

28 April 2023

Dear Member,

The South African Champions Season is upon us and will launch on Saturday 6th May with a packed feature race programme that will once again draw the best thoroughbreds from around the country to the east coast. The Board again extends its thanks to Hollywoodbets for their massive contribution of R10 million towards the KZN Winter Season stakes which has ensured that the pinnacle of racing seasons retains its status. The already released programme comprises 13 Grade 1 races, 12 Grade 2 races and a host of Grade 3 and Listed events.

Over the next two months, every week will see the anticipation build for the big day on 01 July 2023, when it will be time to feature Africa's greatest horseracing and social event, the R5 million Hollywoodbets Durban July, where a capacity crowd of 50 000 people is expected on race day. This year's "Out Of This World" theme is already creating an excitement with the fashionistas and the final field of 18 runners will no doubt give the millions of viewers an out of this world experience too! Interest in sponsorships around the event is at an all-time high for what is sure to be a spectacular event, not to be missed.

The South African Racing Calendar finishes on a high with the Champions Season finale Sunday, 30 July 2023 boasting a 10-feature race program including the Gold Cup (Gr3), as well as x4 Grade 1 races, x3 Grade 2 Races and two Listed races. This event will be a Hong Kong Jockey Club World Pool Event and will also feature the HKJC World Pool Champions Cup which is a deciding factor in the annual EQUUS Champion Horse of the Year title.

FINANCE

In the letter addressed to Members dated 13 February 2023, followed by a related public Media Release, the Board brought to Members attention the dire financial conditions that the company was trading in which saw the six-month trading for the period ended 31 January 2023 reflect a deficit of R25.7 million. Projecting this to the financial year ending 31 July 2023, this deficit is now expected to increase to R45 million. Since the previous report to Members, the declining trading trends have continued and have reached a point where decisions on the future sustainability of Gold Circle need to be taken.

To combat the liquidity outflow of the company, Management continues to review the streamlining of operational expenditure and at the same time ensure that horse racing in KZN is able to provide betting and broadcast product for local and international consumption. As previously advised, the training center at Ashburton is in the process of being mothballed with affected trainers relocating their horses to Summerveld.

The Directors have a fiduciary and statutory obligation to ensure that the Company protects its assets, meets its liabilities and does not trade in a manner that is prejudicial to the sustainability of the company's business and the horseracing industry as a whole. In the aforementioned letter to

Members the Board stated that an urgent departure from the present structure and financial paralysis is needed.

2023 – 2027 Projections

- Gross totalisator turnover, a core income generator, has over the past years decreased from R1.1 billion in 2019 to R936 million in 2023. Using the latest year's % trend and extrapolating through to 2027, the turnover will reduce to R828 million. The resultant net totalisator commission has declined from R188 million in 2019 to R125 million in 2023. Again, extrapolating that trend, our net totalisator commission is likely to decline to R111 million by 2027. Despite concerted efforts to address this issue, regrettably there appears to be no solution to reverse this on-going global trend.
- Inflation over the period July 2023 to July 2027 has been pegged at 5% which in real terms is lower than the country is presently experiencing. However, with a close monitoring of expenditure, the lower overall percentage has been used for projections.
- The general horse population in the country is reducing at a concerning rate and this is substantiated by reports from the breeding fraternity together with registration details of thoroughbred horses through the NHA. Consequently, projections include a lower number of racing fixtures being scheduled over the next few years to ensure that field sizes are adequate for betting purposes.
- Gold Circle's total operational costs, excluding Stakes, is projected to be less in 2023 compared with 2019. This is an indication of cost-cutting measures initiated over the years but there comes a point when quality standards are breached which will further negatively impact horse racing and racing facilities.
- Extrapolating the projected current deficit for the period through to July 2027, the aggregated losses would amount to R452 million. This gives a sure indication that Gold Circle does not have a sustainable future with the present business model. This projection includes receipt of the revenue being generated from the 3% bookmakers tax revenue. Should the Provincial Authorities take a decision to remove this income stream to Gold Circle, the accumulated losses to 2027 will increase from R452 million to R598 million.
- With the inclusion of the "Ring-Fenced" funds available from the Clairwood sale, the Company has reserves that will sustain the present business for an approximate period of only 18 months. Having regard to the continuing losses being incurred; it will be necessary for Members to authorise periodic drawdowns on the cash reserves to keep the business going in the short-term.

KZN betting and gambling tax legislation

- The proposed amendment to the KZN Gaming and Betting Tax Act is still being considered by the KZN Provincial Legislature. It remains important to reiterate that if the Amendment Bill is enacted, it will have devastating consequences for Gold Circle and the horse racing industry as a whole.
- The KwaZulu-Natal Gaming and Betting Board has advised Gold Circle and the KZN Treasury that it would, effective from 31 March 2023, no longer distribute the 3% bookmakers tax revenue to the company, on behalf of KZN Treasury. We are in direct communication with the KZN Treasury to ensure that the transition for the revenue distribution to Gold Circle is effected seamlessly. On 30 March 2023, The KZN Treasury requested a four-week delay in order to implement the required changes resulting from the KZN Gaming and Betting Board's decision. At the time of writing, we have received no meaningful update. The realignment of

the flow of bookmaker taxes is a cause for deep concern. Gold Circle needs certainty in regard to this crucial revenue stream. Any delayed receipts or change in process that requires continuous motivation will be tantamount to an implementation of the Gaming and Betting Tax Amendment Bill which has not been enacted.

The Board believes that Gold Circle has reached a crossroad in the future path that it should follow in seeking an appropriate solution to the financial woes that have beset the company. Any proposed solution would have a myriad of inter-related outcomes which includes, inter alia, government initiatives to maintain or improve employment in the country and inclusive transformation initiatives to mention a few. There is a great responsibility on the Board to find an appropriate balance that will navigate any future obstacles.

LETTER OF INTENT

On 06 April 2023 the Board received a joint Letter of Intent from Hollywoodbets and Mr Greg Bortz, putting forward a financial proposal for consideration.

The conditions of the Letter of Intent have been fully assessed through the Restructure Committee appointed by the Board who have made recommendations to the Board for consideration.

The Gold Circle Board met on 20 April 2023 to consider the Letter of Intent in more detail and to assess whether there was any merit in progressing the proposal, and what impact the proposal would have on all stakeholders including local and provincial authorities. In reviewing the proposal, the Board took note of the 2023 to 2027 extrapolated projections. The full Board of Directors unanimously approved the proposal and the changes that emanated from the Restructure Committee. The Board has resolved to recommend the proposal to Club Members at a meeting to be convened in due course should the proposers be satisfied with their due diligence process.

Hollywoodbets and Mr Bortz have been afforded a three-month exclusive Due Diligence period.

NEXT STEPS

Without making assumptions regarding the Due Diligence process, the Board is hopeful that in the short-term Gold Circle will give Notice to Members regarding a Special General Meeting (SGM), seeking approval of the Hollywood/Bortz transaction, which by that time will have the final approval of the Directors and their recommendation for member acceptance.

At the same SGM, members will be requested to approve access to necessary funds (from the ring-fenced Clairwood Funds) to bridge the company's cashflow needs to enable a continuation of operations pending the finalisation of the Hollywood/Bortz transaction.

Gold Circle looks forward to hosting members during the upcoming Champions Season, when we will be enjoying three months of adrenaline pumping action. Be part of the celebrations and kindly contact our Food & Beverage Department for any hospitality requirements you may require on Tel: 031-314 1659.

Yours faithfully



Sadha Naidoo
Chairperson