1. SUMMARY (please see accompanying analysis of the Financial Budget)

1.1 GENERAL

In order to make a proper assessment of the proposed budget for March 2018 the analysis shows the current year March 2017 budget and the forecast results for March 2017. The March 2016 results are also shown for comparative purposes.

1.2 OPERATING INCOME AND LEVIES

It is proposed to increase operational levies by 6,7% to R1700 per month from April 2017. This must be viewed together with the previous two years where the levy increase was only 1% which aggregates to an increase over the three years of only 7,8%. This does relieve the huge increase of 42,9% over the preceding three years until 2015. However, the HOA levies for 2018 remain very competitive and will be shown at the AGM to be within the bottom half of other similar estates. The 2018 budget surplus of R364k from the Clubhouse and Golf Course operations has not been allocated towards reducing levies but suggest this is transferred to reserves to partly offset past losses.

The total operating expenses for the Estate in 2018 is budgeted to increase from the 2017 budget by 6,3% to R47,2m. The total expenses for this financial year of 2017 is forecast to be in line with the budget. Having contained expense increases over the last three years it is unfortunately now necessary to budget for additional costs in areas such as maintenance and Estate cleaning, game keeping, member social activities as well as staff training.

In order to contain all such necessary increases, it is proposed to reduce the remuneration of Directors voted onto the Board, excluding ex officio by 50% which will provide a saving of nearly R440k. Directors emoluments will be discussed and voted on at the AGM.

2. HOA/ESTATE

On a current year 2017 budget to the next year 2018 budget, the increase in expenses is 6,6%. This explains why it is necessary to increase levies as set out above. Further explanations of the budget expenses will be provided at the AGM.

3. GOLF COURSE

The net loss budgeted for 2018 of R160k is worse than the net income budget of R345k in 2017. This is mainly due to a lower revenue increase of 1,3% compared to expenses increasing by 5,3% when comparing the year on year budgets.

However, the budget net loss for 2018 is better than the net loss of R720k forecast for 2017 and the R745k loss of 2016.

The tough economic and competitive operating conditions in the golf market is obviously also adversely impacting Silver Lakes. For this reason we believe that we have taken a conservative view of membership numbers but have also offset this partly by including the turnover rental generated directly by the golf operation in supporting the Clubhouse food and beverage operations. Further marketing will also be focussed on group golf days.

The green keeping contract has recently been awarded to Matkovich Golf Course Maintenance from the 2018 budget year and the higher service level commitments will entail an increase in expense of 8,4% from the forecast of 2017. The 2018 budget also provides for a 13% increase in Pro Shop revenue compared to the current sales levels. The cash flow being generated from golf operations is however not sufficient to fund the necessary capital expenditure required to improve the golf course and add value to property investments. These funds will need to be sourced from the proposed capital levies to be approved at the AGM.

4. CLUBHOUSE

The 2018 budget net operating surplus of R524k is based on all the outsourced operations being fully implemented without any compensation by the operator for late completion. This positive net income is an improvement on the last 2 years particularly from 2016 where the loss was R1,2m. The increase in expenses from the 2017 budget of 8,3% or R91k is largely due to the increases in electricity, water and rates, not fully recoverable from the operator. This increase in expenses should be viewed in the context of a large increase in turnover revenue that is also partially shared with Golf as detailed above.

5. CAPITAL EXPENDITURE

The capital expenditure proposed for 2018 amounts to R11m which includes approximately R1m not spent in 2017 and carried forward for the tennis court and security fence upgrade. It is proposed to fund the new expenditure items by the capital levy of R210 per month per member amounting to R4,1m and a capital development levy of R300 per month amounting to R5,9m.

The details of the capital items are shown separately in the papers and will be discussed at the AGM. Of significance is the second phase of the Golf Course irrigation of R4,5m and the Half-Way House of R1,2m included in the capital development levy. Security upgrades of R876k, R600k for a new service road at the Clubhouse and R500k for gabions and erosion control are included in the normal capital additions and replacements for next year.

A significant new item in the capital budgets is the Contingency Reserve Fund of R500k. This is not budgeted for a specific item but is proposed to be used for significant unforeseen expenditures that may arise in the ensuing year. Should there be no need to utilise this Contingency Reserve Fund in 2018, it would represent a direct increase in cash and reserves. Should this amount be utilised, its utilisation will be reported on, to Members in detail.

Other than the Silver Lakes Drive wall and the last portion of the Golf Course paths, it is unlikely that future major capital items are required in the medium term. This will provide opportunities for the Estate to generate funds for the payment of the loan capital shortfall and build up reserves for the future. This will be discussed at the AGM.