

6 April 2018

TO MEMBERS

**RE: CESSNOCK EX-SERVICES' CLUB LTD (SUBJECT TO DOCA)
ACN 000 938 796 / ABN 43 000 938 796 ("THE CLUB")**

Most members are by now aware that I was appointed Administrator of the Club on 11 April 2017. I was appointed by the Club's board of directors pursuant to section 436A of the Corporations Act 2001. I now update you on the status of the administration as follows.

1.0 DEED OF COMPANY ARRANGEMENT

On 25 May 2017 at a meeting of the Club's creditors it was resolved that the Club enter into a Deed of Company Arrangement ("DOCA"), which was executed on 15 June 2017 and I am the Deed Administrator. A DOCA is essentially an agreement between the Club and its creditors. The DOCA provides that the Deed Administrator is to control the Club for the duration of the DOCA.

The DOCA provides that the Club is to raise a Deed Fund within 12 months (ie. by 15 June 2018) to pay all creditor claims in full. The DOCA contemplates that the Deed Fund will be raised through a range of options as follows:-

- a. amalgamation with another registered club (Option 1); or
- b. sale of any Club assets to a third party (Option 2); or
- c. entering into any agreement that otherwise results in the realisation of the Company's assets (Option 3); or
- d. profits from trading during the administration (Option 4); or
- e. refinancing (Option 5);

or a combination of the above that will achieve the objectives of the DOCA and provide for the payment of all creditor claims in full (Option 6).

2.0 AMALGAMATION

Shortly after my appointment I advertised calling for expressions of interest in amalgamation. I received inquiries from two registered clubs and I provided all information to assist these registered clubs with their respective assessments of the amalgamation opportunity but neither club submitted an offer for amalgamation at that time.

The registered clubs that had expressed interest indicated that, even with the closure of the Kurri Workers venue, they were still not prepared to amalgamate with the Company's remaining premises at Cessnock.

Once the sale of the Cessnock site was devised, I approached a local registered club, Cessnock Rugby League Supporters Club Ltd ("Cessnock Leagues"), regarding the opportunity to amalgamate with the Club and lease back a portion of the Club's former Cessnock venue.

Cessnock Leagues has submitted an offer for amalgamation that will require Cessnock Leagues to use all reasonable endeavours to re-establish the Club's venue at Cessnock, subject to financial viability.

Cessnock Leagues has been in negotiations with the purchaser of the Club's former Cessnock premises and I understand that lease terms have been agreed in principle, subject to amalgamation completion.

The offer from Cessnock Leagues contemplates establishing a Deed Fund in accordance with the Deed of Company Arrangement of 15 June 2017 which will result in the payment of all the Club's creditors in full.

I will now negotiate a Memorandum of Understanding with Cessnock Leagues which will be put to the members of each club for consideration.

An amalgamation with Cessnock Leagues will keep the Club's net asset surplus within the community and Cessnock Leagues can also accommodate the Club's members at its existing premises. I expect that a large component of the Club's members would also be members of Cessnock Leagues.

The amalgamation process will result in the winding up of the corporate entity "Cessnock Ex-Services Club Ltd" and a transfer of the Club's liquor licence and assets to Cessnock Leagues.

Please see **attached** notice regarding the proposed amalgamation issued in accordance with 17AE *Registered Clubs Act 1976 (NSW)*.

3.0 MEMBER MEETING

It will be necessary for the respective clubs to enter into a Memorandum of Understanding and convene separate member meetings for members to consider the proposed amalgamation. If members approve the amalgamation, then the clubs will enter into a Deed of Amalgamation to address the legalities of the amalgamation and submit an application to Liquor & Gaming NSW to seek approval.

A notice of meeting will be issued to members shortly to consider the proposed amalgamation.

4.0 CESSATION OF TRADE – KURRI WORKERS CLUB

The Kurri Workers Club venue ceased to trade on Wednesday, 14 June 2017. The decision to cease trading was a result of the marginal cash flow of the premises, the

significant repair costs to bring the premises into a safe condition and that no registered clubs were prepared to consider the amalgamation opportunity if the Kurri premises were retained.

The Club's property situated at 209 Lang Street Kurri Kurri NSW 2327 was sold on 30 July 2017 for the sum of \$1,100,000 and the majority of the sale proceeds were directed to the Club's lender which the Club was indebted to, as at the date of my appointment, in the amount of approximately \$2.7 million.

The majority of contents of the Kurri venue were sold via an online-onsite public auction conducted by Tiger Asset Group. Some items were transferred to the Cessnock venue and the remaining gaming machines were sold promptly by consultation through Tiger Asset Group as they would have posed a security risk if left on site.

All the gaming machine entitlements from the Kurri venue were transferred to the Club's Cessnock venue and all but 67 of the Club's total gaming machine entitlements have since been sold.

5.0 CESSATION OF TRADE – VINCENT STREET CESSNOCK

Following the cessation of trade of the Kurri venue, efforts were concentrated on boosting trade at the Club's Cessnock venue and to determine whether it was possible to achieve a profitable and sustainable business.

Whilst revenue improved, it was at a cost. Wage costs were high as the Club raised its customer service levels as it was unable to invest in its offering to otherwise boost revenue. The Club continued to incur costs relating to repairs and maintenance following years of apparent neglect and its information systems were outdated to the point that they were inefficient.

The layout of the Club was not ideal as the need to heat or cool a very large floor area was impacted by increased utility costs and also inhibited the Club's ability to restructure its staffing to combine the Club's reception function with the service areas.

It would not have been possible for the Club to trade at the level required to pay its remaining debt due to the mortgagee and raise the Deed Fund to pay unsecured creditors. Further, the Club would not have had funds or the capacity to borrow to fund much needed capital expenditure. Accordingly, the Club's Cessnock venue ceased to trade on 8 November 2017. The Club no longer has any employees.

In the months prior to cessation I was approached by two separate individuals that expressed interest in the site and which contemplated the continuation of the Club, however those offers were subsequently withdrawn.

I advertised calling for expressions of interest to ascertain the level of interest in the site and this resulted in a sale of the Cessnock premises and the majority of its contents, with a total sale price of \$1.9 million.

The purchaser of the site has offered to leaseback a portion of the site to the Club however the Club would be required to sell almost all of its remaining gaming machine

entitlements in order to raise the Deed Fund in addition to start-up capital and so it would not be feasible.

6.0 EXTENSION OF REPORTING REQUIREMENT AND 2017 ANNUAL GENERAL MEETING

I sought from the Australian Securities and Investments Commission ("ASIC") an extension of time for the Club to furnish its audited financial statements for the year ended 30 June 2017.

An extension to 31 March 2018 was initially granted and a further extension to 30 June 2018 was recently granted.

I also sought from the Australian Securities and Investments Commission ("ASIC") an extension of time for the Club to convene its Annual General Meeting.

An extension to 30 April 2018 was initially granted and a further extension to 31 July 2018 has recently been granted.

I sought these extensions to save the cost of having to convene two separate member meetings as a member meeting will be required for members to consider the proposed amalgamation.

Statutory notices regarding the above ASIC extensions and the proposed amalgamation have been and will continue to be published on the Club's website as and when required. The Club's website address is: www.cessnockexservices.com.au

Please contact Ms Janelle Jordan or Ms Deanne Furlong of my office on telephone number 02 9957 6700 should you have any queries. Or, alternatively, you can email Ms Furlong at address deanne.furlong@russellcorporate.com.au.

Yours faithfully,



**G A RUSSELL
DEED ADMINISTRATOR**

CESSNOCK EX-SERVICES' CLUB LTD (SUBJECT TO DEED OF COMPANY ARRANGEMENT) ABN 43 000 938 796 ("THE CLUB")

NOTICE TO MEMBERS OF PROPOSED AMALGAMATION

Members are hereby notified that the Deed Administrator of Cessnock Ex-Services' Club Ltd (Subject to DOCA) ABN 43 000 938 796 is in negotiations, on behalf of the Club, for a proposed amalgamation with Cessnock Rugby League Supporters Club Ltd ABN 25 001 559 548 ("Cessnock Leagues").

Cessnock Leagues has submitted an offer for amalgamation which contemplates establishing a Deed Fund in accordance with the Deed of Company Arrangement of 15 June 2017 and which will result in the payment of all the Club's creditors in full.

The proposal for amalgamation contemplates that the Club will be dissolved and Cessnock Leagues will continue. Negotiations will now take place to prepare a Memorandum of Understanding ("MOU") with Cessnock Leagues which will set out the details of the amalgamation as prescribed by clause 7 of *Registered Clubs Regulation 2015*.

Once completed, the MOU will be published on the Club's website and the member noticeboard at Cessnock Leagues Club, 1 Darwin Street, Cessnock NSW 2325.

Separate meetings of members of each Club will then be held in accordance with section 17AEB of the Registered Clubs Act to approve, in principle, the amalgamation. Once the respective members of each Club have given in principle approval of the proposed amalgamation, the Clubs will then implement a Deed of Amalgamation and seek the approval of NSW Liquor & Gaming.

This notice is given pursuant to section 17AE of the *Registered Clubs Act 1976 (NSW)*.

Dated this 5th day of April 2018



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Deed Administrator**

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