

CHAMPAGNE SHARE BLOCK

NEWSLETTER NUMBER 78

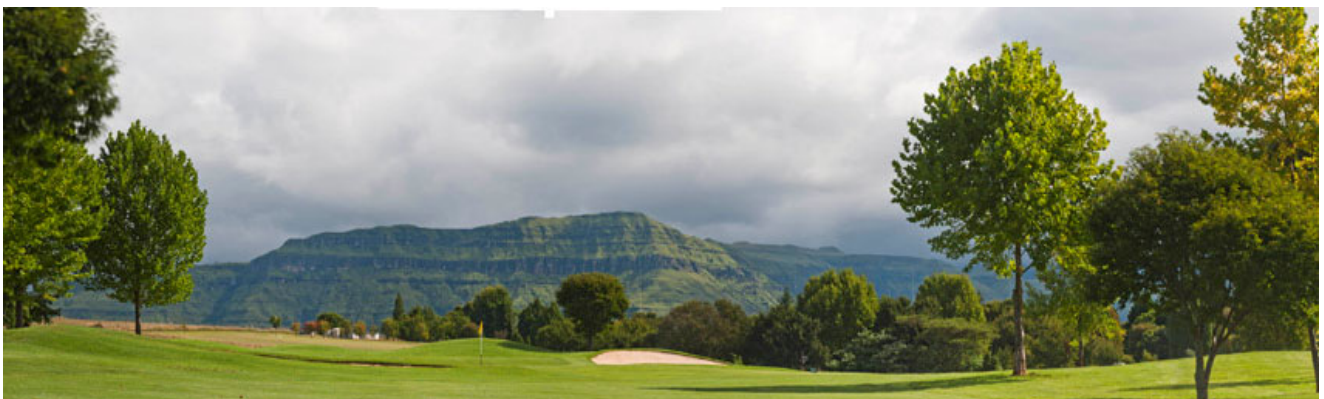
3rd April 2023

EXECUTIVE SUMMARY

Once again, we commence with the most popular and well-read section of the newsletter, the summary! In this letter we need to advise you of our insurance status, and as you read on here, you will realise why we, as your Board of directors, are so dismayed by the outcome.

In order to maintain full cover on the public liability policy and the fire risk to the chalets, the company is required to install a number of lightning masts amongst the chalets, as well as apply fire retardant to the thatch. Whilst the Board are expected to deal with reality, and see to the business of the company, your directors on a personal level, are thoroughly dismayed with these requirements, after having so carefully maintained the beauty of the resort and the special sense of place we have created over many years.

To end this summary, your directors are advised that there is the risk to human life, let alone the public liability risk, that cannot be ignored. Your directors, representing your company's interests, and their own responsibilities, have no choice and certainly may not ignore that information once it is known to them. This comes so many years into the life of the resort.



THE SITUATION IN DETAIL

Whilst the physical beauty of our resort is important to us, once this sinks in, it may be a god send for our long term safety and we will get used to it. Being in a shared ownership scheme, such things are sometimes unavoidable.

We have agonised over this as we have always been proud of the low impact our property has on a sensitive area. We do not relish the prospect of lightning masts amongst the chalets, but perhaps we are making too much of it, and will soon stop seeing them and continue to enjoy our holidays as always.

After the shocking losses experienced by insurers over the past few years, thatch fires, floods last year, the unrest of 2021 and so on, you can imagine that insurers are being more careful in assessing risks, and particularly in matching premiums and the conditions of cover to the perceived risks. From being a profitable client we are suddenly a risky one.

A contributing factor is that our risk record has changed. We lost two adjacent chalets in two consecutive days to lightning strikes just three years ago, which both burnt down, and another 1.5 units were also lost over the past 25 years, both to lightning strikes, with one complete loss and another partial loss. Also, not to be ignored is that, by pure luck, no one was in any of the units that were struck.

After recent risk assessments from the underwriters, to maintain cover, we are required to adhere to these new conditions of insurance. Remember, in this matter, we are dealing with the company's very solvency if there were to be a big claim, as well as with the directors' personal liability if they ignored this situation, and of course, above all, human life is more important than the assets.



THE REQUIREMENTS

A study of the lightning incidence in our area of the berg is quite revealing and frightening, with a very high strike rate being experienced. In the past when we went to the market for our own policy, the local underwriters required lightning masts and fire retardant, and the premiums were three times higher, and it was only by grouping together with the hotel property owners, that we were able to avoid these measures. Southern Sun (previously HPF), own the hotel property and a fair amount of the timeshare, and have allowed us to attach our insurance policy to theirs and thus get an exceptionally competitive rate. They are also required to comply with these onerous insurance requirements at their other properties.

Liability Risk

The current requirements are mainly related to the liability risk. We would not be covered for any loss of life or liability claims in the event of a lightning strike unless we put in these measures. The concern is that, based on the evidence, we would not be seen to have taken reasonable care in preventing loss of life, as we have now been informed of the risk,

and we do not comply with the new SANS regulations on lightning protection for thatched buildings – these regulations were not required when we built the units.

Physical Lightning Protection Measures

The underwriters have now stipulated that our cover is conditional upon applying fire retardant to the thatch. This is visually hardly noticeable, although it needs maintenance and thus some cost allowance going forward.

The lightning masts consist of some 50 x 25m high masts spread around the property. The positioning is technically determined to form a protection shield over the units. It is not determined aesthetically and we have to let the experts do their work. It is important to note that we cannot compromise this placement if it affects the view line of any one chalet. The placement may be inconvenient, but we have to allow that in all our interests.

At the risk of being repetitive, and to be clear, while it may have been possible to get insurance cover at very high rates for lightning damage, without having to put in masts, we would not have been covered for public liability or loss of life arising from it, such as being inside a chalet that is struck by lightning. The underwriters were less concerned in the past as we have had full cover for all these years. Your Directors are placed in the difficult position of not having a choice in the matter.

Of interest

As some background, South Africa, with our top academics from Wits, hosted the World Lightning Conference last year. We have some very high lightning strike areas, with the Berg being one of them. To help us with these difficult decisions, we had several discussions with some of the experts, and it was some comfort to learn that, based on the latest research, we really had little choice.

THE EFFECT ON THE BUDGET

It also means that the cost has to be met to install these masts and apply fire retardants. As a result, a realignment of our budget, already so painfully constructed, is required to provide for some R1.9m for the masts – plus about R1.2m for the fire retardant. And on top of this there is an annual maintenance cost. Your directors had to realign the project expenditure to see to this outcome.

Generator Costs

This comes on top of the massive increase in Diesel usage. In the last newsletter No 77, we noted – watch this space – but we did not know that load shedding would reach such record levels. As a result, instead of R240k budgeted, the Shareblock company has incurred just over R1m in diesel costs this year. A large part of this was in the last quarter.

Unfortunately, the diesel usage looks set to continue into at least the first half of 2023, and possibly worsen during the Winter months. This, together with the unexpected insurance expenditure, will again need a realignment of the project expenditure. We will hold up the refurbishment program until later in the year until we are clearer on the position. What a lot of wild cards are being thrown at us, but our reserve of R5m stands us in good stead. We did nonetheless complete the planned refurbishment of 5 additional units and the Wi-Fi project during the year. We do however, ask for a little patience with the slower roll out of the upgrade program this year.

Insurance values

At each AGM we ensure that the insurance values are displayed and approved by the owner group. Historically, our Shareblock Company had its own policy, and saw to our own cover, however, the rates and premiums became ever more costly. As noted above, for some years after HPF (later Southern Sun) bought the hotel property, our company has been able to tag along on their coattails and have the benefit of a bulk rate, as they also have an interest in the Shareblock company.

BACK TO THE ROUTINE

As always, we remind our owners that a flexi calendar resort comes with all sorts of unexpected and unintended consequences. Empty space can arise and did once again in January. Most of our members have paid their share of costs (that levy) but for those who have not, please do so. It is so much more expensive without the discount and the high administrative costs. It is worth remembering to pay on time.



AND SO, TO THE YEAR AHEAD

So many uncertainties and frustrations. But here, in this beautiful Drakensberg, the mountains beckon, the timelessness of the changing light on their slopes becomes our haven of peace. And we are going to keep it that way. With or without masts!

As always, do enjoy your stay when next at the resort.

With Warm Regards,

Your Managers

CHAMPAGNE SHARE BLOCK LIMITED (REG 1956/003056/06)

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