

The Sarawak Club

Proposed Way Forward

Annual General Meeting

30 October 2011

Background Information

Introduction

The Original Commitment

In the original proposal, a commitment was made to Club Members as follows:-

“The project will be funded independently by those who agree to take up the separate membership. The new campus club will operate on a financially independent basis and will not burden the present city club.”

Source:

Page 11: The Sarawak Club Golf Course Development Proposal, June /July 2004

The Facts

- By 2009, approximately **RM3 million** of the Sarawak Club’s funds had been spent on the construction and maintenance & operation of the Golf Resort while the Contractor is claiming for a balance sum of approximately **RM2 million**.
- In 2009, the monthly operational deficit of the Golf Resort was approximately **RM110,000** per month but by August, 2011 the deficit was reduced to approximately **RM40,000** per month.

The Conflict

The Club was previously a harmonious family club but is now divided ever-since the promotion of the Samarahan Golf Resort project.

The conflicting viewpoints amongst members on this issue include:-

- 1.The Golf Resort is a loss making venture and is draining the Club's financial resources;
- 2.The Golf Resort will be an income generating asset and we should not separate;
- 3.The Golf Resort is a loss making entity and should remain supported by the Sarawak Club, which has the financial means to do so until they are profitable;
- 4.Commitments were made by the MC proposing the Resort that the Club's funds would not be utilised on the Golf Resort so Club funds should not have been expended for the Golf Resort and the Club's monies should not be used to fund the monthly operational deficit indefinitely.

Finding a Solution

Whatever the viewpoints, whether it is very optimistic or very pessimistic, it is important to remember that Forecasts and Estimates are just that.

Recall that in the Projected Cash Flow in *The Sarawak Club Golf Course Development Proposal, June /July 2004 (Page 8)*, it was stated:

*“Appendix 6 shows a 12 year cashflow projection of the campus project. It shows the combined cash flow from loan, development funds, contributions and operation of the Campus venue. **Based on this conservative projection, the project’s cash flow is positive throughout and loan repayment at the proposed monthly rates is expected to begin from year 6.**”* (our emphasis)

In fact, since the completion of the Golf Resort, cash flow has NEVER been positive and until today remains NEGATIVE despite drastic cost cutting measures introduced by the present MC.

In finding a solution, the MC takes into consideration the cost structures of the Golf Resort as well as the need to attract a greater number of *active* members for the Golf Resort. This may be achieved only through a more affordable entrance fee at the Golf Resort unencumbered by the entrance fee of the City Club as well as active promotions on usage of facilities.

The Resolution

The Golf Resort has been an issue that has divided members for long enough and should be resolved by way of a permanent solution that takes into consideration the differing viewpoints. The Management Committee believes that eventual separation of the two different facilities under different clubs is the best long term solution for the following reasons:-

1. it allows present Resort members (who have contributed towards the development thereof) to become members of a separate club and eventually own that asset free of others who have not contributed;
2. it allows present City Only members to be freed of a continuing obligation to fund the Resort Facility as that was the firm commitment made to City Only members;
3. it allows present City Only members to opt to join the Resort Club at a preferential rate if they do not wish to be deprived of the Facility upon separation;
4. it allows present Resort members to realise value by selling their Resort Club memberships eventually if they have no wish for that membership or alternatively, set a framework for members who do not wish to be members of the new club to be refunded their advances & contributions; and
5. it allows both the Sarawak Club and Samarahan Country Club memberships to be more attractively priced to attract memberships.

What Have Members Approved?

Members of The Sarawak Club have:-

1. At the AGM on 31st October, 2010 under Motion AGM/2010/01 approved for the Management Committee to do all things necessary to set up and register a new Club under the Societies Act, 1966 with a view to the eventual transfer of The Sarawak Club's Samarahan Facilities to the "Samarahan Club";
2. Pursuant to Resolution AGM/2010/01 referred above, at the EGM on 31 July, 2011 under Motion EGM/2011/01 approved, amongst others, the signing of various agreements referred therein and to cause proper statement of accounts to be drawn up to give a true and fair account of loans, advances, contributions, assets and liabilities between the Sarawak Club and the Samarahan Club arising or consequent upon implementation of Resolution AGM/2010/01 and the matters set out hereinabove and to enter into such arrangements, compositions or indemnities as the Management Committee deems appropriate for the settlement thereof.

In view of the above resolutions passed, the Club may proceed with separation.

Scheme Rationale

1. Resorts is tremendously divisive amongst members;
2. Resorts is the only facility not owned by all members;
3. Resorts is still a financial drain on Sarawak Club;
4. Separation enable lower entrance fees requirements;
5. Additional members at SCC to mitigate financial deficit;
6. Separate Management Committee enhance focus and efforts;
7. Enable members to recover cash outlay earlier via transferability;
8. Future operational or capital expenditure on Resorts no longer subject to opposition by City-only members.

The MC's intention and key rationale is to resolve this difficult membership issue that arose since the introduction of the Resorts facilities.

Possible Issues if No Separation

1. Significant proportion of Sarawak Club cashflow needed to support Resort operations which is expected to remain in deficit for the near to medium term;
2. Approval for any significant new operating or capital expenditure of Resorts facilities is subject to opposition by Members who are not members of the Resort; Failure to adequately support the Resorts facilities may result in deteriorating conditions at Resorts;
3. The venture into this Resorts facilities has resulted in great division amongst members. This is likely to continue at least in the near term or at least until Resorts start to generate cashflow surplus;
4. Need for either all Sarawak Club members or at least those with Resort membership to increase their monthly subscriptions if operational cashflow is insufficient in the short-medium term.

Pros & Cons

Pros & Cons - Separate

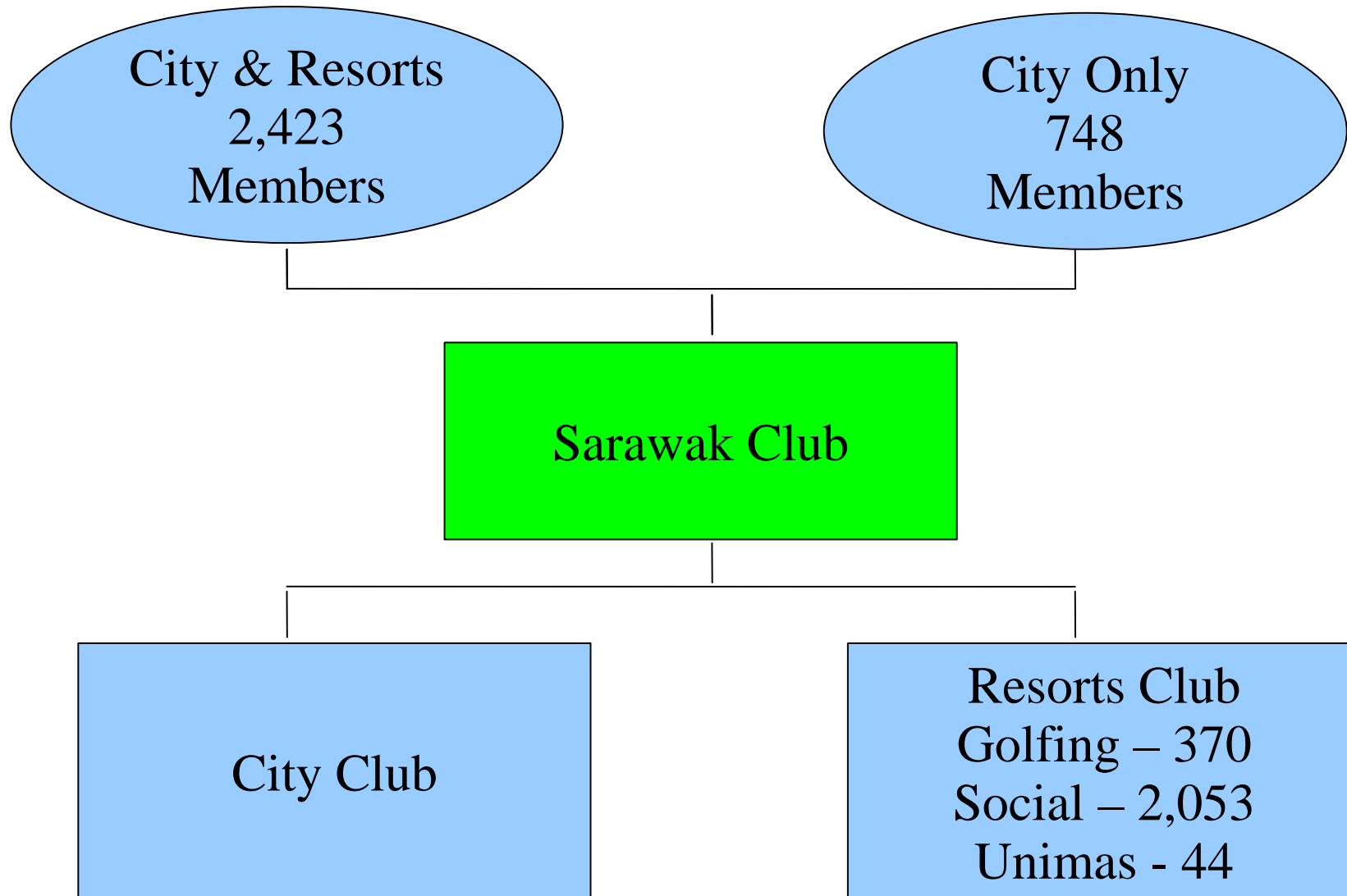
Member category	Separate	
	Pros	Cons
City only	<p>No future need to fund Resort</p> <p>MC focussed on Swak Club only</p> <p>Membership value may be enhanced as no future cashflow drain.</p> <p>No increase in subscriptions</p> <p>More cash to improve facilities at City.</p>	<p>Recovery of debts not within MC control</p> <p>Lose prestige of golf club. Membership value may be eroded.</p>
City & Resort	<p>Member of two clubs</p> <p>Ability to recover balances due from Swak club at earlier date</p> <p>Two sets of MC focus on each club</p> <p>Current value prohibitive. Separation enables lower Entrance Fees, thus more members and more subscriptions</p> <p>Stand to gain if value of SCC improves.</p>	<p>Possible increase in subscriptions at SCC</p> <p>Uncertainty on performance of new MC at SCC</p> <p>May face exodus of members. Remaining members have to bear financial burden</p> <p>Resort will have to incur additional costs for new GM and back room staff.</p>

Pros & Cons – Not Separate

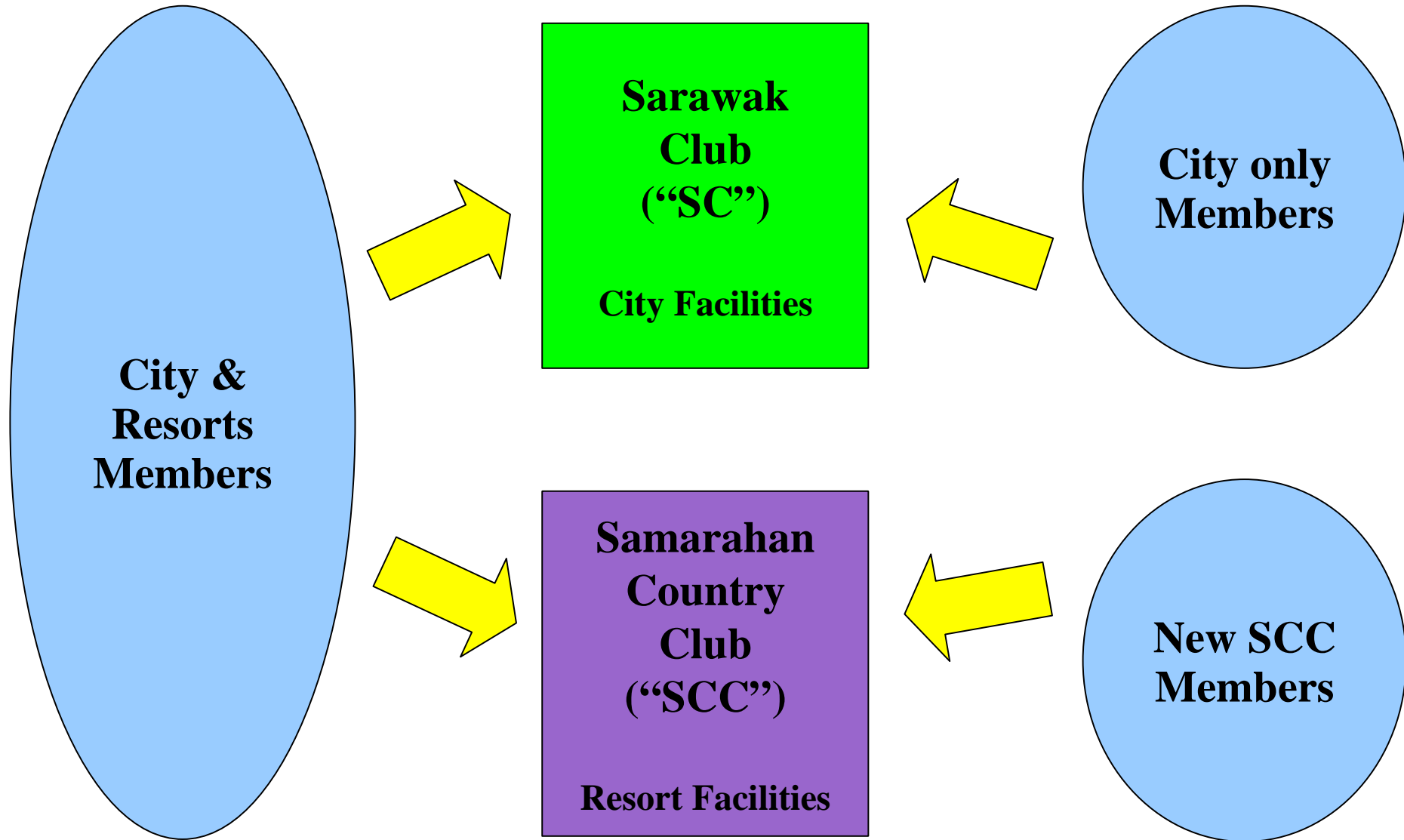
Member category	Not Separate	
	Pros	Cons
City only	<p>Maintain golf club status</p> <p>Stand to gain if value of SCC improves.</p>	<p>Continuing exposure to losses at Resorts</p> <p>MC need to focus on rehabilitating Resorts.</p> <p>Less cash to improve facilities at City.</p>
City & Resort	<p>Resorts cash shortfall supported by City.</p> <p>MC focussed on rehabilitating Resorts.</p> <p>Stand to gain if value of SCC improves.</p> <p>Maintain golf club status.</p>	<p>Inability to recover advances in short term.</p> <p>Prohibitively high Entrance Fees result in less new members.</p> <p>Capital Expenditure for Resorts dependant on approval from mainly non-golfing members.</p> <p>Continuing exposure to losses at Resorts.</p> <p>May need to increase Resorts subscriptions in near term.</p>

The Proposed Separation Scheme

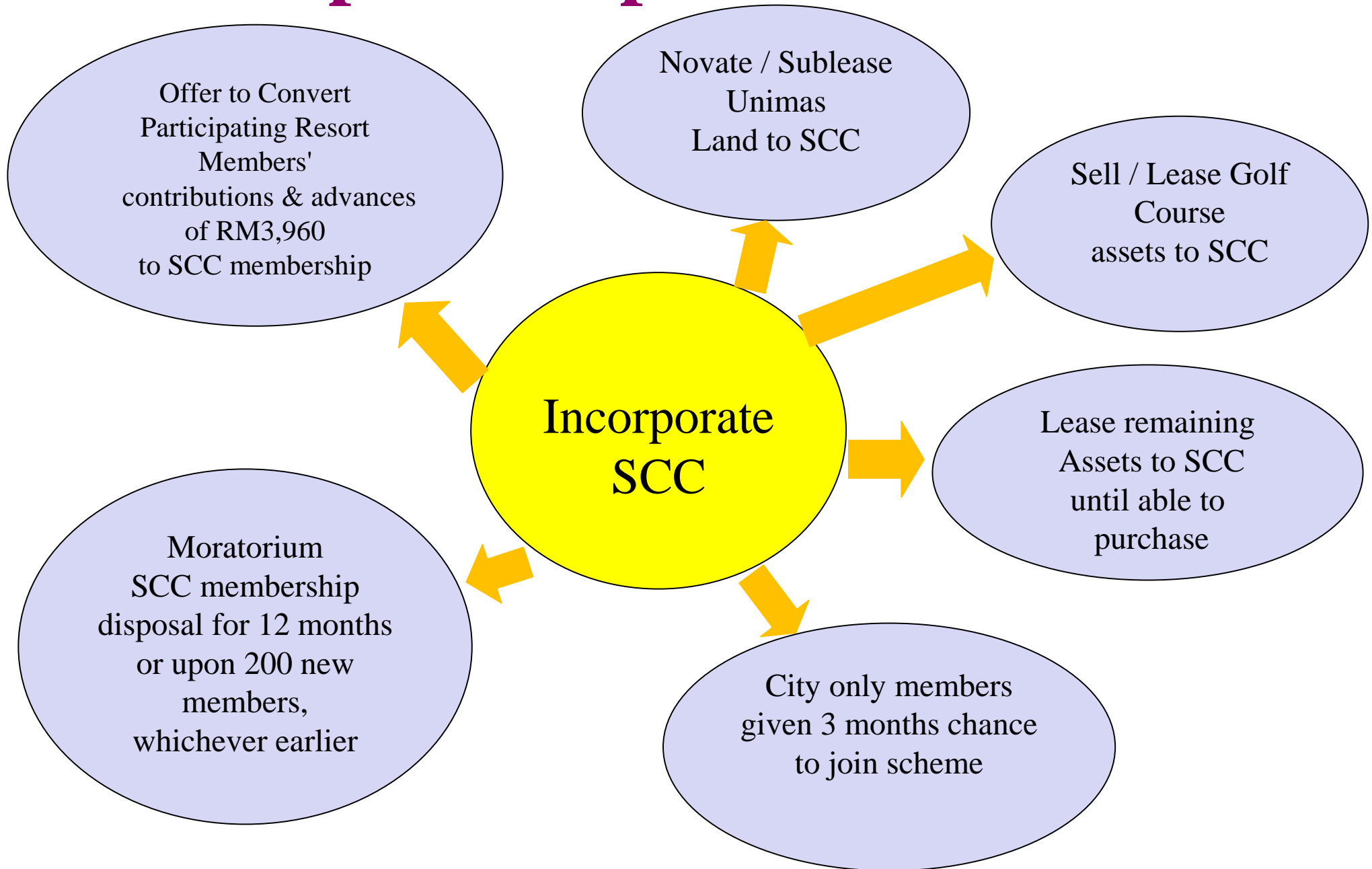
Current Membership Structure



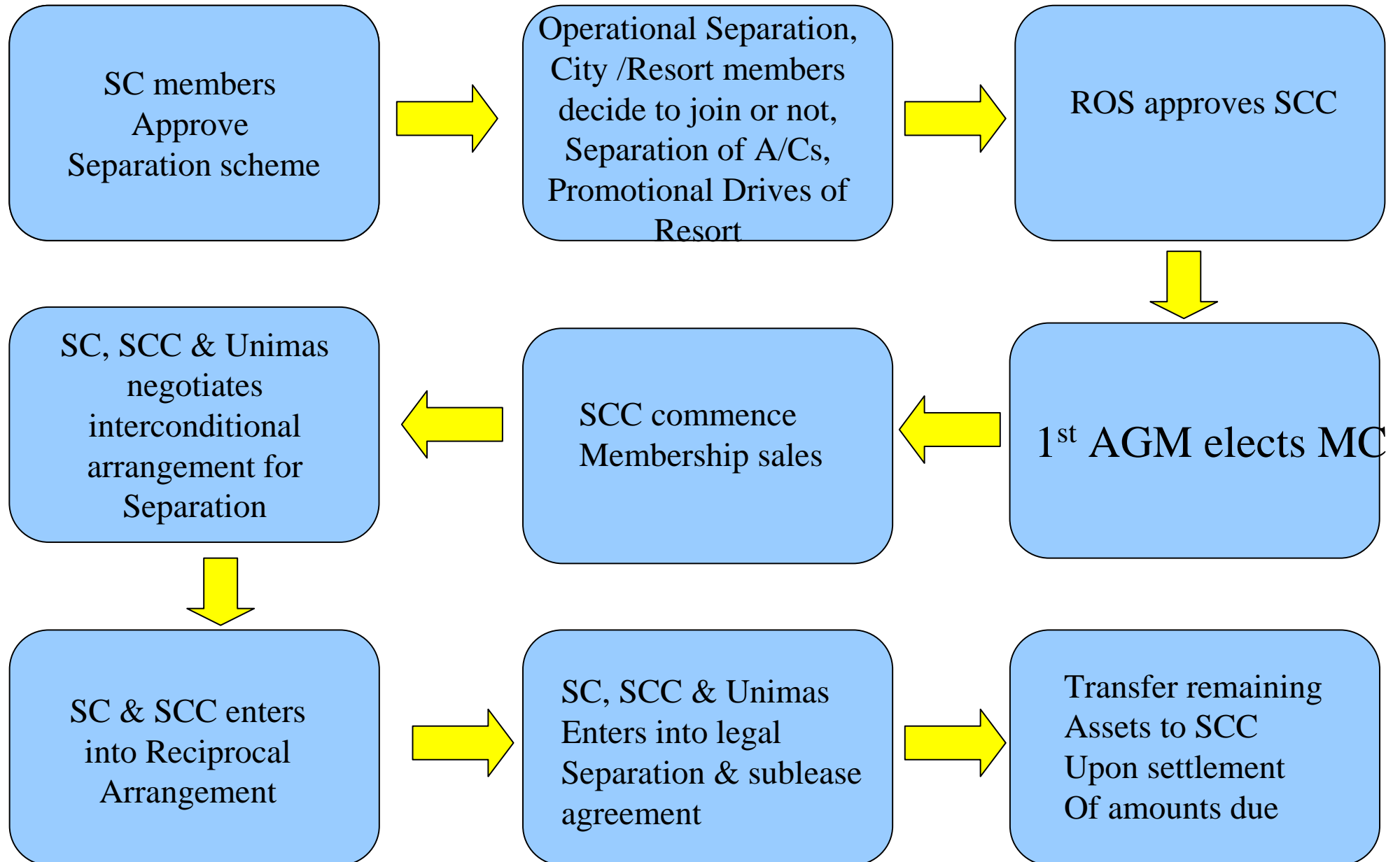
Proposed Membership Structure



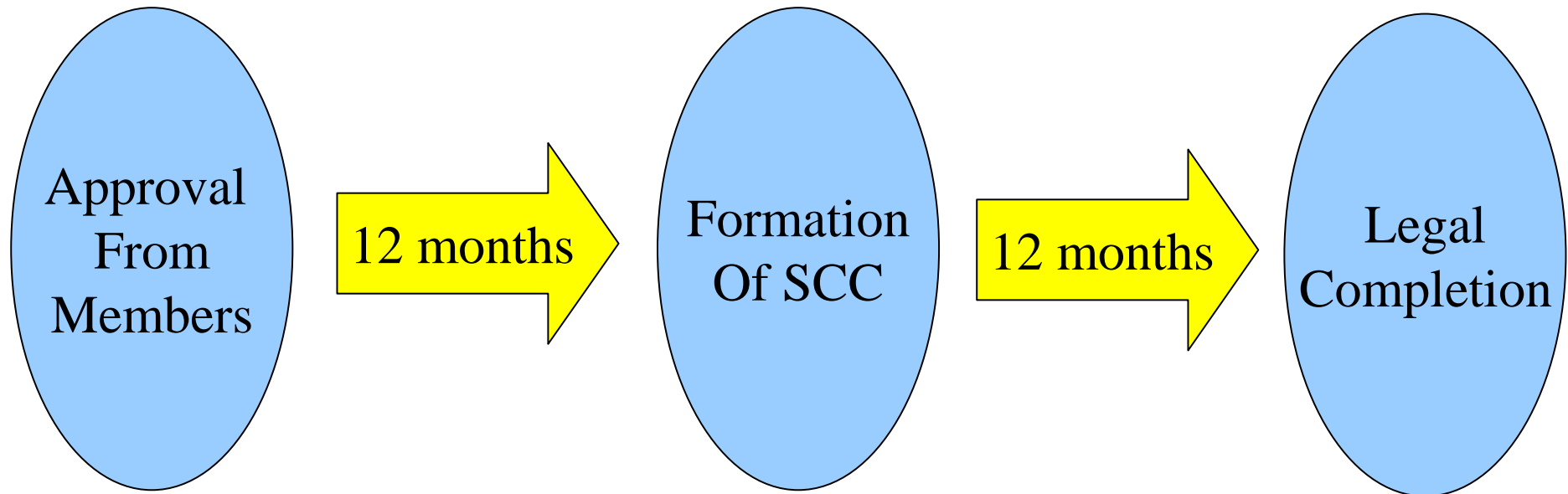
Proposed Separation Scheme



Proposed Scheme Roadmap



Indicative Timeline



Note:

MC anticipated a shorter completion timeframe earlier but now a conservative timeline estimated due to complaints raised with ROS by certain members resulting in ROS & Unimas anticipated to prolong decision process;

SC members continue to fund and operate Resort operations until legal completion;

Options - Contributions & Advances

Contribution

RM1,800

Advances

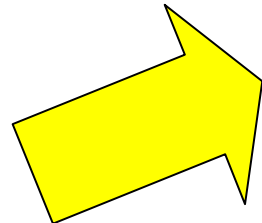
RM1,800

+

RM360

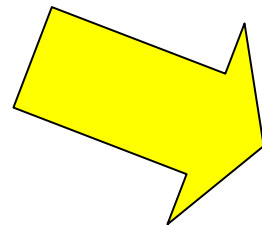
Total

RM3,960



Convert to SCC Membership

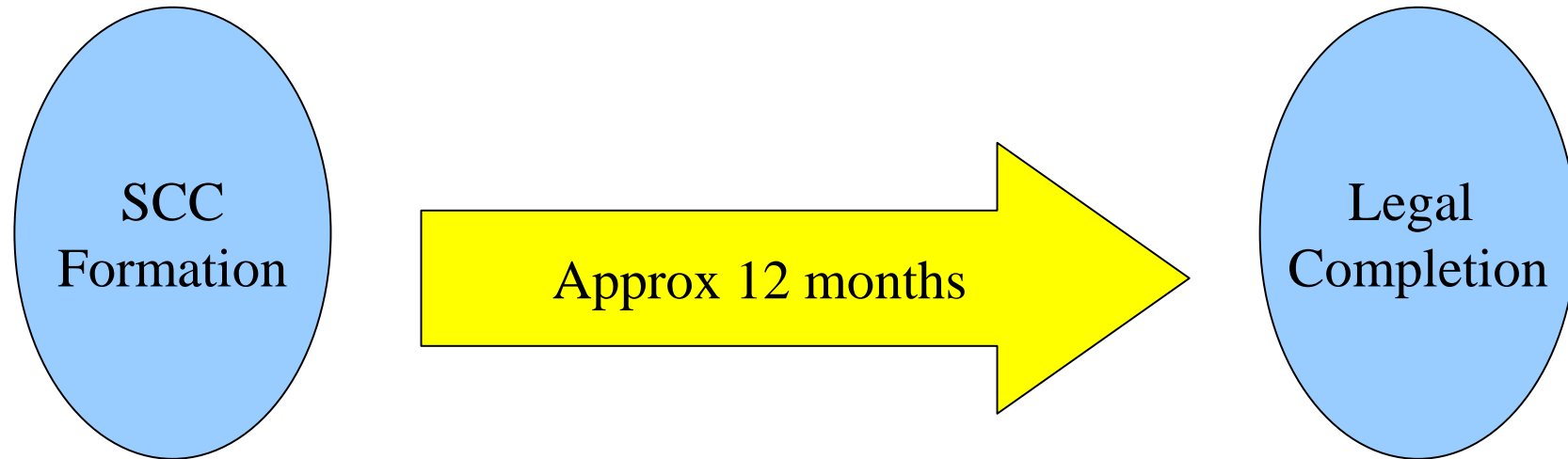
Transferable after Moratorium



Remain as amount due from SC

Repayment upon funds repaid
from SCC

SCC Initial Financing



Transitional Arrangement

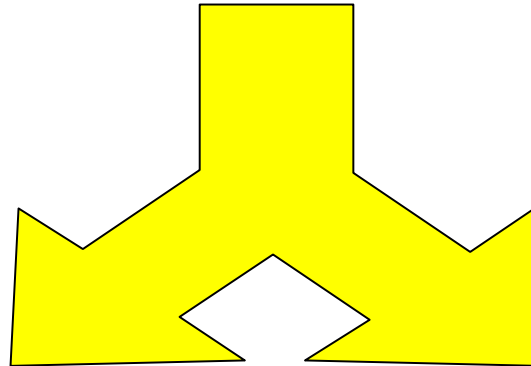
1. Reciprocal Arrangement;
2. Immediate membership sales;
3. Collection of subscriptions;
4. Resort maintenance remains with Sarawak Club.

Impact

SCC builds up significant cash reserves prior to assuming cashflow responsibilities

How will SCC fund Deficit?

SCC potential cashflow deficit of RM600,000-RM700,000 per year after additional Salary to operate SCC



Increase members

Affordable Entrance Fees
to attract more
applications

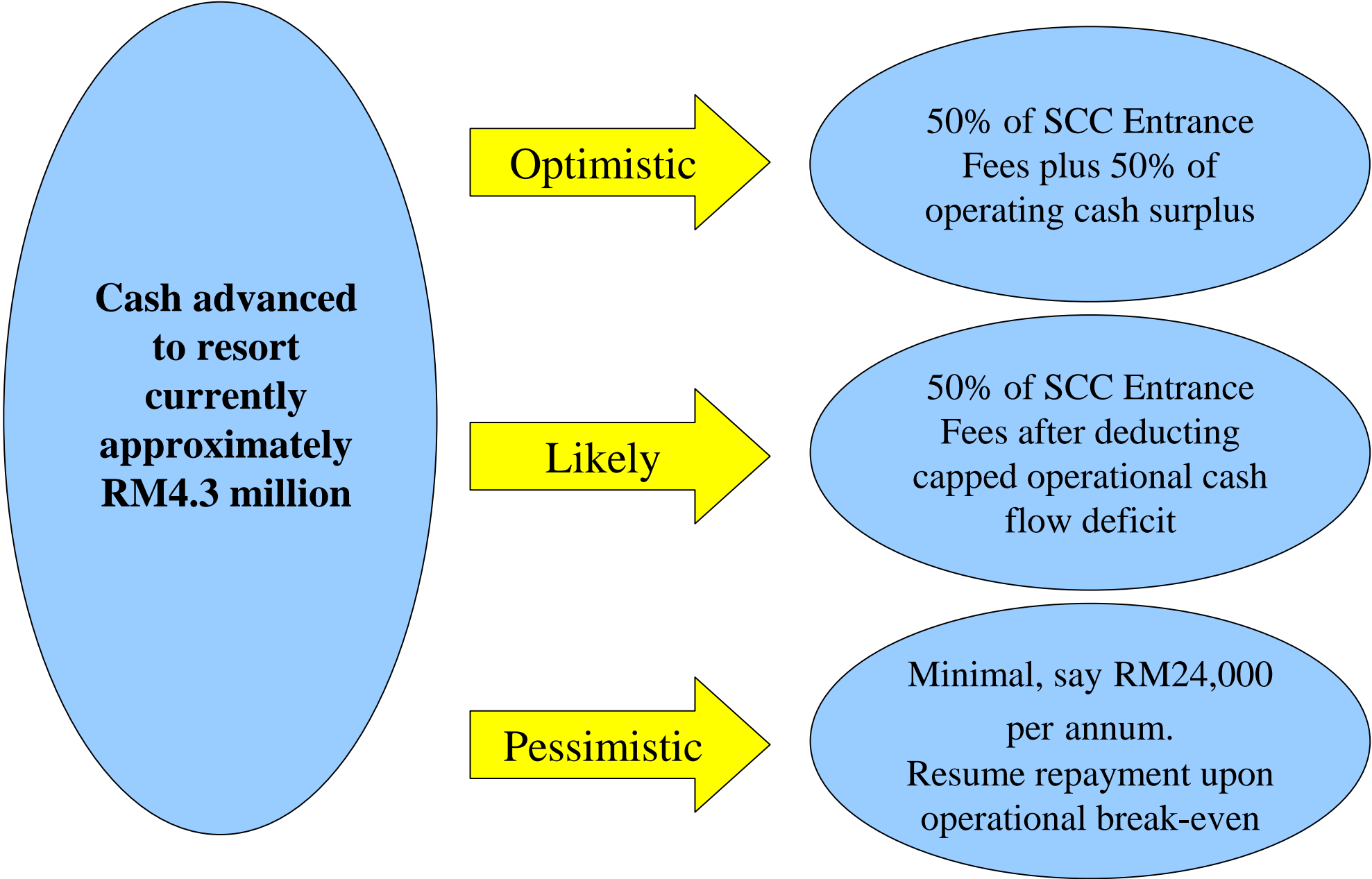
Increase subscriptions

Potential increase of
between RM10-RM20
per month

Managing SCC Deficit

- Annual operating cash deficit at SCC in the near term is anticipated to be approximately RM600,000-RM700,000;
- It is likely that the Deficit will have to be funded by way of an increase in a combination of external income (eg: increase in F&B, golfing sponsorship, increase in green fees rate) as well as “internal income” (eg: increase in subscriptions and more sports activities);
- Greater membership numbers need to be achieved and a recent exercise showed that more than 200 persons were willing to take up membership if it was priced at RM5,000;
- Prudent and effective cost budgeting and management need to be implemented and monitored.

How will the loan be repaid?



Cash advanced to resort currently approximately RM4.3 million

Optimistic

50% of SCC Entrance Fees plus 50% of operating cash surplus

Likely

50% of SCC Entrance Fees after deducting capped operational cash flow deficit

Pessimistic

Minimal, say RM24,000 per annum. Resume repayment upon operational break-even

Frequently Asked Questions

Frequently Asked Questions

Q1	Why separate? Why should Sarawak Club give up the Resort which is a valuable asset and which has almost reached breakeven?
	<p>The previous MC had committed that there will be no financial impact on the city club when the Resort Club was first built and that the City Club's funds will not be used for the Resort. Separation will ensure that this commitment to members is kept.</p> <p>It is only fair that only those who have contributed to the Resort should own it. City only members are also given an opportunity to participate in the SCC if they want to by paying RM3,960. The option is valid for 3 months.</p>

Frequently Asked Questions

Q2	The Resort Club is running a loss of about RM40,000 a month. How will near term SCC deficit be funded?
	<p>Funding of operations will be provided by the Sarawak Club during the transition period of approximately 12 months. In the meantime, the SCC will build up its cash reserves by selling memberships to the SCC. A promotional rate of membership may be offered and Easy Payment Schemes may be negotiated with banks so make the memberships affordable and attractive.</p> <p>After the transition period, operational costs will be funded by SCC members – see Q3. It is anticipated that SCC will turn around financially in the medium term when it is able to attract members by way of more affordable entrance fees.</p>

Frequently Asked Questions

Q3	Will there be any increase in monthly subscriptions for SCC members? How much?
	<p>Yes, based on the current membership population there is likely to be. Based on current cost structures and depending on how many members the SCC can attract, it is anticipated that membership subscriptions need to be increased between RM10-RM20 per member on assumption that all SC members take up offer to join SCC.</p> <p>However, the ultimate decisions will be made by the new SCC MC and be dependant on the cashflow situation then.</p>

Frequently Asked Questions

Q4	What is the financial impact of separation on the SCC members?
	<p>Monthly subscriptions may be increased as stated in Q.3. The Quantum will be dependant on the number of new members that the SCC can attract. The decision will be made by the SCC MC. However, the SCC members will have sole ownership of the assets that are transferred to the SCC. Refer also to Q.8.</p>

Frequently Asked Questions

Q5	What is the financial impact of separation on the city club?
	<p>There is no further need for the Sarawak Club to fund the operational deficit at SCC and we may utilise our funds to improve our Club for the benefit of our members.</p>

Frequently Asked Questions

Q6	What is the likely value of SCC? Can I sell to realise value of my SCC membership?
	<p>The likely value is RM5,000-RM8,000. However, this amount is indicative only.</p> <p>Yes, membership can be sold/transferred after a 12 months moratorium or upon registering of 200 new members whichever is earlier.</p>

Frequently Asked Questions

Q7	Why is there a need for moratorium?
	<p>It is the intention of this scheme to place the SCC in as strong a financial footing as possible upon separation.</p> <p>The moratorium is to enable SCC to sell SCC memberships to build up its financial reserves.</p>

Frequently Asked Questions

Q8	How will SCC repay outstanding balances to Sarawak Club ?
	<p>At this moment, it is anticipated that the SCC will have great difficulties to repay the Sarawak Club in the near to medium term.</p> <p>Time will be given for the SCC to make a repayment as all the SCC members are at the moment also the members of Sarawak Club. Notwithstanding this, the separation of the Resort from the City Club allows the liabilities of the Resort Club to be compartmentalised.</p> <p>It is also envisaged that this scheme will result in more members for the SCC thus improving its cash flows.</p>

Frequently Asked Questions

Q9	What if SCC members decided to terminate their memberships before the moratorium period is over?
	<p>Members have the right to terminate their membership. Arising from this, the remaining members will have to shoulder the financial obligations of maintaining the SCC. In doing so, the exiting members will lose the RM3,960 that they have previously paid and not be entitled to share in the valuable assets of the SCC.</p>

Frequently Asked Questions

Q10	Why should my refundable loan of RM1,800 and RM360 be converted to Entrance Fees to SCC when I am already deemed to be a member of SCC?
	<p>All the proceeds of the loans have been expended for funding the construction and operation of the Resort Club which the Resort members have voluntarily agreed to join. In addition, to this, the Sarawak Club still had to utilise its funds to pay for the shortfall.</p> <p>Conversion enables members to have 2 memberships which can be disposed separately. Members can thus recoup their loans and advances when they sell their SCC membership as the SCC membership is estimated to be valued at between RM5,000 to RM8,000.</p>

Conclusions

There are no perfect solutions to this divisive issue that confront the Club. The MC is presenting a proposal that it believes will allow the Club to move forward while taking into consideration the interests and viewpoints of the different constituents of members.

The MC hopes that members will be involved in this decision making process and vote on these important resolutions. This is the only way that the MC will be able to know what the majority of members want.

Whatever is the decision of members, the MC will implement the validly passed resolutions and the MC hopes that ALL members will respect and abide by the majority decision of the members.