

La Lucia Sands

Share Block Limited

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Co.Reg.No. 1974/001166/06

30 November 2011

Dear shareholders.

Introduction

The last circular to shareholders was in June 2011. Keeping to the advice of Clive Kneale, from our company secretary Corporate Governance CC, this circular contains only necessary information of interest to shareholders.

Report back

Firstly, we are grateful to report that there has been a heartening improvement in the conduct of occupiers and shareholders towards our loyal, diligent and delightful staff at the resort. We reiterate our statement that we are proudly South African and sincere supporters of the new non-racial era since 1994. South Africa is a country for all who live and dwell here as well as for all who visit South Africa, be it for vacations, business or serious conferences like the COP 17 currently underway in Durban.

Secondly, a great many shareholders have taken advantage of the levy discounts during the mid year. To secure the levy discounts shareholders need to ensure that **their payments are received by La Lucia Sands** before 31 July and 31 January each half year. Obviously we cannot allow discounts for late payments because to allow any late payments (no matter the reason - wise or otherwise!) to qualify for discounts is both unfair to shareholders who make the effort to pay on time and undermines the very rationale for the discount.

Thirdly, a number of shareholders have responded very well to the posting of our annual financial statements on the website. Thank you for this. It shows the effort of posting the information is appreciated by shareholders. The idea of having shareholder access codes for certain information on our website has received fewer responses. However, the responses we have received are very positive. So in 2012 we will implement the idea on a trial basis.

Fourthly, Pierides and Ramnath launched an application in the KwaZulu-Natal High Court, Pietermaritzburg under case number 2011/7864 for a permanent stay of prosecution of the case they face in the Specialised Commercial Crime Court, Durban. On advice from our attorneys and counsel, we have decided not to intervene in the matter thus avoiding unnecessary expenses.

Finally, the most important point of the report back concerns our appeal in the matter of La Lucia Sands Share Block Ltd versus Flexi Holiday Club and Others in the Supreme Court of Appeal under case number 171/2011. The appeal will be heard in Bloemfontein on Thursday, 1 March 2012. As chairman I shall attend the hearing and give shareholders as accurate a report back of the proceedings and argument as I can. One matter is clear: irrespective of the result of the appeal your company will be able to hold an annual general meeting during 2012 because the Club Leisure Group (Flexi Holiday Club aka Flexi Club) will no longer have any excuse to threaten us with an interdict to prevent holding an AGM.

What is at stake in the timeshare industry?

The appeal to be heard on 1 March 2012 in the Supreme Court of Appeal goes to the heart of what is at stake in the timeshare industry in South Africa. The issues at stake in the appeal, meaning in fact the timeshare industry in South Africa as a whole, can be briefly summarised as follows.



Directors: PM Collins (Chairman), BVH Alstone, G Wolfe
Prof. RE Moraka, DA Manthey, DN Phillips

Company Secretary: Corporate Governance cc



If the Club Leisure Group model of their version of timeshare via Flexi Holiday Club and their other clubs is found to be valid, then, frankly, their business model is one of the best business models in the history of timeshare.

The Club Leisure Group case is that their clubs are not carrying on any business that has for its object the acquisition of gain since the money is not held in the clubs but spent by the management and other support companies in the group: the Property Time-Sharing Control Act makes provision for 'clubs': 'points clubs' are valid timesharing clubs: and, payment of levies in points clubs must be regarded for income tax purposes as payments for levies in share block companies.

We disagree with each of the above arguments. However, we think the Appeal Court will concentrate its decision on the provisions of sections 30 and 31 of the now repealed Companies Act, 1973.

What is at stake, in short, is an individual's right to choose a holiday. In points clubs the choice resides with the club's administration and depends on the availability of accommodation. With timeshare owned by way of shares in a share block company, the shareholders choose the date, duration, location and frequency of their holidays.

SAICA

Finally, some fun and amusement for the holidays:

SAICA is the South African Institute of Chartered Accountants. After much deliberation in determining what should be contained in the Guide on Financial Reporting by Share Block Companies, the SAICA Accounting Practices Committee has decided that "the statement of [the] financial position [of a share block company] will not reflect a property as an asset (because it is not probable that future economic benefits will flow to the share block company itself). The guide is effective immediately and we recommend that auditors and companies consider the implications."

By 'property' the APC means both immovable and movable property, the very stuff your entire resort is made of, like the buildings, the gardens, a swimming pool, a tennis court, a perimeter fence, some beds in the rooms, a few chairs, tables and TV's *et cetera*.

I reported on the record surplus in the June circular and the board's sense of accomplishment and achievement in keeping our finances on a sound footing. So we have considered the implications of accepting the Guide on Financial Reporting by Share Block Companies on the point that 'property' is not an asset. So, how do we garner insurance if, at the stroke of an accountant's pen, your resort and its contents are not an asset?

Does that mean we must send annual financial statements in which we omit a monetary value for the land of the resort, the buildings on the land and the contents of the buildings? We think not.

However in the holidaying spirit, perhaps we can interest you, dear shareholder, in a copy of Hans Christian Andersen's The Emperor's New Clothes?

We have now installed WiFi available at a very reasonable cost. We also have some exciting specials available for 2012. These are in a separate document.

I wish you and your Family a wonderful and blessed Festive Season and a vastly improved 2012. Drive safely and take care!

Happy holidaying!

PM Collins
Chairman