of IFRS 9 (or IAS 39), are excluded from the scope of IFRS 15.

The gross gaming revenue itself is treated as an IFRS 9 derivative financial instrument and only the net income (net amount retained after deducting the cash payouts from the LPM) is recognised as income.

Hotel and conferencing

The revenue derived from rooms trading and conferencing is included in revenue. Revenue is recognised as performance obligations are met over time as services are rendered.

Payments for the above services rendered are either received in advance, upon check out or through the utilisation of customer loyalty programmes.

Management is satisfied that IFRS 15 had no impact on the current manner revenue is recognised.

Food and beverage

The revenue derived from food and beverage sales is included in revenue. Revenue is recognised at a point in time, when the goods are provided to the customer.

Payments for the above services rendered are either received in advance, upon check out, upon purchase of product or through the utilisation of customer loyalty programmes.

Management is satisfied that IFRS 15 had no impact on the current manner revenue is recognised.

Other revenue streams

The revenue derived from the below revenue streams are included in other revenue streams and not considered the main activities of the entity. Revenue is recognised as performance obligations are met over time, and include the following:

- conferencing and entertainment revenue;
- management fees income;
- membership revenue;
- merchandise revenue;
- entrance fee revenue; and
- time share income.



Contract liability

The Vacation Club provides services where it receives upfront fixed contract income from a customer in exchange for the specific use of timeshare units at the Sun City entity over a period of time. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. As the upfront payments exceed the initial services rendered, a contract liability is recognised.

Management is satisfied that IFRS 15 had no impact on the current manner revenue is recognised.

The following income streams are excluded from the scope of IFRS 15:

- net gaming wins (included in total Income);
- rental income (included in other income);
- dividend income (included in other income); and
- concessionaire income (included in other income).

Transition to IFRS 15

Due to the nature the group's income, management assessed the IFRS 15 impact as immaterial on income recognised in the current and prior years. Management's assessment included an assessment of the impact of IFRS 15 on the group's customer loyalty programme, assessed as insignificant. Therefore, no adjustments were recorded.

DIVIDEND DISTRIBUTIONS

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are declared.

Dividends are recognised as other income in profit or loss when the right to receive payment is established.

SEGMENTAL REPORTING

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as executive management.

The group owns and operates casino, hotel and resort properties in South Africa, Swaziland, Nigeria and Latam. Executive management reviews the operations and allocates resources at a property level.

Segment results include revenue and expenses directly attributable to a segment. Segment results are determined before any adjustment for minority interest. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment. Capital expenditure represents the total costs incurred during the period to acquire segment assets.

The group uses adjusted EBITDA as a profit measure.

HYPERINFLATION

IAS 29: Financial reporting in Hyperinflationary Economies has been applied by Nuevo Plaza Hotel Mendoza S.A., a subsidiary of Sun International, whose functional currency is the Argentine peso. The economy of Argentina was assessed to be hyperinflationary, effective 1 July 2018, and hyperinflation accounting has been applied since, as if the economy has always been hyperinflationary. The results of this entity have been adjusted in terms of the measuring unit current at the end of the year. The monetary gains or losses were immaterial for the current year.

ANNEXURE: ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2018

The financial statements of the group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period. As the presentation currency of the group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. Differences between these comparative amounts and current year hyperinflation adjusted equity balances are recognised in other comprehensive income. The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount. Gains or losses on the net monetary position are recognised in profit or loss. All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred. At the beginning of the first period of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first period and in subsequent periods, all components of equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

Accordingly, the results, cash flows and financial position of the group's subsidiary Nuevo Plaza Hotel Mendoza S.A. have been expressed in terms of the measuring unit current at the reporting date.

ADJUSTED EBITDA

The measure of reporting profit for each segment, that also represents the basis on which the CODM reviews segment results, is adjusted EBITDA. Adjusted EBITDA is defined as earnings before interest (which includes gains and losses on foreign exchange transactions), tax, depreciation and amortisation, and is also presented before recognising expenses which are of an unusual and infrequent nature as a result of unforeseen and atypical events. Examples of adjusted expenses:

- loss on disposal of property, plant and equipment;
- straight-line adjustment for rentals;
- impairment of non-current assets;
- pre-opening expenses;
- foreign exchange cover losses, and
- other non-recurring expenses which are of an unusual and infrequent nature as a result of unforeseen and atypical events.



ANNEXURE: ACCOUNTING POLICY DEVELOPMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Accounting policy developments include new standards issued, amendments to standards, and interpretations issued on current standards applicable to the group.

International Financial Reporting Standards and amendments effective from 1 January 2019 year-end

IFRIC 23: Uncertainty over income tax treatments

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The interpretation provides specific guidance in several areas where previously IAS 12 was silent. The interpretation also explains when to reconsider the accounting for a tax uncertainty.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and will be adopted by the group on 1 January 2019. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals is recognised. The only exceptions are short-term and low-value leases. The group has various short-term leases like IT and gaming equipment that are annually renewable. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The group has set up a project team which is currently assessing the impact of this standard and the impact on the future annual financial statements. As part of this process, all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16 are being assessed. The group will apply the practical expedient to not reassess the definition of leases.

As at the reporting date, the group has non-cancellable operating lease commitments of R1.4 billion, see note 3. Of these commitments, approximately R59 million relate to short-term, low-value leases which will continue to be recognised on a straight-line basis as expense in profit or loss.

Right-of-use assets for property leases and all other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepayment or accrued lease expenses). The group will also record the corresponding lease liability which will initially be measured at the present value of the lease payments payable over the lease term, discounted at an appropriate rate and after taking into account the lease term, value, economic environment and security over the asset. We expect this to result in an increase in current and long-term liabilities, and an increase in non-current assets.

The most significant operating leases that the group hold relate to the following properties:

- the Maslow (Maslow segment);
- the head office building (management companies segment);
- the Table Bay property (Table Bay segment);
- New York Casino in Peru (Peru excluding Thunderbird segment);
- Pachanga Independencia Casino in Peru (Peru excluding Thunderbird segment); and
- Luxor Casino in Peru (Thunderbird segment).

The impact on the net profit affected the application of the right-of-use model. The presentation of lease payments in the statement of comprehensive income will change resulting in lease payments of an operating lease under IAS 17 being presented within operating expenses, while under the right-of-use model, depreciation and the interest expense will be recognised separately. Operating cash flows will increase and financing cash flows are expected to decrease as the repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The group is still assessing the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the group's results and disclosures.

Amendments to IAS 19: Employee Benefits

An entity is required to use updated assumptions to determine the current service costs and net interest for the remainder of the period after a plan amendment, curtailment or settlement and recognised in profit and loss as part of past service cost or a gain or loss on settlement, any reduction in a surplus (recognised or derecognised).

