

Elements Private Golf Reserve

ACQUISITION LEVY UPDATE, THE WAY FORWARD and one or two other things....

Dear Elements Owner

Acquisition Levy

The trustees are delighted with the significant support of the Elements property owners as evidenced by the payments of the acquisition levy. The trustees, as property owners themselves, acknowledge the financial burden which this has placed on many owners, particularly in these economic times. The trustees believe, however, that through the support of the property owners and the payment of this levy, our ability as property owners to control and manage our own future on our estate will have lasting and significant benefits for all of us and Elements Private Golf Reserve.

At 4 November 2016, an amount of R5.2 million had already been received into our attorney's trust account with commitments to pay the balance of part-payments by the end of November amounting to a further R800 000 and payment arrangements requested by other members for payment over the coming year, amounting to a further R700 000. In total, firm commitments of R6 700 000 have been received to date.

This has enabled the trustees to meet with the Legacy Group and to negotiate a final settlement with the group for the acquisition of the club house and related assets as well as the acquisition of the company (Bush Hill) which holds the remaining stands in the reserve.

The trustees are also pleased to report that the Legacy Group and Magic Breakaways (the owners of Bush Hill) have been most accommodating and are willing to accept payment terms for the full and final settlement of our previous disputes. The plan in place is to make an immediate down payment on the purchase of these assets with the balance to be paid on transfer of the club house and hotel stand and the transfer of stands as part of our water agreement likely to take place around 28 February 2017. The trustees wish to thank the Legacy Group and Magic Breakaways for their acknowledgement of the financial position of Elements and their willingness to accept reasonable terms to settle our differences.

Levy Collection and Rights Issue

Having raised a total of R6.7 million, it is clear that we remain short of our target to finalise these agreements and the trustees propose taking the following course of action:

- To further engage with those property owners who have indicated their willingness to pay but their inability to afford the payment at this stage. Where possible, the trustees propose to be accommodating around suitable payment arrangements to settle the acquisition levy. Payments received before **30 November 2016** will still be included in the allocation of shares in Bush Hill.

- Unfortunately, a number of property owners have indicated their refusal to pay the acquisition levy. While this only constitutes some 12 property owners, the trustees will be issuing instructions for these property owners to be perused through normal legal channels for the settlement of this levy.
- Finally, the trustees have formulated a proposal in terms of a rights issue for all contributing owners who, having paid their acquisition levy, will receive shares in Bush Hill and participate in the future cash flows from the sale of the stands.
 - The rights issue effectively enables contributing members to acquire additional shares in the company together with a loan account advanced to the company.
 - The loan account will be the first amount to be repaid to the shareholders out of income generated from sale of stands or additional acquisition levies collected through the legal recovery process.
 - A document setting out the rights issue process in layman's terms is attached for your information.
 - The rights issue will close on 28 February 2017 and the trustees sincerely believe that this rights issue gives those owners who have supported the levy a chance of obtaining a great return while at the same time result in successfully raising the balance of the funding required to complete the acquisition process.

The trustees wish to again thank all property owners who have provided their financial and verbal support through this difficult process. We look forward to resolving the issues of the past and moving towards a more successful and vibrant Elements in the future.

General Manager

Unfortunately it has become necessary to replace Pierre, our General Manager, at Elements. While we are currently interviewing for a senior General Manager who will be able to raise the standard of the day to day operational management of our Resort, First Resorts have given us Leandri van Rooyen, who has stood up to the challenge quickly. She can be contacted on 084 5889487 or at the Elements-Pro Shop on 082 4904735

Water

Finally we are also pleased to announce that the final water supply contract with Waterberg was signed over the weekend of the 13th November and we have now secured the desperately needed additional water source for our Resort.

Recent rains have already started transforming the course and we are all waiting for the "flood" we need to fill up our 9th/18th dam but every little bit helps as we wait for this drought to break in the Limpopo province.

Kind regards

The Trustees

Elements Private Golf Reserve

RIGHTS ISSUE FOR BUSH HILL

For the attention of Property Owners who have paid the Acquisition Levy

Introduction

This document sets out a rights offer to Elements property owners who have paid the acquisition levy and are therefore due to become shareholders in Bush Hill Risk Management 16 (Pty) Ltd (Bush Hill), the company which owns the remaining unsold stands in Elements Private Golf Reserve (Elements), and will become the vehicle in which all real rights (lapsed or purchased from legal proceedings) will vest. The document will set out the process for the issue of shares to you as a result of your payment of the Acquisition Levy, as well as the opportunity for each contributing property owner, either as a part shareholder in a structure or participating through another structure, to purchase additional shares and provide a short-term loan to the company by way of a rights issue.

Acquisition of Bush Hill

Based on the success already achieved with the collection of the acquisition levy, the trustees, on behalf of the Property Owners who have paid the levy have negotiated with the Legacy Hotel Group and Magic Breakaways Property Developments (Pty) Ltd, the current owner of the shares in Bush Hill, for the purchase of the club house and related assets as well as the purchase of the shares and loans in Bush Hill. These transactions will be completed by way of an initial down payment with the balance to be paid on the transfer of the club house and hotel stand as well as the transfer of the stands purchased by way of the water rights agreement with Waterberg. The final payment will be made on the transfer of shares and remaining loans in Bush Hill.

The acquisition levy raised to date of R5.2 million (at 7 November 2016) together with the commitments for additional payments of R1.5 million during November and some spread over the coming year, enable this transaction to be formalised.

There remains, however, a shortfall of up to R2.8 million which will need to be raised in the short-term to finalise the transaction, whilst the collections of outstanding levies through different processes are continuing.

Shareholding in Bush Hill

As committed at the outset of this process, it is intended that all Property Owners who have paid the acquisition levy will participate in the shareholding of Bush Hill in the proportion of their levy payment to the total amount raised by way of the acquisition levy and the additional rights issue.

It is therefore intended to issue one share at a value of R1 per share for every R100 already paid (or committed) in terms of the acquisition levy. Shares will be issued based on payments actually received with the scope for additional shares to be issued to those who have formalised payment arrangements over the year to November 2017.

This means that at this stage, it is intended to issue a total of some 67 000 shares in Bush Hill to all contributing property owners. The shares will be issued based on payments received at 1 March 2017 with additional shares issued there afterwards as further payments are received.

Rights Issue

Based on the fact that additional funding is still required to complete the acquisition process, the trustees propose, on behalf of the future shareholders of Bush Hill, to offer a rights issue on the following terms:

- The objective of the rights issue is to raise a further R2.8 million in the form of shares and linked loan accounts.
- All property owners who have paid their acquisition levy will be provided the opportunity to subscribe for the additional 28 000 shares in the proportion of their payments or commitments to date.
 - As this is a rights issue, each shareholder is given the same opportunity to subscribe for the shares in proportion to their expected shareholding in Bush Hill.
 - Effectively, if a land owners has paid the R67 000 levy for a normal stand, that property owner be issued with 670 shares in Bush Hill. The property owners who have paid higher or lower levy amounts will issued shares in the same proportion to the payment made.
 - Having paid the R 67 000, the property owner will be given the right opportunity to subscribe for a further 450 shares at R1.00 each amounting to R450 together with a linked loan account of R44 550 which together makes up a total of R45 000.
 - The property owner will also be given the opportunity to subscribe for additional shares together with a linked loan account in the same proportion as above, for any additional amount of their choice, to be allocated according to normal subscription rules.

The shareholders, therefore, have the following options (using the standard levy of R 67 000 as an example):

- To follow their rights and subscribe for an additional 450 shares at R1.00 per share together with the linked loan account requiring a payment of R45 000 before 28 February 2017.
- To elect not to follow their rights and remain the holders of the shares issued to them as a result of their payment of the acquisition levy.
- To subscribe for additional shares over and above their rights which shares will be allocated in proportion to the amounts subscribed for.
 - If the total subscription is less than the total offered for subscription, then in the property owner subscribing for additional shares will be issued the shares according to their rights as well as the additional shares subscribed for.
 - Should the rights issue be over-subscribed, then the applicant will receive only a proportion of the additional shares in proportion to the total subscription and the surplus funds will be returned to the shareholder.

Terms of Linked Loan Account

The linked loan account paid as part of the subscription for additional shares will be non-interest bearing but will carry the benefit of being the first funds to be returned to shareholder as a result of cash received by Bush Hill through any one of the following sources:

- Net income received from the sale of stands held by Bush Hill.
- Any recovery of unpaid acquisition levy received by the body corporate.

Estimated Returns from Bush Hill

The raising of the acquisition levy and the purchase of shares in Bush Hill by contributing property owners was intended to create a mechanism whereby contributing property owners be placed in position to recover part, all or potentially more than the amount paid by way of the acquisition levy. This recovery is, however, dependent on the success of Elements in the future and the ability to sell the remaining stands at reasonable values. While valuations have been placed on some of these stands, the current economic circumstances probably indicate that the value of these stands is unfortunately quite low at this stage. It is believed, however, that the resolution of issue made possible through the acquisition levy and the securing of adequate water may be the catalyst which moves the estate forward and paves the way for increased demand for these properties in the future.

The table below has been calculated based on the following assumption:

- Bush Hill will have 84 stands for sale after the sale of the 20 stands as part of the water agreement.
- The cost of sales will be made up of the original cost of these stands together with the levy costs incurred according to the existing agreement between Bush Hill and the body corporate.
- No other levies or special levies will be paid by Bush Hill to the body corporate.
- The body corporate will share in 20% of the revenue generated by the sale of stands.
- The net profit after tax of the company will be applied to first repay the rights issue loans and then distributed as dividends to shareholders in proportion to their shareholding.
- On the assumption that a total of R9.5 million is raised through the acquisition levy and rights issue combined, the return to shareholders would be modest at best in the baseline scenario where stands are sold for an average of R100 000. Where stands are sold for an average of R200 000, a total of R6.8 million would be returned in the form of both repayment of loans and dividends representing a return of 71.9% of the total cash raised.
- Under this scenario, R3.89 million would have been repaid to rights issue contributors and R2.9 million would be paid as dividend return in return for the original payment of the acquisition levy.

Value Proposition		Base line	Mid Road	High Road	777s
Stand for Purchase	104				
Water Stands	20				
Stands for resale	84				
Average sales value of stands		100,000	200,000	300,000	400,000
Bush Hill Revenue		8,400,000	16,800,000	25,200,000	33,600,000
Cost of Sales		1,260,000	1,260,000	1,260,000	1,260,000
Commission and operating Costs	10%	840,000	1,680,000	2,520,000	3,360,000
Body Corporate	20%	1,680,000	3,360,000	5,040,000	6,720,000
Net profit		4,620,000	10,500,000	16,380,000	22,260,000
Tax	28%	1,293,600	2,940,000	4,586,400	6,232,800
Profit after tax		3,326,400	7,560,000	11,793,600	16,027,200

Applied to

Repay Rights Issue Loans		2,673,000	2,673,000	2,673,000	2,673,000
Available for Dividends		653,400	4,887,000	9,120,600	13,354,200
Dividend Tax	15%	98,010	733,050	1,368,090	2,003,130
Net Available for Dividends		555,390	4,153,950	7,752,510	11,351,070
Dividends to Original Acquisition Levy	71%	391,696	2,929,628	5,467,560	8,005,491
Dividends to Rights Issue	29%	163,694	1,224,322	2,284,950	3,345,579
Total Acquisition Levy and Rights Issue		9,500,000	9,500,000	9,500,000	9,500,000
Total Cash returned (Loan and Dividends)		3,228,390	6,826,950	10,425,510	14,024,070
Percentage returned of total cash raised		34.0%	71.9%	109.7%	147.6%
Percentage dividend return of total cash raised		5.8%	43.7%	81.6%	119.5%
Total Repayment on Rights Issue		2,836,694	3,897,322	4,957,950	6,018,579
Total Repayment on Acquisition Levy		391,696	2,929,628	5,467,560	8,005,491

It should be noted that this process has also ensured a substantial contribution to the body corporate through the profit share on the sale of stands.

It is acknowledged that the return to the investors who take up the rights issue will be substantially higher than those that only paid the acquisition levy but this is required as the investment in the rights issue is an optional investment in addition to funds already paid on the acquisition levy.

Timeframes for Rights Issue

The rights issue will be open from the date of this correspondence to 28 February 2017 with all contributing property owners who have paid the amounts supporting their application to either take up their rights or potentially additional rights having then paid to the Elements Private Gold Reserve bank account (the same bank account as used for levy payments) clearly marked as "stand number - rights issue" and supported by the attached application form duly completed and returned to First Resorts at the email address provided. The allocation and issue of the shares will take place in March 2017 on completion of the transaction to acquire Bush Hill and the finalisation of the amounts applied for in terms of this rights issue.

Kind regards

The Trustees

Elements Private Golf Reserve

Elements Private Golf Reserve

RIGHTS ISSUE FOR BUSH HILL

For the attention of Property Owners who have paid the Acquisition Levy

Applicant

Stand Number	
Applicant Name	
Contact Person	
Email address	
Telephone number	

Rights Applied for

Please circle the appropriate amount and complete that Column

Acquisition levy already paid	R 36 305	R 50 250	R 67 000
We wish to follow our rights	R 24 384	R 33 750	R 45 000
Wish to apply for additional rights			
Total Amount to be paid			

Please refer specific queries in regards to this application to Chris Elfick at chris@elfick.com

Please send application form and proof of payment to Esti Alberts at EstiA@firstresorts.co.za