

MEDIA RELEASE

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Commission prohibits horseracing mergers

The Competition Commission (“the Commission”) has prohibited a set of proposed transactions in the horseracing industry involving Kenilworth Racing (Pty) Ltd (“Kenilworth”). The first transaction involves the acquisition by Kenilworth over the Western Cape business of Gold Circle (Pty) Ltd (“Gold Circle WC”). The second transaction is the take-over of Kenilworth by the Thoroughbred Horseracing Trust. As part of the transactions, Phumelela will manage Kenilworth/Gold Circle WC through a management agreement between Phumelela and Kenilworth, effectively giving Phumelela control of Gold Circle WC. These transactions are interdependent as they cannot be carried out individually.

Phumelela and Gold Circle WC administer the sport of horseracing, tote betting, and televise horseracing events. Kenilworth is a company created for purposes of this transaction.

Phumelela and Gold Circle are the only two racing operators in the country who exclusively hold totalisator licences (a licence which allows for certain betting and gambling activities in each province of South Africa). Gold Circle holds the licence in the Western Cape and KwaZulu-Natal and Phumelela the remaining provinces. Post-merger Phumelela will operate in 8 of the 9 provinces while Gold Circle remains in KwaZulu-Natal only. This effectively substantially increases Phumelela’s share of the market for the administration of horseracing and the associated betting activities in South Africa. In addition a set of arrangement and agreements between Phumelela and Gold Circle diminish competition between the two groups.

The Commission found that the proposed transactions will significantly lessen competition in the horseracing administration, horseracing television rights as well as the betting markets as this will allow Phumelela to further entrench its already strong position such that it can exert market power in these markets. Given the high barriers to entry, the high market shares and low countervailing power in this market the mergers are likely to create a market structure that will entrench these to the exclusion of other firms, particularly small and emerging horseracing entities.

The merging parties advanced failing firm and efficiency arguments, which could not outweigh the likely lessening of competition as a result of the proposed transactions. It was also submitted that the merger will save jobs in the operations of Gold Circle WC as the firm was likely to fail. The Commission found that Gold Circle WC is not likely to fail and there are also other potential buyers.

The Commission has also approved a separate and unrelated merger transaction in the horseracing industry involving the acquisition of the Clairwood racecourse in KwaZulu-Natal by Global Pact 225 (Pty) Ltd, a property developer. As a result of this merger, the Clairwood racecourse will be re-developed into an industrial and commercial park linked to the Durban harbour expansion.

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