



GRAND PARADE
INVESTMENTS LIMITED

1 November 2011

Ms J. Fubbs
Chairperson
Portfolio Committee on Trade and Industry
Att: Ms. Pumza Mokorotlo
P.O. Box 15
Parliament
Cape Town
8000

Per e-mail: docs@pmg.org.za

Dear Ms. Mokorotlo,

**Written Response to the Questions posed at the Portfolio Committee on Trade and Industry
Public Hearings on the Gambling Review Commissions Report on 28 October 2011**

Please accept this correspondence as written response to the questions posed to Grand Parade Investments Limited subsequent to our presentation to the Portfolio Committee at the aforementioned public hearings held on Friday 28 October 2011.

In addition hereto, I have also enclosed a copy of our presentation and our initial letter to Ms. Fubbs detailing our recommendations with regards to the report from the Gambling Review Commission, dated 9 September 2011.

For ease of reference I have detailed each question individually, and noted our response below.

1 What is the average monthly revenue generated by a Limited Payout Machine (LPM) in South Africa?

1.1 Our response

At present our LPMs (Gauteng, Western Cape and KwaZulu-Natal) generate on average between R13,000 and R22,000 per month.

The national average revenue per LPM for the month of September 2011 was R14,648.

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2 What was our intention with regards to decreasing the limitations, and standardizing the interpretation, of existing LPM advertising guidelines?

2.1 Our response

We are not requesting that the limitation on gambling advertising be removed, but rather that a standardized set of rules be applied across all forms of gambling and interpreted similarly across all provinces.

The example used was that of casinos, who are permitted to display billboards on major roads, whereas the LPM industry is not.

Based on the above, we believe that we are not being afforded the same opportunity as other stakeholders in the industry to promote our product.

In addition to being afforded the same promotional opportunities, we believe that the uniform interpretation and application of advertising and promotional standards across all Provinces is key, as at present this is not the case. In some Provinces for example, Gauteng and Limpopo, operators are not required to have their advertising and promotions pre-approved by the local Gambling Board whereas in the Western Cape they are.

3 Why are there so few licenced LPMs compared to those allocated?

3.1 Our response

The significant difference between the number of allocated LPMs (50,000), licenced LPMs (18,500) and the number of active LPMs (6,601) is as a result of a legislated three-phase roll-out approach and what is in effect a three tiered licencing process.

At the outset national government agreed and approved the allocation of 50,000 LPMs for South Africa.

The roll-out thereof was to take place in three-phases of 25,000 (50%), 12,500 (25%) and a final 12,500 (25%) LPMs, each interspersed with a socio-economic impact study.

To date only 18,500 of the initial 25,000 LPMs allocated to Phase 1 have been licenced, with some provinces allocating up to 50% of their total allocation, whereas the Western Cape, for example has allocated as little as 22.2%, and the Northern Cape none.

The actual licensing process itself is detailed in our response to Question 4, however, in order to secure the retention of existing jobs, and the creation of new ones as noted in our responses to Question 5 and 6, it is a process that needs to remain ongoing.

4 What is the current licensing process?

4.1 At present the licensing process commences with the relevant Provincial Gambling Board issuing a Request for Proposal (RFP) for a Route Operator Licence, submissions are then made, assessments done and public hearings held. Subsequent to which a Route Operator Licence/s is/are issued.

Once Route Operator licences are issued, normally for a maximum of 1,000 LPMs per route operator per province, these licensees will approach prospective LPM sites.

Should a prospective site, for example a pub, wish to offer LPMs as an additional entertainment option at their establishment, a legislated agreement is signed between the licenced Route Operator and the pub owner, and a secondary site licencing process commences where the pub (business entity) needs to meet certain gaming board and local municipality criteria in order to be licenced as a LPM site. The criteria include full tax compliance and municipal business licence compliance. In addition, employees at the prospective LPM site also need to be licenced as either Key Employees or Gaming Employees.

Once all necessary documentation has been provided, the relevant site application, key employee and gaming employee applications are submitted to the relevant Provincial Gaming Board for adjudication. The duration of this process is subject not only to the 'completeness' of application documentation, but also on the availability of the relevant adjudication committees and/or Gambling Boards to hear each relevant application. Then, if the application is successful, the Site Operator Licence and relevant employee licences are issued.

The site is then fitted out, by the relevant Route Operator, with machines, chairs, the relevant Zonke Monitoring System hardware etc. Subsequent to the fit-out a final site test takes place with representatives of the relevant Provincial Gaming Board, and if all is found to be in order, the site is finally approved for activation.

5 If casino licenses were to be allocated in the Western Cape today, would Grand Parade Investments Limited still be in favour of the current geographical location of licenses?

5.1 Our response

The location of the existing casino licences in the Western Cape was based on a study completed by Ernst and Young, and accepted and approved by all stakeholders at the time.

As such, we maintain that the location of all 5 existing casino licences remain, and that the capacity for gambling identified in the Western Cape by the Bureau for Economic Research be accommodated by the granting of Type-B (40 Machine) LPM sites that will create local entertainment 'hubs'.

This solution will not only create additional direct and indirect jobs in a number new of geographically spread locations, but also ensure that no negative economic effect will be felt in any of the existing non Cape metropole located communities as a result of the relocation of an existing casino licence.

6 What positive impact do LPM operations have on the community?

6.1 Our response

Our LPM operations allocate at least 5% of pre-tax profits to Corporate Social Investment and community development. The amount spent in the Western Cape last year by Grandslots was R1.4 Million.

In addition to our direct investment, should each licenced LPM site create just 1 additional job, our operations have to date then created a total of 350 new jobs. This excludes the 131 employees employed directly by ourselves, and those required by our service providers for example machine manufacturers, chair manufacturers, promotional companies, signage manufacturers etc. etc.

7 With the request to increase the number of licenced LPMs, will these now be rolled-out in people's homes and garages?

7.1 Our response

The licensing of LPMs is guided by legislated criteria that dictates that the operation of LPMs can in no way be the primary reason for any licenced LPM site's existence.

To this end, any licenced site may not derive more than 50% of its total operational revenue from its share of LPM revenue. In other words a licenced pub, for example, may not earn more money from its LPMs than it does from its primary business ie. the sale of food and beverage.

In addition to the aforementioned criteria, any licenced LPM site must be tax compliant and business compliant in terms of health and safety etc. Its proximity to pension payout points, schools, places of worship and public transport hubs is also taken in account during the relevant Gambling Boards assessment process.

8 Mention was made of on-line gambling and manufacturing, and what are our intentions are?

8.1 Our response

We are fully aware of the fact that on-line gambling is presently illegal in South Africa, however, our research shows that South Africans will spend as much as \$235 Million on on-line gambling in 2012, which is almost as much as what is currently being spent on horseracing and other sports betting in South Africa, and equates to almost 10% of the entire gambling revenue of South Africa for the year ended March 2011.

In addition to the significant tax contribution a regulated on-line gambling industry would make, there are also considerable job creation and infrastructure development opportunities.

To this end, we are readying ourselves for what we believe will be the imminent legalization of on-line gambling in South Africa, with every intention of utilizing existing, and creating new, local intellectual capital in this sector.

With regards to our reference to manufacturing; we see a significant opportunity for local development should support be provided for the local assembly, and ultimately manufacture of gaming equipment such as slot machines. At present both the LPM and casino industry in South Africa is reliant on the importation of machines from the likes of Australia, America and Europe and the distribution thereof through locally based subsidiaries or agents. We see a significant job creation opportunity in being able to manufacture machines locally and an opportunity to harness local expertise.

9 What are we proposing with regards to an alternate monitoring system?

9.1 Our response

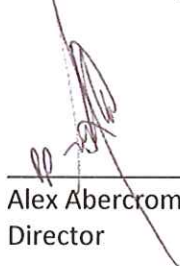
The current legislation requires all LPM Route Operators to utilize a single prescribed game play monitoring system. This system is currently provided by Zonke Monitoring Systems (Pty) Ltd (Zonke).

The challenge that the existing system poses is two-fold in that;

- a) it operates on a bespoke protocol (language) called ZAP, which is not standard on any slot machine. As such all manufacturers need to embed the ZAP protocol into their software, or install a converter board to 'translate' their existing protocol to ZAP.
- b) we believe that the current monitoring system supplier monopoly is anti-competitive and believe that the LPM industry should be afforded the same opportunity as the South African casino industry and that is a choice of National Gambling Board licensed and approved monitoring systems

In closing I would like to thank the committee for the opportunity to address them in person, and as noted on Friday, we would welcome the opportunity to assist the Committee's task team with any additional information or insights should they be required.

Yours faithfully,



Alex Abercrombie
Director

CC: Andre Hermans

Committee Secretary, Portfolio Committee on Trade and Industry