



CLUB ONE (SA) LIMITED

Year in Review

Fiscal year 2012

CLUB ONE (SA) LIMITED
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Introduction

The following materials expand upon the Chartered Accounts for the year 2011 -2012.

The explanatory materials are to be read in conjunction with the Chartered 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.

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 as a replacement for the Annual Report.

The document commences with reports from the Chairman and Executive Officer and then gives the detail to the Chartered Accounts.

The document is organised as:

Introduction

1. Chair Annual Report 2012
2. Executive Officer Annual Report 2012
3. Financial Elements
4. The Trade

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

1. CHAIR - ANNUAL REPORT

This is my last report as Chair of Club One. My seven years with Club One has seen it grow from a concept in a piece of legislation to a successful corporate body holding 261 Gaming Machine Entitlements being the largest single holding after the Casino.

Throughout this period of growth and acquisition Club One has at the same time managed through careful and deliberate strategies to return almost \$1million in funds to the not-for-profit sector in the form of vesting fees, grants or payments.

Apart from the ongoing issue of attracting base funding, the principal constraints on Club One growing further are available venues to place GMEs and capital to purchase more GMEs from Clubs. With the advent of the June 2012 Trade, both of these critical ingredients become even more scarce. Addressing the shortage will be a significant challenge to my successor and the Board.

I hope that they do succeed. There is every reason to suspect they will. Club one is a unique and far sighted initiative of government. There is no other like it in Australia and its closest incarnation is to be found in the Native Casino's in North America.

It is a tribute to the Board of Club One that the Club Industry has come to trust Club One to deliver on its objective of keeping Gaming Machine income within the Club sector. They have shown this trust by vesting into Club One and by participating in Club One's funding and support programmes.

My departure was preceded by the retirement of Bob Raphael, a stalwart of the Club Industry. He has made critical contributions to Club One, not the least being his intervention to have his Club – Salisbury North Football Club, provide an overdraft when no-one would finance the start up of Club One.

Bob was replaced by one of the rising stars of the Clubs sector – Greg Saunders, Manager of the Parafield Gardens Community Club. Bob's many decades long history and all round practical knowledge leave a legacy that Greg and the other Board members will strive to emulate.

Greg joins a cohesive Board with a conservative financial approach to managing its affairs. Club One has a strong ethic of transparency and accountability and a commitment for doing the right thing the right way. There are many projects on the horizon including new Club venues, innovations in governance and unfolding strategies to engage with Clubs in the management of their GMEs.

I have had the pleasure of seeing out seven ministers in the gambling portfolio who have had oversight of Club One. For much of tenure there was a specific Gambling Minister. With the change in Premier and subsequent reshuffle, Premier Weatherill dispensed with the portfolio and so the responsibility now lies with the Attorney General, John Rau.

This change has run parallel to the reorganisation of the Office of Liquor and Gambling Commissioner. No longer is there a stand-alone Commissioner. Today the Commissioner is also the Commissioner of Consumer Affairs and the once stand-alone Commission is now part of the new body, the Office of Consumer and Business Affairs.

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

These two changes have had a significant impact on the administration of gaming in South Australia and as I leave, the change process is beginning to settle down and the Industry is coming to terms with the new order.

I would like to thank the many people who have assisted in and believed in the work of Club One. In particular I thank the hard working Executive Officer Michael Keenan. He has been with Club One from the very beginning and he brought me and many others into the orbit of Club One so we might make a difference. He is the corporate knowledge of the organisation and makes it all happen.

It is difficult to predict how the future will unfold for the gaming industry as a whole. A key contributor to my reservation is the impact of the Trade in Gaming Machine Entitlements. This has undermined the Club One market, increased its costs and reduced its income. What I can predict however is that Club One will remain strong and become an increasingly important part of the industry because the people behind the organisation and who underpin the organisation are focussed on supporting the not-for-profit sector. That is its strength. With the continued application of sound investment strategies and effective management practices I am confident that once the marketplace settles the Board will carefully take stock and take advantage of whatever opportunities present.

David McLeod

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

2. Executive Officer - Annual Report

On 9 November 1895 the Punch Magazine published a cartoon drawn by George du Maurier; it depicts a curate having breakfast with his bishop. The bishop remarks

"I'm afraid you've got a bad egg, Mr. Jones." The curate replies, desperate not to offend his eminent host and ultimate employer: "Oh, no, my Lord, I assure you that parts of it are excellent!"

So it has been with the year 2011 – 2012, much of the good part of the egg was early.

1. Parking

The year commenced with Club One processing purchases of Gaming Machine Entitlements (GME) and finding venues for the GMEs. Those coming into the Club One process were from Campania, Moorook, Berri and Colonel Light Gardens.

New parking was found with the Plush Group of Hotels and the ALH group.

In tandem, changes occurred at the Office of the Liquor and Gambling Commissioner (OLGC). After negotiation, it was agreed to amend the OLGC review process of the many Agreements held with non club bodies from being every two years, to them being reviewed on an as needs basis, thereby providing more certainty and reducing work demands.

There were three GMEs returned by hotels. The hotels made the decision reflecting a downturn in trade. Interestingly, apart from the financial challenge posed by a down turn, one proprietor pointed out that the GME made money but the tax system is a turnover tax and the volume of money through the extra machine pushed the tax bill into the next level, (regardless of there being a profit [or not] to pay the tax) and it thereby made a Club One GME a problem rather than a help.

2. Club Management Services (CMS)

The year commenced with CMS and Club One reviewing their relationship and their respective organisations. Against the backdrop of the changes to legislation and the economy and the pragmatic agreements made between Club One and CMS there was a mutual agreement to simplify if not disconnect the Club One - CMS arrangements. This was agreed to be an iterate process throughout the year, especially with the goal posts changing because of the then mooted legislated Trade in Gaming Machine Entitlements (Trade) and changes in the economy.

Adding spice to the review was the fact that the Umbrella Agreement with CMS saw the basic fee paid by CMS rise.

As part of the review CMS and Club One made joint approaches to all the major banks seeking refinancing of the arrangements and a mechanism to separate CMS and Club One. The negotiations and proposals were lengthy but with the increasing conservatism of the banks and the gloom emanating from Europe, the bank's Credit Departments declined the proposals.

After a year of negotiations, Club One is where it began.

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

3. The Trade in Gaming Machine entitlements

On 14 July 2012 the Government gazetted regulations governing the implementation of a Trade in Gaming Machine Entitlements. Club One had participated in the committee that advised on the public documentation for that Trade and regulations. It also participated in some trials of the Trade process. This participation was as part of a subcommittee of the advisory Committee to the Minister.

Recognising that there may be some collateral damage in the Trade process, Club One sought and received assent from the Minister for Recreation and Sport in their capacity for being responsible for the Recreation Greenways Act to sell some GMEs. In the regulations the Minister was identified as the one to give assent, even though the portfolio responsibility lies with the Attorney General.

The Club One strategy was to sell some GMEs in order to build a capital buffer against the return of GMEs from Club One clients. (They would replace the parked Club One GMEs with their purchased ones). Club One put in its GMEs at a price that reflected its valuer's opinion. Ironically the figure was almost the buyer's price but because of the peccadilloes of the Trade price process, it was 25% too high.

The consequence of the Trade was that hoteliers returned more than they brought, Club One now has 50 GMEs not engaged in venues.

An immediate response to the loss of income and failure to secure a buffer was to implement a moratorium on purchases or vesting of GMEs until the impact of the September Trade cycle could be assessed.

It was also agreed that the Large Sponsorship Grants would be suspended until the impact of the September Trade cycle could be assessed

A special sale of GMEs was also proposed and the Minister was to be approached in July.

In keeping with curate's egg, Club One now has 268 GMEs (July 2012) – 7 free from the Trade - but 50 of the GMEs are not allocated because of returns generated by venues buying replacements in the Trade - at the beginning of the year, all Club One GMEs were engaged.

4. Sponsorships

During the year the small grants and large sponsorship grants were active and well subscribed. Additionally the Licensed Clubs Industry Training Foundation sought funding for a special project to develop a training package to be presented to the Surf Life Saving Clubs of South Australia. Sport SA also requested support for a separate training program. Both were supported by Club One

5. Projects

Club One has been involved in a key project to develop a Gaming Club in the Angle Vale area. The project being developed by The Playford Patriots seeks to set up a community hotel

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

with gaming facilities. Club One after lengthy negotiations has resolved to support the Club with Club One to supply GMEs for the new venue.

6. Board Changes

At the February 2012 Meeting, pursuant to Rule 53.3 of Club One's Constitution Bob Raphael resigned from Club One effective immediately. The process of replacement saw Greg Saunders of Parafield Gardens Community Club appointed to the position.

In March, in accordance with Section F Clauses 38, 39, 40 and 41 of the Constitution, Dwayne Jones having being reviewed by the member was re-appointed as an Independent Director as a “person who is a qualified accountant of at least three years standing with experience in the Clubs and Gaming Industry,” with the appointment being from 9 March 2012 to 9 March 2015.

At its last meeting for this reporting year (June) the Board noted the appointment of the Chair as a Magistrate and congratulations were made. The Chair resigned effectively immediately and a search was commenced to replace him as a member pursuant to *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.

Review of the year - A Curates Egg.

Michael Keenan

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

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

CMS – CLUB ONE (HYBRID) CLUBS

- Roxby Club

Sources of GMEs - VESTING/PURCHASE (as of October 2012)

Club	Number	Lump sum	Vesting fee
Trade (1)	27		
Trade (2)	7		
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
Totals (33 clubs)	234	116	118
Inc Trade	268		

CLUB ONE (SA) LIMITED
Year in Review
fiscal year 2012

4. THE TRADE

There has been a Trade in Gaming Machine Entitlements under the present rules (June 2012). The 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). This will result in a loss in 2012-2013 and a significant contraction in the budget, including the cessation of the large sponsorship Grants and reductions in spending in all areas.

There is also a resulting pressure from remaining clients to reduce payments per GME.

Club One sought to sell into the Trade but it was not successful. The price sought by Club was too high. It was based on a valuation provided by Club One's accountants but did not factor into the price the reductive impact of the 25% tax. It is ironic that the Club One price was the buy price but not the sell price.

No Club GMEs were sold in the Trade.

There is a mooted second trade. To address this potential, Club One has developed a swap strategy. In this arrangement Clubs enter into a Host Club Arrangement with Club One. It will have its host club price set at the time of the Trade and have its duration is for a 12 month minimum initial period.

The idea is to slide Club One GMEs into position to replace those GMEs sold by Clubs into the Trade, hence the term "swap".

Club One will also seek to enter the Trade in order to address the potential existing \$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.