



# **CLUB ONE (SA) LIMITED**

**Year in Review 2013**

# **CLUB ONE (SA) LIMITED**

## **Introduction**

The following materials expand upon the Accounts for the year 2012 -2013.

The explanatory materials are to be read in conjunction with the Accounts; they do not replace them nor follow the structure of the document but rather when read together with the Accounts, the materials will elaborate on the figures in the accounts. For example when the accounts speak of loans, the explanatory material states the amount and conditions of the loans.

It is recognised that the substance of the document is publically available across a variety of sources, including the Office of Liquor and Gambling Annual Reports and the Parliamentary Hansard.

The document is organised as:

### Introduction

1. Chair Annual Report 2013
2. Executive Officer Annual Report 2013
3. Financial Elements
4. Service Contracts
5. Debt summary
6. The Trade

# CLUB ONE (SA) LIMITED

## 1. CHAIRMAN - ANNUAL REPORT 2013

It is with pleasure that I make the 8<sup>th</sup> Annual Report of Club One (SA) Ltd, and my first report as Chairman.

I acknowledge the work of my predecessor David McLeod, who as foundation Chairman guided Club One from its genesis to its present sound state.

David left Club One at the conclusion of the 2012 financial year on becoming a Magistrate.

I took my position after all the clearances by the regulators at the September 2012 Meeting of Club One,

For such a short time in the chair, the journey has been an intriguing one.

An initial surprise was that Club One pays income and company tax. This is despite the fact almost all its money goes to assist not for profit Clubs. If it did not pay such taxes, the amounts going to Clubs and sport would be that much greater. A priority of the Members and Board is to see professional advice as to whether this tax status is correct.

Club One did not buy or have vested any more Gaming Machine Entitlements (GMEs) this year, but it has engaged in the Trade and has received and sold GMEs as a result.

At the most recent trade in GMEs, (Trade Round 3/ 2013) Club One sold 14 GMEs. When combined with the fact the Club One gains 1 in every 4 GMEs sold by Clubs in the Trade; Club One ended up with a net decrease of only 5 GMEs and the income from 14 sales.

As of June 30, 2013 Club One held 266 GMEs.

Club One is to invest the capital of the sales into projects that will increase the viability of the industry and Club One.

The sale of the GMEs was timely. It provided money to underpin Club One's pledge to support the Playford Patriots Soccer Club application to obtain a Gaming Licence. This application is among the last that are respond to the previous and less inhibitive Social Effect Test and so stood a chance of success. Unfortunately, they had no means to fund the lawyers, demographic experts, accountants and other necessary professionals to make a solid application.

Club One provided those funds as a loan to the Club. In July 2013, after almost five years of effort, the Club obtained its licence.

Club One looks forward to providing the new venue with GMEs and thereby to assist the growth of soccer in South Australia.

Dominating the latter period of this financial year has been the amending the Gaming Machine Act by parliament. The Bill was a complex one. It sought to introduce small and large venues with different privileges. It also intended to accelerate federal legislation controlling the management of Gaming Machines. The Bill also proposed to facilitate the expansion of the Adelaide Casino with over 500 more GMEs and made other concessions, particularly as to the Casino taxation rates.

The substantive matters in the Bill addressing the Club and Hotel Industry were withdrawn or favourably following an effective lobby by Clubs SA.

Club One managed to add to the surviving proposals that Club One should have access to the Casino. This may prove to be a very significant market for Club One. The amendment may thus provide a means to permit clubs to participate in the prosperity of the Casino.

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The future is more than usually uncertain. The industry is not travelling well. Income is down, and clubs and hotels are facing significant challenges. Not all these are caused by the health of the economy. Gambling on the internet is making a significant inroad into the sector. Further, the anticipated pre commitment regime of the federal government may well create an atmosphere that would see confidence wane and more economic tribulations.

None the less, as the accounts demonstrate, Club One is trading well. It has pared back expenses, and it is seeking new markets and innovations. The Casino is an obvious example of such lateral thinking.

It is important that Club One increase its profitability so it may expand its grants program.

Next year will see a State election and that means more change. Club One is in the middle of these forces as it is a product of legislation and a creation of the South Australian parliament. Inevitably out of these challenges, opportunities can emerge, and Club One needs to be in a position to grasp these opportunities.

In conclusion, I would like to thank the Board members and Club One Executive Officer Michael Keenan for welcoming me to Club One and I look forward to working with them to secure the future of Clubs and Club One.

Jack Clarke, Chairman.

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### 2. Executive Officer - Annual Report 2013

#### Annual Report 2013 Executive Officer

The market place for Club One as at 30 June 2012, were *the 557 active gaming machine licences, under the following categories of liquor licence:*

*461 Hotels*

*58 Clubs*

*38 Special Circumstances*

(Consumer and Business Services Annual Report 2012 p6.)

As Club One provides Gaming Machine Entitlements (GMEs) to permit venues to operate a gaming machine, the return on the gaming machines has a significant impact on the value of Club One GMEs.

*With the exception of 1996-97, the average daily NGR per machine increased on an "annual basis" from \$98 in 1994-95 to \$172 for 2006-07. The decrease to \$164 for 2007-08 and \$162 for 2008-09 can be attributed to the phasing in of progressive smoking bans and softening economic conditions.*

*The further decline in NGR to \$157 for 2009-10 was likely due to a reduction in discretionary income, following interest rate rises, the global financial crisis and a fluctuating economic climate. Growth in NGR to \$160 per machine per day during 2010-11 was maintained in 2011-12 reflecting the continuing domestic economic conditions and discretionary spending levels within the community. (Consumer and Business Services reported in the Annual Report 2012 p.38)*

In other words, the return on a GME has been flat for 3 years, and it has been below its peak of \$172 for six (6) years. It is a decline in the value of a GME. The price for a GME at the Trade has reflected this decline. The static returns have also seen Club One clients have cash flow issues. This has resulted in some late payments and at times created challenges to Club One's cash flows.

A new client for Club One in 2013 was the Beswick Group that took 8 GMEs. Of the existing clients, Coles Group that took a further 6 GMEs and the newly expanded Plush Group took 11 further GMEs.

This take up absorbed some of the GMEs that Club One had returned to it by hotels and the new GMEs allocated to Club One because of the Trades held in 2012-2013.

When a Club Management Services (CMS) hotel returns a GME, the contracted sum is still met by CMS. Should Club One use the GME in another venue, it pays CMS \$1500pa as part of an agreement called 'relinquishment'.

Club One also entered the Trades and sold 14 GMEs. The Board will await the proposed entry of the Casino into the Trade system before it commits the capital to a Club One project.

The Casino will enter the Trade because of changes to the Gaming Machine Act. The Casino will also receive additional GMEs and access to the Trade was one of the measures for it to obtain those GMEs.

Club One lobbied successfully at the time of the recent Gaming Machine amendments to have direct access to the Casino as it presently does with hotels with placing GMEs.

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Depending on the negotiations, this may provide a greater diversity for Club One and more stability.

Reluctantly, Club One suspended its Large Sponsorship programme. This is a consequence of a drop in income of \$500,000 generated by hotel clients buying GMEs in the Trade and returning GMEs to Club One. Club One has managed over relocate these GMEs. None the less, the immediate surrender of the GMEs and associated loss of income was significant. The Board is keeping the cash flows of Club One under close review with the intention to reinstate the Large Sponsorships as soon as fiscally responsible.

A key element of the review has been a significant revision of expenses, including a cut of 25% in Director's fees and the elimination or freezing of much indirect expenditure including travel and professional development. The Annual Report is now in e-format also saving expenditure.

The Board membership changed with the appointment of the Chair Mr. David McLeod to be a Magistrate. After a search, Jack Clarke was voted onto the Board as a replacement for David in accord with

*Clause 38.4: One (1) person who is a lawyer of at least three (3) years standing with experience in the Clubs and Gaming Industry; and the Gaming Machine Act 1992 clause 24 A (2) (a) at least 1 person who is a lawyer of at least 3 years standing with experience in the club and gaming industry)*

In the search an Expression of Interest (EOI) was placed on the Institute of Company Director's (AICD) bulletin web page, the same was done with the Institute Company Secretary's there was also an EOI published through the Law Society of South Australia.

This position of legal independent is due for renewal in 2014 as part of the three-year rotation process. As an initiative of the nominee members of the Board, (who appoint the independents), the process of reappointment/ replacement has been restructured to permit the AGM to comment on the nomination,

Club One 266 GMEs and has increased the number of GMEs in Clubs. Hotels still provide the bulk of clients.

As the price of a GME has dropped because of the market effect of the Trade, there has been a downward revaluation of the capital held by Club One. The impact has not been detrimental to Club One, but it is unwelcome.

So far, the sale of a GME at the Trade will return a value that is still above the price when it was set by legislation. Club One traded for the first 5 years of its existence using this price. The maintenance of this base value is of importance to Club One.

Club One has assisted Playford Patriots obtain its Gaming Licence for their venue. Club One provided a \$100,000 loan to fund the application for the license and paid for significant amounts of legal advice. Club One supported the application because it was the last active application under the previous regulations, which had less a draconian and more affordable Community interest test. The application was successful, if not dramatic and Club One looks forward to PP establishing its venue, taking GMEs from Club One and repaying its loan.

Next year the challenges will be the next Trade cycle – will the price fall again? Club One sees no reason for any further devaluation as the income generated by a GME has been consistent for the past 6 years. Consequently, the value of a GME should be also consistent.

Another challenge will be the entry of the Casino into the Trade system and Club One direct access. This should be a significant opportunity for Club One and the value of its GMEs.

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The economy is a challenge as its slowdown is affecting the hospitality industry. This is Club One client.

The Federal Governments precommitment proposals are on the horizon as the next significant challenge.

Whilst the government has changed, there are no proposals to end proposed pre commitment requirements. The impact of precommitment on spending will be a test for the industry and of the argument of the welfare lobby on spending habits of users of Gaming Machines.

**Michael Keenan**

## CLUB ONE (SA) LIMITED

### 3. FINANCIAL ELEMENTS

#### DEBT

- Best Bricks Loan
- National Australia Bank Loan
- CMS Working Capital Loan
- CMS GME Funding Loan

#### NON CMS HOST CLUBS

- Adelaide Soccer Club [40]
- Sturt Football Club (Bazzar) [3]
- Athelstone Football Club [5]

#### CMS – CLUB ONE (HYBRID) CLUBS

- Roxby Club [10]

#### Sources of GMEs - VESTING/PURCHASE (as of October 2013)

Club	Number	Lump sum	Vesting fee
Trade (initial)	<b>27</b>		
Trade (1)	<b>7</b>		
Trade (2)	<b>3</b>		
Trade (3)	<b>9</b>		
ANI-Cooinda	3	3	0
Athelstone	1	1	0
Blackwood RSL	10	10	0
Berri	2	2	0
Cadell Club	1	1	0
Campania	10	10	0
Colonel Light Gardens RSL	2	2	0
Cue Sports	2	2	0
Elizabeth Bowling Club	10	0	10
Elizabeth Rugby Club	9	4	5
Flagstaff Hill golf	16	0	16
Gaza	3	3	0
Hackham	16	4	12
Holdfast Bay Bowling club	11	11	0
Kadina Club	6	1	5
Kilburn FC	6	6	0
Loxton Club	6	6	0
Lyrup	2	2	0
Mannum Club	2	2	0
Millicent Club	11	7	4
Modbury North Bowling Club	10	10	0
Moorook & Dist. Club	9	4	5
Murray Bridge Club	1	1	0
North Mt. Gambier FC	20	0	20
Payneham RSL	12	0	12
Pooraka	2	2	0
RSL Marion	2	2	0
Salisbury Bowling Club	12	0	12
Semaphore RSL	5	5	0
Tea Tree Gully Golf	12	0	12
Vine Inn	6	6	0
Waybacks	5	0	5
West Croydon RSL	10	10	0
<b>Totals (33 clubs)</b>	<b>234</b>	<b>116</b>	<b>118</b>
Inc Trade	280		
Minus 14 sold	266		
Club "owns" (1in4 + trade + preCMS)	56 + 46 +10 -14 (sold)		= 98

# CLUB ONE (SA) LIMITED

## NON-CMS TEMPORARY ALLOCATION

- Jones Group
- Toad Hole - Mawson Lakes
- ALH – “Woolworths”
- Reserve Group –Reepham and Flagstaff hotels
- Chinbyi –Aldinga Hotel
- Coles – Coles/Liqourland venues
- Plush- Plush Hotel group
- Jillcar – Semaphore Hotel
- Beswick Group

## 4. SERVICE CONTRACTS

- Clubs SA – office and services
- Clubs SA and Sports SA - Grants
- Wallmans
- Kennedy and Co.
- Helen Martin

## 5. DEBT SUMMARY

### Best Bricks Loan

Club One has borrowed up to \$535,000 from Best Bricks at an Interest Rate of 9%. It is full P & I and has 2 years left to payout.

### NAB Loan

Club One has borrowed \$400,000 from the National Australia Bank. Interest only for 12 months at variable rate of 9.4% - unsecured loan. Principal and Interest repayable over 14 years – total term 15 years

### CMS Working Capital Loan

Club One has borrowed from CMS \$300,000 at an interest rate of 8.5%. Interest Only Period applies to the earlier of 5 years or the opening of the 5<sup>th</sup> Host Club. Principal and interest (P & I) are repaid over a 10-year period from the end of the Interest Only Period. This point has been reached and all is P & I.

### CMS GME Funding Loan

Club One has borrowed from CMS up to \$6,000,000 at an interest rate of 8.5% to secure up to 333 GMEs. Principal and interest are repaid over a 10-year period from the end of the Interest Only Period. CMS has capped the drawdowns on the facility at \$5,000,000. This point has been reached and all is P & I.

### BANK SA Overdraft

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Club One has an overdraft with Banks SA of \$200,000 at the current Bank rate.

### **6. THE TRADE**

There have now been three Trades in Gaming Machine Entitlements under the present rules (June 2012). The first Trade saw Club One have 44 GMEs returned from allocation venues and an accompanying loss in revenue, which may be in excess of \$50,000 per month (\$600,000 pa). There was also a successful pressure from remaining clients to reduce payments per GME.

Club One entered all Trades. In Trade 3, Club One sold 14 GMEs.

Club One entered the Trade in order to address the \$600,000 negative turn around and any potential further decline in income.

It is to be noted that Club One's entry into the Trade is not automatic but is dependent on the relevant Minister granting permission.