

**7 August 2020****COVID 19 – MEMBER UPDATE (15)**

Dear Members

As we enter the 134<sup>th</sup> day of lockdown in South Africa, Board members, management and staff of RJKGC, continue to navigate a way through these turbulent times. We do this whilst still keeping speed with our 'mandatory requirements' – summoning all the information we have, sharing what's new in real-time and asking everyone in our community to recognise that we will get through this together – with discipline, resolve, compassion and great care.

To date we have confirmed the following positive COVID-19 cases within our Club community: 8 members, 1 staff member and we currently have 7 staff members (course maintenance) in self isolation, having been in contact with a positive case. The staff in self isolation, leave a void in the maintenance department that will require tremendous catch up later. There has been no confirmed onsite transmissions.

We all understand the limitations currently imposed upon us, which may result in frustration. This is a very difficult situation for us all and for our staff to deal with. It is some distance from fun and in this regard, we do have to add that the Club will not accept any abuse directed toward a member of staff who is doing what is required to meet the regulated requirements. It is completely irrelevant that some other organisations may choose not to apply the regulations. We are doing no more than is specifically required of us to operate and sustain our Club within best practice.

The endless rules and regulations are less than desirable, but it is hoped members understand that they are motivated by ensuring:

*We can all continue to enjoy the game of golf.*

*We remain compliant with all prescribed guidelines.*

*We are providing a safe and healthy environment for all.*

*The welfare of our members, guests & employees remains priority number one.*

We agree this is an inconvenience and something we do not take lightly, but during these times we have to put safety first and we appreciate your full cooperation.



Over the last few weeks we have been engaging in direct reports on in depth strategy, detail and review, alongside our annual report which is in its final stages ahead of the 129<sup>th</sup> Annual General Meeting, that will take place virtually on Thursday, 17 September 2020. Importantly, we must remember that the Club was on track to deliver all member objectives (pre-COVID) and despite the immense difficulties and our extreme efforts, we are faced with having to make crucial decisions to protect our beloved Club's future. The Board and management of the Club have efficiently and transparently communicated the status of the industry and impact thus far. Insofar, our great Club finds itself at another crossroad in its long and eventful life. Our Club's financial health has always been intertwined with a number of forces outside of its control, among them the economy, lifestyle and the high dependence on members personal income. For the first time in our Club's history, these pervading elements are under extreme threat for the foreseeable future and we will only have a complete picture in retrospect. To date, the Club's operation has lost a total of (R4.6m) in revenue, alongside (R4.5m) in the capital fund due to the volatile markets. On a positive note, while still static, subscriptions have remained somewhat stable and management are currently meeting the revised scenario numbers in rounds, expenditure, income and cashflow.

The Board circulated the critical proposal/survival plan to the membership on 3 July 2020, and this received many communications, support, healthy debate and understanding of the inevitable. We were set to host a virtual Special General Meeting on 31 July 2020, to take resolution on the Board's proposal. However, after careful consideration, the Board took the decision to cancel the SGM and postpone the special resolution to the AGM in September, providing members added time to digest the information and allow more members to open dialogue with the Club. This will also ensure transparency for making an informed decision. The proposal we have put forward is the only solution we see that meets all of the members/Club's objectives. Those primarily are:

- The ongoing golf industry challenges (supply and demand, which will now continue to worsen).
- The current COVID -19 crisis (how much more damage is to come?) How many members won't be able to continue?
- Putting the Club in a position to handle the next pandemic? (rebuilding our capital fund).
- Answer all financial issues and take the burden off the membership base.

On Thursday, 16 July 2020 members were invited to attend a virtual Q&A session, to hear the response to questions received. The consolidated Q&A report was thereafter circulated to the members on 22 July 2020. Another virtual Q&A session will be held via Zoom on Thursday, 13 August 2020 at 10am.



Furthermore, the Club would like to disclose that we have received an additional property proposal from an outside agent, introduced by a member of the Club. This, despite the fact that we did not open for proposals/tenders. We do however, find it important to advise the membership that the Board reflected on the proposed concept and decided not to pursue any further discussions for the following reasons:

1. The proposal did not meet the Club's objectives in many ways.
2. It did not achieve a right sized model, had no cost savings, no annuity income, no lifestyle facilities and less capital. Additionally, we would have had to redesign 2 holes at our own cost.
3. The concept received is a 'copy' on a small scale of an old proposal we once viewed with our property developer (Tim Kloeck/Tricolt).
4. If considered it would receive major objections from our property developer and the Oppenheimer family trust.
5. No proven experience in the concept/product.
6. The funding proposed was highly doubtful.

The Board is more committed to our proposal, post member interactions, than before and is of the view that the majority of members will certainly support the special resolution at the virtual AGM in September.

We would also like to remind members of the Club's good governance standards, processes and expectations. Good governance sits at the heart of everything we do and in this regard, every Board member signs a good governance certificate each year, declaring no personal interest directly or indirectly. Strong governance derives its authority from the members and proper structure allows the Board to represent the members and their interests to the fullest.

The dynamics of the Board of RJKGC equip the leadership with governance and recommended practices to operate effectively from one Board to the next. Our adopted good governance practices have consistently proven to be a strategic asset to the Club and provide a solid foundation for processes and procedures to ensure we succeed with the highest ethics and integrity.

Upon approval, the project team will be reconfigured to suit the future requirements. A detailed examination will be undertaken by a newly formed governance committee, under the leadership of Mr. John Saker. The independent sub committee will oversee the professional valuation of the strategy, the deal, the protection of the Club, the independence of the project team and the Board, the transparent communication to the members and the approval process.



In addition to the Q&A report, we would like to highlight and provide more detail on one question that continues to be asked by the membership:

### **Q: What happened to our capital fund over the years?**

#### ***Background***

The capital fund was created at the time of the merger with Kensington Golf Club (1999), creating the new RJKGC from the surplus on the sale of the Kensington property. The purpose of the fund was to assist in furthering the long term sustainability of the Club. Those funds have been enhanced both by surpluses made by the Club and the result of prudent investment over the past, nearly 20 years. The Club constitutionally separated the capital fund from the general running of the Club when the capital fund was originally established. The use of the fund has primarily been for major capital replacements i.e. the clubhouse or greens etc. and approval for withdrawals is restricted to being by 75% member vote.

In 2016, members approved the use of the fund to support the 5 year plan, prior to the recovery of those expenditures and additional capital from the development of the various residential projects. **Members specifically approved the use of the capital fund to secure overdraft funding, mainly for the East Championship course renovation. The project funding model was designed to offset outflow overdraft interest costs against inflow interest on capital fund investments and in so doing, tax optimise the Club's overall position whilst enabling the continued growth of the fund.**

#### ***The Funding Model***

The member approval of the development, confirmed borrowing the funds to pay for the upgrades and the pledge of the capital fund as security for the loan. That structure simplistically, allowed the Club to keep 40% of our current capital invested in an equity portfolio, whilst 60% went into an interest investment - it being supplemented by a R1.3m investment bonus by Liberty. This created a large overdraft facility, of which the costs are paid for by the interest gained from our interest investment, making it a tax neutral situation and avoiding any increased capital gains tax forward liability.

The overdraft drawdowns were used as approved in the project plan and as the capital works required and included the approved drawdowns to sustain the Club during the construction periods i.e. operating losses and loss of revenue during the closure time.



A further receipt of R9m from the sale of property, that the Club negotiated from the developer was also used for funding the project. In structuring the transaction, the gains of our portfolio incurred the calculated capital gains tax (CGT) of approximately R3.5m and provision for that payment was made accordingly. The new model also secured no CGT on the improved value in the Liberty products in the future and upon maturity (June 2020), when the term of the plan was to expire post the initial redevelopments (East & West). The Liberty policy proceeds were to be returned to the Club and, together with the revenues from the property sales by the developer, would form the base for a new capital fund investment mandate. The Club would have had a large amount of its funds 'back' from the developer, as well as capital gains tax neutralised for the future and the Club would have achieved the long-term developments on the courses with upside from further proceeds in development of out-of-play land.

However, when the development was delayed due to council inefficiency and the rezoning process, which took far longer than expected, the Board, project team and management of the Club decided to defer the West course renovations until council had fully approved the services establishment in respect of the residential sales. *This clearly has delayed the planned receipt of the funds from the developer that are based on the transfer of the properties sold. This also came with large unplanned costs alongside the poor market performance.*

During March of this year, when faced with the turmoil of the markets arising from the COVID-19 pandemic, in consultation between Standard Bank, the capital fund committee and the Board, it was decided to reduce the overdraft facility. This was done by liquidating the major part of the equity portfolio in order to protect the fund from further losses and the unknown pandemic effects. In order to achieve this, investments were sold and the portfolio structure extended for a period of 2 years. Subsequent to the Board's report issued on 3 July, the fund has suffered further losses and as at 30 June 2020, the total of the incurred loss and reduction in value over this period is R4.5m. The remaining capital in the fund currently amounts to R2.8m.

Please see below background and the consolidated table of the capital fund's audited, approved, inflows and outflows over the last 5 years.

The capital fund committee have viewed the Board's proposed plan and consider it a viable means of sustaining the future of our wonderful Club. Should the membership approve the proposal, the nett funds generated by the plan will ultimately be returned to the capital fund.



Royal Johannesburg & Kensington Golf Club Summary of Movement on Capital Fund					
From	To	Description	Income	Payment/ Loss	Closing Balance
	2016/06/30	Opening Balance			32,358,895
2016/07/01	2017/06/30	Deposit Received From Property Developer	1,000,000		
		AGM Approved Resolutions: 5 Year Plan R30m		2015/16 Operating loss refunds	(1,600,000)
				Approved Capex	(4,950,000)
				Project legal fees	(250,000)
		Major market losses		Cabinet reshuffle & firing of Finance Minister P Gordhan	(4,810,000)
		Capital Fund gains earned	5,799,096	Interest & dividends earned during Jul 2016 - Jun 2017	27,547,991
					Closing Balance at 30 June 2017
2017/07/01	2018/06/30	AGM Approved Resolutions:		2016/17 Operating Loss Refund	(1,400,000)
				East Course Upgrade	(18,659,482)
		Capital Fund gains earned	263,755	Interest & dividends earned during Jul 2017 - Jun 2018	7,752,264
					Closing Balance at 30 June 2018
2018/07/01	2019/06/30	Deposit Received From Property Developer	9,000,000		
		AGM Approved Resolutions:		2017/18 Operating loss refunds	(925,541)
				Postponement of West Course Upgrade, approved Capex	(3,428,201)
				Capital Gains Tax, Operational Losses, Project Legal Fees	(4,076,939)
		Capital Fund gains earned	139,634	Interest & dividends earned during Jul 2018 - Jun 2019	8,461,217
					Closing Balance at 30 June 2019
2019/07/01	2020/06/30	Capital Gains Tax Payment		2017 Income Tax Assessment	(1,373,940)
		Major market losses		Economic impact of Covid19 & the lockdown	(4,551,173)
		Capital Fund gains earned	325,547	Interest & dividends earned during Jul 20169- Jun 2020	2,861,651
					Closing Balance at 30 June 2020
The movement on the Standard Bank facility has been excluded from this summary for the sake of simplicity.					

*The Minutes of the Meetings confirming the relevant AGM Member Approvals are available for inspection at the CEO's office*





Management have, this week, completed the annual audits with HLB, namely, health & safety and our financial year end for the year ending, 30 June 2020. The audited (abridged) financials will be available to the membership in the AGM pack, which will be distributed 14 business days prior to the meeting.

Moreover and ahead of our AGM, I will be hosting a virtual 'fact or fiction' session via Zoom on Wednesday, 9 September 2020 at 10am. Members are invited to attend to receive a brief overview of the Club and receive the answers to any additional questions you may seek.

In closing, 'We are going for the hat-trick' and pleased to announce that our East Championship Course has once again been nominated as South Africa's best course, by World Golf Awards for the third successive year. We have implemented a sharp campaign as voting for 2020 closes on 1 September. Please support your Club and vote for us today by clicking on the link in this mailer. Ironically, Brooks Koepka is also after a hat-trick at this week's PGA Championship being staged at TPC Harding Park. While everything feels different, there could be a real sense of the familiar, if Koepka wins the Wanamaker trophy again. It would make him the first man since Walter Hagen in 1926 to win the tournament on three consecutive occasions – enjoy the year's first major championship!

We take the opportunity to remind members to stay alert and take the available precautions to avoid the virus. We are all deeply concerned for our friends, family, club community and businesses against the devastating threats. We will continue to do everything we can to adapt to the situation but the road to recovery is going to be long. We face significant short term challenges and long term sustainability issues.

We once again welcome members' feedback and constructive suggestions on our approach. We wish you good health and strength as we all do our part to remain 'together apart' in the fight against COVID-19.

Thank you for your continued understanding, support, trust and loyalty to our wonderful Club.

Warm regards,

A handwritten signature in gold ink that reads 'C Bentley'.

**Christopher Bentley**  
**Chief Executive Officer**