REPORT ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. SUMMARY (Please see accompanying Summary of Financial Results)

1.1 OPERATING INCOME

The surplus of R10,1m for the year is marginally lower than the surplus of R11,5m reported in the previous year. This surplus for the year includes capital levies of R10,7m transferred to reserve funds leaving an operating deficit of R633k. This is in accordance with financial reporting standards and can be seen on the Statement of Changes in Equity (page (10) of AFS). The total net operating deficit before capital levies of R633k is R1,2m worse than the approved budget surplus of R650k. The shortfall in income against budget from the golf course for 2017 is the main reason for this variance. Unfortunately. the improved results in the HOA/Estate and clubhouse operations could not completely offset this shortfall.

The Board of Directors is pleased to report that the deficits in the clubhouse over the last 2 years have now been turned into a positive net operating surplus which was supported by the outsource to Café 41. Unfortunately, the golf course deficit continued as predicted in the previous year due to lower visitor rounds, corporate golf days, member subscriptions and pro-shop margins partially due to the burnt greens. A damages claim has been submitted and the outcome will be communicated as soon as it is finalised.

1.2 SOLVENCY AND LIQUIDITY

The Statement of Financial Position (balance sheet page (8) of the AFS) shows that the negative net current assets (liquidity) has further weakened marginally to R782k mainly due to the increase in trade and other payables. However, the financial position (solvency) shows a marked improvement with the equity exceeding total liabilities by R15,7m. The debt to equity ratio has improved from 0,9 times to 0,6. After allowing for shorter term cash commitments, the available cash for major developments in the Estate remains limited and further funding from capital levies will be necessary should members wish to see marked improvements to the Estate facilities. As agreed last year this will be discussed in more detail at the AGM.

2. OTHER COMMENTS

2.1 HOA/ESTATE

The Estate, excluding the golf course and clubhouse, shows a net operating excess of R316k which was based on a 6,7% increase in levies in 2017. This is considerably better than the budget of R1,5k but substantially less than the R3,6m for the previous year. The expense savings are marginal but mainly from lower security costs, payroll reduction and other cost saving measures. These budget savings are partly offset by higher utility charges, legal fees and professional fees. Total expenses for 2017 increased to R30,7m from R28,3m of the previous financial year. The details are shown in the accompanying comparatives of last year 2016, the forecast for the new financial year 2018 and the proposed budget for the 2019 financial year.

2.2 GOLF COURSE

The golf course operation shows net operating deficit of R1,348m for 2017 which is considerably worse than budget and the previous year. It is forecast that the financial results for 2018 will show a deficit of R1,204m with improvements only being possible from the 2019 budget year. For 2017 the main contributing factor to the deficit was the considerably lower income from all income sources partially as a result of the burnt greens. For the 2018 financial year, we forecast that this income will increase to R12,6m and further increase to R13,4m in the 2019 budget. Management administered tight budget controls and managed to minimise the deficit.

With golf membership decreasing to 656 (2016: 700) with 38 456 rounds (2016: 40 000) completed, the increase in expenditure to maintain and operate a highly rated golf course remains a challenge to manage. For such reasons it will be necessary to continue obtaining capital funds from the HOA to support major golf course improvements which will be to the benefit of owners' property values.

The golf course is an integrated part of what Silver Lakes is about, being a beautiful garden. The current deficit equates to only R68 per stand per month (and even lower at R23 per resident per month). The Board works very hard to contain this small contribution per resident and to eradicate it totally if possible.

2.3 CLUBHOUSE

The clubhouse reported a net surplus of R398k in 2017 which is a considerable improvement on previous years and R91k better than the budget of R307k. The major positive for the variance to budget was the penalties levied on the clubhouse operator in respect of late completion offset by an increase of R1,1m for backdated electricity and water charges as well as necessary maintenance.

Although many of the non-recurring adverse operating conditions have been eliminated and the clubhouse have been fully outsourced, it is forecast that the budget for 2018 might not be achieved due to higher utility charges and maintenance with an anticipated net deficit of R184k which could increase to R713k in 2019 as per the budget.

2.4 CAPITAL EXPENDITURE

Total expenditure amounted to R9,277m which included R900k not spent and carried forward to projects in 2017/2018. The major capital projects completed for 2017 comprised the course irrigation phase 1 of R4,3m, construction of golf cart paths of R900k, patio awnings of R395k and R950k on the clubhouse. Although the total expenditure was in line with the capital budget, it was necessary to reassign the capital budget items in order to fund the higher than expected clubhouse construction costs. The proposed new tennis court has been moved to the 2018 financial year, to coincide with the new halfway house additions.