



ROYAL JOHANNESBURG & KENSINGTON GOLF CLUB – PROJECT TEAM

Member Update - The 5 Year Plan

April 2019

The plans for the property developments & club upgrades remain on track as per the member approval and the vision of delivering the long term sustainability with benchmark products for our wonderful estate.

BACKGROUND

At the 125th Annual General Meeting (2016) the members approved the Special Resolution to implement a 5-year plan for the Club (R30m).

The Vision will deliver a beautiful property development of some 430 plus upmarket apartments and retirement units through surplus land tranches on the outskirts of each course, a state of the art Fitness Centre, Family/Kids Club, along with several other replacements and upgrades. Additionally both of these wonderful Courses will be revamped. The Board received authorisation to conclude the sale of land as presented, the appointment of the contractors, professional advisors, the funding and phasing of the project. This included the optimal use of either borrowings against the assets of the club or drawdowns from the Capital Fund. It was agreed that all expenditures on the project that were a logical fit should proceed but that the Board should take all steps to optimise the use of the Capital Fund. Gordon Odgers would serve as the Project leader and form a team of expert advisors to ensure best practice and governance over the development period. The Plan is built on the Club receiving R50k per unit once sold and then annual subscriptions per household in perpetuity. All other enhancements to our facility i.e. West Course, Family Center etc. will be at the Developers cost.

MEMBER APPROVALS 2016/17

Year 1, 2017/18	Locker rooms & the East Championship Course upgrade
Year 2, 2018/19	Developer to obtain council approval & pre launch to members
Year 3, 2019/20	Developer build of Sandringham & Sydenham & to gain Council approval for the Linksfield property
Year 4, 2020/21	June 2020 – West Course, upgrade, Family centre, offices.
Year 5, 2021/22	Linksfield Property Development to start

- Refurbish the East and West courses
- Establish a Family Centre in the existing halfway house area
- Extend the deck around the lower lounge to include a halfway house
- Refurbish the PGA offices and caddy facility and extend the cart barn
- Spend R30m from the Capital Fund
- Replace the R30m by way of the sale of approximately 6 hectares of primarily out of play peripheral land
- Generate critical, ongoing annuity income from the unit holders by way of residential member subscriptions to return the Club to profitability



ACHEIVMENTS TO DATE:

- ✓ Refurbished the East Course, overachieved objectives and within budget
- ✓ The East Course has received 3 International awards
- ✓ Received the R10m developer deposit as contracted
- ✓ Delayed the West course refurbishment to 2020 to align with the maturity date of the Capital Fund Policy and due to the Council delays
- ✓ The Developers have obtained the approvals from the Policy Council which ensures alignment with the redevelopment plans of the Council
- ✓ The Developers have contracted with the necessary professionals to obtain the various sub committee approvals. I.e environmental, traffic, power, sanitation etc and have put up guarantees for the necessary services of R35m
- ✓ As such have obtained the key support from the planning and project management executive who have established a tribunal date in mid 2019
- ✓ Estimated – more units will be achieved
- ✓ All legal requirements complete (including the West course delay)
- ✓ All BOQ's (bill of quantities) finalised
- ✓ Conceptual Designs

NEXT STEPS:

- ✓ Subject to these formalities the services to be established later this year
- ✓ Site establishment in late 2019 on Sydenham and Sandringham
- ✓ Holistic 3d model to be put on display and member launch in November 2019
- ✓ Presales are then planned for the later part of the year for the Sydenham and Sandringham properties with the build and sale in 2020.
- ✓ The Linkfield (6th hole) development is a year behind due to floodline and wetland challenges that have now been successfully overcome
- ✓ The West Course is now contracted to be refurbished together with the Family centre, deck complex and offices in June 2020

THE REFURBISHMENT OF THE WEST COURSE:

- ✓ Some members are questioning the need to refurbish the West course in June 2020
- ✓ The land has been sold
- ✓ The current design does not align with the modern concept of more flexible, more playable, more of a challenge for the better player and more environmentally compliant.
- ✓ The current good, summer condition of the West course is very misleading
- ✓ The greens have 'POA' (poa annua) that is 'unmanageable/risky' in winter leading to poor playing surfaces. Importantly the East has no POA which would become contaminated with the use of common equipment
- ✓ The bunkers are very old with poor construction and playability and are not correctly positioned for the current game
- ✓ The 6th hole has been sold as a critical component of the redevelopment which requires alterations to the 2nd and the 3rd holes
(The Developer is contracted to pay for the new hole and alterations)



SUMMARY

- ✓ The execution of the 5 year plan & consolidated cashflow is still on track despite the longer than anticipated Council approval processes.
- ✓ The need for the repositioning of the Club with modern courses and a family offering with annuity income is never more important than now.
- ✓ The Project Team, under the auspices and approval of the Board, continues to push hard for the execution as approved by the members.

Should you have any questions, please don't hesitate to contact me.

On behalf of the Project Team,

Mr. Gordon Odgers
Project Team Leader

Project Team: Gordon Odgers, Chris Bentley, Mavela Dlamini, Dino de Abreu, Craig Miller, Alan Field





THE LONG TERM PLAN – UPDATED FAQ'S

Q: Will the Club be able to accommodate all the current members for reservations during construction of the courses?

A: The policy worked very well during the East Course closure and we will apply the same methodology during the West Course renovations. Essentially our club becomes semi private during the course construction giving members preferential reservations Monday to Sunday and further limitations placed for visitors and corporates. Furthermore the Club arranges several partner clubs for members to enjoy during the closure period.

Q: How long will the course construction take?

A: The same closure period as the East Course will apply to the West Course (July – Dec).

Q: Why do we need to resurface our greens?

A: Our greens are not only 'POA' ridden, but the top layer of the surface is simply old, resulting in our greens being highly susceptible to disease and not draining properly. 'POA' greens are also far more expensive to maintain in daily practice. There is no question that pure bent surfaces as seen on the East Course, are the best for a premium product in our climate, and while fine in the summer months for putting, from May to October the growing rates between bent and 'POA' differ causing extreme bumpiness. Additionally, we have to resurface in conjunction with the bunker revamps. If we had delayed green resurfacing any more we would have had to rebuild in the near future, which would have cost exponentially more.

Q: Why do we need to upgrade our bunkers?

A: Like the greens our bunkers are simply old, outdated, with poor drainage, faces which have moved, no irrigation and deteriorating every day.

21st Century Bunkers are constructed with special lining, a walk in style, with slightly rolled down faces, which will add huge value to the golfers experience, playability and maintenance costs as seen on our championship course. The positioning of the bunkers will align to modern equipment and player personalities.

Q: How did the Board develop this plan?

A: The Board investigated several sustainable options for the club over a 3 year period, and at the 2015 SGM the members tasked the Board to develop a plan that would retain 36 holes and provide the critical annuity income needed for the Clubs future sustainability. The membership then approved a 5 Year sustainability plan at the 125th Annual General Meeting for (R30m).

Q: Who are the Course Contractors and why have they been chosen?

A: While there are only a couple of quality course contractors in South Africa, Golf Data are by far the most recognised in their field, Golf Data have not only been the preferred partner for Jack Nicklaus, but have won best new course in SA 6 times. Golf Data did an amazing job for us on the East Course and the same principals will apply to the West Course Construction. For long term success on our greens maintenance, alongside the crucial grow in process which will again be performed by our Course Manager Shaun Brits. The changes to the West Course are on display in the clubhouse lobby.

Q: What will the property developments look like from the courses?

A: It has been agreed with our developers that the club retains the right to approve the look and feel of the architecture and to some extent need to add value to the golf experience and the courses. Vast tree lines will be retained and "a green wall" grown in to break the corridor between course and Property. The developers will endeavour to keep the same 'DNA' aesthetics to the clubhouse.



Q: Why are we adding a family centre with kids facilities

A: We established that Clubs who implemented family offerings have been very successful. These elements add more value to the members subscription and appeal to far more people in modern times which can only assist in growing membership. These facilities will also provide further tenant income and value to the future homeowner. Needless to say millennials are asking for these products. The family centre will be established in the current halfway house building, the halfway house in future will be placed on the new deck area in front of the lower bar area, which will also provide economies of scale in our food & beverage operation.

Q: Will members receive first right and a discount on the various developments?

A: The contract signed with the developers includes a 10% member discount and pre launch opportunity. The Developers aim to launch the first property sales at a members evening in November 2019, this will be the East Course Development (Sandringham).

Q: Cashflow & Capital Gains Tax?

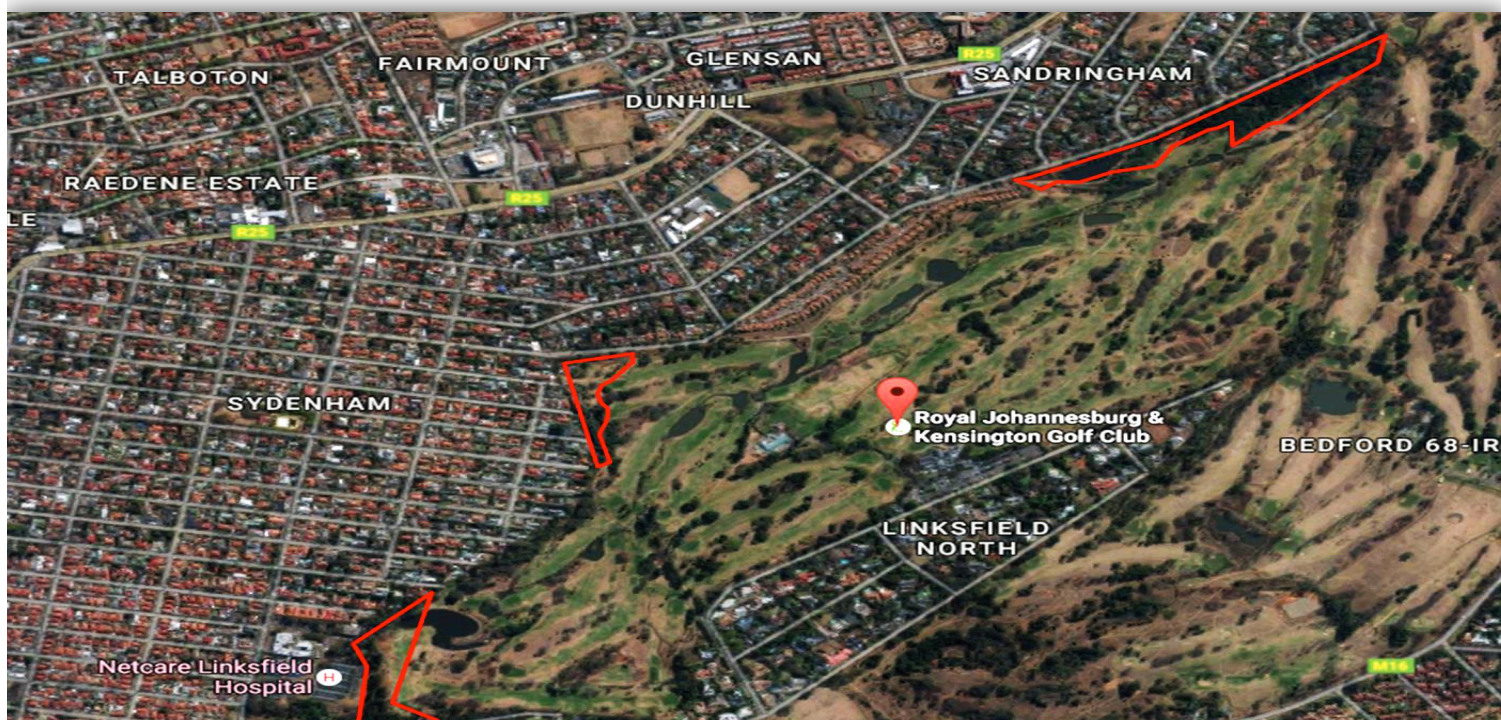
A: CGT is payable on both the property sale and the liquidation of shares in the Capital Fund. The property liability is likely to be minimal whilst the liability in the Fund is dependent on the timing of drawdowns, the mix in the fund etc. The Board is working closely with the Capital Fund Committee and financial advisors on the most effective cashflow program and to minimize the CGT, which will include the possibility of borrowing the required funds and then replacing it. The project will be funded by the Capital Fund and the full withdrawals plus CGT returned on the sale of the units.

Q: What are we going to do about trees?

A: Trees that have encroached into certain holes and question the architectural design of a hole and the way its meant to be played will be removed. Alien and or illegal trees will also be removed during the construction process. Additionally certain tree lines will be "barkchipped" for better aesthetics. This has been advised by Environ Professionals who will also act as independent auditors in this regard.

Q: Where will the Family Centre Go?

A: The Family Centre is highlighted in and around the current halfway house facility. The halfway house would then be re worked as a new model and will implement a new deck around the clubhouse and part of the current hospitality area. All at the developers cost and included in the deal.



Q: Remind of us of the financial structure?

A: Managing large cashflows is always a challenge especially in South Africa that has suffered significant changes in its economy over the last couple of years. In the Club's best interests we decided to borrow the funds to pay for the upgrades and use the pledge of our current capital savings as security for the loan. We have built a very unique structure that will simplistically allow us to keep 40% of our current capital, while 60% goes into an invest policy. Essentially we have created a R22m overdraft facility, of which the fees for the facility are paid for by the interest gained from our 60%, making it a "free use" of capital. We instructed our current fund advisors to convert our entire investment (28m) into cash. We then placed a new mandate with EQ-FIN for 60%, an affiliate company of Liberty Group. Naturally this will only be used as and when required for the published long-term plan. It is anticipated that the drawdowns will be as and when the capital works require and will include drawdowns to sustain the Club during the construction periods i.e. loss of revenue during closure. Included in the drawdowns was developer deposit in June 2018 from the sale of property that the Club has negotiated with The liquidation of our portfolio originally attracted Capital Gains Tax (CGT) of R3.5m. Provision for this payment was made in the drawdowns but subsequently our Auditors have revised the amount to only R1.4m.

There is no CGT on the improved value in the Liberty products. Upon Maturity (approx.3 Years), when the term of the plan expires post the long term redevelopments (East & West), the Liberty policy proceeds and are returned to the Club and form the basis of a new Capital Fund Investment mandate for use again by the Club in subsequent years as required and authorised by the Members. The Loan is extinguished by the proceeds of the sales of property. The Club has a large amount of its funds "back", capital gains tax has been isolated for the future and the Club has achieved the long term developments on the courses with upside from further proceeds in development of out-of-play land.

MASTER PLAN

SCALE 1:750

