

Financing of the Silom Wing Project: An Update

1. Background and Introduction

The Silom Wing project was approved at an EGM on 31st January by a vote of 169 to 42. Six months later 20 Members have called an EGM with a Motion to defer the signing of any Contracts for up to 3 months while a review of the Club's financing plans for the Project is conducted.

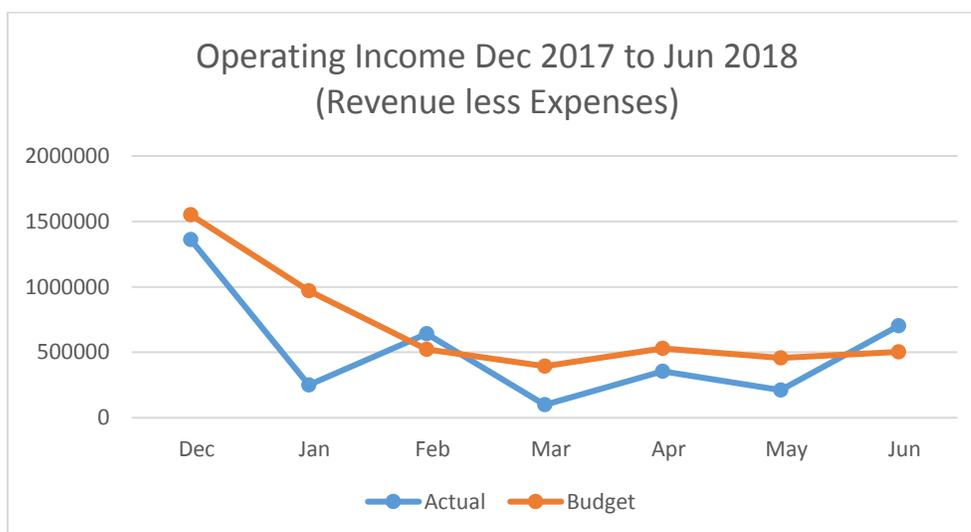
As promised in the Calling Papers, the GC has carried out a thorough review of schedules used at the EGM including actual operating results for the 6 month period since January and extending the monthly forecast (FC) for the remainder of the project period. The revised schedule is also attached under the same EGM Tab as this document on the Club Website Homepage or click [here](#)

The rationale provided by the Signatories for their Motion includes selected financial details and a particular interpretation of Club funds. The complete review offers a more reassuring picture.

As evaluation and negotiations take place with the contractors who submitted tenders, the total Silom Wing Project budget remains at THB 29 Million as approved in January, with a revised start month of September taking the Project out to May 2018.

The Silom Wing Project does not call for or assume accessing any of the Club's staff benefit funds. The expected balance at about THB 7.71 Million "Available Cash", or cash-on-hand after completing the Project, is a little lower than the THB 9.8 Million projected at the January EGM but is still very adequate to move the project forward.

The Club's operating performance did indeed suffer a setback in the 100-day mourning period early in the year but since February has been tracking more in line with Budget and June Operating Income before Entrance Fees and Depreciation was above both Budget and Prior Year, signaling a reversal of the shortfall. Furthermore Expenses have been reduced and the resultant shortfall in Operating Income (Revenue less Expenses) is much less significant when the full picture is shown.



Actual is moving ahead of Budget in June and preliminary indications show that similar results can be expected in July.

With activities returning to normal and a number of new initiatives launched by the GC to increase revenue, the Signatories view that activity will continue to be depressed at levels experienced in the first half of this year through to the end of the Financial Year and beyond, is extremely pessimistic.

The approach used to update the financial projections underlying the attached Schedule is to update the starting point, replacing the original cash balance at the end of FY 2015/6 with the actual cash balance at June 30th 2017, and then update the commercial assumptions in the light of six more months of actual experience

2. Revised Financial Projections

a) The starting point

With an opening balance of THB 43.2 Million, the January projections foresaw a balance at the end of June of THB 44.9 Million. The Actual balance was THB 44.0 Million.

The main factors for this deviation are:

- Lower Operating Income (Revenue less Expenses) than expected by THB 1.5 Million, offset by
- Lower Capital Expenditures than projected (both SW Project and non-Project, THB 2.6 THB Million)
- Other minor deviations in Loans Outstanding, higher payouts from the benefit funds with two significant departures (more cash out than projected, but lower need for ring-fencing due to lower remaining balance) and lower Member Deposits.

In summary, cash at the end of June is within THB 1 Million of the original projection for the end of June.

b) Updating Projections

Reflecting the experience of the past 6 months, new projections have been drawn up for the Project period. Key assumption changes include:

i) *Poolside business lost due to disruption:* The original projection foresaw two elements of loss of business:

- a 100% loss of catering sales from the Pavilion Café for the 6 months July to December due to its closure and conversion to a new staff house, and
- a loss of 5% of overall Poolside sales, representing half the approximate 10% of Poolside sales which normally emanate from the Silom Sala.

The 5% loss element is retained in the updated projections.

Instead of a complete loss of Pavilion Café sales, the update reflects the activity which has been initiated with the Club providing an ongoing service for the Nielsen Hayes Library Café. Sales levels are more modest than the Pavilion Café, and the arrangement is an interim one pending completion of the restoration of the NH Library, anticipated in October. At that point the NHL Café will be operated by the Club in line with the Letter of Intent signed between the two parties.

ii) **Sports Bar:** The original Budget for the Club provided for expected Catering Sales in the 1910 Balcony of the order of THB 300,000 for the FY 2016/7. By the time of the January EGM the decision had been made to recast the 1910 Balcony as a Sports Bar, and after a very successful launch the expected sales for the Sports Bar were increased to THB 2 Million for the year. This has proven optimistic and a more modest sales rate of THB 100,000 per month is assumed in this revised projection

iii) **13th Month Subscriptions:** Neutral in terms of its overall bottom line impact, the decision to collect the 13th month Subscriptions in monthly instalments rather than as an accrual means that Member Subscription invoicing levels increase, while the increase is notionally ring-fenced for release at the same time as the Staff Bonus is paid.

c) Clarification of “Available Cash”

Two aspects of how the Club defines the amount which would be available at any point in time for use in financing the SW Project, “Available Cash”, are as follows:

i) The amount of Staff Retirement Fund balances to be considered for “ring-fencing” to protect the interests of the staff is not the “face value “ (Gross Amount) of the fund, but the “face value less outstanding Staff Loans” (Net Amount).

Loans to Staff against their SRF balances are limited to a proportion of the employee’s total acquired entitlement in the event of leaving the Club, and as such the Club will always be in a position to offset any outstanding loan balance against an employee’s final SRF payout. The cash is already in the hands of the beneficiary, and with definitive security that the loan will be satisfied, any “ring-fencing” of the Gross amount would be inappropriate.

The GC recently approved the opening of a separate bank account in which the Staff Retirement Fund cash will be held. While the fund is carried as a long-term liability in the Club accounts, the possibility exists that regulatory changes may be introduced which mandate that such Funds be held off balance sheet. By opening a separate bank account now the funds enjoy a higher level of security and transparency, and the Club is ready for any new eventuality in this direction.

ii) In accordance with previous GC practice, Members Deposits are considered part of the Club’s general funds not subject to any restriction on their use other than, of course, in the ordinary course of business.

3. Summary and Conclusion

Along with all other hospitality establishments, the Club suffered a downturn in recreational spending following the passing of H.M the King, particularly during the 100-day mourning period when many functions and events were cancelled

The impact, however, cannot be considered solely on the basis of a revenue shortfall, as suggested in the EGM Requisition. The shortfall in income after expenses, is much less pronounced because costs have been held under control throughout, and most recent experience, particularly the month of June, indicates that the shortfall is being reversed, rather than still “emerging”.

The setback is more than adequately manageable with the THB 7.71 Million “Available Cash” buffer the new projections confirm, and as such there is no justification for putting on hold or commissioning a financial review of the Silom Wing project.

Indeed a delay in the project could have serious financial consequences. Currently the noisy demolition and piling is projected to take place during the rainy, low season and a delay by three months would take this into the festive season, the busiest time of the year for the Club. Restarting tender negotiations with the contractors would also add further delays and could incur price inflation

The Audit Committee has reviewed the GC projections as well as independently conducted their own analysis of performance and forecast. They found no significant deviations to the projections or identified any significant concerns. It is the Audit Committee view is that the financial performance will not be as strong as last year but still demonstrates a sufficient cash flow to fund the Silom Wing project and replenish funds after completion.