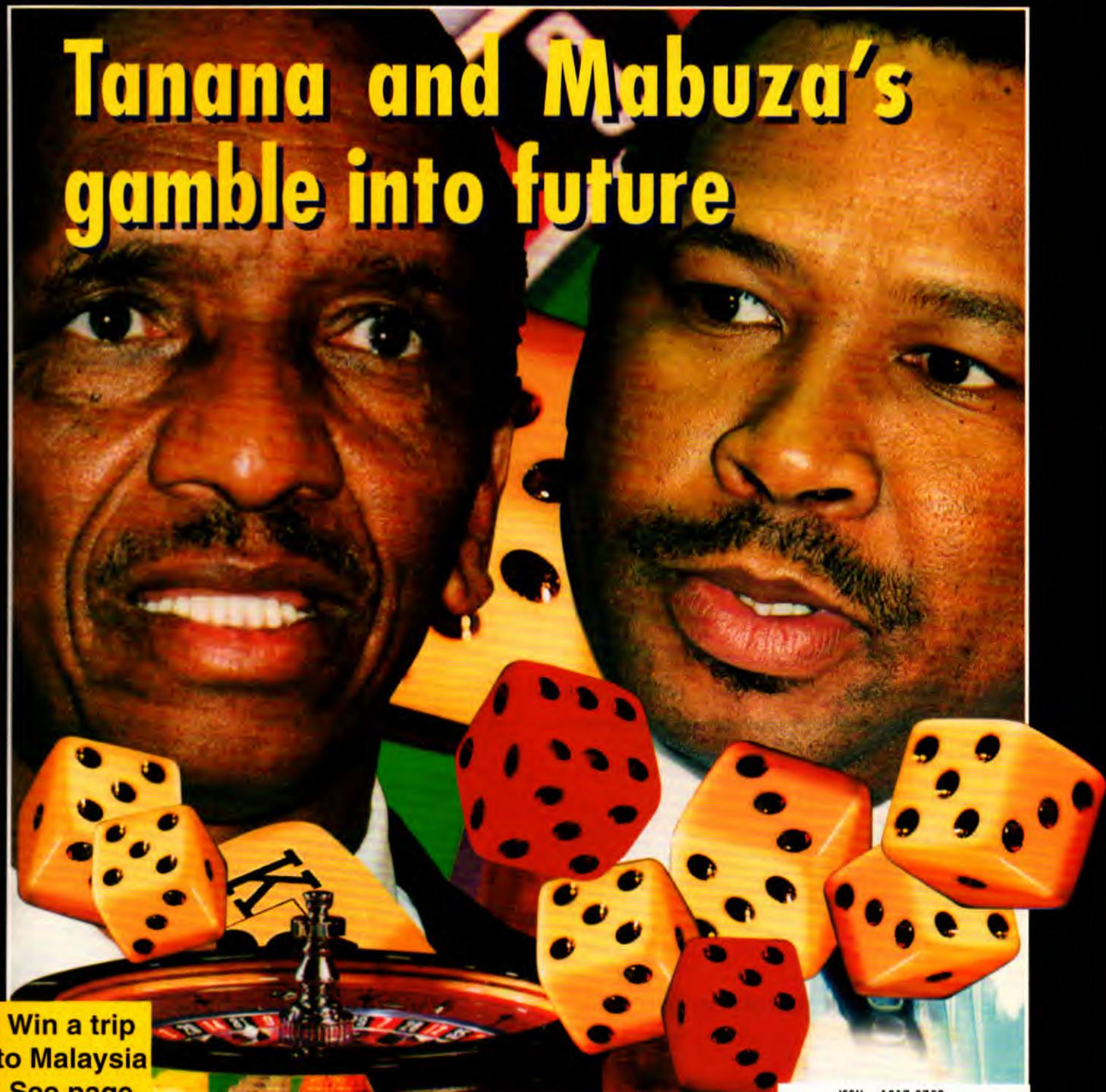


ENTERPRISE

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Tanana and Mabuza's gamble into future

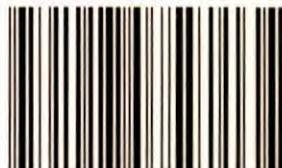


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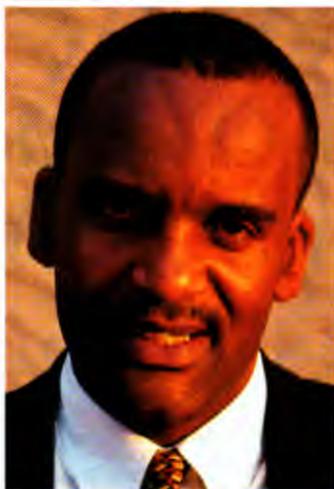


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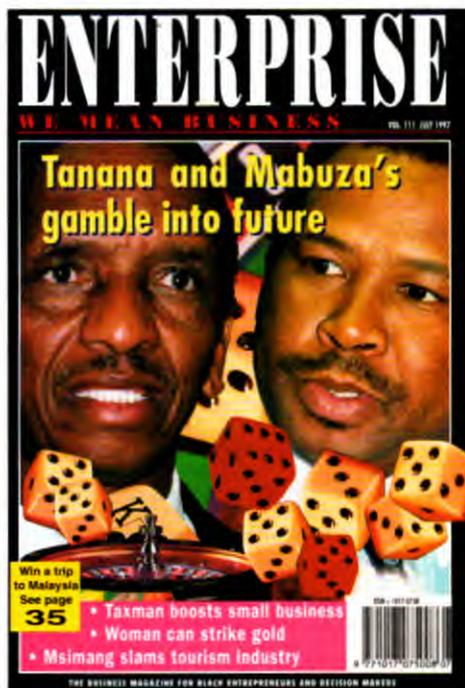
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Lee-Anne Smith profiles a group that brings about a new awakening in the gaming industry. The picture that emerges is compelling

WHO IS TSOGO SUN?

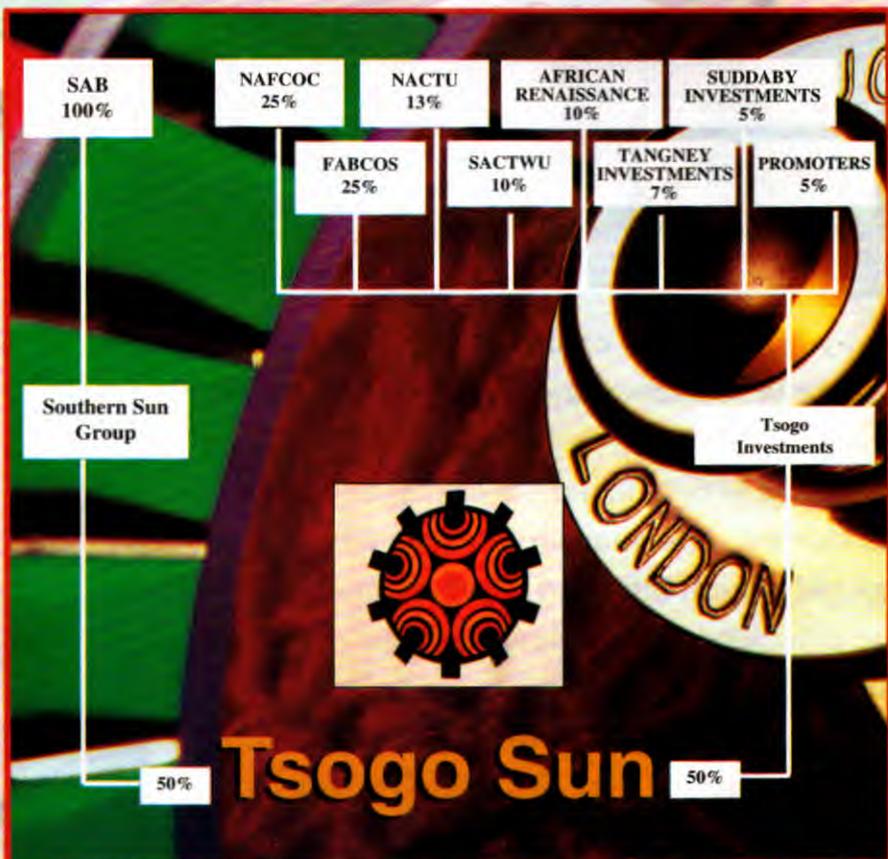
IN 1993 a group of black business people came together to form a gaming consortium, Tsogo Investment Holdings, in anticipation of securing a significant proportion of gaming licences when the country moved towards legalised gambling. The aim of Tsogo (Setswana for "awakening") Investment Holdings is to serve as a vehicle for "the advancement, upliftment and economic empowerment of historically disadvantaged South Africans".

In June 1994, the establishment of the National Lotteries and Gambling Board signalled the development of a new gaming dispensation in South Africa. In that year – and before any official recommendations were made by the Board pertaining to black empowerment in the gaming industry – a 50/50 partnership was formed between Tsogo Investments and the Southern Sun Group.

Tsogo Sun chairman Siphon Tanana says Tsogo Investments found the ideal partner in Southern Sun which, as a wholly owned subsidiary of South African Breweries (SAB), brought a proven record as SA's largest hotel operator, substantial financial backing and the appropriate corporate culture to create a significant force in the country's leisure, entertainment and gaming industry.

"Tsogo Sun was, from the outset, a black initiative. It was never ever a question of blacks being invited aboard by whites. We are black-driven, we know what we want, where we are going, and how we are going to achieve our goals," says Tanana.

In October 1996 Southern Sun Gaming was constituted as a wholly-owned subsidiary of Southern Sun to hold the Southern Sun Group's gaming investments. Southern Sun Gaming and Tsogo Investment Holdings, a powerful grouping representing organised black business, trade unions, and black professionals, each own



50% of Tsogo Sun.

"What makes Tsogo Sun different from any other group bidding for casino licences in SA," explains Tanana, "is that its fundamental objective is to promote the broadening of black economic empowerment. This initiative is undoubtedly a symbol of economic liberation for members of historically disadvantaged communities."

Indeed, millions of South Africans are represented in Tsogo Sun. The National African Federated Chamber of Commerce and Industry (NAFCOC) and the Foundation for African and Consumer Services (FABCOS) each own 25% of Tsogo Investments. The National Council of Trade Unions (NACTU) and the South African Clothing and Textile Workers Union (SACTWU) own 13% and 10% of Tsogo

Investments respectively.

The remaining 27% shareholding in Tsogo Investments is spread across black professionals, women's groups and other disadvantaged groups. A group of black professionals under the banner of African Renaissance owns 10%; Tangney Investments, a vehicle representing women groups that comprise of Nozala Investments, Khomanani Investments and the Eastern Cape Women's Investment Trust, owns 7%; Suddaby Investments which will benefit other disadvantaged groups owns 5%; and the remaining 5% has been allocated to those who initially put the consortium together.

Tanana says Tsogo has played a significant role in the process of securing appropriate legislation for the country

through the dissemination of information and participation in the Lotteries and Gambling Board's deliberations preceding the Board's final report. In particular, its strong support of a "level playing field" approach and openness and transparency in the awarding of licences has been incorporated in the Lotteries and Gambling Board's recommendations for gaming legislation.

Apart from boasting a broad shareholder base – which benefits millions of South Africans both directly and indirectly – Tsogo Sun has many other strengths which CEO Jabu Mabuza believes puts it "head and shoulders above other contenders for casino licences".

He points out that the Southern Sun Group is the largest hotel operator in the southern hemisphere and was ranked 16th largest hotel management company in the world by *HOTEL* magazine's survey in 1996. It operates 48% of the country's three-, four- and five-star hotels and has accommodated more international and local tourists annually over the past 25 years than any other hotel group.

In addition, since gaming is such a new industry in SA, Tsogo Sun has entered into a 10-year development and management contract with MGM Grand Inc., a world renowned casino resort operator from Las Vegas, Nevada, the world's gambling capital. This means Tsogo Sun has the advantage of having access to gaming expertise of the highest international standard. Added to this is the financial backing of SAB, the largest industrial share on the Johannesburg Stock Exchange.

Mabuza believes a properly legislated and regulated gambling environment could minimise the social ills critics believe legalised gaming could spawn, especially in a country where unemployment and poverty are rife: "The gaming industry will create a new source of revenue for the government to spend on SA's ever-increasing socio-economic needs. Gaming, after all, is a tax on the willing."

He adds that the National Gambling and Lotteries Act, which creates an environment in which gambling is recognised as a lawful activity in SA, also ensures that strict regulations are enforced by gaming board inspectors: "Those concerned that the moral fibre of the country will be detrimentally affected by the existence of casinos can rest assured that measures are in



Jabu Mabuza

place, such as secure gambling environments and controlled entry (to prevent under eighteens gaining entry and becoming habitual gamblers), to minimise social problems."

Mabuza says critics should also consider the potential benefits the SA economy could derive from the gambling industry. "Gaming provides an excellent opportunity to advance black economic empowerment and the allocation of licences to those investors prepared to commit substantial tourism-linked investment will both improve the country's tourism infrastructure

and provide substantial funding (via licence fees and taxation) for the Reconstruction and Development Programme."

However, while Tsogo Sun is not suggesting that SA's gaming legislation will be a panacea for all SA's economic problems, it believes it signifies not only a new awakening for the gaming industry, but also represents a renaissance for the economy as a whole. ♦





Who Benefits?

TSOGO Investments, which owns 50% of Tsogo Sun, is a broad-based black empowerment-focused group whose shareholding will benefit organised black business, the labour movement, and black organisations and business people.

Says Tsogo Sun chairman, Siphon Tanana: "It was the intention of Tsogo Investments right from the outset to consider how various black shareholders could benefit from the gaming industry in SA. After all, Tsogo Investments' main objective is to economically empower previously disadvantaged people who were excluded from the mainstream economy. We also realised that in order to become a major player in the casino industry we would have to join forces with a partner (Southern Sun Group) which would complement and enhance our own objectives."

Tanana points out that black people will benefit by having a meaningful shareholding in Tsogo Investments; from new job creation; and from enhanced economic prosperity: "The legalised gambling environment is totally new – it has not yet been unbundled – so it is not a question of existing wealth being spread, but rather of new wealth being created."

CEO Jabu Mabuza sees Tsogo Investments' black economic empowerment partners playing an important role

not only in setting policies for Tsogo Sun, but also in accessing and extending opportunities to their membership bases: "NAFCOC and FABCOS are the leading organised black business bodies in SA, and NACTU and SACTWU are at the forefront of the labour movement. As members of the Tsogo Sun board, they are in a position where they can ensure that black economic empowerment is effectively implemented."

Tanana adds that mechanisms are already in place within the structures that will enable benefits to be devolved directly to individual members. For instance, NAFCOC, which has 156 000 members concentrated in merchandising, building, transport, agriculture, service manufacturing and informal sectors of the economy, has undertaken that the full benefit of its entire shareholding in Tsogo Investments will be made available to its members to pursue the black empowerment objective of Tsogo.

This will be achieved by enabling members throughout the country to acquire shares in NAFCOC Investment Holding Company (Pty) Ltd in their province, and by using dividends accruing to reduce costs and thus membership subscriptions.

FABCOS, on the other hand, has a more centralised approach, although the end result is the same – all members have an equal opportunity of taking up

shares in the FABCOS Investment Holding Company Ltd as a direct member empowerment process. FABCOS which, like NAFCOC, owns 25% of Tsogo Investments, represents 12 affiliated associations with a potential membership of over one million people covering most business sectors.

NACTU is a federation of 18 affiliated trade unions with a combined membership of more than 350 000 spread across various industries and sectors of the SA economy including the hotel, chemical, transport, steel and media industries and transport and municipal sectors. NACTU Investment Holdings (Pty) Ltd intends to use the proceeds from its investment in Tsogo Sun to improve its existing educational bursary and housing schemes.

SACTWU, which has 180 000 members representing the interests of workers in the clothing and textile industries, will use the benefits flowing from Flaghigh Investments Pty Ltd (through which its investment in Tsogo Sun is held) to boost SACTWU's bursary fund which provides educational assistance for members' children to attend tertiary educational institutions. Last year 2 500 people received bursaries totalling R1 million and the value of bursaries this year is expected to exceed R2,5 million. In May SACTWU set aside R8 million for bursaries. ♦

Tsogo Sun makes no bones about the fact that it wants to become a major player in the casino stakes, writes Lee-Anne Smith

THROW THE BONES



Partners in the game... Tsogo Sun's chairman Siphon Tanana (middle) with Ashley Mabogoane (right) of Fabcos and Oulady Segooa of Khomanani Investments on the occasion of announcing the company's victory in Witbank

muscle, gaming expertise and enhanced tourism prospects: "We are also happy that the process of bringing about a legalised and transparent gaming environment in SA has finally got off the ground. The award of the third casino licence in South Africa under the new gaming legislation is a demonstration that the process is now irreversible."

Tsogo Sun is planning a multi-million rand entertainment-focused development in Witbank, consisting of a casino, a four-star hotel and entertainment

obligations and community needs, while shareholders, who are investing massive resources in the projects, both in terms of time and money, reap the reasonable fruits of their investment."

Tsogo Sun is planning a R120 million multi-purpose entertainment complex in Nelspruit that will include a casino and a four-star hotel with conference facilities and will be linked to a regional shopping centre costing a further R200 million. In addition, as part of an exclusivity agreement, Tsogo Sun will build a second hotel at a cost of R17 million underlining its commitment to making Mpumalanga SA's tourist haven. Says Mabuzza: "Tourism is set to become one of the major foreign exchange earners for SA and this development will, among other things, assist Mpumalanga to get its fair share of that revenue."

Construction will begin soon on the multi-purpose facility which will initially be used as a temporary casino and will later be utilised as a community facility catering for exhibitions, conferences and sporting and entertainment events. The temporary casino is expected to be operational by late 1997. The entire development will generate about 2 300 jobs during the construction phase and further permanent jobs after completion.

Tsogo Sun also proposes a R5 million upgrade to the Botanical Gardens adjacent to the Crocodile River Gorge to include, among other things, an aviary, a butterfly park and an education centre.

The casinos will be managed by MGM Grand RSA, a subsidiary of Las Vegas-based MGM Grand. The hotels will be managed by the Southern Sun Group.

Keith Kunene, chairman of the Mpumalanga Gaming Board, says the

TSOGO Sun's resolve to become a significant player in the South African casino industry cannot be questioned. After all, it has been engineering its strategy for four years now, and with the kind of resources and expertise it has behind it, it seems well on its way to becoming a giant in the gaming business.

According to CEO Jabu Mabuzza, it will continue to lobby for adequate gaming legislation and will be applying for licences throughout the country. Tsogo Sun recently got its first taste of success when it was awarded SA's second and third gambling licences under the new gaming dispensation by the Mpumalanga Gaming Board for casino complexes in Witbank and Nelspruit.

Mabuzza believes its successful bid is in recognition for what Tsogo Sun brings to the table — true empowerment, financial

facilities adjacent to a planned regional shopping centre. The total cost of the development is R355 million and Tsogo Sun will be responsible for financing the casino, hotel and entertainment facilities at a cost of around R155 million. It will boast a secure and strictly controlled gaming area and a self-contained children's entertainment area and creche. A temporary casino is expected to open its doors during the second half of 1997 and the permanent facility will be operational by August 1998.

Mabuzza says the Witbank development should not only create jobs and empower local communities, it should also generate appropriate returns for its investors, as well as increased tax revenue for the government: "In this way, a 'win-win' situation will be created where the government has a larger resource pool to meet its social

— Continued on page 42



Siphon Tanana

... Continued from page 40

Board carefully considered the managerial and operating experience of the various applicants, the technical viability of the projects proposed, the economic and community benefits flowing from the proposed projects and the potential impact of the project on the tourism industry.

He adds that a casino in Witbank will have to compete for market share with casinos in the neighbouring provinces: "The success in meeting this challenge effectively and aggressively will impact heavily on the income of Mpumalanga."

Although it was criticised for selecting a project that linked a casino development with a shopping centre, Kunene says the Board felt this would help keep revenue within the province as people would not have to travel to adjacent provinces to gamble and shop: "Linking gaming with retail is nothing new. It is done all over the world. In addition, if one looks at existing casino developments in SA the link between gaming and retail is often very evident."

Adds Mabuza: "The suggestion that gaming and entertainment facilities located close to shopping centres could result in people spending their grocery budget is a terrible indictment against our women, in

particular, who head up many households and are often families' sole breadwinners."

Fingers were also pointed at the Mpumalanga Gaming Board for selecting Tsogo Sun as the preferred finalist for both Witbank and Nelspruit, even though, in terms of the National Gambling and Lotteries Act, a gaming board is entitled to grant two casino licences to a single operator in a province.

Although the process had not gone as fast as was hoped, Mabuza says the issuing of the first three licences under the auspices of the new gaming legislation has raised hopes that the pioneering role played by Mpumalanga would serve both as a lesson and as an inspiration to the rest of SA.

When he talks of his hopes that the process will, from now on, be implemented without major disruptions and unnecessary delays, he is, of course, referring to the court case in which a judgment by the High Court ordered Tsogo Sun and the Mpumalanga Gaming Board to turn over extensive information about Tsogo's Nelspruit casino proposal to rival operator Karos Hotels and its associate Esikhehleri. The court action was initiated by Karos in response to Tsogo Sun being granted preferred status in Nelspruit.

Immediately after the High Court ruled in favour of Karos, Tsogo Sun gave notice to apply for leave to appeal against the

judgment. Mabuza is adamant Tsogo Sun will not let the matter lie: "We intend taking it to the Appellate Division and, if need be, to the Constitutional Court."

Tsogo Sun believes the court case could set a dangerous precedent enabling parties to go to court and demand confidential information (in essence trade secrets) which could be used against their competitors.

According to Mabuza, stakes will become even higher as the process moves to Gauteng. Estimates of potential annual revenue from gaming are somewhere between R4bn and R6bn with well over 50% of spending coming from Gauteng.

Initial investigations recommended that Gauteng should have 15 out of a total of 40 licences. Now only six casino licences are up for grabs. "We believe that Gauteng should go ahead and issue its licences. The province should not short-change itself; there are many opportunities that can be optimised without infringing on neighbouring provinces' gaming potential.

"In addition, the argument that this will negatively affect existing casinos, which incidentally were awarded licences by an immoral order, does not hold water. Sun City has been retrenching personnel for some time now despite the fact that we still have a situation in Gauteng where there is no legal gambling. One should also question what casinos such as The Carousel and Morula Sun have done, over the years, to uplift the people of Garankuwa," comments Mabuza.

Tsogo Sun intends applying for two licences in Gauteng: "We are looking at multi-billion rand developments across Gauteng." In addition, if Tsogo Sun is successful in winning the licences it has set its sights on, we can expect, among others, a multi-billion rand development in the Western Cape, as well as developments in Kwa-Zulu Natal, the Free State, Northern Province, Northern Cape and the Eastern Cape.

Mabuza is confident about Tsogo Sun's chances of securing licences in these areas although he concedes it will be a hard-fought battle: "The political leadership in South Africa will not be satisfied with awarding licences to any operator that is less than the best — they are looking for sustainable projects that will change the lives of the people." ♦

ZONE TAMPERING

GAMBLING legislation in SA will not only create a multi-billion rand industry that will generate enormous revenue for government, it also has the potential to create hundreds of thousands of new jobs for South Africans. But, according to Ron Stringfellow, Southern Sun Group executive chairman, manipulation of the re-zoning mechanism is putting the brakes on the construction of casinos in SA.

"Right from the start of legalised gambling in this country, while consulting with the various boards about the ambit of gambling legislation, we raised the issue of zoning rights for casinos."

Says Stringfellow: "What our concern is, and what we have already seen happening, is that competitors for casino licences both in Gauteng and in other provinces, are using this opportunity to delay or block the re-zoning process. What this means, in essence, is that operators are not competing for casino licences with gaming boards but with local authorities and their re-zoning tribunals."

Stringfellow says this makes a mockery of the re-zoning process because lawyers argue on the points of law instead of on the merits of the re-zoning: "There are situations where the re-zoning mechanism can be abused not by people in the area whose lives may be affected by the re-zoning, but by parties who have a vested interest in casinos. The result is that the final verdict on re-zoning can be delayed for years.

"Since it is only the gambling boards that can grant casino licences, loopholes in the re-zoning mechanism clearly erode

some of their authority. In addition, without the necessary re-zoning a casino licence is worthless to an operator."

One solution, says Stringfellow, is for gaming boards to stipulate that operators interested in applying for casino licences should not be able to object to re-zoning by

casinos into the category "places of amusement". He argues that if operators cannot operate casinos without a licence from gaming boards, why is specific zoning for casinos necessary at all? In addition, the contention that casinos would spawn activities such as drug trafficking, money laundering and prostitution does not hold water: "Is this any different from having a liquor licence? Badly run bars could, by the same token, result in questionable activities mushrooming.

"In addition, the National Lotteries and Gambling Act not only creates a properly controlled and regulated gambling environment, it ensures that strict regulations in this regard are enforced."

At present, bidders for casino licences throughout SA are spending huge amounts of time and money doing battle over the re-zoning process. In fact, wrangles about re-zoning are taking place in Gauteng, and at the time of writing, no bids had yet been accepted.

Concludes Stringfellow: "We, at Tsogo Sun, feel that the amount of negative energy that has been spent on this to date is disproportionate to what it is worth. We have taken the view that we will not oppose re-zoning anywhere in the country.

"Our intention is to compete with the gaming boards and we will win our licences if we have the best bids. If our bids are not the best we will not win the licences. It is as simple as that. Our priority is to get the wheels in motion." ♦



Ron Stringfellow

other bidders: "If they are seen to be blocking a re-zoning procedure either directly or indirectly, they should immediately be eliminated from the licence application process."

Another possible solution is to put