

EVENTS AND TOURISM - continued

MAGIC 828 (PTY) LTD (MAGIC)

KEY FACTS

GENERAL MANAGER	Currently managed by directors
BOARD OF DIRECTORS	K Abdulla, CF Hendricks, AB Amod, JC van Niekerk
EMPLOYEES	19
HEAD OFFICE	Mowbray, Cape Town
FOOTPRINT	Western Cape

PROFILE

Magic 828 (Pty) Ltd (Magic) is a medium wave (AM/MW) independent commercial music radio station, broadcasting throughout the Western Cape and streaming worldwide. The studios are situated in Golf Park, Mowbray, Cape Town with a transmitter sited at the centre of a geographic triangle with Paarl, Durbanville and Malmesbury as the three corner points.

The station radiates a 25 000 watt (25kw) signal to all areas of the Western Cape, unrestricted by mountainous terrain. The transmitter is five generations up on existing MW transmitters in South Africa. Magic also broadcasts in digital/stereo streaming via its website, mobile applications on both IOS and Android platforms, and other radio applications.

Magic's music format is defined as adult contemporary hits with a touch of rock and a taste of Golden Oldies, broadcasting hits from the 1960s to 2000s. Magic believes that its music format has no colour lines as these hits are easily recognised by listeners, constantly entertaining them through more music, with less talk, thus invoking memories of past experiences. Magic's target audience comprises individuals between the ages of 35 to 65 of no specific race or gender, even though they receive feedback from listeners outside this age group.

Magic's listenership has grown by 42% to 187 000 listeners in 2018 (research privately done by Freshly Ground Insights) and increased its unique streaming listeners by more than 100% to over 20 000 via its digital platforms.

A detailed analysis of Magic was done during the 2018 financial year with the primary objective to focus and align

efforts across the business to deliver on its long-term goals. A short-term plan has been put in place in relation to programming, sales and marketing and establishing clear reporting channels to all employees whereby they understand their roles and responsibilities. A five-year strategic plan to the year 2020 was implemented in 2015 with clear deliverables, strategic actions for each strategic lever as well as specific time frames.

2019 OPERATIONAL PERFORMANCE

Magic's core focus was and currently is to create awareness to increase listenership, generate high-quality programming to retain existing listeners, ultimately to generate more revenue and create a sustainable business which is profitable.

The radio station is built on an advertising revenue model, split between agencies and direct advertising, which is driven primarily by listenership. This relationship of listenership vs advertising revenue is evident with both increasing by more than 40%. With the base costs now established and stabilised, its focus has moved to implementing an aggressive marketing strategy to create awareness, and exploring new opportunities and partnerships to achieve its overall objectives.

Magic understands that listenership figures from the Broadcasting Research Council are predominately used by customers to assess a potential return on investment. This has been a challenge, however, Magic is forging new relationships with all stakeholders, including the Broadcasting Research Council which is allowing the Company to appear on its research as having listenership figures.

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An overall plan has been established by partnering with another radio station to benefit from its listenership and potentially sell advertising nationally. These plans are currently being actioned and will be monitored regularly in the 2020 financial year.

The Board of Magic relies on the executive team to work with management to implement the plans over the next 12 to 18 months.

VISION 2020 VISION – MAGIC'S CONTRIBUTION

The following prospects have been identified in reaching Magic's Vision 2020 Vision:

- Further increasing brand awareness and increasing listenership
- Performing at various community events and encouraging the underprivileged to participate
- Extending its broadcasting via programming from Magic AM on FM community stations
- Protecting its industry to create more employment
- Further advertising opportunities arising due to the exposure of the radio station
- Further growth in listenership
- Continue to look at joint ventures in marketing and advertising
- Creating an e-Entertainment magazine in conjunction with another entity to realise further advertising and income
- Employing more people on an equal employment basis, as well as obtaining the HDP level of 70% as per the Independent Communications Authority of South Africa (ICASA) licence agreement
- Increasing its broadcast area by going digital.

PROSPECTS AND FUTURE OUTLOOK

Magic has adjusted its business model to ensure that the business structure, processes and objectives are aligned to the requirements of the ICASA radio licence to ensure compliance. Magic embarked on a digital journey, allowing it to become the first Western Cape radio station broadcasting on Digital Audio Broadcasting, resulting in Magic becoming a competitor with other FM broadcasting stations. An application has been submitted to ICASA to allow the Company to start digital trials from December 2018, within the limits of trial licences allowed by ICASA.

The main opportunity that exists is the agency business through its sales house, The Media Connection, which has shown significant advertising revenue growth since inception. However, this has been impacted by the economic downturn in the economy. This opportunity is enhanced by the partnership with another radio station broadcasting in Gauteng, which allows Magic to sell national advertising and to benefit from the combined listenership of these two stations.

Management adopted a business model focused on local direct sales as agency sales have not met expectations in previous years. This will result in steadily increasing revenue throughout the year leading up to 2020.

The following prospects have been identified in reaching Vision 2020 Vision:

- Increasing its broadcast area
- Further increasing brand awareness and increasing listenership with aggressive marketing
- Exploring opportunities to obtain government business with the assistance of its partners
- Constructing a roadshow to visit agencies in three centres, namely Gauteng, Cape Town and KwaZulu-Natal; this has been proven by other stations to be exceedingly successful
- Performing at various community events and encouraging the underprivileged to participate
- Extending its broadcasting via programming from Magic AM online for digital presence
- Protecting the industry to create more employment
- Further advertising opportunities arising due to the exposure of its radio station
- Growing its listenership
- Continue to look at joint ventures in marketing and advertising
- In conjunction with another entity creating an e-Entertainment magazine realising further advertising and income
- Employing more people on an equal employment basis, as well as obtaining the HDP level of 70% as per the ICASA licence agreement.

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MARKET PRESENCE

Magic's market presence includes the Cape Town region and Simonstown, extending to Vredendal, Clanwilliam, Sutherland, Prince Albert and Still Bay.



BUSINESS MODEL

Magic has aligned its business model to ensure that the business structure, processes and objectives comply with the requirements of the Independent Communications Authority of South Africa (ICASA) radio licence. Magic has embarked on a digital journey to become the first Western Cape radio station broadcasting on Digital Audio Broadcasting, thus resulting in Magic becoming a competitor with other FM broadcasting stations. An application has been submitted to ICASA to allow the Company to start digital trials from December 2018 within the limits of trial licences allowed by ICASA.

GOVERNANCE

Magic applied the policies and structures as defined by the AEEI Group, and complies with all sound governance structures and regulatory functions; it has had no reported fraud or deviation in the application of these principles in the current period. The continued training and exposure of employees to the regulatory environment and regulations of the Companies Act ensure that employees are fully informed of their responsibilities.

The Board of Magic has the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. The Board promotes independent judgement to assist with the balance of power and the effective discharge of its duties.

EVENTS AND TOURISM - continued

The Board of Magic continues working towards the achievement of the following governance outcomes:

OBJECTIVE	Stakeholders	<ul style="list-style-type: none"> Value creation for all stakeholders and sustainable development An ethical culture and effective leadership are maintained with positive outcomes A stakeholder-inclusive approach balancing the needs and interests of material stakeholders in the best interests of the Company
SCOPE	Company	<ul style="list-style-type: none"> The Company operates within triple context Govern risks and opportunities, strategy, the business model as well as sustainable development in a way that supports the Company to achieve its strategic objectives.
CHARACTER	Internal system	<ul style="list-style-type: none"> Proper internal controls are in place to approve policies and planning, and to monitor and ensure accountability Assurance services and functions enable an effective control environment to support the integrity of information for internal and external decision-making The Company remunerates fairly, responsibly and transparently in order to promote the achievement of the strategic objectives and positive outcomes in the short, medium and long-term
MECHANISM	Conformance	<ul style="list-style-type: none"> Compliance with applicable laws and adoption of non-binding rules, codes and standards in a way that supports the Company to be ethical and a good corporate citizen
DIRECTION	Management	<ul style="list-style-type: none"> The Board sets and steers the strategic direction of the Company and is the focal point and custodian of corporate governance and ensures accountability for the Company's performance. The Board oversees and monitors the implementation and execution by management
DISCLOSURE	Financial statements	<ul style="list-style-type: none"> Audited financial statements in terms of IFRS

STRATEGIC PLANNING AND MONITORING

Strategic planning is assessed by the Board of Magic (the Board) and implemented by the executive team consisting of representatives of both management and the shareholders. Quarterly Board meetings are held whereby the Board can monitor the progress of the business, whereas monthly executive meetings are held to discuss implementation plans in more detail.

ECONOMIC SUSTAINABILITY

During the 2018 financial year, RAC Investment Holdings (Pty) Ltd acquired 35% equity interest in Magic. This resulted in funding from shareholders and discussions around marketing the station and establishing relationships with all stakeholders.

The Media Connection has not met its commitments for the 2019 financial year, therefore management decided to focus on the direct sales team which includes the sales teams based in Cape Town and Gauteng.

Revenue targets have been established in line with the marketing plan and Magic's overall objective is to break even in the 2020 financial year.

ENVIRONMENTAL SUSTAINABILITY

In terms of Magic's licence agreement with ICASA, it is required to spend on CSI initiatives. Magic has not selected a specific cause as the Company believes it is able to assist in various areas where required. Advertising and promotions have been provided to local hospitals, promoting awareness with regard to pollution and lack of resources, and single-use plastic initiatives among others.

Development and implementation of strategies in all departments – marketing, sales, programming and production – develop identities/products around all shows focused on both listeners and advertisers.

SOCIAL SUSTAINABILITY

Magic contributes to social sustainability by establishing a professional, yet entertaining corporate image and striving to achieve the objectives in their ICASA licence agreement. The Company has trained employees as well as interns in various areas of the industry and offered them opportunities to commence a career at Magic. Additionally, Magic has increased its quota of HDIs within the business by promoting gender and race diversity in terms of female employees and HDI individuals.

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KEY CHALLENGES AND RISKS

KEY CHALLENGES

Magic's current strategic focus is aimed at overcoming the following potential key challenges:

ADVERTISING REVENUE	<ul style="list-style-type: none"> • Creativity of advertising content on shows and presentations to agencies • Reach and maintain targets from direct sales and sales houses in a depressed marketplace
COMPETITION	<ul style="list-style-type: none"> • Competition from other radio stations
EMPLOYEE SKILLS AND RETENTION	<ul style="list-style-type: none"> • The industry in which Magic operates requires highly-skilled and experienced employees, thus employee retention is a high priority and a key challenge • There are extremely limited resources of high-quality personnel which makes enticement from other radio stations an ongoing risk factor • Due to the small employee complement, Magic is continually at risk for not being able to enter into new markets due to time constraints and shortage of employees
TRAINING	<ul style="list-style-type: none"> • This is of great importance to Magic and remains an ongoing project
TECHNOLOGY	<ul style="list-style-type: none"> • Technological advancements to be monitored on a regular basis • Backing up of integral information and the music playlist is done on a monthly basis • Continual involvement with ICASA in relation to stereo broadcasting, which would have a significant impact on listenership

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RISKS

Risk management is integrated into its business management process. Magic maintains a risk register, which is compiled and maintained by executive management, with the risk status and execution of planned actions being reviewed monthly. Executive management is responsible for identifying, classifying and managing all operational risks.

Significant strategic and going concern risks are identified at all levels in the Company. However, the responsibility for directing the actions necessary to manage these risks is the responsibility of the Board of Magic.

Strategic and going concern risks are reviewed at the quarterly Board meetings of Magic and the executive directors are charged with the execution of approved risk management actions.

Along with the risk register, executive management also compiles and maintains a strategy dashboard, as several risks are being mitigated by the Company's strategy; the risks and strategy are directly mapped where applicable.

Although a number of identified risks could not be avoided during the year under review, the pre-planned management strategies for these risks were successful in mitigating and avoiding the severity of the impact on Magic.

RISK IDENTIFIED	IMPACT ON BUSINESS	RESPONSE
Economic conditions	A reduction in turnover, profits and cash flow from operations	Increased presentations in both marketing and sales
Employees	A significant increase in wages could result in a significant reduction in profits and attaining targets.	Magic currently holds tight contractual obligations for contracted employees
Listenership research	Lack of credibility with agencies and advertisers and a loss of income	Magic has engaged with credible research companies to provide reliable data
Less marketing presence	This would result in a lack of growth in sales and listenership	Magic has addressed this issue by approaching suppliers and customers and entering into barter agreements to minimise the impact of lower marketing spend and allowing listeners to become influencers to enhance brand awareness
Technology	Partial or total shutdown of the business if integral data is not backed up and checked upon	Back-ups are done daily, weekly and monthly on a separate server and two copies are stored on external drives, one of which is off site to safeguard any business interruption

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STAKEHOLDER MANAGEMENT

CREATING STAKEHOLDER VALUE

Magic recognises the importance of creating value for its stakeholders in the short, medium and long-term. The principal stakeholders for Magic are its shareholders, employees, customers, suppliers, communities and government.

Magic creates value for its stakeholders in the short, medium and long-term through the following:

CAPITAL	STAKEHOLDER	VALUE FOR THE ORGANISATION	VALUE FOR STAKEHOLDERS
Social	Customers	<ul style="list-style-type: none"> • Repeat business • Revenue growth • Reputation and brand value • Access to skills development and training 	<ul style="list-style-type: none"> • Quality products and services • Fair prices • Prompt service • Creative quality shows
Human	Employees	<ul style="list-style-type: none"> • Engaged and motivated employees • Ability to attract and retain key skills 	<ul style="list-style-type: none"> • Fair pay • Creative work • Growth and development • Equal treatment • Health and safety
Social	Communities	<ul style="list-style-type: none"> • Reputation • Brand value • Trust • Access to business opportunities • Participation in community events • Charities 	<ul style="list-style-type: none"> • Employment opportunities • Business opportunities • Environment care • Support job creation in the industry • Resource use
Social	Government	<ul style="list-style-type: none"> • Favourable legislation • Less interference • Change over to digital 	<ul style="list-style-type: none"> • Contribution to taxes • Support job creation in the industry • Support strategic initiatives
Social	Suppliers	<ul style="list-style-type: none"> • Good service • Commitment • Loyalty 	<ul style="list-style-type: none"> • Fair allocation of business • Pay on time • Growth of their business
Financial	Shareholders	<ul style="list-style-type: none"> • Supply of capital at reasonable price 	<ul style="list-style-type: none"> • Growth of share value • Regular payment of dividends • Competitive return on investment • Reduced risk of investment
Intellectual	Customers	<ul style="list-style-type: none"> • Understanding trends and opportunities • Improved ability to compete • Growth of listenership 	<ul style="list-style-type: none"> • Better products and services

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STAKEHOLDER EXPECTATIONS

Magic recognises the importance of constant engagement with stakeholders. A key element of the Company's strategic planning process is to document the values and the culture of its business units.

Magic has various procedures in place with regard to stakeholder management. These are summarised as follows:

STAKEHOLDER	RELATIONSHIP	EXPECTATION	EXPECTATION MANAGED
Shareholders	Owners of the business	<ul style="list-style-type: none"> • Integrity • Shareholder wealth creation • Ethical business practices 	<ul style="list-style-type: none"> • Sound corporate governance rules are implemented in the business
Customers	Consumers of Magic	<ul style="list-style-type: none"> • Advertising sold at a very high standard within the industry 	<ul style="list-style-type: none"> • Ensure that Magic adheres to all necessary standards, such as ICASA • Direct contact with major customers locally
Suppliers	Procurement of goods and services such as goods and services for the radio station's operations	<ul style="list-style-type: none"> • Ethical business relationships • Commitment to B-BBEE policies • Prompt payment 	<ul style="list-style-type: none"> • Ensure that they conduct business with reputable businesses – Code of Ethics • Ensure that they support B-BBEE • Negotiate, manage and conclude contracts • Timous payment
Regulatory authority: ICASA	Promulgate and monitor regulatory framework and comply with current laws and regulations	<ul style="list-style-type: none"> • Compliance with laws and regulations of authorities 	<ul style="list-style-type: none"> • Continuous training of management and employees responsible for compliance with various regulations by the respective authorities • Internal control procedure checklist to ensure compliance with respective laws and regulations • Participation in industry working groups • Meeting with industry regulators
Employees	The foundation of the business is through innovation, integrity, productivity and accountability	<ul style="list-style-type: none"> • Skills training • Employee benefits • Market-related remuneration • Ethical behaviour and mutual respect • Safe working environment • Empowerment 	<ul style="list-style-type: none"> • Training and education • Open communication between managers and employees • Market-related remuneration • Transformation • Career progression and planning
Health and safety	Monitoring by health and safety officers	<ul style="list-style-type: none"> • Compliance with health and safety standards 	<ul style="list-style-type: none"> • Continuous training of employees on health and safety matters • Internal control procedure checklist to ensure compliance with respective laws and regulations • Immediate corrective action noted in the event of findings raised by health and safety officers
Local communities	Building trusted relationships with the community interest as the base	<ul style="list-style-type: none"> • Contributing transparently and responsibly to community needs 	<ul style="list-style-type: none"> • Learnerships • Training and development • Employment opportunities
Government and regulatory authorities	Compliance with laws and regulations of authorities	<ul style="list-style-type: none"> • Compliance with laws and regulations of authorities 	<ul style="list-style-type: none"> • Internal control procedure checklist to ensure compliance with respective laws and regulations • Meet with government representatives

REMUNERATION

Magic aims to be a competitive and attractive employer in the marketplace. Remuneration and benefits are important drivers as are career opportunities, personal development, culture, values and leadership. As stated in the Code of Conduct, Magic complies with applicable laws, agreements and industry standards on working hours and compensation.

( - Principles 1 to 16)