



www.citylodge.co.za

CITY
LODGE
HOTELS
LIMITED
ANNUAL
REPORT
2006

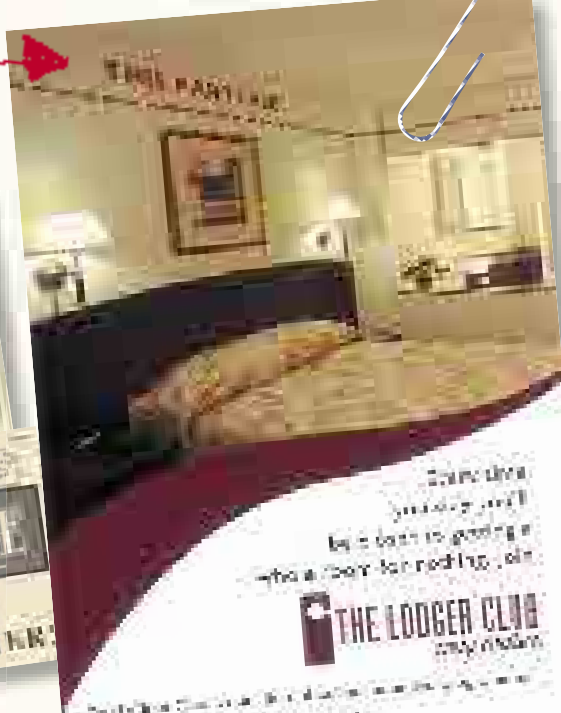
CREATING
FANS,
TOWARDS
2010



City Lodge Hotels Limited

Annual Report 2006

This is a club
worth joining



Some days
you may find
it's both as good as
being a member for nothing, join

THE LODGER CLUB
anytime

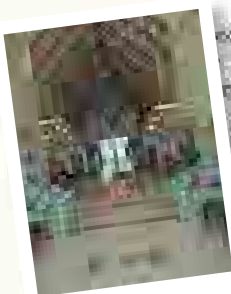
The Lodger Club is a...
...and...

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Fan club review 2006



Creating fans, towards 2010

The City Lodge Hotels group has come a long way from its relatively humble beginnings – a 123-room City Lodge in Randburg, opened on 1 August 1985.

Through the vision of founder, Swiss-born Hans Enderle, the City Lodge Hotels group has grown from a single hotel in 1985 to a multi-brand chain offering a variety of locations, features and budget choices to business and leisure travellers.

From the start emphasis was placed on quality accommodation, homely ambience and friendly service – still important attributes of the group in the 21st century and core reasons guests choose our hotels.

After pioneering the quality selected services hotel concept in South Africa, the group has grown substantially and diversified its product offering to meet different travellers' needs.

Commitment to service excellence from a highly motivated and dedicated staff is a common thread throughout the group's hotels which have developed a loyal base of regular clients over the years and an ever-growing number of new guests.

1 012 staff

**committed to serving our
guests**

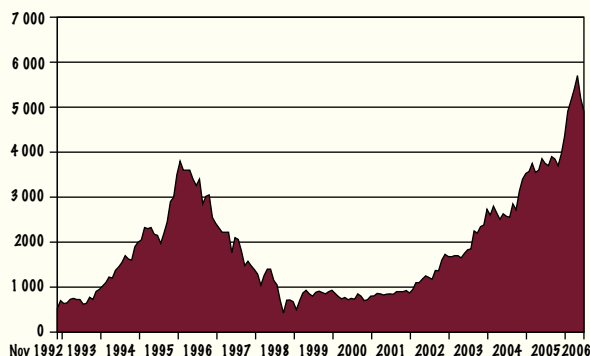




| For the year ended 30 June | 2006 | % | 2005 |
|---------------------------------------------|-------|----|-------|
| Revenue (R'm) | 442,1 | 13 | 390,9 |
| EBITDA (R'm) | 237,0 | 15 | 206,3 |
| Operating profit (R'm) | 211,5 | 17 | 181,4 |
| Headline earnings (R'm) | 144,6 | 18 | 122,6 |
| Diluted headline earnings per share (cents) | 337,9 | 18 | 287,4 |
| Dividends declared per share (cents) | 238,0 | 17 | 203,0 |
| Cash generated by operations (R'm) | 240,8 | 21 | 199,2 |
| Net asset value per share (cents) | 1 101 | 12 | 985 |

Stock exchange performance

Ordinary share price (cents)



Highest for
a decade

79%

Average occupancy

R144 million

Profit

18%

Increase in diluted headline earnings per share

17%

Increase in dividends per share



4

Historic highlights

1985

1988

1991

1994

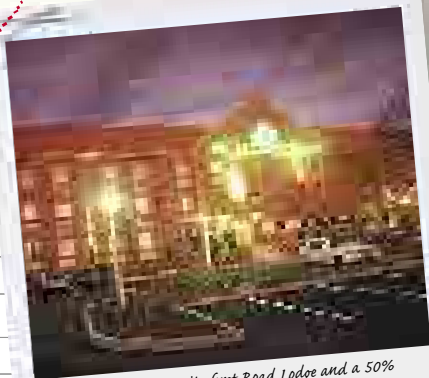
1986

"Team Scheme" is launched – still the best value weekend special for groups booking four rooms or more

1987

City Lodge Johannesburg and City Lodge International Airport and City Lodge Katherine Street make their debut

Clifford Ross is appointed to the board as operations director



1995 The group opens its first Road Lodge and a 50% interest in the companies associated with the upmarket Courtyard chain is acquired
1996 The group records its highest annual occupancy of 81%; the second Road Lodge at N1 City in Cape Town is opened together with Town Lodge Sandton

The first City Lodge opened on 1 August in Randburg

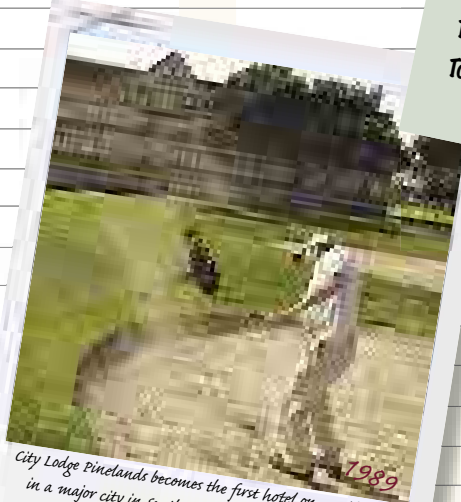
City Lodge Durban and City Lodge Port Elizabeth are opened

1992

The company listed successfully on the JSE Limited and every member of staff received 100 shares

1993

Two new City Lodges and one new Town Lodge are opened



1989 City Lodge Pinelands becomes the first hotel on a golf course in a major city in South Africa; the group celebrates its 1 000th room with the opening of City Lodge Bloemfontein

Town Lodge number 3 and 4 (Midrand and Nelspruit) are born; Kersaf (now Sun International) becomes a major shareholder

1997



Our millenium room major upgrade programme was completed at a total cost of R16 million at City Lodge Katherine Street and City Lodge Johannesburg International Airport

2000

Three new hotels next to Sun International casinos are opened - City Lodge GrandWest, Courtyard Port Elizabeth and Road Lodge Port Elizabeth

2001

The City Lodge Academy is launched to identify and groom our executives of the future

2002

Dr Keith Shongwe is appointed as a non-executive director; the World Summit on Sustainable Development helps boost revenue to over R200 million for the first time

2003

The group sells one million room nights for the first time in a financial year, Clifford Ross is appointed Chief executive and we say farewell to a founding director - Bill Dickson, who retires

2006

Town Lodge George fully opened! 38th hotel in the group

*City Lodge
21st
birthday on
1 August!!!!*

Ndumi Medupe and Stuart Morris are appointed as independent non-executive directors.

2005

The Lodger Club, our internet-based incentive programme is launched

1998 Our seamless internet-based reservation system is launched and one-third of our City Lodge rooms are converted to twin rooms in order to better cater for the leisure market

1999 www.Bid2Stay.co.za, our internet-based, instant confirmation auction site is launched; Road Lodge Carnival City, Randburg and Rivonia are opened



COURTYARD

More reasons to make yourself at home

The Courtyard Hotels offer the discerning guest an exclusive and gracious alternative to an ordinary hotel.

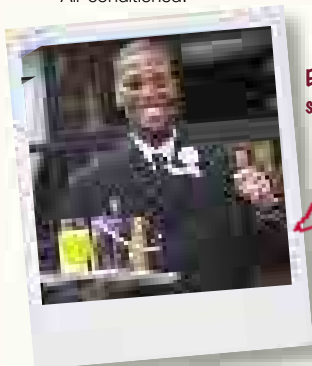
Each Courtyard Hotel has its own distinct atmosphere, although they all share an air of elegance and charm not readily found today.

There are several accommodation options available, from the studio through to one or two-bedroomed units, each of which offers a lounge area with a dining table, a kitchenette with refrigerator and microwave oven.

We also provide a personal shopping service. Should you wish to have your kitchenette stocked with the finest quality food and beverages prior to your arrival, contact us for an itemised shopping list and we will gladly make these arrangements for you.

Rooms

- Studio, one or two-bedroom luxury rooms.
- Well appointed bathroom(s).
- Fully equipped kitchenette.
- Personal electronic safe in each room (big enough for laptops).
- International direct dial telephone.
- Television with M-Net and selected DSTV channels.
- Air-conditioned.



Enjoy courtesy sundowners



Services

- Woolworths personalised shopping service.
- Intimate lounge area.
- Courtesy bar (17:00 – 19:00).
- 24-hour enhanced security.
- Free, secure parking just metres from your door.
- An elegant boardroom for guest use.
- Personal use of guest office and internet.
- Sparkling pool in landscaped garden setting.
- Full English and Continental breakfast daily.
- In-room dining by arrangement with local restaurants.
- Same-day laundry and dry-cleaning service.
- 24-hour laundrette.
- Ice machine.
- Wireless internet access.

Current locations

Cape Town, Johannesburg (Eastgate, Rosebank, Sandton), Pretoria (Arcadia) and Port Elizabeth.



CITY LODGE

We'll make you feel like you're at home

City Lodge has become a household name in the southern African market, providing guests with comfortable and tastefully decorated rooms which are the ideal place to make your own when you come home at the end of your day – whether you have been working or playing.

Each room has an en-suite bathroom where you may choose to soak in a hot bath or take a shower while deciding where to dine that evening.

Rooms

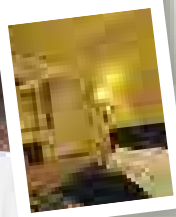
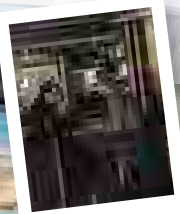
- Spacious air-conditioned room with double bed or twin beds.
- Television with M-Net and selected DSTv channels.
- Bathroom with bath and separate shower.
- Tea and coffee making facilities.
- Rooms with sleeper-sofa available at selected hotels on request.
- Rooms with two separate beds for twin accommodation.
- Electronic safe large enough to accommodate a laptop.
- Desk with lighting and plugs for easy connectivity.
- Dedicated line to internet.

Services

- Internet area.
- Mini gym.
- Boardroom.
- Convenient locations, close to major routes.
- Full English and Continental breakfast daily.
- 24-hour reception and check-in.
- Sundowner bar.
- 24-hour vending machines stocked with snacks and cold beverage items.
- Fax and photocopy services available.
- Same-day laundry and dry cleaning.
- Sparkling swimming pool.
- Free and convenient parking.
- Wireless internet access.

Current locations

Bloemfontein, Cape Town (Pinelands, V&A Waterfront, GrandWest), Durban (Central, Umhlanga Ridge), Johannesburg (Bryanston, Johannesburg International Airport, Sandton Katherine Street, Sandton Morningside) and Port Elizabeth.





TOWN LODGE

Stay smart

Very much like City Lodges, Town Lodges are also strategically located adjacent to motorways and major routes.

The rooms are slightly smaller than City Lodge, but offer similar stylish décor and the customary comfort. En-suite you will find a maxi-shower with a glass door, a tiled built-in seat, a wall-mounted and a hand-held showerhead.

Rooms

- Fully carpeted, spacious air-conditioned room with double or twin beds.
- Television and radio with all popular channels.
- Interleaving family rooms available.
- En-suite bathroom with maxi shower.
- Tea and coffee-making facilities.

Services

- Convenient locations, close to major routes.
- Free, easy and secure parking.
- 24-hour reception and check-in.
- Full English and Continental breakfast daily.
- Sundowner bar.
- 24-hour vending machine for snacks and beverages.
- Fax and photocopy services available.
- Same-day laundry and dry cleaning.

Current locations

Bellville, George, Johannesburg (Johannesburg International Airport, Midrand, Sandton Grayston Drive), Nelspruit, Polokwane and Pretoria (Menlo Park).

Opening soon

Johannesburg – Roodepoort.





ROAD LODGE

Why pay more?

The best value in the City Lodge family of hotels is undoubtedly to be found at the Road Lodge.

These hotels offer unbelievable value-for-money; the same rate whether there are one, two or even three people sharing the comfortably furnished and tastefully decorated room.

Rooms

- Fully carpeted and air-conditioned.
- Colour television and radio channels.
- En-suite bathroom with shower, toilet and hand basin.
- Rooms with double or twin beds, with single sleeper chair available in selected rooms.
- Working desk.

Services

- A light breakfast is available daily.
- 24-hour vending machines stocked with snacks and beverages.
- Free, ample and secure parking.
- 24-hour reception service.
- Coin and card call-boxes for trunk calls.

Current locations

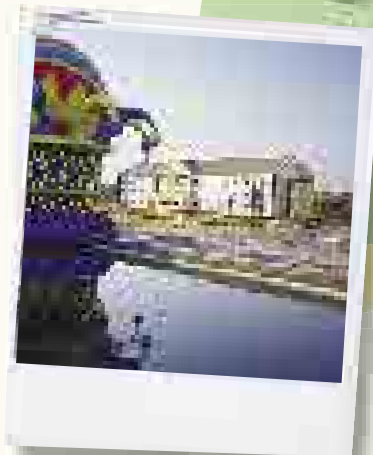
Cape Town (N1 City, Cape Town International Airport), Durban, Johannesburg (Brakpan – Carnival City, Germiston Lake, Isando, Johannesburg International Airport, Randburg, Rivonia), Kimberley, Nelspruit, Port Elizabeth and Rustenburg.

Opening soon

East London.
Richards Bay.



**4 brands,
38 hotels**
nation-wide to choose
from, whether you are
staying for business or
leisure



10 My autographs – directorate



Hans Enderle (64) ♦

*Non-executive Chairman
and founder. 50 years'
experience in the
hotel industry*



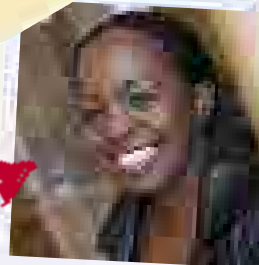
Frank Kilbourn (44) * □

*BCom, LL.M, BA (Hons), HDip Tax
Appointed to the board in 1996
Director of companies*



Nigel Matthews (61) * ♦

*MA (Oxon), MBA
Appointed to the board in 1989
Director of companies*



Ndumi Medupe (36) ° ♦

*Chartered Accountant (SA)
Appointed to the board in 2006
Auditor and financial
consultant*

*Stuart Morris***Stuart Morris (60)^{†*}**

Chartered Accountant (SA)
Appointed to the board in 2006
Director of companies

Clifford Ross (49)^{†*}

Chief executive
32 years' experience in
the hotel industry

Clifford Ross**Dr Keith Shongwe (42)[†]**

BSc, MB ChB
Appointed to the board in 2002
Business development executive

**Andrew Widegger (40)^{†*}**

Financial director
Chartered Accountant (SA)
13 years with the company

2006 MAY

Thursday 11

Friday 12

Dr Keith Shongwe

- † Member of BEE committee
- * Member of executive committee
- ◆ Member of remuneration and nomination committee
- Member of risk committee

- ° Independent non-executive director
- ◇ Executive director
- * Member of audit committee

12 Our executive committee



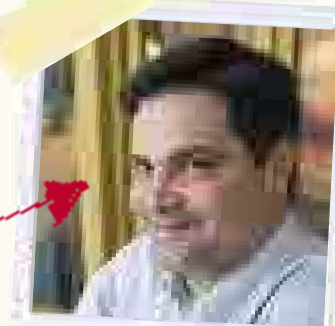
Clifford Ross (49)*□
*Chief executive
19 years with the company*



Tony Balabanoff (40)*□
*Divisional director – operations
20 years with the company*



Gary Bisset (52)*□
*Divisional director – operations
10 years with the company*

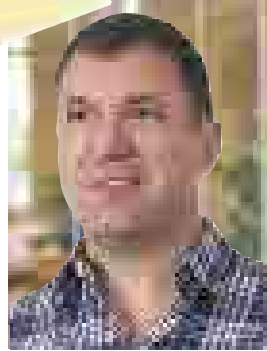


Marcel Kobilski (42)*□
*Divisional director – human
resources
10 years with the company*



Andrew Morris (37)*

*Divisional director – property
and development
10 years with the company*



Peter Schoeman (41)*

*Divisional director –
sales and marketing
10 years with the
company*



Patrick Tate (50)*

*Divisional director – operations
18 years with the company*



Andrew Widegger (40)†*□

*Financial director
13 years with the company*

† Member of BEE committee

* Member of executive committee

◆ Member of remuneration and nomination committee

□ Member of risk committee

° Independent non-executive director

◇ Executive director

* Member of audit committee

14 Feedback – from the chairman and chief executive

Dear fan,

With the 2006 FIFA Soccer World Cup now a thing of the past, it is quite amazing to realise that our country really is the next host for this massive sporting extravaganza that only comes around every four years.

Towards this end, we have introduced an innovative competition of our own, aimed at keeping us on top of our game in a highly competitive industry.

While service excellence has always been an integral part of the group, this focus is being taken to a higher level ahead of the Soccer World Cup in 2010.

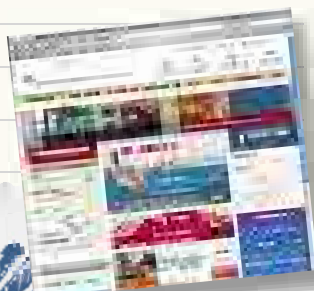
On Top Of My Game is the name of a new service excellence programme which has three legs to it and incorporates reward and recognition elements.

Firstly, there's "The Game", which is a "virtual" competition between City Lodge and its competitors in the hospitality industry.

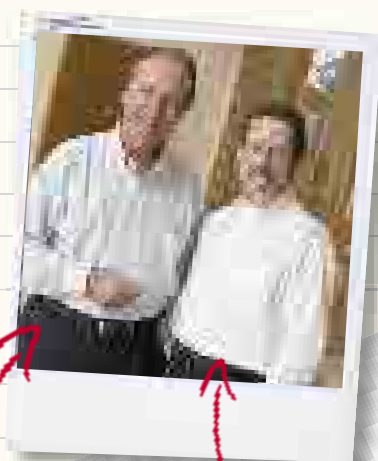
Secondly, "The Game" comprises "The Championship", which pits hotels in the group against each other towards winning "The Gotcha Cup" (essentially about catching a colleague doing something right) and the associated material rewards.

Finally, there's "The League", the commencement of which coincided with the 2006 Soccer World Cup final, where individual staff members are pitted against each other in their own hotels, vying to win quarterly rewards for providing the best levels of service.

The bottom line of "The Championship" and "The League" is to recognise and reward hotels and their staff for creating *fanatical fans* by providing remarkable service experiences.



4169 rooms
can be booked online by visiting
www.citylodge.co.za



Hans Enderle
Chairman

Clifford Ross
Chief executive



The Gotecha Cup

Just like in the real soccer world, the competition caters for the creation of *fans* and the accumulation of points through the scoring of goals, and the making of saves and passes. Significantly, guests play an important role in the proceedings by identifying through guest questionnaires which staff members have created a *fan*. The first championship floating trophy will be awarded in 2007.

Looking back on 21 “*fan-filled*” years

The City Lodge Hotels group has come of age – we celebrated our 21st birthday on 1 August and can look back on a *fantastic* childhood and adolescence as we look forward with confidence to our more mature years.

It has been a collective effort by a *fanatical* team which has laid this foundation for the future – our friendly and hardworking management and staff, our reliable and prompt suppliers, our committed shareholders and, above all, our loyal guests.

Significantly, while the world has changed a lot in the past 21 years, the group applies the same fundamental principles and philosophies that it started out with when City Lodge Randburg opened its doors on 1 August, 1985.

Our core “People Caring for People” philosophy is embedded in the fabric of all 38 of our existing hotels across the Courtyard, City Lodge, Town Lodge and Road Lodge brands, enabling us to maintain and increase our *fan* base through the length and breadth of South Africa.

However, as there is no room for complacency in the highly competitive and rapidly evolving hospitality industry, we are constantly upgrading our products and fine-tuning our offerings to keep our existing *fans* happy and to attract and retain new ones.

Fantastic financials

In the year to 30 June, 2006, the group continued to benefit from the strength of the domestic economy and consistent demand for quality hotel accommodation in the business and leisure sectors of the market. This enabled very satisfactory financial results to be achieved. Average occupancies improved to 79% from 77% a year earlier, the highest annual average for a decade. One new hotel came on stream – the 120-room Town Lodge George, the 38th hotel in the group – which opened in March.

The number of rooms sold during the year rose due to higher occupancies and the new capacity in George, contributing to revenues rising by 13% to R442,1 million. Higher occupancies also contributed to an improvement in the operating profit margin which led to operating profit increasing by 17% to R211,5 million.

While interest received increased by R1,8 million due to higher cash balances, interest paid increased by R1,7 million due to a once-off credit to interest paid of R2,3 million in the previous year, following the refinancing of certain of the group’s long-term borrowings.



There was a meaningful improvement in income from the Courtyard joint venture with the combination of higher occupancies and higher achieved average room rates, resulting in an increase in the contribution of 70% to R5,3 million.

Strong cash generation was again a feature of the group's activities with cash generated by operations rising to R240,8 million from R199,2 million in the previous year.

The group's effective tax rate of 34,7% was in line with the previous year and is above the standard corporate rate of 29% due to the STC charge on dividends paid during the period.

Profit increased by 17% to R143,9 million compared with R122,6 million in the previous year which was restated in line with IFRS requirements. Headline earnings rose by 18% to R144,6 million and diluted headline earnings per share also increased by 18% to 337,9 cents from 287,4 cents previously.

A final dividend of 121 cents has been declared, taking the annual distribution to shareholders to 238 cents, a 17% increase on the previous year.

While the group's earnings are coming off a high base, driven by high occupancy levels, the addition of new capacity and the continuation of favourable trading conditions should result in satisfactory earnings growth in the year ahead.

During the period, a cautionary announcement was issued by the company following the receipt of an expression of interest by Hospitality Property Fund Limited ("Hospitality"), in acquiring all the issued shares in the company. An independent sub-committee of the board was established to consider the approach and to deal with all matters incidental thereto.

The cautionary announcement was withdrawn following notification from Hospitality that it did not intend to proceed with its proposal.

Fan club news

Listening to our guests and reading our *fan* mail carefully, we continually strive to find new and better ways to cater for their needs.

The growing popularity of The Lodger Club and The Corporate Club has enabled us to improve our interaction with our increasingly valuable online *fans* who currently number more than 12 000. Both these clubs enable frequent stayers who book online to build up points towards free accommodation at our hotels.

Our new computerised management system is fully installed and is giving us valuable information about our guests so that we can ensure that their requirements are met and that they are much more than numbers or faces – all of our hotels now have access to guests' details and special needs, promoting seamless check-ins and making our *fans* feel at home whilst they are away from home.

"Wi-fi" (wireless internet) continues to be rolled out throughout the group, giving guests easy access to emails and the *fantasy* of the internet from the lounge, bar and restaurant areas (commercial areas) and from a growing number of hotel rooms. It is available in the commercial areas of all Courtyards, City Lodges and Town Lodges and "Wi-fi" rooms can be booked at Courtyards and City Lodges. It is the group's intention to instal "Wi-fi" in the commercial areas of the Road Lodges in the coming year.

The functionality of our websites also continues to be enhanced as "hits" from existing or prospective *fans* increase in an age when the internet is playing a growing role in all aspects of our industry.

While the four brands within the group – Courtyard, City Lodge, Town Lodges and Road Lodge – have become well entrenched, there is no room for complacency. Our television campaign has proved extremely successful at creating awareness of the group



and emphasising our focus on people and the fact that our people and our product will make our guests feel like they're at home.

To further entrench awareness of our group, our brand image and our values, a *fantastic* new television campaign is being planned – it is in a similar vein to the existing campaign which has received numerous accolades and been extremely successful in creating brand awareness.

Our *fantastic* people

The core strength of the group has always been, and continues to be, our *fantastic* people.

Through ongoing skills development programmes, we continue to develop and grow our people at all levels of the group. Now in its seventh year, the City Lodge Academy has identified, groomed and trained more than 30 candidates who will play important management roles at hotels around the country. The benefits of the Academy are evidenced by the fact that we now have “ex” Academy students filling assistant management positions.

In addition, to ensure that we have leadership skills for the future, strong emphasis is also being placed on management development and succession. This is overseen by a committee (“MANDASCO”) whose focus is on ensuring that we as a group are equipped and prepared to handle the challenges which will be posed in the lead up to 2010 and beyond. During the past year, we were pleased to appoint Mrs Ndumi Medupe and Mr Stuart Morris to our board of directors. They have already made a valuable contribution to board proceedings and we look forward to their future input and insights.

Expanding to cater for more *fans*

Continual growth has been part of the City Lodge strategy for the past two decades

and it remains a top priority as we strive to cater for various accommodation needs of travellers around South Africa.

In the past year we opened one new hotel – the 120-room Town Lodge George – and during the next year we will be more active in providing additional locations for our *fans* to choose from.

Construction on the 106-room Town Lodge Roodepoort is well under way and the hotel should open in the last quarter of 2006. Construction has also begun on the 90-room Road Lodge East London, with the opening expected in the first quarter of 2007. A site has been acquired in Richards Bay where a 90-room Road Lodge will be built once regulatory approvals have been received. Importantly, the group is considering expanding several existing hotels to cater for consistently strong demand for rooms in certain areas. A decision has already been taken to add 30 rooms to Road Lodge Germiston while other expansion opportunities are still being investigated.

With our eyes firmly set on continuing our growth pattern, the search continues for suitable sites around the country on which to further develop our four brands – we are represented in all nine provinces and are excited about the opportunities to broaden our offering to our ever-growing *fan* base.

Fanfare for all

Heartfelt thanks must go to all *fans* – guests, suppliers, shareholders and staff – without whom the group would not have come of age so successfully and have such a solid foundation for future growth.

