



Dear Members

On behalf of the Board, we hope this report finds you and your family safe and well. The purpose of this communication is to reflect on where we have come from over the past year, the present highlights and the Board's strategic view, moving forward.

Firstly, we would like to sincerely thank the members for your support over the past year and particularly through these trying times, surrounding the unprecedented climate, restriction of movement and the severe health concerns for all.

The last twelve months have reminded us of the importance of family and good health, but also how valuable the game of golf and our wonderful Club is in our lives. We have learnt how much we, as individuals, appreciate the golfing communities that we form part of and how much the camaraderie offers us on a personal level, through good times and bad. The pandemic pulled back the curtain that was keeping us from seeing this new reality. We learnt that culture determines everything, connection doesn't just happen face to face, food does more than satiate an appetite and the simple act of playing golf provides a sense of normalcy in an otherwise very demanding time. Our Club is more than an association of members sharing a common interest. It is a place that creates special memories, history, safety, security, fun and friendships that stand the test of time. Members create a Club and the past year has shown that when members stand together, the Club won't just weather a storm, but it will come out stronger than before.

### Club Operations

Your Board and management have continued to work hard, navigate the way and make the critical decisions at each point. We are well on track to achieving the twelve-month scenario plan and the Club has remained focused on collaborative solutions to protect the balance sheet, while prudently managing our capital. Amid all the chaos and turmoil happening in the world and in our country, we have all experienced our own triumphs and successes on varying scales, both professionally and personally. Seeing our staff, management, members and the Board pull together to responsibly support the Club's health, safety and its' future, has certainly been a highlight. Our long serving management team's experience, knowledge, ability to adapt and complete understanding of the business has been a key aspect to not only surviving the impacts associated with the pandemic but has allowed us to move into a very robust direction (operationally). I undoubtedly believe we have the best Club management team in the country and this has been further confirmed over the past year. Our staff and their passion to deliver, remain one of our greatest assets at the Club.

Over the past five months, we have worked with our Insurance broker, regarding our business interruption cover (losses suffered during the hard lockdown). Progress has finally been made and our claim is submitted. We now await feedback from the underwriter, and we hope to report positive news before the end of our financial year.

At the time of writing this report, the Club has welcomed over 240 new members over the past eight months (nett gain 160) and we have secured replacement of lost revenue across many areas. All this whilst creating a safe environment for our members, matched with meeting expectations around hospitality and service delivery, in addition to the containment of costs and general financial discipline, which has produced positive trade, beyond our assumptions.

Management intend presenting break-even results for the financial year end (30 June 2021, before capex), which is highly commendable and our sincere gratitude is extended to our C.E.O. for his commitment and resolute leadership. Due to this, we have slowly started reinstating several member benefits like complimentary tea and coffee, the discount on member club cards and the reduction of the responsibility fee. We are truly blessed that the golf business has fallen on the better side of the macro effects, and as a Club we are in control and poised to seize opportunities, whilst providing the necessary balance between member expectations and the Club's long-term financial health. In summary, we are managing to break even and be cash neutral in the short term. However, we will require member approvals to further shape and enhance our long-term sustainability and to prepare the business for a post COVID environment.

## Golf

As much as the Board would like to spend more money on the golf courses, financial governance and prudence dictates the amount of capital that can be allocated against our now, rightsized model. Despite this, we believe the standards and condition of our golf courses have remained high and have presented well, despite a very wet and trying summer season. We have not been able to carry out certain in-house projects on the courses due to the lockdown last year, but we have scheduled these for this coming winter i.e. tee box levelling on our short holes.

Restrictions aside, from 1 July 2020 – 28 February 2021, the Club has recorded 43 482 rounds and our year end forecast is set close at 60 000 rounds across both golf courses. We have seen a rise in member and nine hole rounds over the past five months and overall participation and income shows a member contribution of 53%, with visitors, corporates and other, contributing the remaining 47%.

The Club's annual 'tournament stretch' has recently passed and our Club has once again successfully hosted the prestigious SA Amateur Championships (year 2 of 3), followed by the inaugural Kit Kat Group Pro Am, which was the restart for professional golf in our country. Remarkably, the event was not only superior revenue for the Club, but it also provided some R6m in marketing value/exposure and it was the second most watched event on SuperSport over that weekend. We have again been proud of the brand value and to be at the forefront of golf development by staging these events. Our Club has always played an important role in growth and development of both amateur and professional golf in our country and we are sure, despite the inconvenience to regular member rounds, everyone was proud of being a member of Royal when we watched the coverage on television.

The 2021 Club Championships took place over 13 & 14 March and what a fantastic weekend it was. We recorded a record number of entries and we will need to reconsider the structure of the event if this trend continues, to ensure we can accommodate all members who wish to participate. The courses presented so well, with great weather and a member experience next to none. Thank you to everyone who contributed to the amazing atmosphere and wonderful camaraderie. Our sincere appreciation and thanks to our Course Manager, our Club Operations Director and all their teams, for the hard work, attention to detail and dedication to showcase our abundant facility. Special congratulations to this year's winners, namely Jules Helary (Men's Champion), Eleonora Galletti (Ladies Champion) and Mathew Mortimer (Junior Champion). With the completion of the 2021 Club Championships, all the honours boards will now be updated and on display by the end of April.

Last year our C.E.O presented the need to "be in control of our own destiny", highlighting the Club's top objectives and risks, including Council and Eskom (load shedding) inefficiencies, which we expect to significantly worsen in the coming years. Currently, the Club's generator only runs the clubhouse facility (at large fuel costs) and we are facing increased load shedding intervals, at times twice/three times a day, making it difficult for our Course Manager to plan irrigation and/or affecting the night time cycles on our computers, satellite boxes and pump stations. Having these unscheduled periods of no power on the course, results in not being able to irrigate the courses in the evenings and power surges which cause damage to our electrical components in the pump stations. The team are therefore hand watering greens and irrigating certain areas of the course during the day, which unfortunately has to be done in between play. In this regard, we ask members for their understanding as we realise the inconvenience during your round. However, it is a necessity for us to maintain the courses, particularly during high temperature periods.

The Club is focused to find a long-term solution to the electricity challenges and we are currently in discussion with two private equity firms, who specialize in renewable energy solutions on a no capital contribution basis. Our aim is to present the membership with a model that doesn't only secure a sustainable solution (off the grid), but one that won't hinder the Club's balance sheet either. As an interim solution, we are looking to install generators (on lease) at each of our pump stations next summer.

Our tree planting program was set to start in Feb/March last year ahead of winter as well as the West Course renovation. Then the hard lockdown hit, and everything was placed on hold and subsequently cancelled. We are now contemplating the best way forward for the West Course requirements and the strategic planting. However, either way, we are aiming to start the purchasing and setting of certain species next summer (before year end). The funds raised from the tree program currently sit on the Club's balance sheet. Insofar, our Course Manager will keep members updated on the schedule.

The Club's current golf cart fleet comes to the end of its' life in May and after receiving several proposals and negotiating with the various suppliers, we are pleased to advise that we have agreed a shining new structure with Ezgo South Africa (Motus/Imperial). The new Ezgo cart is significantly more advanced in technology, with zero maintenance lithium batteries, faster charging times, better comfort and unique enhancements like USB ports. The new deal comes with all the 'bells & whistles" and has been structured in two parts to suit our Club's usage requirements (50% lease & 50% shared revenue).

The arrangement also includes a state-of-the-art food & beverage cart for on course hospitality. We have negotiated the deal to suit the current climate should we end up in another facility closure, to ensure we are not affected financially. Additionally, the new carts will include the textron management system (high definition GPS screens), which will assist the golf team in optimising operations and amplifying the golf cart experience. We expect delivery of the new units over May and June (subject to shipping). This will also include a temporary cart barn extension to efficiently manage and house all carts centrally. In the long term we aim to extend the cart barn facility itself, alongside the 'home of golf' renovation (current PGASA building).

### The Capital Fund

As per previous communications, with COVID starting in March 2020, the markets fell below 40 000 points, which led to the equity portion of our capital fund portfolio (40%), trading below margin call and concerning close to stop-loss, which meant the bank could have recalled the loan, leaving the Club with little or no capital fund. The Club used the opportunity to settle a vast majority of the facility, hence reducing exposure during the turbulence and uncertainty. This stood the Club in good stead, as the market and the country came to terms with the pandemic. We then called on the bank for relaxation on our repayments which was well responded to. Subsequently, the fund has now stabilised and has started to regain traction against the losses suffered. The value of the capital fund at end March 2021 was R16.4m (R3.5m nett if cleared against the loan facility). The interest continues to offset the loan costs and any surpluses continue to promote growth. Our sincere appreciation and thanks to the Capital Fund committee for their efforts and guidance of the fund over this period.

### Food & Beverage

Our food & beverage department was successfully brought in-house in June 2020. Whilst this requires more of the Club's resources, we are thrilled with the performance and management thereof. Our F&B team have performed extremely well despite the restricted ability to move product on site and the ongoing regulations around capacity for conferencing and events.

Remarkably, their ability to adapt operations and service offerings swiftly and effectively in replacing lost revenue, is something we can be very proud of and we thank the members for supporting the home delivery meals, groceries and other initiatives over this period. The positive trade will continue to improve as events and corporates return to the Club and the nett forecast is better, compared to the original outsourced agreement. In the first nine months of trading in-house, the Club generated a nett profit of just over R1.5m in the department (avg. GP 58%), this despite all the restrictions. In comparison, over the same period if we had remained on the outsourced (lease) model with no restrictions, we would have generated a nett profit of R1.4m in rental.

The team have now managed to re-instate the member's club card discount at 5%, alongside the complimentary tea and coffee offering (on selected days). Additionally, we have persevered with several improvements to the department's par levels, procurement, food presentation, responsible packaging, healthier meal options and increased halaal choices, which has been well supported.

## Membership

At the time of writing this report, the Club's membership stands at a total of 1 516 (940 platinum & gold category members). It certainly seems to have more or less stabilised at this level. It is, however, worth noting that more and more members are joining on a monthly basis, which greatly assists the overall subscription stability. There is no doubt that our focus on new members, retention, golf patronage and pragmatic marketing, remains a key driver for the Club.

In preparation for the new financial year (1 July 2021 – 30 June 2022), the Board has taken great care in considering the related financial impact on members, their personal and disposable income and all of the other factors that influence future pricing. Changes to the positive trading environment and forecasts has allowed us to adjust favourably for the new financial year with minimal percentage increases to be expected, whilst still ensuring we raise enough capital to maintain the high standards and keep moving the facility forward. Additionally, in appreciation to the members for their support, the Club will be allowing members to carry over a certain number of 'unused' rounds (once off) from the current year into the new financial year, to be used within a certain period. Of which the details/terms will be advised in the circulation of the membership renewal.

The annual member survey will be distributed shortly, and the Board's objective is to receive member insight into the preferences and perceptions across the various Club topics and services, allowing the Club to continue with development and monitor a 'go forward' frame of reference on a broader basis. This greatly assists the office in paving future strategy, correcting shortfalls and delivering what the majority membership wish to see. Please take the time to complete the survey which will be followed by the membership renewal advice for the new financial year.

## Current projects

We are pleased to provide the following status report on current and delayed projects (previously approved). The Club embarked on the sale of peripheral 'out of play land' in 2016/17 (3 portions) to fund the refurbishment of the East Championship Course, West Course, and the evolution of several other Club and lifestyle facilities. Additionally, this was done to replenish the capital fund and to generate the critical annuity income (in perpetuity), which will primarily fund capex requirements. We forecast for the capital contributions (R50k per apartment 2023) and the annuity income (R2.5m pa escalating) to in- flow by the end of 2022. Two of the three property developments (Brookfield at Royal & Royal View) are well under way, despite the pandemics best efforts to slow things down. The Club's property developer (Tricolit) has remained fully committed and is meeting all obligations to the Club. To date, Brookfield at Royal (right of holes 7 & 12, East) has successfully sold 60% of its phase one apartments generating some R185m in sales. Royal View (the retirement village, behind hole 12, West by Auria) will be launching a limited number of units to the membership in the month of May and their plan is to be sold out by June this year (life rights). Both developments are set for residential occupancy from August 2022.

The third property, being the current 6<sup>th</sup> hole of the West Course (Linksfield), is still overcoming its re-zoning, environmental and flood line challenges. However, the developers remain highly optimistic and hope for this land to be cleared this year and available for site development in 2022.

Responsibly, the Board at the time took the decision to cancel the renovation of our West Course, which was due to start at the end of June 2020, alongside delaying any other scheduled projects. We still have an obligation to develop a new 6<sup>th</sup> hole on the West Course (funded by the developer) and this commitment forms part of the holistic refurbishment of the West Course (primarily bunkers and greens). Ideally, we do not want to build the new 6<sup>th</sup> hole in isolation and the Board is developing a new, all-inclusive restoration plan that addresses the West Course's requirements, further enhancements and tee box renovations across both golf courses.

Our property developers have also confirmed the erection of the much anticipated 'Family Centre' (old halfway house) and the Royal Fitness Club (current conference entrance, Birkdale & Blackheath rooms), where screening/hoarding will be in place at the end of May and construction will officially start on 1 June 2021. The estimated grand opening is set to take place in November this year and all members will be invited to attend. It is also important to note that the Fitness Club will be included in your membership subscription fee – on a complimentary basis (platinum, gold & residential categories only with T's & C's TBC). The Fitness Club will be an in-house operation and fully equipped with state-of-the-art equipment, including training machines, free weights and a variety of cardio units. Albeit small, the fitness facilities business model, has been designed to be financially profitable from the outset. The offering will also include health & wellness and the plan is for Royal Retreat, (Biokineticist & Chiropractor), to form part of this.

The Board has recently engaged with the Club's attorneys to discuss a member proposal received last year, to potentially increase the size of the Board, alongside office bearer's term of service. Additionally, in this 'new world', we have asked our attorneys to review the Club's constitution, which was last updated in 2015. They have been tasked to ensure the makeup of our organisation includes any modern requirements to efficiently govern the Club (i.e. virtual meetings). We are also discussing and documenting the Board's succession plan, encouraging diversity, balance and strategic value to the future governance of our Club.

In addition to the above, we are fostering best practices when it comes to a sustainable, future environment. Whilst our Club is certified and regarded as highly responsible for its environmental practices on course, we are starting the process to better prepare for future legislation from government. We are on an educational journey to better understand the impact we have as consumers/members and conserving resources through self-sustainability and we are at a point where we want to plan and know what our carbon impact is as a facility. In the short-term, we are making the easy changes, (i.e. front of house procurement), and while we are learning, the objective/initiative will be to eventually form a ten year performance plan for the Club, which too will require careful budgeting.

### Strategy

Over the past five years, members have approved several strategic initiatives, namely around property development (annuity income in perpetuity) and with key focus to strengthen our facility to accommodate the entire family. The Board has driven the enhancement of the Club through calculated studies, industry trends and collaborative planning. This enables members to decide on the best path forward to secure an all-encompassing facility, with enough capital reserves, an incredible offering for the next generation and at the same time, eliminate the most severe risks facing the country and in turn, our business.

Overall, the process for development is to innovate, grow and protect the Club's balance sheet with the focus to evolve the Club, its' security, financial health and sustainability whilst creating amenities beyond golf for the entire family to enjoy.

We have looked and tested a number of routes from our current position to the long-term vision for the Club, of which we believe we now have a clear view to a complete scorecard. The advent of lockdown and the negative impact on the Club's results and the capital fund value (prior financial year), has pre-empted the need for the Board to actively re-address and further enhance its current projects and long term viability/sustainability of the Club. The aim is to mitigate all risks, deliver an all-encompassing country club lifestyle for the current consumer, but also establish what legacy we will leave for our children, which sits at the heart of who we are. Your Board, assisted by the project & management team, have the responsibility, inter alia, of continually ensuring the Club has a robust and sustainable future. In this unsettled world this is even more critical today and the Club's strategic planning remains a working document for continual improvement and enhancement of the Club, and being able to adjust when required.

The office bearers and project team have taken the time to review all the elements, previous proposals, suggestions, objectives, risks and considerations over the past year and we are pleased to confirm and advise the membership that we unanimously agree for our Club to retain its 36 hole golf offering on the property. We also concur that due to the Club's current projects and the holistic vision, an enhanced proposal/strategic plan is required to secure and compliment the current projects. Therefore, we will be putting forward a new proposal for member consideration, one which satisfies the majority members, meets all objectives, eliminates risks, undoubtedly retains 36 premium holes and firmly insulates the Club's future, whilst still offering capacity for further opportunities and growth down the line.

The draft will be matched with conceptual designs and include a conservative five year cash flow forecast. We will consider re-routing 3 holes on the West Course (2<sup>nd</sup>, 7<sup>th</sup>, 8<sup>th</sup> and shorten the 9<sup>th</sup>) to accommodate and finance further family facilities, security, replacements and upgrade investments (i.e. car park). During our 'stress test' discussions, there already seems to be exceptional member support for the vision. The additional offering to the members, would bear no increase in the cost of subscriptions and would be a very attractive value add on to your families. The new facilities would include a swimming pool, multi courts, cycling trails, tennis courts, ceremony chapel, additional cart paths etc. and the complete proposal would be financially profitable from the outset, particularly with the residential members coming on stream. The cost of the entire country club/vision would exceed the value of the necessary proposed sale of the 7<sup>th</sup> and 8<sup>th</sup> holes but would be covered by the developer as the facilities would also be enjoyed by the Royal homeowners. We would, very importantly, retain the two classic golf courses (West refurbished), that are so much the DNA of Royal. The rezoning would again take a few years necessitating the build of the country club and all the other required elements described above and would need to be implemented on a phased/scaled basis. The Board and the project team are very excited with the progress being made on the proposal and are now navigating through the key details and financial forecasts. It is however already clear, that the planning will allow us to feasibly deliver the all-encompassing future, whilst respecting the traditions and classic golf courses that are the bedrock of our Club.

We are convinced that the new golf and country club will have a robust, sustainable business model that will protect both the cost of golf, add immense value and secure the Club as a whole. Once we have finalised the member proposal, we will distribute the motivation and plan to membership for comment, suggestion and/or member meeting to ensure we capture the views of all stakeholders before approaching the required vote. Additionally the work undertaken has allowed us to create a 'Royal Master Plan', which at a snapshot will allow members to view the current projects, property developments, proposed projects, future projects and further potential opportunities identified (e.g. night golf, additional dams, lodge accommodation, more peripheral land etc). We believe the Master Plan approach encapsulates and provides full understanding and shows the opportunities within our property for the long term. Once finalised (on member approval), our property developers will undertake the development of a 3D model for us, which will be on display in the foyer.

Following the joint communication issued toward the end of last year, the discussions with Glendower Golf Club have been suspended, pending their property proceeds and us needing far more information and clarity from them to even consider a potential opportunity of a merger in the future. Glendower are also in the process of rightsizing their business and are trying to view their own sustainability in isolation. Should the discussion and/or any potential synergy with Glendower Golf Club be reborn at a later stage, it would be a separate motivation for both Clubs and we have therefore not included any opportunity in our strategic approach.

#### COVID -19

We are cognisant and take consideration of a potential third wave of the COVID-19 virus and the potential re instatement of restrictions now and into the near future etc. which could again impact the Club's operations, schedules and or the required supply chain for items such as construction.

However, I was pleased to recently read a communique, by Adrian Gore, Chief Executive of Discovery. In the communique, he highlights his belief that the country is on the brink of securing sufficient vaccines to cover more than 37 million adults. This exceeds the population herd immunity target of 29 million people (the number of adults required to reach the herd immunity threshold), with the key issue being when the vaccines will arrive. At Discovery, they are also investing in their own mass vaccination programmes, with the initial aim of vaccinating three million Discovery beneficiaries, which is certainly promising.

#### In closing

As always, there are things to be done, challenges to address and improvements to be made. However, I believe that the Club is in good shape to handle and deal with the challenges ahead whilst making the most of every moment. I take this opportunity to thank my fellow Board members for their immense efforts thus far. The time spent on support, planning and scrutinising aspects of the Club's health, operations and strategy is quite considerable and all have been most diligent in their efforts. I am also proud of the work done to continually uphold the Club's standards and decorum, particularly over this period, where some have strayed or neglected the importance to our charter.

It continues to be a great honour and privilege to serve as your Chairman and I would like to conclude this report by reminding members that this is your Club and your Club will continue to grow and flourish with support, constructive and positive input.

I remind members that we all have the same goal for the Club and we must be aware that any positive news will always be undermined by a single negative. This is unfortunately human nature and is also amplified by the current climate, in that we tend to run with the negative rumours, historical events or innuendos and we then seem to easily disregard the good stuff.

As a community we must avoid being undercut or slowed down by negativity. There is enough doom and gloom in the world already and we need to make a special effort to support each other and promote the positive values and facets of our Club and its rousing future. Disregard the most cynical discussions of what happened back when, as history cannot be altered. After all, I believe that is the least your Club deserves. If this is what we can achieve through difficult and challenging times, just think where we can go once the shackles are off. We hope this report encapsulates the Club's progress, position, collaborative planning, passion, care and serves as a foundation to an even greater Royal in the future.

On behalf of the Board, I would like to extend our deepest sympathy to the families who have lost loved ones over this period and to those who are ill, we wish you a speedy recovery and good health. I urge you to continue to wear a mask and avoid large gatherings over the upcoming religious holidays. We must avoid a third wave to keep ourselves and our loved ones safe.

If you are travelling away over the Easter period, please do so safely and we wish you and your family a blessed holiday. Thank you again for your support, trust and loyalty to Royal Johannesburg & Kensington Golf Club.

We of course welcome member's feedback and constructive suggestions.

Sincerely,



**Gordon Odgers**  
Chairman