



CLUB ONE (SA) LIMITED

Year in Review

2016

CLUB ONE (SA) LIMITED
Explanatory Materials– fiscal year 2016

Introduction

The following materials expand upon the Accounts for the year 2015 -2016.

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.

The explanation is confidential to the Board of Club One and the Member of Club One. 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.

A modified version of this document will be posted onto the Club One Website post the AGM.

This document addresses new material to the 2015 AGM Report.

The document is organised as:

Introduction

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1. YEAR (2016) IN REVIEW

It is with pleasure that we present the 11th Annual Report of Club One (SA) Ltd.

This year has seen a stable Board working hard in a difficult market place.

At the AGM in November, the annual appointment in accordance with 38.6 of the Special Club Licence of a person with experience in issues of gambling and gambling addiction saw the reappointment of Andrew Clarke for a further three year term.

Importantly, despite the vagaries of the market, Club One has managed to maintain its grants scheme to Clubs. This year it passed the milestone of the 500th Club grant.

The variety and nature of the applications for support are of continual surprise. This year's grants ranged from baby change tables in football change rooms to assisting a country tennis club replace purchase special nets because the Corella's eat the ordinary ones!

Club One commenced the year with 92 Gaming Machine Entitlements (GMEs) placed in Clubs, 112 in hotels and 69 unallocated. It is to be noted that many of the unallocated GMEs were still generating income as they are subject to ongoing contractual arrangements.

The Consumer and Business Services managed Trade in GMEs occurred on the Trade dates of 30 July 2015, 19 November 2015 and 5 May 2016. Each Trade saw a decline in the sale price of a GME. Per Trade the prices were \$29,125 (July); \$27,937 (November), and \$26,187.50 (May); a decline of \$2,938.50 or 10%.

As with previous years this has seen some venues swap Club One GMEs for purchased ones. This is a reflection of the present market place.

The return of GMEs has seen less Club One GMEs making income. This decline in GME revenues has had an effect on Club One income thereby affecting the payment of Vesting Fees to Clubs. These have fallen, but less than the value of a GME. The formula for setting the Vesting Fee has seen a decrement of 9.04%. It is anticipated that the next amount will be higher again. Despite this, Club One paid \$751,617.03 to Vesting Clubs in the year.

To minimise the impact in the decline in revenues and value of GMEs Club One has moved to cut costs. After a strategy session in September 2015, Club One identified specific cost savings and strategies to generate income. Thereafter Club One reviewed Board fees and addressed outgoings such as advertising, promotions and other costs. It also renegotiated its contracts with suppliers and put them on a more favourable basis.

These cost controls culminated in Club One seeking lower costs for its serviced office accommodation. As this was not forthcoming, Club One has now left Clubs SA House and rents a serviced office in Halifax Street in the CBD.

In a similar vein the case before the Australian Taxation Office for a tax exemption has been pursued vigorously. The benefaction that Club One provides to Not for

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Profit Clubs and Associations is at the heart of the case and, if successful, will provide Club One and Clubs with significant relief.

In a planned move to reduce debt Club One has participated in the Trade sales.

Club One has entered the Trade twice this year and sold a total of 31 GMEs. Club One also receives GMEs by the 1 in 4 allocation system with a total of 13 GMEs being allocated to Club One from the Trade. The culmination is that of the end of June 2016, Club One had 92 GMEs in Clubs, 94 in Hotels and 72 Unallocated- a total of 258 GMEs.

The Best Bricks loan that assisted in purchasing GMEs for the Oakden Central venue was paid off as at February 2016.

A loan from NAB was also paid out in June 2016.

Club One has now retired all its debt, except that owed to Club Management Services (CMS), its primary funder. There are \$4.25m in loans at 8.5% interest. Paying off these loans is the next priority for Club One.

In December 2016, the Club One contract with Oakden Central (Adelaide Juventus Soccer Club) was up for renewal. Oakden and Club One renegotiated the payments and terms and these have renewed to both parties mutual satisfaction.

The coming financial year (2016 – 2017) will see the CMS contracts being reviewed. Along with the loans with CMS, these will be priority areas for the work of Club One as it seeks to maximise the Special Club Licence for the benefit of Clubs.

Jack Clarke - Chairman

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2. FINANCIAL ELEMENTS

DEBT

- Best Bricks Loan (\$535,000 at 9% for 10 years commenced 23 December 2005 retired March 2016)
- National Australia Bank Loan (\$400,000 at 9.4% for 15 years commenced 17 December 2007 retired in advance June 2016)
- CMS Working Capital Loan
- CMS GME Funding Loan

NON CMS HOST CLUBS (82)

- Adelaide Soccer Club [40]
- Sturt Football Club (Bazaar) [3]
- Playford Patriots – Angle Vale Tavern [32]
- Berri Club [7]

CMS – CLUB ONE (HYBRID) CLUBS (10)

- Roxby Club [10]

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Sources of GMEs - VESTING/PURCHASE (as of June 2016)

Club	Number	Lump sum	Vesting fee	GME sold
Trade (initial)	27			
Trade (1)	7			
Trade (2)	3			
Trade (3)	9			14
Trade (4)	6			14
Trade (5)	1			
Trade (6)	3			
Trade (7)	4			
Trade (8)	4			
Trade (9)	2			
Trade (10)	7			24
Trade (11)	4			7
Trade total	77			59
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	1	1	0	
Elizabeth Bowling Club	10	0	10	
Elizabeth Rugby Club	9	4	5	
Flagstaff Hill golf	16	0	16	
Gaza	4	4	0	
Hackham	15	3	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	5	6	
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	2	10	
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	
Totals (33 clubs)	234	116	118	
Include Trade + 77	311			59
Include rented Campania 10	321			
Minus 59 sold		56		
	262			

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3. SERVICE CONTRACTS

Club One has service contracts with

Wallmans Lawyers (Legal)
Richards Commercial Lawyers (Legal)
PKF Kennedy and Co (Accounting)
Helen Martin (Book Keeping)
Clubs SA (Serviced Office)

4. DEBT SUMMARY

All loans are now on a Principal and Interest regime with the CMS loans only outstanding. In the next decade Club One will progressively retire all these loans.

The Loans amounts remaining with CMS are a CMS Working Capital Loan and a GME Funding Loan presently totalling \$4.25 million at 8.5% interest for 10 Years

Club One has paid out

- Best Bricks Loan (\$535,000 at 9% for 10 years commenced 23 December 2005 retired March 2016)
- National Australia Bank Loan (\$400,000 at 9.4% for 15 years commenced 17 December 2007 retired in advance June 2016)

6 .Key Assets

Of the total assets of \$11,265,741.92, the main components are GMEs at \$9,512,231.65 and Cash at-\$1,678,649.67 for equity of \$7,184,953.64

9. GME VESTING SUMMARY

The down turn in the industry when applied to the increment/ decrement formula for vesting fees saw a drop in the fee to be paid to Vesting Clubs by 9.04 %. Despite this, Club One paid \$751,617 to Vesting Clubs in 2015-2016.

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10.THE TRADE

The present Trade of GMEs managed by CBS was first constituted in March 2012. There have been 11 Trades in the period since then to this report.

In the period covered by this report the trade day occurred on 17 October 2014, 20 February 2015 26 June 2016.

In that period 125 Entitlements have been sold.

The price a seller now receives for a GME has declined at an average of 26% and is now \$26,197.50 for a seller.

As a fall out of Hotel clients buying GMEs in the Trade, Club One has had GMEs returned to it; the most notable being all GMEs allocated to the Coles Group (LHG) returned (20) and all but two from the Jones group (15). Club One was able to offset some of these returns with new clients with the balance being a loss of 30 revenue earning GMEs.

Club One has sold these and allocated the revenues to retiring debt.

Under the regulations governing the Trade process, Club One receives 1 in 4 GMEs sold by not for profit bodies. In this period Cub One received 10 Trade GMEs. Club One now has 75 Trade GMEs (freehold no debt).

Club One entered the Trade twice (10/2015 & 11/2016) and sold 31 GMEs.

Sold GMES by Club One

Trade	Number of GMEs	Value pgme	total
2/2013	14	\$38,937.00	\$545,118.00
4/2013	14	\$40,625.00	\$568,750.00
10/2015	24	\$27,937.50	\$670,500.00
11/2016	7	\$26,197.50	\$183,382.50
total	59	(ave:\$33,424.25)	\$1,967,750.50