



139 Collins Street
Melbourne VIC 3000
Australia

Strictly Confidential

6 August 2009

Mr Rod Fitzroy, Chairman, Victoria Racing Club
Mr Peter Young, Chairman, Melbourne Racing Club
Mr Bob Scarborough, Chairman, Moonee Valley Racing Club

Dear Rod, Peter and Bob

Metropolitan Club Review

In accordance with its Terms of Reference settled in the latter half of 2008, the Metropolitan Club Review Working Group of Peter Fekete (Victoria Racing Club); Michael Andrew (Melbourne Racing Club); Martin Ralston (Moonee Valley Racing Club); Dale Monteith (Victoria Racing Club) and me as the Group's Independent Chairman have met on several occasions throughout 2009. You will recall the Working Group's brief is:

“To consider whether the current structure and operation of three separate Racing Clubs in Melbourne, ie, Victoria Racing Club “VRC”; Melbourne Racing Club “MRC”; and Moonee Valley Racing Club “MVRC” is the optimum structure to support a growing and sustainable Victorian Thoroughbred Racing Industry and hence maximise economic returns in the long term for the Industry. This review is to take place against a background of each Club's obligations to its Members.”

The Working Group has concluded its investigations and considerations and is pleased to submit this Report to you. The conclusions and recommendations herein are unanimously endorsed by the Working Group.

I would be pleased to meet with you and/or your Boards/Committees to elaborate on any aspect of the Review as you see fit.

Yours sincerely

Lindsay Maxsted
Managing Director
Align Capital Pty Ltd

Metropolitan Club Review

Working Group Report – 6 August 2009

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Background and Objectives

Item	Key Findings / Recommendations
Terms of Reference	<ul style="list-style-type: none"> ● To consider whether the current structure and operation of three separate racing Clubs in Melbourne, ie, Victoria Racing Club “VRC”; Melbourne Racing Club “MRC”; and Moonee Valley Racing Club “MVRC” is the optimum structure to support a growing and sustainable Victorian Thoroughbred Racing Industry and hence maximise economic returns in the long term for the Industry. ● This review is to take place against a background of each Club’s obligations to its Members. ● To form conclusions and recommendations and report thereon to the Boards/Committees of the City Clubs.
Objective/Overview	<ul style="list-style-type: none"> ● This Review should result in change designed to improve the efficiency and sustainability of racing in Victoria. ● Benefits in the short to medium term principally arise from opportunities to optimise costs. ● The most important goal however must be the effective and efficient use of capital. This can only be achieved by releasing and investing capital to improve facilities and racing product so as to maintain and grow revenues (racing and non-racing) which will ultimately have the effect of increasing returns to owners and growing membership and attendance. ● Maintenance of the status quo is an unacceptable outcome. ● Whilst the Metropolitan Clubs acknowledge and embrace the need for change, the two most pressing issues facing the Industry in Victoria relate to totalisator wagering re-licensing due to take effect in 2012 and the impact of corporate bookmaker activity, specifically to ensure those Industry participants contribute to the cost of racing through product (racefields) fees or otherwise. These are the primary Racing Industry issues upon which the State Government and Racing Victoria Limited “RVL” should be focussed.

Industry and Club Structure

Item	Key Findings / Recommendations
<p>Potential Industry and Club Consolidation</p>	<ul style="list-style-type: none"> ● The existence of five major bodies in Victorian Racing, ie, RVL, CRV, VRC, MRC and MVRC is inefficient, cumbersome and hampers decision making. Bringing CRV within RVL and combining two of the three Metropolitan Clubs creates much greater efficiency but preserves much needed diversity. ● The existence of two innovative, efficient, differentiated Clubs striving to provide world class thoroughbred racing facilities and product (feature, night and product) in Melbourne is integral to the continued vitality, growth and sustainability of Victorian racing. The two Clubs would be large racing and non-racing businesses with unique value propositions, separately governed and with growing and, in part, differentiated membership bases. (One of the disadvantages of only one City Club being a likely decline in membership revenue due to cost and, in the case of VRC, capacity issues.) ● It is important to understand that cost savings are not considered to be compelling on their own to drive a merger. A merger would advance the most important goal of effective and efficient use of capital. It would also deliver the additional benefit regarding more efficient industry-wide decision making. ● A merger of VRC and MVRC to create a “North of the Yarra” powerhouse Club with the MRC and its two courses being the growing “South of the Yarra” Club, with an appealing but different offering to its members, sponsors and racegoers generally, is a compelling end game. This structure may also provide a natural fit with trainers and development of facilities in the Northwest and Southeast ● At present there are differences between VRC and MVRC culturally and financially in terms of their membership bases; net assets; freehold vs leasehold property; cash flows and cost structures. A full merger between the two Clubs may not be achievable in the immediate short term but that should not prevent VRC and MVRC beginning to work together to progress towards that end goal. ● The entering into an MOU or similar agreement setting out objectives and goals, first stage initiatives, potential governance, and steps to a merger should be considered in more detail. Initial areas of focus could be gaming, non-racing development; capital programs; customer service; membership initiatives etc. ● An important precursor to the MOU and any merger will need to be agreement, in principle, on the key issue of future asset utilisation and a shared vision for the Flemington and Moonee Valley venues. For the avoidance of doubt, this will involve support for night racing at Moonee Valley as the unique racing offering for that venue, complimentary to feature and product racing at Flemington, but with the extent of investment required to support night racing to be fully reviewed including being looked at incrementally. The vision for a merged Club will not simply be an amalgamation of the clubs’ existing visions and Master Plans. ● No immediate benefit has been determined, as part of this review, in respect of potential integration of Metropolitan and major Provincial clubs (eg, Cranbourne, Pakenham, Mornington, Werribee and Geelong) on the basis that: <ul style="list-style-type: none"> – They are different businesses and blur the city vs country racing distinction. – The idea is predicated on no longer racing at Moonee Valley and Sandown racecourses which this review believes currently have an important ongoing role in Metropolitan racing. – RVL is well positioned to assume the oversight role re maximum usage/return from capital resources at those Provincial Clubs. <p>This conclusion does not mean that any individual Metropolitan Club may not separately have specific reasons for engaging with a particular Provincial Club(s) particularly if, as a result, there is scope to achieve the major objective of better asset utilisation (both in a racing, including race programming, and non-racing context) supported by cost efficiencies.</p>

Maximisation of Industry Assets

Item	Key Findings / Recommendations
<p>Capital Resources and Master Planning</p>	<ul style="list-style-type: none"> ● The Metropolitan Clubs must make better use of their capital resources, both freehold and leasehold. This will involve major property development projects at most, if not all, locations. MRC is well advanced in its thoughts re its two sites, ie, Caulfield and Sandown. VRC and MVRC are less advanced but have significant plans for each site. In developing master plans, Clubs should consult on the nature and form of development to ensure outcomes are maximised for both the Clubs and the Industry.
<p>Track Requirements</p>	<ul style="list-style-type: none"> ● There is currently a place for the four city tracks in the future of Victorian racing, namely: <ul style="list-style-type: none"> – Flemington – feature (supported by product meetings) – Caulfield – feature (supported by product meetings) – Moonee Valley – night racing (supported by limited feature and product meetings) – Sandown (Lakeside and/or Hillside) – product ● Key drivers for this position are: <ul style="list-style-type: none"> – Track integrity and the ability to sustain “wear and tear” and importantly provide a complete break for each track from racing for an extended period as required. – The desire to maintain turf racing over dirt or other synthetic surfaces – Maintaining the volume of “city” racing which is attractive from an ownership perspective ● It is acknowledged this position might change over time if better asset utilisation drives the installation of one or more additional racing surfaces at an existing Metropolitan course.
<p>Sponsorship, IP & Media Rights</p>	<ul style="list-style-type: none"> ● The current Club structure is not an impediment to maximising the benefit from existing IP and media. The Metropolitan Clubs should retain their IP in media and new media but continue to work with RVL to eventually establish one entity to whom rights are licensed, and whose Board and management are populated with highly regarded, experienced media and racing people to manage and maximise the value of these rights. ● The current club structure is not an impediment to the industry maximising returns from sponsorship. In many ways the existing variation in product and demographic with the existing Club structure provides diversity and competition between Clubs that results in improved sponsorship outcomes across the industry. ● There continues to be an opportunity for Clubs and RVL to explore opportunities to develop industry and low level sponsorships

Cost Reduction and Efficiencies

Item	Key Findings / Recommendations
<p>Cost Reduction</p>	<ul style="list-style-type: none"> • Under any scenario there are savings which could be made by moving to a Shared Services model for finance, administration, payroll, IT, HR, and some parts of marketing (but not necessarily all of customer service). This should occur in conjunction with the like functions conducted by RVL and CRV being merged into the same group/entity. The new group/entity should sit outside of RVL in a separate legal entity with a governance framework accountable to users and a management team with the capability and track record of delivering such services. Quality of service and outcomes would need to be agreed in advance; a quality implementation plan agreed, and quality maintained through appropriate Service Delivery Agreements agreed by users. Consideration to be given to tendering the provision of shared services under an outsourced model. • There is also capacity to look at shared services for costs associated with the Clubs' various non-racing activities but only against a recognition that very different skills are required to optimise these activities. • Generally, the individual Clubs, ie, MRC and the foreshadowed aligned VRC/MVRC should continue to look at their cost structures in the non shared services areas, benchmark against others, and continue to reduce cost to revenue ratios. Much work has occurred in this area over the last 12 months, particularly in terms of actual cost reduction at MVRC and proposed cost reduction in the 2009/10 VRC budget. In addition, there has been much improved co-operation amongst Clubs over the last 2-3 years including a concerted effort to learn from each other, tackle industry issues and challenges collectively, and determine areas where activities can be undertaken more efficiently, eg, dealing with gaming licence renewal, procurement of software programs. The positioning of the Metropolitan Clubs in the changed gaming environment post 2012 requires particular attention. The Clubs' agreement to continue with these co-operative arrangements will be important.
<p>Training Facilities</p>	<ul style="list-style-type: none"> • The responsibility, and cost, of training at Flemington and Caulfield should ultimately be an Industry matter and hence reside with RVL, not the two city clubs. Hence discussions should commence with RVL on the transitioning of the current funding deficiency from the two Clubs. RVL, in consultation with trainers and other industry participants, can then decide over time the extent it wishes to fund training at city tracks (as opposed to the full cost of that training being borne by those trainers and their owners) and the location of training facilities generally.

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Terms of Reference

Objective

- To consider whether the current structure and operation of three separate racing Clubs in Melbourne, ie, Victoria Racing Club "VRC"; Melbourne Racing Club "MRC"; and Moonee Valley Racing Club "MVRC" is the optimum structure to support a growing and sustainable Victorian Thoroughbred Racing Industry and hence maximise economic returns in the long term for the Industry. This review is to take place against a background of each Club's obligations to its Members.
- To form conclusions and recommendations and report thereon to the Boards/Committees of the City Clubs.

Working Group

- Lindsay Maxsted – Independent Chairman
- Peter Fekete – VRC
- Michael Andrew – MRC
- Martin Ralston – MVRC
- Adviser thereto: Dale Monteith – VRC

Scope

- Review and benchmark the financial and operating performance of the Victorian City Racing Clubs against other operating models including those existing in other Australian States, particularly NSW, and relevant overseas jurisdictions, eg, Hong Kong.
- Review major revenue and expense streams of the Clubs to establish efficiencies/inefficiencies and the impact of any changes including:
 - Revenue items
 - Memberships
 - Sponsorships
 - Media/IP Returns
 - Expense items
 - Marketing
 - Administration
 - Facilities
 - (including employee costs generally)

- Review interaction with Racing Victoria Limited, Country Racing Victoria and other relevant stakeholders to identify efficiencies/inefficiencies.
- Consider limitations to any changes to structure, eg, non racing interests such as Tabaret ventures; various borrowing levels; commitments re land and buildings etc.
- Recommend preferred model or strategies based on the above findings which may involve:
 - Better integration of club assets for the benefit of the industry.
 - Measures or programs whereby enhanced club co-operation can improve industry product and financial returns.

Methodology

- Review major reports prepared for the Victorian Racing Industry, including the Racing Clubs, over the last 5 years including:
 - Industry review conducted by RVL including reports from Ernst & Young and, separately David Crawford and in particular RVL's document entitled "Improvement Plan for the Victorian Thoroughbred Racing Industry" (April 2007)
 - L.E.K. Consulting – Health of Victorian Racing Industry (March 2007)
- Detailed analysis of each Club's financial reports and supporting information
- Interviews with Directors and executives of Racing clubs, RVL and with selected other stakeholders.
- Approaches to selected interstate and overseas Clubs for review of relevant data and interviews with appropriate personnel.

Reporting

- Working group to report to the three Chairs of the City clubs. Written report to be confidential but in a form capable of wider release. Report to be supported by detailed financial analysis. Confidentiality protocols throughout the review to be agreed.

Industry's current health and sustainability

Health of the Victorian Thoroughbred Racing Industry

- There has been much data published by Racing Victoria Limited "RVL" and others in recent years on both the importance of the Victorian Thoroughbred Racing Industry to the State's economy and the health of the Industry. It is beyond the scope of this report to analyse the Industry in any detail but it is important to frame this review with the following observations.
 - There is universal acceptance of the importance of the Industry in terms of economic benefit, ie, spending; employment; impact in regional Victoria; tourism; an emerging export industry; and tax revenue. Racing is also a continuing part of the social fabric of the State.
 - There are huge pressures on the Industry's revenue sources and on expenditure levels leading to the inevitable squeeze on returns to owners.
 - The most obvious and concerning aspect in terms of revenue is that a permanent structural adjustment is occurring in wagering revenue growth in Victoria as a consequence of Corporate bookmaker activity. This is a matter which requires action by RVL as the industry body in conjunction with the State Government as opposed to the Clubs, however, the Clubs clearly need to look to generate alternative revenues (or reduce costs) simply to maintain existing returns if it is assumed this reduction in wagering revenue cannot be stemmed.
 - Protecting off-course wagering revenue is paramount to the Industry's health. The Clubs, of course, founded the TAB in Victoria and this source of revenue, through the Joint Venture with Tabcorp following privatisation of the business in 1994, has underpinned much of the growth and success of the Victorian Thoroughbred Industry over the following years.
 - On the cost side, the cost to train and race horses has increased significantly, and some part of the training costs are being met by the Industry and the Clubs which operate training complexes. In addition, there has been significant cost escalation in recent years due to drought responses and investment to meet OH&S standards and customer requirements.
- Against this overview the Victorian Industry to date has performed creditably, particularly vis a vis other States in such areas as:
 - Prizemoney pool both in absolute terms and on a per individual starter basis;
 - Prizemoney being internationally competitive;
 - Prizemoney growth in line with other major racing States;
 - Largest share of Australia's most prominent races;
 - Introduction of non wagering income;
 - Attendances and memberships largely built around the internationally recognised Spring Carnival;
 - Growth in sponsorship and media revenues.

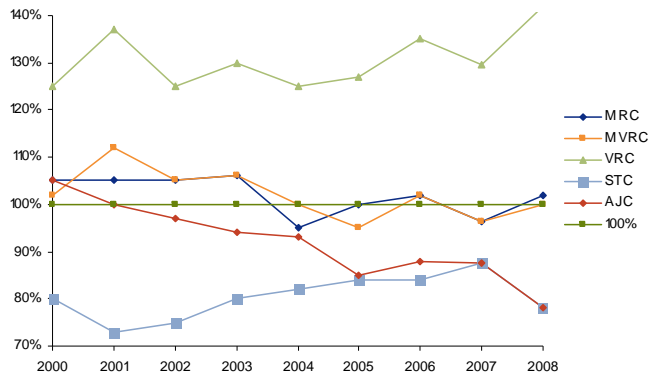
Clubs' current health and sustainability

Financial Health Indicators					
Y/E 2008 \$m	MRC	MVRC	VRC	STC	AJC
Total Assets	362.0	102.9	221.7	102.9	150.6
Net Assets	349.0	96.7	158.7	96.7	100.8
Net Debt	(17.2)	(3.0)	23.3	(3.0)	37.5
Net Debt to Total Assets	n/a	n/a	10.5%	n/a	24.9%
Industry Distributions vs Prizemoney	0.5	(0.0)	10.3	(7.7)	(10.2)

Financial Position

- Victorian Metropolitan clubs are each in a sound financial position:
 - Each has substantial net assets and both MVRC and MRC currently have no debt
 - VRC's "gearing" is low measured by debt / to total assets. The VRC also has both strong positive cash flows from operations and a very high payout ratio of prizemoney to Industry distributions that provides significant headroom for debt serviceability and debt retirement

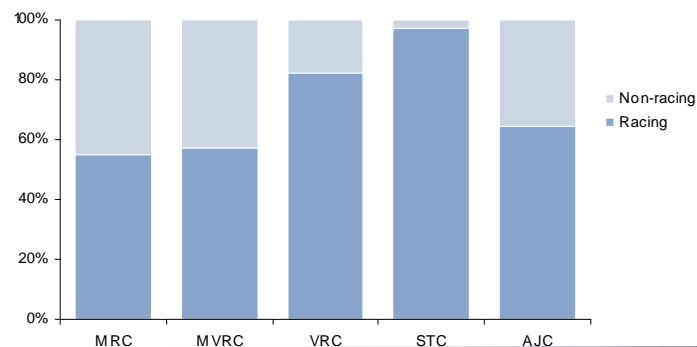
VIC and NSW Payout Ratio



Efficiency

- Victorian Metropolitan clubs have demonstrated that they have operated efficiently:
 - Payout ratios have been maintained over recent years and have averaged in excess of 100% pass through of industry distributions
 - In comparison to payout ratios of the AJC and STC Victorian clubs are substantially more efficient in passing through returns to owners

Racing vs Non-Racing Revenues

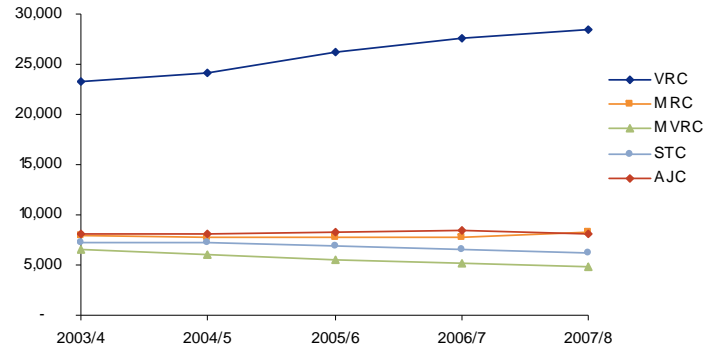


Sustainability

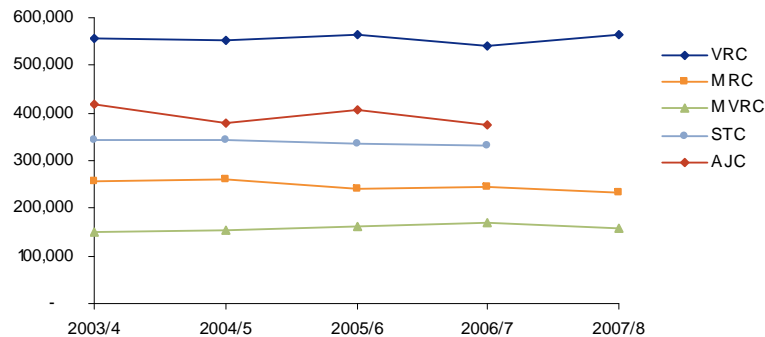
- In recognition of the changing competitive landscape, clubs have actively pursued the development of non-racing business opportunities, eg. gaming, events, catering. This has provided diversity of income streams which will assist in providing long-term sustainability for the clubs and the racing industry

Clubs' current health and sustainability

Membership



Attendance



Membership

- Victorian Metropolitan clubs membership numbers have generally been stable:
 - VRC has experienced substantial membership growth and currently does not have capacity to accept a greater number of full members
 - MRC membership has been stable
 - MVRC has experienced some decline in membership numbers over recent years. The Club has recognised this and is implementing a 5 year plan to grow member numbers towards previous levels

Attendance

- Victorian Metropolitan clubs attendance numbers have generally been stable:
 - VRC has experienced marginal growth in attendances over the past 4 years
 - MRC has experienced similar marginal decline
 - MVRC has experienced marginal growth

Note – 2008 NSW numbers not disclosed given the EI impact in that year

Summary re Clubs' Health/Positioning

- Notwithstanding the above strong comparative position of the three Metropolitan clubs the following points are clear from this Review and an understanding of the Industry generally:
 - The absolute level of prizemoney returned to owners from the Metropolitan clubs needs to increase significantly over time to support and encourage owners' continued investment in the thoroughbred industry;
 - There will be greater pressure on the Metropolitan Clubs to generate capacity to pay prizemoney from sources other than distributions of off-course wagering and related revenue from the Industry body;
 - There is significant scope for the three Metropolitan clubs to generate greater returns from their existing asset base (see the total assets listed on the previous chart of \$687 million and this figure is before any revaluation of Moonee Valley's freehold land and buildings)

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Industry and Club Structure

Role for all Stakeholders

For the thoroughbred industry to grow and thrive in Victoria, and across Australia, all stakeholders will need to positively contribute.

State Government

- The State needs to provide an environment where RVL can tackle industry-wide issues strategically and in a co-operative environment with the major Clubs, who through their membership, represent a large cross-section of the Industry. The State needs to facilitate a wagering re-licence process which ensures, in accordance with its stated commitments, the racing industry is no worse off and moreover, can continue to grow and be viable post 2012. The State, in conjunction with the Federal Government if necessary, needs to intervene to ensure that totalisator wagering, the backbone of industry revenue streams, is not eroded by activities such as tote odds betting by corporate bookmakers and other wagering operators; illegal opening of retail outlets and so on. There is also a role for Government to assist the Clubs with support for fast tracking Property Development opportunities within the context/framework of adhering to proper Planning guidelines.

- The State of course benefits directly from the success of the Industry and the success of the Metropolitan Clubs in conducting their raceday activities. Government tax on annual wagering turnover approaches \$200 million (of which thoroughbred racing, as opposed to harness and greyhound racing contributes approximately 70%).

Racing Victoria Limited

- RVL has recently articulated its vision and role in its document entitled "Racing to 2020". RVL has correctly identified:

- "A sustainable future will be achieved by maintaining customer focus, maximising revenue, renovating and renewing racing's infrastructure and increasing the returns to participants. Our success will depend upon the industry working together to derive maximum benefit from our collective resources and assets"

- RVL is particularly responsible for the racing program and calendar where it has been able to consistently introduce improvements over several years. RVL also has a unique opportunity to facilitate and energize racing's collective intellectual property assets by working with the Clubs to eventually establish one entity to whom rights are licensed to generate revenue streams and expand markets.

Preferred Positioning for Metropolitan Clubs

The importance of strong, diverse and financially sound Clubs

- The Metropolitan Clubs, (supported by the Country Clubs) and more particularly, their racecourses, are where the action takes place. At times as the Industry has evolved away from the “Principal Club” structure many have referred to the desire to lessen the role of the Clubs so that they become “event managers”. Whilst raceday activities are a core element of any Racing Club’s undertaking, such an approach dangerously underestimates the role of the major Metropolitan Clubs in particular.
- There are many differences between Australian Rules football and thoroughbred racing as sports and hence it is dangerous to highlight some aspects and not others. However, by way of comparison, there is no doubt the AFL is strong because its major constituent Clubs, Collingwood, Essendon, Adelaide, Geelong etc are strong not only in terms of match day activities but membership support; strong Boards/management; non-football initiatives and so on. Football supporters follow Collingwood; not the AFL. Football supporters have a passion (for or against) Collingwood; not the AFL.
- The Metropolitan Clubs are in a position to attract quality Board/Committee members (on an honorary basis) and management. They have large Balance Sheets to manage, built around the fact that racecourses require large tracts of freehold or leasehold land and that land, in the case of Metropolitan Clubs, will most likely be in expensive, attractive for alternative use, locations.
- Hence the Metropolitan Clubs are large, important businesses which in addition to managing events, ie, racedays, can and should:
 - Be attractive for members to join and become involved in Club activities;
 - Be attractive places to work and hence generate and develop people capable of making the right decisions for the Club and the Industry;
 - Have a unique value proposition attractive not only to members but to sponsors, punters and racegoers generally;
 - Be capable of generating returns from all Club assets not simply from the racetrack on raceday in terms of wagering activity and attendances at race meetings; and as a result of all of the above,
 - Be efficient and provide not only the racing experience expected by members, but the commercial returns, through increased prizemoney to owners, expected by the Industry.
- If you take the above view of the role of Metropolitan Clubs, then the decision as to whether the current structure and operation of three separate racing clubs in Melbourne is optimal, quickly becomes a discussion on the identity/unique value proposition of each Club, and separately how the Clubs can best utilise their extensive asset base. Interestingly it is not a discussion about cost savings.

- Like every business, and as stated above, efficiency must be a key goal. Hence cost reduction, particularly in the current environment, is paramount. To this end there is a later section in this report on what has been achieved over the past twelve months and what further can and should be done on the cost front. However, unlike most commercial operations, because racing Clubs have the common goal of increasing returns to the Industry (through prizemoney to owners) they do not need to consider mergers to derive cost synergies. A large part of the required cost savings can be achieved:
 - Simply by being more efficient as a stand-alone business and, secondly;
 - By adopting a very sophisticated shared services model as between the Clubs, together with RVL and Country Racing Victoria “CRV”, for most back office costs including finance, administration, HR, IT and marketing.
- So the proposition for the Working Group is do you make the best decisions about asset utilisation and do you have the most attractive offering to members, sponsors and racegoers by having one, two or three separate Metropolitan clubs.

Significant weaknesses in one Club approach

- We do not recommend one City Club for a number of reasons:
 - A suspected decline in memberships overall if there was only one Club. There are many examples of dual memberships and sometimes memberships of all three Clubs and there must be a query whether the pricing of membership of one Club can simply be an amalgamation of (or premium on) the subscription fees of each Club. Similarly for those members of one Club only, there must be queries regarding capacity and willingness to pay a higher sum for a membership covering all city tracks (it is acknowledged this could in part be defrayed by separate membership classes);
 - A blandness associated with racing and other Club activities being all under the one banner. Whilst there are members with membership of all Clubs clearly as a result of the Club’s identity, geography or some other reason, some individuals are attracted to join one particular club only. To provide encouragement and incentive for individual Club members to visit and participate in other Clubs’ race days there are already 15 meetings in the racing calendar where Metropolitan Club members have reciprocal rights.
 - Competition as between the Clubs can be healthy and lead to a “best practice” mentality. There are examples over the last few years of innovations at a particular club being adopted by others and continued benchmarking of performance can drive efficiencies.

Preferred Positioning for Metropolitan Clubs

- There are many examples of sponsorship being maximised by having more than one Club offering exclusive marketing opportunities, eg, corporates in the airline, beverage and retail industries.
- Whilst allegiance to a Racing club for obvious reasons will never reach the Carlton vs Collingwood level there is a place for differentiation of offering and “culture” which cannot be achieved in a one Club scenario.
- Finally there is the interaction with RVL. Whilst too many clubs can be inefficient, there is a real risk in the event of one only City Club of again blurring lines of responsibility between RVL and the Clubs. As stated earlier, the Metropolitan Clubs will continue to be integral to the success or otherwise of this Industry going forward. So will the Industry body; we do not need to further confuse or merge the two roles.

If not one Club; two or three Clubs?

- The answer again must be to systematically work through the drivers for any merger which were identified above, ie,
 - Would a merged club be more attractive to members?
 - Is there sufficient critical mass at each Club to present a unique offering to customers and staff? and
 - Most importantly, does each individual Club have the resources, people and capital, to embark upon the capital programs necessary over the next few years to generate both racing and non-racing revenues. Equally importantly is there a material risk that if these programs are not managed by one entity, that use of capital will not be maximised in terms of duplication of spend; projects not being embarked upon in order of importance to maximise returns and so on.
- Our conclusion in this regard, without having the time nor mandate to conduct detailed due diligence, is that two innovative, efficient, differentiated Clubs striving to provide world class thoroughbred racing facilities and product is preferable. Specifically a merger of VRC and MVRC to create a “North of the Yarra” powerhouse Club with the MRC and its two courses being the growing “South of the Yarra” Club, with an appealing but different offering to its members, sponsors and racegoers generally, is a compelling end game.
- The VRC and MVRC appear to be the natural fit for a number of reasons.
 - Geography and appeal to local communities. The racecourses are 5 kilometres apart;
 - MVRC is by far the smallest of the three Metropolitan Clubs. It has 4,900 members compared to VRC 28,500 members and MRC 8,200 members;
 - MVRC has a vision built around night racing and re-development of its infrastructure to support non-racing initiatives but that vision has to be fulfilled;
 - MVRC owns freehold property whilst the VRC facilities are located principally on leasehold property;
 - The VRC has strong underlying cash flows build around its world class Spring Carnival;
 - The VRC contributes heavily to the cost of training; the MVRC has no training facilities;
- MRC on the other hand has greater reasons to be seen as a stand alone entity namely:
 - Geographically it is the Metropolitan Club serving the South-East of Melbourne;
 - It already has two courses, Caulfield and Sandown (and three race tracks given the existence of Sandown Lakeside and Sandown Hillside);
 - It has a balance of freehold and leasehold property;
 - It has one track which provides training facilities (Caulfield) and one track that does not;
 - It has a reasonable membership base and is differentiating itself in terms of moving toward a total Club experience as opposed to primarily a racing experience.
- The difficulties of merging two clubs with considerable history and very different Balance Sheets should not be underestimated. Moreover a merger requires more detailed bottom-up analysis than can be achieved through the brief given to this Working Group. However, the proposition is clear, ie, the VRC and MVRC should enter into a Memorandum of Understanding “MOU” or similar agreement setting out objectives and goals, first stage initiatives, potential governance, and steps to a merger for consideration in more detail. Initial areas of focus could be gaming, non-racing development, capital programs; customer services’ membership initiatives etc.
- A precursor to the MOU and any merger will need to be agreement, in principle, on the key issue of future asset utilisation and a vision for the Flemington and Moonee Valley venues.

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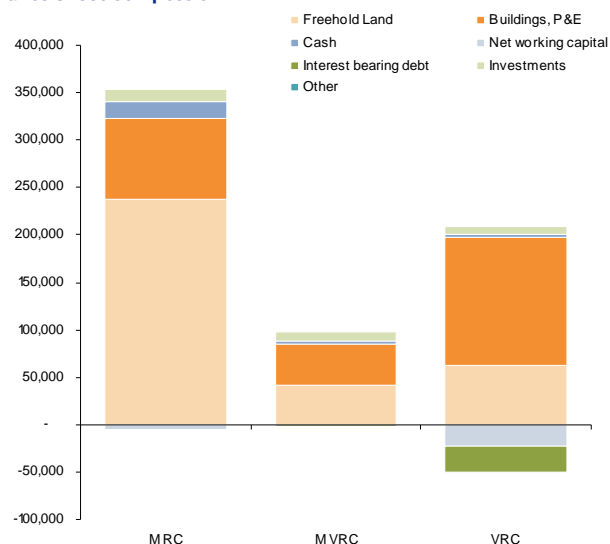
Maximisation of Industry Assets

Use of Capital

- The Annual Reports of each of the three Metropolitan Clubs at 31 July 2008 disclose varying degrees of investment in Property, Plant and Equipment and various methods of valuing the underlying assets. On face value the Balance Sheets disclose:

Property, Plant & Equipment	
Y/E 2008	\$m
VRC	196.7
MRC	323.1
MVRC	84.7
Total	604.5

Balance Sheet Composition



- However, MVRC has not revalued its freehold land. Rather it carries this asset in its Balance Sheet at "deemed cost". Also VRC, whilst owning some freehold land which has been independently valued, does not attribute any value to its leasehold land.

Return on Capital

- Various calculations can be undertaken on the return on capital for each Club or more particularly each location. These calculations are relatively more complex than for a typical business given the following factors:
 - The difficulty of placing a value on Crown land, ie, what is the value of that piece of employed capital;
 - The Clubs' not-for-profit status;
 - How much of the line item "returns to owners – prizemoney" is a genuine expense paid to owners for providing their horses to race on the day as opposed to a return on capital (paid to an industry constituent, ie, owners);
 - Is the contribution by VRC and MRC to the cost of training an expense or similar to the above, a return on capital (paid to an industry constituent, ie, trainers and ultimately owners).
- As a starting point it might be assumed that the capital employed at each location, ie, Flemington, Caulfield, Sandown and Moonee Valley is say, \$200 million each, ie, a total of \$800 million.
- Similarly we might assume a reasonable long term rate of return on such capital to be, say, 8% per annum. On this basis collectively these assets should be generating circa \$65 million per annum.
- Working within all the limitations of the above, for the 2008 financial year, an arguable return on capital might be:

Return on Capital Analysis				
\$000's	MRC	MVRC	VRC	Total
Reported net profit	808	(180)	(2,217)	(1,589)
Add back				
Interest	59	58	1,841	1,958
Depreciation	4,501	2,304	10,121	16,926
EBITDA	5,368	2,182	9,745	17,295
Add back				
Training subsidy	1,315	-	1,952	3,267
Prizemoney paid over and above "accepted minimum prizemoney"	500	-	10,300	10,800
	7,183	2,182	21,997	31,362
Notional return on capital	1.8%	1.1%	11.0%	3.9%

Use of Capital

- The above chart is indicative only with the major provisos being is the true capital employed at each of the four venues nearly \$200 million each and secondly is it valid to equate the Industry distributions with what is deemed “accepted minimum prizemoney” for owners to present their horses to Metropolitan race meetings.
- Notwithstanding the inherent weaknesses in the calculation it remains valid to conclude that there is scope for the three Metropolitan clubs to generate greater returns from their existing asset base
- An alternative way to look at return on investment is to consider the various elements of capital and seek better utilisation noting:
 - Racecourse usage for any given turf track is limited to circa 30 times per annum;
 - Racecourse buildings should be capable of multiple use, eg, functions, seminars, gaming, leisure activities;
 - Attendance at racecourses in significant numbers is limited to a small number of major days;
 - Much land owned or leased by the Clubs could be put to better and more profitable use without in any way impacting the racing experience.
- As with cost savings, there is much each individual Metropolitan Club can initiate in relation to each of the above points to better utilise its substantial capital base. From an Industry perspective however, the key point relates to new investment and avoiding duplication. Increasingly the type of racing being conducted at Flemington, Caulfield, Sandown and Moonee Valley is being differentiated. It is important that new investment at each location reflects these parameters and moreover that investment in capital to support non-racing activities is complementary between the Clubs. The Vision, Mission and Master Plan of each club is summarised on the following page
- Put simply, and by way of example only, if say, \$50 million of invested capital can be avoided because of a co-ordinated Master Plan between VRC and MVRC or if, say \$25 million can be deployed in a non-racing area generating a 10% return rather than a nil return because it competes with a like activity by another Metropolitan Club, then the two Clubs and the industry overall will reap substantial benefits.

Maximisation of Industry Assets

Vision and Master Planning

Club Vision and Master Planning		
Club	Vision and Mission	Master Plan Overview
Melbourne Racing Club	<ul style="list-style-type: none"> ● Mission <ul style="list-style-type: none"> – To be an independent, diversified, sustainable club that is recognised for its innovative delivery of: <ul style="list-style-type: none"> ● Thoroughbred horse racing ● Membership offerings ● Events and entertainment products ● Commercial activities 	<p>Caulfield</p> <ul style="list-style-type: none"> ● \$800 million development of 5 hectares of freehold membership car parks into a multi-use residential / commercial development, eg. 250 residential units, light commercial, serviced apartments, office space. ● The plan will see upgrades to the grandstand and racing facilities and improvements to the centre of the course. <p>Sandown</p> <ul style="list-style-type: none"> ● Plan to develop freehold land for light commercial development along Dandenong Road under a similar model to Caulfield development. ● Intend to sell freehold carpark which is used for Sandown 500 parking.
Moonee Valley Racing Club	<ul style="list-style-type: none"> ● Vision <ul style="list-style-type: none"> – To be the most innovative and customer focused racing club in Australia ● Mission <ul style="list-style-type: none"> – To provide the highest quality entertainment experience for thoroughbred racing events and other commercial enterprises for the benefit of members, customers and stakeholders 	<ul style="list-style-type: none"> ● Currently tendering for consultants to prepare a detailed master plan. Plan is based on reconfiguration of the track, new grandstands and release of land for commercial / residential development. ● The Master Plan is based on developing Moonee Valley as a night racing / entertainment venue
Victoria Racing Club	<ul style="list-style-type: none"> ● Vision <ul style="list-style-type: none"> – To be a leader in World Racing ● Mission <ul style="list-style-type: none"> – To develop Flemington as a world-class racing venue – To build upon the pre-eminence of the Melbourne Cup Carnival – To maximise financial returns from our racing and non-racing activities for the benefit of the Club, its Members, the Racing Industry and racegoers – To provide first-class entertainment and wagering opportunities for our customers – To maintain the highest integrity in all our dealing and activities 	<ul style="list-style-type: none"> ● VRC is nearing completion of its current Master Plan and is currently developing its Master Plan 2020, a major feature of which is the development of the VRC Hill Precinct. The Plan may involve mixed use development including <ul style="list-style-type: none"> – Residential – Serviced apartments – Rail station / Park & ride – Revised main entrance to race-course – New racing facilities (eg. stands, betting ring) ● Planning for the replacement of the 'old members stand' has commenced based upon funding to be provided from increased revenue streams from growing membership from 28,500 to 35,000 by 2020."

Maximisation of Industry Assets

Vision and Master Planning

- Pleasingly all three Clubs through their planning processes have identified the need to develop under utilised parts of their extensive property portfolios. The Clubs' success over the next decade both individually and collectively will be underpinned by their ability to identify the right projects/developments and then soundly manage their execution. To do so they will require the following:
 - Highly qualified and experienced Boards and management to work alongside appointed advisers;
 - A relative certainty around the role of the Club and its racecourse(s) in the future, ie, capacity to achieve the respective vision and mission statements;
 - Strong underlying Balance Sheets and operating cash flows.
- A further important aspect of the above commentary is that, save for Caulfield where plans are relatively advanced, substantial commitments have not been entered into by any of the Metropolitan Clubs. Because of the importance of allocating capital into the right areas, the Working Group has identified that this reason in itself is sufficient to encourage discussions on a possible merger between the VRC and MVRC. More specifically, the Working Group believes, consistent with the thoughts of RVL, that night racing at Moonee Valley should be given every opportunity to flourish both as a wagering opportunity and a racing/entertainment experience. However, the extent to which capital is invested in advance of a better understanding of market acceptance of the night offering, needs to be very carefully and prudently managed with the ability to invest elsewhere in the event that the push for night racing is unsuccessful. A merger of the two Clubs' strong Balance Sheets; cash flows and management should give night racing even greater impetus to succeed, but equally importantly, improve risk management around capital allocation if that is not the case.

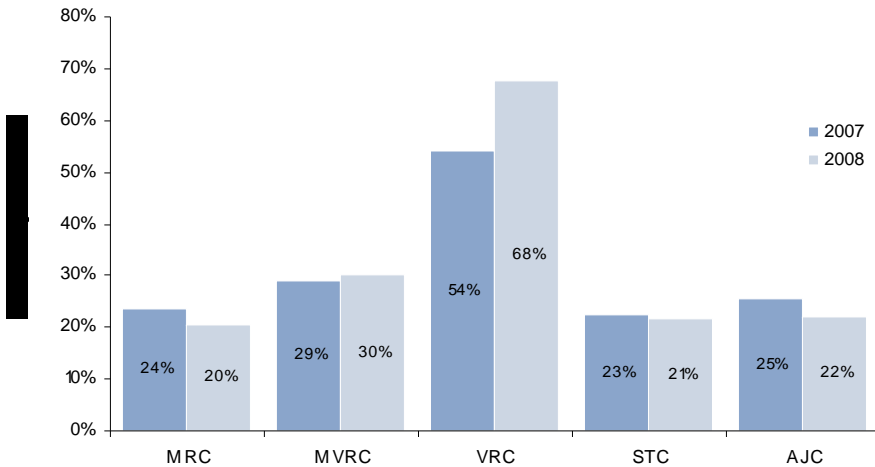
Track Requirements

Track Requirements Analysis				
Track	FY2010 Meetings	Future Use / Product	Suitability / Quality of Facilities	Comments
Caulfield	<ul style="list-style-type: none"> 24 	<ul style="list-style-type: none"> Feature, supported by Product 	<ul style="list-style-type: none"> High Ongoing investment in facility upgrades (new Grandstand) 	<ul style="list-style-type: none"> Caulfield can sustain 25 meetings without excessive wear and tear on the track Caulfield is a suitable location for night racing given transport links and proximity to population base however, the required capital investment and planning restrictions present obstacles for Caulfield as a night racing venue
Sandown (Hillside / Lakeside)	<ul style="list-style-type: none"> 36 (excl. 2 VRC events) 	<ul style="list-style-type: none"> Product 	<ul style="list-style-type: none"> High Relatively modern, purpose built product racing facility 	<ul style="list-style-type: none"> Sandown is a highly suitable venue for product racing with 2 tracks Facility generates substantial non-racing related revenues
Flemington	<ul style="list-style-type: none"> 26 	<ul style="list-style-type: none"> Feature, supported by Product 	<ul style="list-style-type: none"> High Significant recent investment in facilities 	<ul style="list-style-type: none"> Flemington is not a suitable venue for mid-week racing Potentially has capacity to sustain more racing however venue is not suitable for volume product racing
Moonee Valley	<ul style="list-style-type: none"> 32 	<ul style="list-style-type: none"> Night Racing Feature and Product 	<ul style="list-style-type: none"> Night racing facilities Requires investment to upgrade facilities 	<ul style="list-style-type: none"> Moonee Valley is the only venue that currently has capacity for night racing MVRC and RVL have a desire to grow night racing as a product and will continue to invest in developing Moonee Valley as Melbourne's "Happy Valley". MVRC's strategic plan and early stage Master Planning is centred around night racing Little capacity for further race meetings
<p>Other Considerations</p> <ul style="list-style-type: none"> The following factors are also highlighted by the Clubs in relation to track requirements: <ul style="list-style-type: none"> Track integrity and the ability to sustain "wear and tear" and importantly provide a complete break for each track from racing for an extended period as required The desire to maintain turf racing over dirt or other synthetic surfaces Maintaining the volume of "city" racing which is attractive from an ownership perspective 				
<p>Conclusion</p> <ul style="list-style-type: none"> There is currently a place for the four city tracks in the future of Victorian racing, namely: <ul style="list-style-type: none"> Flemington – feature (supported by product meetings) Caulfield – feature (supported by product meetings) Moonee Valley – night racing Sandown (Lakeside and/or Hillside) – product It is acknowledged this position might change over time if better asset utilisation drives the installation of one or more additional racing surfaces at an existing Metropolitan course particularly Flemington or Caulfield. That situation could arise in various scenarios including if different decisions were made regarding the extent of training facilities at Flemington and Caulfield; the extent to which improvements can be made to the quality and longevity of synthetic racing surfaces, and the extent to which night racing at Moonee Valley is embraced by racegoers and as a wagering opportunity. 				

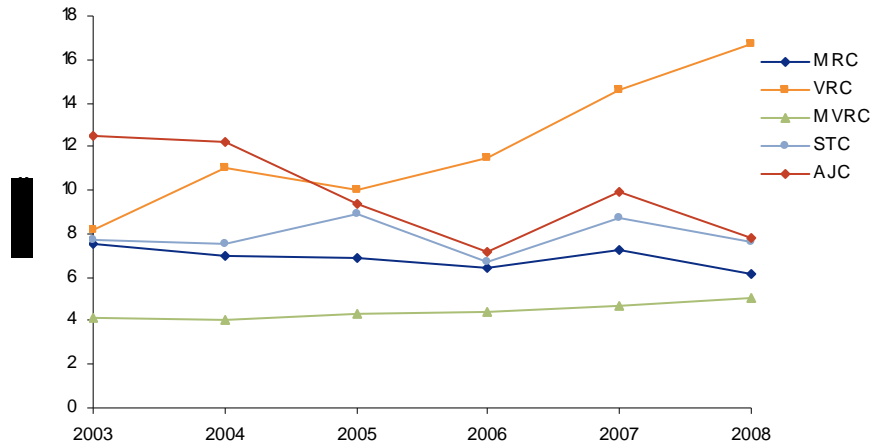
Maximisation of Industry Assets

Sponsorship, IP and Media Rights

Sponsorship & Telecasting Rights



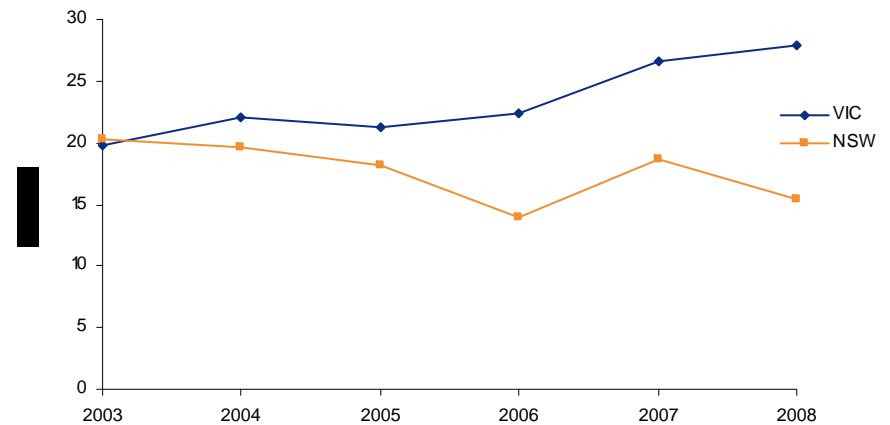
Trend in Sponsorship and Broadcast Rights by Club



Comments

- Victorian Clubs compare favourably to NSW clubs in relation to revenue generated from sponsorship and telecasting rights measured by the proportion of revenue to industry distributions.
- Victorian Clubs have shown a sustainable and improving trend in revenues. This contrasts to the AJC which has experienced a major long-term decline in sponsorship and telecasting rights

Sponsorship and Broadcast Rights by State



Sponsorship, IP and Media Rights

Sponsorship	
Opportunity	Comments
Industry	<ul style="list-style-type: none"> There may be potential to develop industry sponsorship, however sponsors are generally attracted to certain races or carnivals/brands that match the sponsors' values Such an opportunity could be explored collectively between RVL and the Clubs. However, the industry's experience with its Joint Venture partner, Tabcorp, is instructive in this regard. Increasingly, Tabcorp is directing its sponsorship dollar to individual clubs rather than the Industry through its support for Sport 927 or otherwise as it sees greater value arising from the direct exposure provided by the Clubs.
Carnival / Track / Race	<ul style="list-style-type: none"> The bulk of existing sponsorship is linked to tracks, races or carnivals rather than the Club and therefore there is unlikely to be any significant opportunity arising from any merger of Clubs The existing variation in product and demographic with the existing club structure provides diversity and competition between clubs that results in improved sponsorship outcomes across the industry
2nd & 3rd Tier	<ul style="list-style-type: none"> There may be scope to explore collective negotiation of second or third tier general / product sponsors that are not track or carnival specific, eg. potential use of John Deere tractors across all tracks Clubs could also consider whether there are opportunities to collectively negotiate lower tier sponsorships to maximise revenue and increase cost efficiency for managing small sponsors
Conclusion	
<ul style="list-style-type: none"> The current club structure is not an impediment to the industry maximising returns from sponsorship. In many ways the existing variation in product and demographic within the existing Club structure provides diversity and competition between Clubs that results in improved sponsorship outcomes across the industry. There continues to be an opportunity for Clubs and RVL to explore opportunities to develop industry and low level sponsorships 	

IP and Media Rights	
Opportunity	Comments
TVN / Sport 927	<ul style="list-style-type: none"> All rights for regular programming currently sit with TVN and therefore aggregation of rights and collective negotiation is largely already in place. Therefore there would seem to be little benefit that could be expected to be gained from a merger of the clubs in this regard Scope for improvements in the operation and governance of TVN to deliver improved financial outcomes for the Clubs is a matter for separate consideration A paper on the governance and funding of Sport 927 has separately been put to the Clubs for discussion with RVL
Free to Air	<ul style="list-style-type: none"> Each club currently negotiates free to air rights for their feature race meeting / carnivals. There is potential for TVN / the clubs to negotiate collectively any free-to-air deals. However, any such approach would need to consider the impact on sponsorship as the format, nature and extent of coverage is inextricably linked to outcomes for sponsors
International Broadcast	<ul style="list-style-type: none"> There is scope to maximise distribution through a co-ordinated marketing of international media rights
New Media	<ul style="list-style-type: none"> There is scope to maximise distribution through a co-ordinated marketing of new media rights
Conclusion	
<ul style="list-style-type: none"> The current Club structure is not an impediment to maximising the benefit from existing IP and media. The Metropolitan Clubs should retain their IP in media and new media but continue to work with RVL to eventually establish one entity to whom rights are licensed, and whose Board and management are populated with highly regarded, experienced media and racing people to manage and maximise the value of those rights. 	

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Cost Reduction and Efficiencies

Training Facilities

Key Training Statistics

Training statistics			
Y/E 2008	MRC	VRC	Total
Horse training capacity	520	650	1,170
Current horses in training	520	550	1,070
No. of Starters (Vic est.)	3,500	4,625	8,125
Gross cost of training (\$)	2,346,232	3,030,000	5,376,232
Net cost of training (\$)	1,314,913	1,952,000	3,266,913
Ave. gross cost per horse in training (\$)	4,512	5,509	5,025
Ave. net cost per horse in training (\$)	2,529	3,549	3,053
Ave. net cost per starter (\$)	376	422	402

Note: (a)
Source: VRC and MRC.

Estimated net cost of training			
Y/E 2008	MRC	VRC	Total
Direct maintenance costs	2,096,232	2,730,000	4,826,232
Depreciation of tracks, PP&E (est.)	250,000	300,000	550,000
Total cost of training	2,346,232	3,030,000	5,376,232
Fees	(231,010)	(78,000)	(309,010)
Industry subsidy	(800,309)	(1,000,000)	(1,800,309)
Net cost of training	1,314,913	1,952,000	3,266,913

Note: (a) MRC costs exclude capital associated with capital and stable buildings
Source: VRC and MRC. Costs represents estimates based on cost allocation

Capital Opportunity Cost of Training

- Caulfield stables are located on freehold land with a value estimated at approximately \$30 to \$40 million. Against this, Caulfield receives approximately \$600k per annum in rental. Prior to taking into account capital value and depreciation of stables, this represents a return on capital of less than 2%

Clubs Provision of Training Provision

- Training is considered by many to be the “life blood” of the track and there is a general (although not unanimous) desire to retain training at both Caulfield and Flemington
- The ongoing provision of training presents many challenges for the clubs:
 - Management of community stakeholders (eg. residents, council) given the proximity to residential areas. Issues to be managed include noise, flies, odour, water use
 - Training is currently a net cost to the clubs therefore clubs currently deliver a subsidy to owners
- Trainers and owners seeking the premium service for city training facilities should ultimately be prepared to pay for the cost of such service.
- Considerations of appropriate arrangements for training in the future should be undertaken on a “club by club” basis in conjunction with RVL given the different circumstances of each club.
- In the longer term, should it be determined that training is not sustainable in the metro areas for reasons other than financial drivers (eg. community, capital investment in facilities), the following options could be considered:
 - Use of other provincial tracks for training
 - Investment in purpose built facilities in both the South East and North Western areas (aligned with track location)
- The responsibility, and cost, of training at Flemington and Caulfield should ultimately be an Industry matter and hence reside with RVL, not the two city clubs. Hence discussions should commence with RVL on the transitioning of the current funding deficiency over time from the two Clubs. RVL, in consultation with trainers and other industry participants, can then decide over time the extent it wishes to fund training at city tracks (as opposed to the full cost of that training being borne by those trainers and their owners) and the location of training facilities generally.

Shared Services

Shared Services

- One of the major efficiency initiatives open to the Clubs, as identified and examined in detail by RVL over recent years, is the ability to move to a Shared Services model. This opportunity is available to the Metropolitan Clubs, together with RVL itself and CRV, because of the nature of the respective businesses. Whilst as stated earlier it is healthy to see competition between clubs for members and sponsors, the Clubs should be, and are, absolutely united in the objective to maximise the wagering dollar and to operate efficiently so that Industry returns, specifically returns to owners through prizemoney, are maximised. As such, unlike many competitive commercial operations, there are few barriers to sharing intellectual capital and no requirement to differentiate themselves in terms of the quality of back office support.
- Under any scenario there are savings which could be made by moving to a Shared Services model for finance, administration, payroll, IT, HR, and some parts of marketing (but not necessarily all of customer service).
- There is also capacity to look at shared services for costs associated with the Clubs' various non-racing activities but only in the context of acknowledging that some of the Clubs have unique businesses and investments and very different skill sets are required to support these activities.

Risk and Benefits of Shared Services

- The Clubs are aware that the quality of the service under a shared service model must be maintained or improved. Evidence also suggests that shared service models are often not successful. Reasons for this include
 - Lack of ownership and buy in from the business
 - Required benefits are not realised
 - Under estimate of the level of effort required, leading to implementation delays and functional shortcuts
 - Insufficient training and support given to new functions
 - Ineffective communication of changes and lack of buy-in from staff
- However, as proven by many other organisations, properly managed, none of these issues are insurmountable.

Implementation Framework

- Adoption of the shared services concept should occur in conjunction with the like functions conducted by RVL and CRV being merged into the same group/entity. The new group/entity should sit outside of RVL in a separate legal entity with a governance framework accountable to users and a management team with the capability and track record of delivering such services. Quality of service and outcomes would need to be agreed in advance; a quality implementation plan agreed, and quality maintained through appropriate Service Delivery Agreements agreed by users.
- Consideration to be given to tendering the provision of shared services under an outsourced model.
- Put simply, acting in this manner, can produce most (but not all) of the cost savings that might otherwise be identified from a Club merger.

Cost Reduction and Improved Co-operation

Cost Reduction and Improved Co-operations

- The three Metropolitan clubs are currently working co-operatively to further industry outcomes and improve efficiency. For example
 - All tasks previously completed by the MVRC Racing Dept are now handled by RVL. MVRC Racing Dept no longer exists;
 - Outsourcing of IT management function to RVL. MVRC now has no internal IT department;
 - Transfer of Workcover claims management to RVL
 - Coordination of industry insurance programme (public liability plus general) under the one umbrella;
 - Development of industry CRM platform (Epiphany) – used by RVL, CRV, MVRC, VRC;
 - Industry Risk Management programmes;
 - Sharing of industry big screen;
 - Facilitation of transferred meetings between Metropolitan clubs due to weather, track conditions, track renovation etc;
 - LSL portability scheme;
 - Reciprocal rights programme across Metropolitan clubs recently expanded to incorporate black type meetings;
 - Quarterly meetings of functional executives (eg Finance, HR, Marketing) from clubs and RVL to discuss common issues;
- In light of the current economic environment, clubs are critically reviewing all revenues and costs (see cost reduction initiatives in adjacent table)
- Generally, the individual Clubs, ie, MRC and the foreshadowed aligned VRC/MVRC should continue to look at their cost structures in the non shared services areas, benchmark against others, and continue to reduce cost to revenue ratios. In addition, the Clubs, as they have over the last 2-3 years, should continue with a concerted effort to learn from each other, tackle industry issues and challenges collectively, and determine areas where activities can be undertaken more efficiently, eg, dealing with gaming licence renewal, procurement of software programs.

Cost Reduction Initiatives	
Club	Initiatives
MRC	<ul style="list-style-type: none"> ● Freeze on executive salaries ● Elimination of overtime for all staff ● Comprehensive review of discretionary spending, in particular maintenance activities ● 2009 Budget to target no increases on prior year
MVRC	<ul style="list-style-type: none"> ● Organisational restructure implemented January, 2009 – permanent salaries bill reduced by approx \$1.3 million per annum ● Ongoing cost-review project, targeting key expenditure with a total annual spend in the vicinity of \$16 million per annum. Cost savings of 5-10% in total are being targeted ● Agreement reached with HRV for them to finish racing at MVRC during 2009/10 season. Will lead to additional non-raceday revenue opportunities plus reduced administrative complexity within the MVRC business model
VRC	<ul style="list-style-type: none"> ● A freeze on all administration salaries for FY09/10 ● Reduction in headcount resulting in savings of approximately \$1 million ● Comprehensive review of discretionary expenditure resulting in savings of approximately \$5 million ● Other areas of savings include: <ul style="list-style-type: none"> – Improved efficiencies from technology – Leave management – Greater focus on training costs and cost recovery

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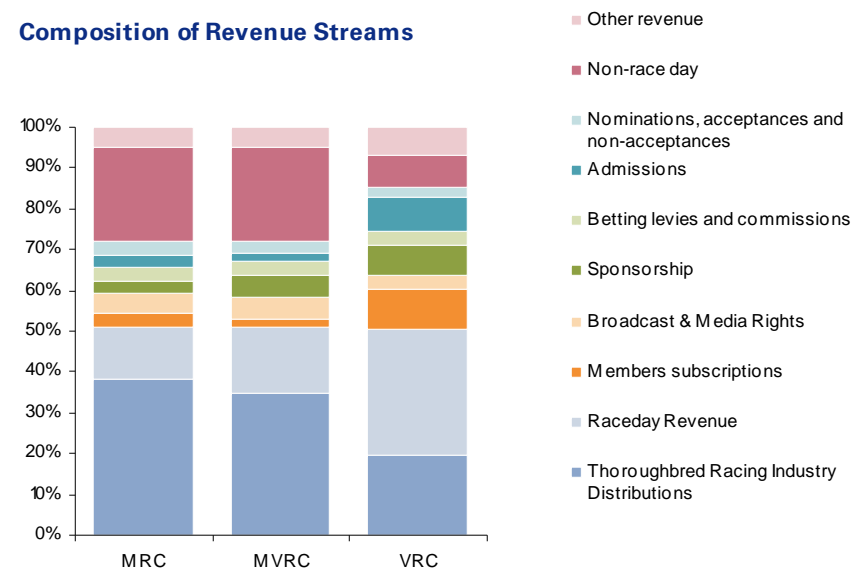
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Comparative Financial Analysis

Income – 2008

Detailed P&L Comparison - 2008				
\$'000's	MRC	MVRC	VRC	Total
INCOME				
Thoroughbred Racing Industry Distributions	30,400	16,573	24,701	71,673
Broadcast & Media Rights				
Free to air television	-	-	1,534	1,534
TVN	3,504	2,299	2,120	7,923
International media rights	439	212	364	1,015
Other media			142	142
Sponsorship	2,242	2,536	9,446	14,224
Betting levies and commissions				
On-course totalisator commission	1,583	966	2,633	5,182
Bookmakers' turnover levy	1,271	658	1,118	3,047
Betting levies and commissions - other	-	-	375	375
Admissions	2,263	1,122	10,834	14,218
Members subscriptions	2,638	994	12,936	16,568
Nominations, acceptances and non-acceptances	2,713	1,389	3,337	7,438
Race day catering				
Dining	9,072	5,454	20,540	35,065
Corporate marquees	793	1,205	8,522	10,520
Enclosures, seating, reserves	57	300	3,992	4,349
Car parks	-	59	5,099	5,158
Other raceday revenue				
Facebook sales	211	246	1,141	1,598
Other revenue	144	235	3	382
Non-race day				
Functions and catering	7,221	8,514	7,193	22,928
Gaming	11,113	2,336	2,732	16,182
Other revenue				
Contributions towards Racecourse Developme	2,670	1,302	2,066	6,038
Rents (Net)	867	172	1,000	2,039
Sundry	101			101
Grants for water infrastructure	114			114
Total profit/ (loss) from sale of PP&E and inves	78		9	87
Share of Associated Companies Profits (Losses)		108	845	953
Income from harness racing		879		879
Racecourse			1,774	1,774
Other		(156)	2,792	2,636
Interest	1,174	237	1,023	2,433
TOTAL INCOME	80,668	47,639	128,270	256,577

Composition of Revenue Streams



Comments

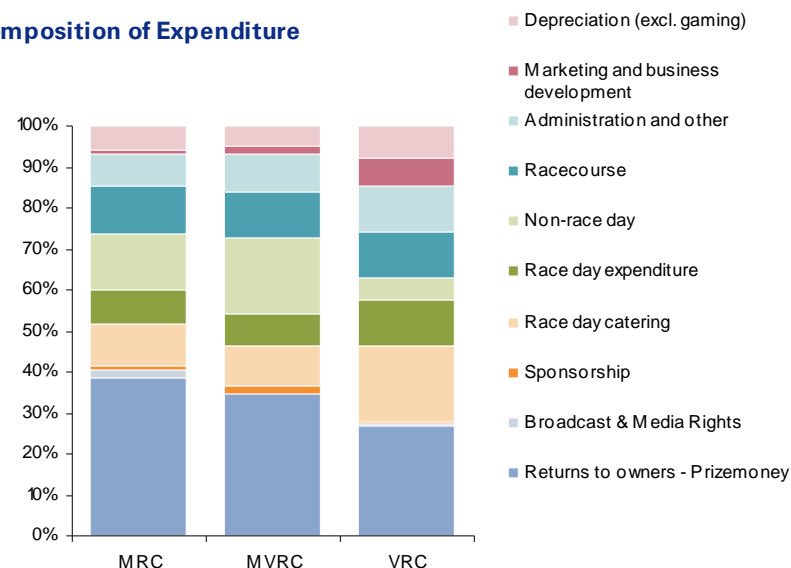
- Victorian Metropolitan clubs have substantial income streams that supplement industry distributions. Industry distributions represent approximately 35% of revenues for MRC and MVRC and approximately 20% for VRC.
- Both MRC and MVRC have a similar revenue composition with substantial non-racing revenues from functions, catering and gaming
- VRC revenue streams are predominantly racing related with raceday catering, membership, admissions and sponsorship each representing a large proportion of overall inflows

Comparative Financial Analysis

Expenditure - 2008

Detailed P&L Comparison - 2008				
\$000's	MRC	MVRC	VRC	Total
EXPENDITURE				
Returns to owners - Prizemoney	30,938	16,570	35,037	82,545
Broadcast & Media Rights	1,325	-	344	1,669
Sponsorship	670	815	684	2,169
Race day catering	-	-	-	-
Dining	7,469	3,502	15,248	26,219
Corporate marquees	796	1,248	4,032	6,076
Enclosures, seating, reserves	-	35	2,681	2,716
Car parks	-	-	2,472	2,472
Race day expenditure	-	-	-	-
Salaries and wages	1,534	891	2,219	4,643
Cleaning	479	135	1,062	1,676
Advertising and promotion	2,345	978	2,206	5,529
Committee & official luncheons	555	291	948	1,794
Race day / carnival infrastructure	1,984	763	7,220	9,967
Other costs	-	551	682	1,233
Non-race day	-	-	-	-
Functions and catering	4,268	7,005	4,905	16,178
Gaming	6,313	1,863	2,629	10,805
Other	-	214	-	214
Racecourse	-	-	-	-
Caulfield / Flemington / MV	6,340	5,189	14,325	25,854
Sandown	3,183	-	-	3,183
Administration	-	-	-	-
Executive team	3,605	882	1,494	5,981
Finance	-	614	1,250	1,864
Racing	-	347	326	673
IT	-	529	1,201	1,730
Occupancy	-	-	261	261
HR	916	795	975	2,686
Risk Management	335	-	102	437
Insurance	366	194	580	1,140
Operations staff	-	491	-	491
Membership / customer service centre	826	690	3,426	4,942
Other admin	-	(21)	3,017	2,997
Marketing and business development	1,053	884	9,163	11,100
Interest	59	58	1,841	1,958
Depreciation (excl. gaming)	4,501	2,304	10,157	16,962
TOTAL EXPENDITURE	79,860	47,820	130,486	258,166
NET PROFIT	808	(180)	(2,217)	(1,589)

Composition of Expenditure



Comments

- The cost bases of Victorian Metropolitan clubs are reflective of the different activities and revenue base of each club
- The composition of costs for MRC and MVRC is similar given that both clubs have a similar breakdown of racing versus non-racing revenues
- VRC has a greater proportion of costs associated with race day catering, marketing and business development activities associated with its race days and carnival

Comparative Financial Analysis

Balance Sheets - 2008

Balance Sheet Comparison - Y/E 2008			
\$000's	MRC	MVRC	VRC
CURRENT ASSETS			
Deposits and cash on hand	17,681	3,463	3,361
Receivables		3,506	
- Trade	1,906		4,446
- TVN rights fees	3,728		2,296
- Other			2,580
Prepayments	757	509	1,652
Inventories	688	942	1,657
Non-interest bearing loan to ThoroughVision Pty Ltd	500	500	500
Total current assets	25,260	8,920	16,492
NON-CURRENT ASSETS			
Receivables	281	-	
Investments at fair value			
- Income securities		1,468	
- ThoroughVision Pty Ltd	9,375	5,625	5,625
- 3UZ Sport 927	3,800	2,144	2,846
Investments accounted for using the equity method	28	30	30
Property, Plant and Equipment			
- Freehold land	237,030	42,000	61,618
- Construction WIP		73	1,457
- Buildings and infrastructure	76,880	25,871	68,855
- Plant and Equipment	9,175	16,635	64,548
- Assets under finance lease			161
- Artwork		168	
Bank term deposits			55
Intangibles	180		
Total non-current assets	336,749	94,014	205,195
Total assets	362,009	102,934	221,687

Notes

- MVRC land is valued at 'deemed cost' under election available upon adoption of AIFRS

Balance Sheet Comparison - Y/E 2008			
\$000's	MRC	MVRC	VRC
CURRENT LIABILITIES			
Accounts payable	4,375	2,151	6,383
Provisions	1,682	1,328	2,967
Interest bearing liabilities	250	250	38
Fees/subscriptions/revenue in advance	4,791	2,105	22,423
Total current liabilities	11,098	5,834	31,811
NON-CURRENT LIABILITIES			
Interest bearing liabilities			26,627
Provisions	1,635	172	3,979
Unsecured loan from Racing Victoria Limited	250	250	250
Derivative financial liability			349
Total non-current liabilities	1,885	422	31,205
Total liabilities	12,983	6,256	63,016
Net assets	349,026	96,678	158,671
EQUITY			
Retained earnings	111,364	90,989	97,744
Asset revaluation reserve	227,129		55,178
Available for sale revaluation reserve	10,533	5,689	
Investments revaluation reserve			6,069
Hedging reserve			(320)
Total equity	349,026	96,678	158,671

Comments

- Victorian Metropolitan clubs are each in a sound financial position with substantial net assets, mainly represented by property, buildings and plant and equipment
- MVRC and MRC currently have no debt. VRC currently has debt owing following completion of its Master Plan. VRC has both strong positive cash flows from operations and a very high payout ratio of prizemoney to Industry distributions that provides significant headroom for debt serviceability and debt retirement
- Other than some minor variations, balance sheet items are relatively uniform across all clubs reflecting the similarities in their asset base and activities

Income Statement – 2007, 2008 – VIC, NSW & QLD Metropolitan Clubs

Income statement														
\$000	MRC		MVRC		VRC		STC		AJC		QTC		BTC	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
INCOME														
Thoroughbred Racing Industry Distributions	30,926	30,400	16,317	16,573	26,911	24,701	38,630	35,373	38,986	35,696	1,050	1,050	950	944
Sponsorship and telecasting rights	7,274	6,185	4,721	5,018	14,576	16,714	8,700	7,595	9,903	7,832	2,797	2,851	3,215	3,182
Betting levies and commissions	3,135	2,854	1,660	1,624	3,972	4,490	2,327	1,937	2,647	2,331	751	540	1,103	837
Admissions	2,414	2,263	1,158	1,122	11,246	10,834	1,982	1,161	3,465	1,549	897	662	664	416
Nominations, acceptances and non-acceptanc	2,844	2,713	996	993	3,705	3,337	3,863	3,147	2,045	1,554	324	236	-	-
Catering and raceday dining	-	-	-	-	31,559	38,152	16,083	12,715	24,145	13,347	5,044	4,242	5,100	3,444
Other raceday revenue	1,706	2,012	7,384	7,996	1,014	1,154	-	-	-	-	-	-	-	-
Racecourse	-	-	-	-	2,370	2,774	-	-	-	-	-	-	-	-
Members subscriptions and entrance fees	2,464	2,638	1,344	1,389	12,252	12,936	2,050	1,703	4,034	4,025	570	528	286	279
Interest	1,068	1,174	180	237	340	177	116	167	244	351	507	607	88	157
Gaming and functions	11,650	15,114	10,202	10,445	6,529	9,925	-	-	-	-	-	-	-	-
Share of net profits of associates accounted for	-	-	-	-	896	845	-	-	944	899	-	-	-	-
Contribution towards racecourse development	2,670	2,670	1,302	1,302	2,066	2,066	-	-	-	-	-	-	-	-
Other revenue	-	114	1,210	940	172	165	448	824	4,396	4,713	1,127	2,964	1,244	(297)
Total Income	66,151	68,137	46,474	47,639	117,608	128,270	74,199	64,622	90,809	72,297	13,067	13,680	12,650	8,962
EXPENDITURE														
Returns to owners	29,848	30,938	15,751	16,570	34,901	35,037	33,864	27,634	35,697	25,507	-	-	47	41
Racing / other raceday expenditure	7,597	8,641	11,111	11,301	12,313	14,336	19,184	17,373	7,633	5,364	7,320	6,704	-	-
Catering / raceday dining	-	-	-	-	19,570	24,433	12,841	10,897	19,727	11,113	-	-	-	-
Racecourse maintenance	9,244	9,523	5,249	5,189	12,945	14,325	-	-	9,088	10,990	3,074	3,551	-	-
Administration	4,871	5,475	3,389	3,711	7,664	7,306	3,857	3,998	5,696	5,899	1,428	1,808	1,096	1,262
Marketing	847	1,053	-	-	7,930	9,021	4,273	4,172	4,278	3,395	-	-	-	-
Membership expenditure	772	826	-	-	3,235	3,426	-	-	774	879	-	-	-	-
Gaming venue expenditure/ gaming and functio	5,634	6,313	8,228	8,492	4,335	7,534	-	-	-	-	-	-	-	-
Employee entitlements	-	-	-	-	-	-	-	-	-	-	-	-	4,038	4,013
Materials and services	-	-	-	-	-	-	-	-	-	-	-	-	5,228	4,026
Depreciation and amortisation	4,215	4,501	2,512	2,517	8,980	10,157	-	-	4,794	5,412	738	1,164	712	807
Other expenditure	70	59	86	39	3,083	4,912	271	704	3,790	3,090	(78)	419	-	7
Total Expenditure	63,098	67,329	46,326	47,819	114,956	130,487	74,290	64,778	91,477	71,649	12,484	13,645	11,121	10,156
Operating Profit	3,053	808	148	(180)	2,652	(2,217)	(91)	(156)	(668)	648	584	34	1,529	(1,194)
Non-recurring														
Share of profit of an associate	-	-	-	-	-	-	144	160	-	-	-	-	-	-
Profit on sale of investment properties	-	-	-	-	-	-	-	-	-	11,522	-	-	-	-
Net World Youth Day Income	-	-	-	-	-	-	-	-	-	19,353	-	-	-	-
Net profit	3,053	808	148	(180)	2,652	(2,217)	53	4	(668)	31,523	584	34	1,529	(1,194)

Cash Flow – 2007, 2008 – VIC, NSW & QLD Metropolitan Clubs

Cash flow statement														
	MRC		MVRC		VRC		STC		AJC		QTC		BTC	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Cash receipts in course of operations	35,456	38,470	35,968	36,164	101,296	110,532	39,009	31,482	59,506	42,500	12,351	13,481	12,442	9,366
Cash payments in course of operations	(28,023)	(30,769)	(30,346)	(32,349)	(78,891)	(92,990)	(42,728)	(40,006)	(57,848)	(50,731)	(11,670)	(12,350)	(11,242)	(9,771)
Cash receipts from thoroughbred racing industry distributions	31,331	30,900	16,316	16,573	32,461	32,076	42,247	41,063	42,885	39,266	-	-	-	-
Payment of returns to owners - prizemoney	(32,775)	(33,998)	(17,326)	(18,227)	(39,131)	(38,851)	(33,876)	(27,617)	(39,266)	(28,058)	-	-	-	-
Interest received	1,044	1,094	166	244	335	200	115	167	-	-	612	584	88	165
GST paid	-	-	(420)	(196)	-	-	-	-	-	-	-	-	-	-
Interest paid	(70)	(47)	(66)	(58)	(86)	(1,987)	(267)	(668)	(778)	(737)	-	-	(1)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,963	5,650	4,292	2,151	15,984	8,980	4,500	4,421	4,499	2,240	1,294	1,716	1,287	(240)
Payments for buildings and improvements	(6,170)	(1,723)	-	-	(8,724)	(3,853)	-	-	-	-	-	-	-	-
Payments for plant and equipment	(2,636)	(2,593)	(1,703)	(2,534)	(17,295)	(5,725)	(5,285)	(35,229)	(5,954)	(22,452)	(2,134)	(5,127)	(630)	(380)
Payments for land	-	-	-	-	(5,550)	-	-	-	-	-	-	-	-	-
Purchase of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)	-
Purchase of income securities	-	-	-	(1,170)	-	-	-	-	-	-	-	-	-	-
Contributions towards racecourse development projects	2,670	2,670	-	-	-	-	-	-	-	-	-	-	-	-
Payments for construction WIP	-	-	-	-	(10,683)	(1,086)	-	-	-	-	-	-	-	-
Proceeds from sale of investment property	-	-	-	-	-	-	-	-	-	3,139	-	-	-	-
Proceeds from sale of other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	7,375
Proceeds from sale of property, plant and equipment	49	13	-	33	5,400	9	-	60	12	1,067	-	9	22	-
World Youth Day Capital agreement	-	-	-	-	-	-	-	-	-	18,380	-	-	-	-
Other cash flows from investing activities	(68)	152	125	150	575	1,450	187	225	1,063	2,074	-	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	(6,155)	(1,481)	(1,578)	(3,521)	(36,277)	(9,205)	(5,098)	(34,944)	(4,879)	2,208	(2,134)	(5,118)	(1,608)	6,995
Repayment of borrowings	(500)	(250)	(250)	(250)	-	(1,500)	-	-	-	-	-	-	-	-
Proceeds from borrowings	-	-	-	-	21,000	-	1,000	32,647	500	(2,000)	-	-	-	-
NET CASH USED IN FINANCING ACTIVITIES	(500)	(250)	(250)	(250)	21,000	(1,500)	1,000	32,647	500	(2,000)	-	-	-	-
Net increase in cash held	308	3,919	2,464	(1,620)	707	(1,725)	402	2,124	120	2,448	(840)	(3,402)	(321)	6,755
Cash at beginning of financial year	13,454	13,762	2,619	5,083	4,379	5,086	644	1,046	1,262	1,382	11,935	11,095	1,473	1,152
CASH AT END OF FINANCIAL YEAR	13,762	17,681	5,083	3,463	5,086	3,361	1,046	3,170	1,382	3,830	11,095	7,693	1,152	7,907

Balance Sheet – 2007, 2008 – VIC, NSW & QLD Metropolitan Clubs

Balance sheet comparison														
\$000	MRC		MVRC		VRC		STC		AJC		QTC		BTC	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
CURRENT ASSETS														
Deposits and cash on hand	13,762	17,681	5,083	3,463	5,086	3,361	1,046	3,170	1,382	3,830	11,095	7,693	1,152	7,907
Receivables	6,949	6,134	3,688	3,506	11,833	9,822	16,600	15,402	17,666	33,618	678	685	431	826
Prepayments	589	757	353	509	1,541	1,652	-	-	-	-	54	91	64	60
Inventories	575	688	879	942	759	1,657	556	558	434	308	223	235	298	307
Non-interest bearing loan to ThoroughVis	-	-	500	500	-	-	-	-	-	-	-	-	7,899	-
Pension asset	-	-	-	-	-	-	2,277	1,313	-	-	-	-	-	-
Total current assets	21,875	25,260	10,503	8,920	19,219	16,492	20,479	20,443	19,482	37,756	12,049	8,704	9,844	9,100
NON-CURRENT ASSETS														
Receivables	273	281	-	-	-	-	-	1,000	-	-	-	-	-	-
Investments at fair value	13,175	13,175	8,277	9,237	8,471	8,471	11,250	11,250	11,250	9,775	2,421	3,027	-	-
Investments accounted for using the eq	72	28	72	30	849	30	108	43	885	43	-	-	-	-
Property, Plant and Equipment	304,825	323,085	84,769	84,747	178,918	196,639	87,324	117,832	81,260	99,637	33,556	36,866	20,372	19,952
Bank term deposits	-	-	-	-	55	55	-	-	-	-	-	-	-	-
Intangibles	152	180	-	-	-	-	-	-	329	270	-	-	-	-
Defined benefit assets	-	-	-	-	-	-	-	-	3,360	2,508	-	-	-	-
Investment property	-	-	-	-	-	-	-	-	9,420	6,203	-	-	-	-
Total non-current assets	318,497	336,749	93,118	94,014	188,293	205,195	98,682	130,125	106,504	118,436	35,977	39,893	20,372	19,952
Total assets	340,372	362,009	103,621	102,934	207,512	221,687	119,161	150,568	125,986	156,192	48,027	48,597	30,216	29,052
CURRENT LIABILITIES														
Accounts payable	4,582	4,375	2,792	2,151	8,974	6,383	6,920	7,047	7,211	10,778	1,621	1,998	1,135	1,115
Provisions	1,525	1,682	-	-	2,645	2,967	1,881	1,902	-	-	363	406	491	518
Interest bearing liabilities	250	250	273	250	-	38	-	1,542	-	13,000	-	-	-	-
Fees/subscriptions/revenue in advance	3,906	4,791	1,751	2,105	21,857	22,423	-	-	-	-	269	373	-	-
Employee benefits	-	-	1,235	1,328	-	-	-	-	2,352	1,753	-	-	-	-
Total current liabilities	10,263	11,098	6,051	5,834	33,476	31,811	8,801	10,491	9,563	25,531	2,253	2,777	1,626	1,633
NON-CURRENT LIABILITIES														
Revenue in advance	21	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest bearing liabilities	500	250	500	250	28,000	26,627	8,000	39,105	15,000	-	-	-	-	-
Provisions	1,400	1,635	-	-	2,214	3,979	119	142	-	-	13	25	72	96
Trade and other payables	-	-	-	-	500	250	-	-	-	-	-	-	-	-
Derivative financial liability	-	-	-	-	-	349	-	-	-	-	-	-	-	-
Employee benefits	-	-	212	172	-	-	-	-	374	341	-	-	-	-
Total non-current liabilities	1,921	1,885	712	422	30,714	31,205	8,119	39,247	15,374	341	13	25	72	96
Total liabilities	12,184	12,983	6,763	6,256	64,190	63,016	16,920	49,738	24,937	25,872	2,267	2,802	1,698	1,729
Net assets	328,188	349,026	96,858	96,678	143,322	158,671	102,241	100,830	101,049	130,320	45,760	45,795	28,518	27,323
EQUITY														
Retained earnings	110,556	111,364	91,169	90,989	101,460	97,744	99,510	98,099	90,089	120,835	38,182	38,216	28,518	27,323
Reserves	217,632	237,662	5,689	5,689	41,862	60,927	2,731	2,731	10,960	9,485	7,578	7,578	-	-
Total equity	328,188	349,026	96,858	96,678	143,322	158,671	102,241	100,830	101,049	130,320	45,760	45,795	28,518	27,323

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Analysis of Ernst & Young NSW merger feasibility analysis

Item	Conclusion / Statement	Comments
Long-Term Crowd Numbers and Membership Decline	<ul style="list-style-type: none"> Over the past 10 years, annual crowd numbers have constantly declined; membership numbers have grown below population increase and have been dropping since 2004 in absolute terms 	<ul style="list-style-type: none"> Attendances and membership numbers of the past 4 years have been relatively static with the exception of VRC which has experienced strong growth in membership and MRC more recently with 15% growth in membership over the past 12 months
Long-Term Sponsorship Decline	<ul style="list-style-type: none"> In the past, the clubs were able to attract substantially higher income from sponsorships 	<ul style="list-style-type: none"> Income from sponsorship has not been in long-term decline for Victorian clubs and VRC has experienced significant growth in sponsorship.
Income from Hospitality and Events	<ul style="list-style-type: none"> The clubs have increased revenues from hospitality and events; however, growth potential is currently limited given the lower priority of this revenue stream and the relatively poor facilities at the AJC 	<ul style="list-style-type: none"> Victorian clubs have increased their revenues from hospitality and events and have recognised that there are opportunities to leverage existing facilities to grow non-racing related opportunities. The clubs are focused on developing facilities in the future that are 'fit for purpose' for uses other than racing
Financial Performance	<ul style="list-style-type: none"> A loss of more than \$5m for FY2009 is projected for the AJC, with a long term trend of increasing expenses. Operating expenses have increased by 11% p.a. on average over the last 9 years A loss of almost \$4m for FY2009 is projected for STC. Operating expenses have increased by 5% p.a. on average over the past 9 years 	<ul style="list-style-type: none"> The financial performance of the Victorian clubs is not in long-term decline. Victorian clubs compare favourably to NSW clubs from a balance sheet, efficiency and sustainability perspective
Overcapacity of Tracks	<ul style="list-style-type: none"> There is track overcapacity in the Sydney metropolitan area; consolidation of one racetrack would be possible while keeping the overall number of metro race meetings consistent at approximately 123 	<ul style="list-style-type: none"> Analysis shows there is currently a requirement to maintain the existing four metropolitan tracks particularly in the context of protecting turf tracks from excessive "wear and tear" and racing bias (the latter, of course, has the potential to significantly undermine wagering revenue).

Analysis of Ernst & Young NSW merger feasibility analysis

Issue	Observation	Comments
Rising Debt and Interest Payments	<ul style="list-style-type: none"> Both clubs has utilised debt to cover rising capital upgrades, maintenance and operating costs over the past 20 years, with combined debt increasing at a rate of 20% per year over the past 10 years 	<ul style="list-style-type: none"> MRC and MVRC have no debt VRC has minimal debt remaining from its intensive development program and has strong cash flow to retire debt over the next few years
Capital Investment and Maintenance	<ul style="list-style-type: none"> The clubs have neglected maintenance, upgrades and capital investments for a substantial amount of time and are now in need of major funding, estimated up to \$200m 	<ul style="list-style-type: none"> Victorian clubs have generally not neglected facilities but rather have invested heavily in upgrading and replacing facilities. MVRC acknowledges that it may have underinvested in facilities in the past but has a clear plan to re-invest in facilities over the next 5 year period. Importantly MVRC currently carries no debt and has unutilised assets (freehold land) to access to develop facilities Each of the Clubs recognise that their sustainability in the long term will rely upon them leveraging their existing capital base by investing in new multi-purpose facilities to grow both racing and non-racing revenues
Prize money to TAB Distribution Ratio Used as a Buffer	<ul style="list-style-type: none"> The STC has paid out a lower percentage of their TAB distribution as prizemoney over the past 10 years compared to the AJC; it has kept \$34m more in TAB distributions than the AJC 	<ul style="list-style-type: none"> Victorian clubs have maintained or increased their payout ratios of industry distributions and on average all have paid out in excess of 100% of industry distributions The payout ratios of Victorian clubs are materially above the NSW clubs
Current Governance Model Flaws	<ul style="list-style-type: none"> There are structural weaknesses in the governance model which can lead to decisions which are sub-optimal for the industry 	<ul style="list-style-type: none"> The governance of each club has been relatively stable in recent years The most beneficial Governance model involves a strong independent (ie, independent of Clubs, Government and factional groups) Industry body working alongside strong Metropolitan Clubs. The absence of either can seriously harm the economic and social returns from the Industry.