

GOLD CIRCLE MEMBERS UPDATE No 1.
Issued May 2009

In the last few months, since the departure of two senior Gold Circle executives, the day to day running of the business has not been disrupted due to the ongoing involvement of the existing management team, assisted by non-executive board members.

During this time, it has become increasingly apparent to the present Board of Directors that communication with our Membership needs to be improved, especially as our Industry is going through very difficult times in line with the World economy. Recognising the need to communicate with members more regularly, the Board will be issuing periodic updates on matters that relate to members and the Industry in particular.

This is the first of these Members Updates.

Restructure of the Gold Circle Executive

The Board has decided that the business of Gold Circle will be segregated into three distinct “divisions”, namely FINANCE, RACING and COMMERCIAL & GAMING. Each of these divisions will be headed by an Executive Director who will sit on the main Board of Gold Circle. Two of the three positions have been filled, with Graeme Hawkins assuming the role of “Racing Director” and Lawrence Nachito taking over the role of Financial Director effective 01 June. The Board is confident that the position of Commercial & Gaming Director will be filled by the end of July, as interviews for the position are currently taking place.

Pierre Erasmus has also been appointed Company Secretary.

The Board is very conscious of the need for minimal disruption of the daily business of Gold Circle during the process of carrying out the restructure of the overall business. For this reason, a non-executive member of the Board has been assigned to each of the Executive Directors to ensure that decisions that need to be taken timeously can be accomplished without delay.

While the foregoing restructure makes no mention of a CEO, it is the Board’s intention that this position will be filled in due course, once the three Executive Directors have settled in. In the interim, Graeme Hawkins retains the role of “Acting CEO.”

Current year’s trading results

The 2008/9 budget predicted an increase in turnover of 6% (R 2,188,872,915). However, as of the middle of May, we are running at 6% below budget, which in effect means that we are running flat with last year’s figures. The effect of this is that we are R30 million down on revenue, but on the expenditure side we have managed to reduce our costs by R23 million, which leaves us a net R7 million behind budget.

As far as cash flow is concerned, this is managed on a daily basis and none of our suppliers has been compromised by late payments. The Company’s accounts and procurement departments have managed to negotiate several more beneficial deals for Gold Circle. The message to all staff members is to work harder and smarter.

KZN Slots

Gold Circle is in the final stages of concluding a deal to sell the majority of its shareholding in KZN Slots, which will result in it recovering its entire loan account and interest thereon. In addition, Gold Circle has negotiated to retain a 26% shareholding with the proviso that it will not be required to contribute any funding for a three year period. Apart from the cash flow that will accrue from the loan repayment, Gold Circle will benefit on an ongoing basis from its share of profits.

The 2009/10 financial year

The 2008/9 Budget projected a pre-tax profit of just R 2 million on a turnover of more than R 2 Billion. The view of the current Board is that this is clearly an unacceptable state of affairs.

While we are all aware of the global downturn, we owe it to our stakeholders to take whatever action is both responsible, reasonable as well as financially viable to limit the negative impacts of this period and to emerge as a more cohesive and viable business unit.

Therefore, in preparing the 2009/10 budget, we will be taking a cautious approach to forecasting revenue streams. In most instances, there will be no expected growth in revenue, and in some areas there will be reductions.

On the expenditure side, we will be adopting a far more aggressive stance, particularly with regard to staffing levels and the use of outside consultants. This process has already begun, and it is important to mention that staff who have been engaged on a consultancy basis could find that their future employment is affected.

One area of expenditure which the Board of Gold Circle will not compromise on is the maintenance of the training tracks and the racing services, which are paramount to the success of our industry. As a Company we will continue to seek ways to maintain and improve them to the highest standards.

Additional Revenue Streams

The Gold Circle Board is very aware that, in order for our Industry to prosper and grow, we need to generate additional income streams that will provide annuity income well into the future. Current initiatives that are being pursued include;

- Our shareholding in Betting World which, while not currently contributing cash flow, will ultimately be a significant source of Revenue;
- Our Partnership with Phumelela in PGE, which currently contributes some R18 million per annum;
- Relocation of the remaining staff in the "Centre" to Greyville that will allow the "Centre" to be leased out at an annual rental of approximately R2 million pa;

- A joint venture with a Hotel Group at Summerveld to build a “boutique hotel”;
- Additional parking for motor vehicles at Clairwood with a potential monthly rental of R600,000 pm;
- The re-zoning of Milnerton is underway, which will facilitate an early sale when the market turns and triggers the construction of the new training centre;

These are only a few projects that the Board has under consideration. It is our view that Gold Circle has some extremely valuable assets which will contribute to the long term sustainability of our Industry if they are managed and developed correctly. We are not looking to sell our “Crown Jewels”.

Merger talks with Phumelela

Talks about a possible merger with Phumelela have been doing the rounds for as long as most people can remember. The truth of the matter is that both parties continue to talk to each other, but a merger will only take place if it is of benefit to all the stakeholders concerned and the interests of the Gold Circle members, their assets and future stakes place them in a far better position than exists at present. It is also important for Gold Circle members to remember that no “merger” could ever be concluded without an 80% majority of members and that the Gold Circle Board will not bring such a proposal to members unless it was 100% confident that it would be of benefit to all stakeholders.

2009/10 Membership Details

The Board has taken a decision that, effective from 01 August 2009, Gold Circle will revert to a single-tier membership scheme that will operate as follows;

Annual subscription of R1,500 (inclusive of VAT) pro rated to R1,200 for the 2009/10 year due to the alteration to the change of the commencement date,

Member’s and Guest badge,

Betting vouchers to the value of R800 per annum.

We look forward to seeing you on our racecourses for what will undoubtedly be a memorable “Champions Season”.

Yours in racing,

Directors, Management and Staff of Gold Circle.