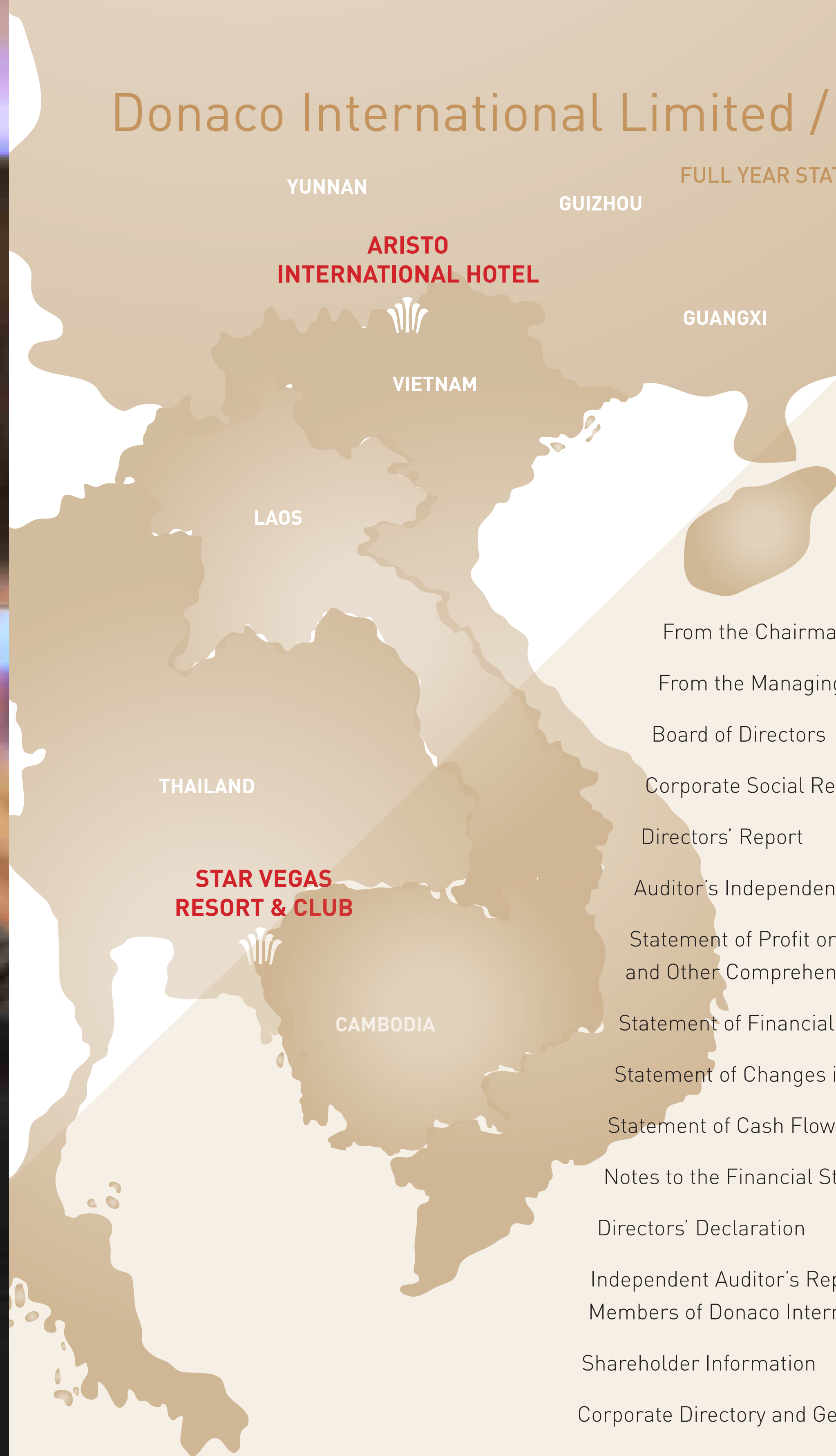
donaco
INTERNATIONAL

annual report

2017

Donaco International Limited / Annual Report

FULL YEAR STATUTORY ACCOUNTS – 30 JUNE 2017



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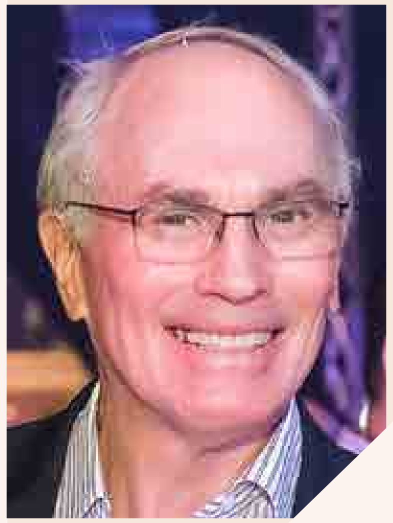
ANNUAL GENERAL MEETING

The Annual General Meeting of Donaco International Limited will be held at Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000 on 23 November 2017 at 2.30pm.

From the Chairman



Overall we are confident that our focus on driving strong underlying performance at both of our blue-chip gaming assets will result in positive results for our shareholders over the long term.

Dear fellow shareholders

The 2017 financial year has been a busy year for Donaco as we laid the foundations for the transition to full management control of Star Vegas, while launching a number of international marketing initiatives at the venue and driving strong growth at Aristo. Although the Thai economy was depressed for most of the year following the passing of the late King of Thailand, our underlying Group profit was in line with the 2016 financial year (FY16). We believe we are well positioned to resume our growth trend following the cessation of the official mourning period from October 2017, with a fresh management team in place to deliver growth from new marketing initiatives, international junkets and online gaming.

Following the expiration of the management contract with the Star Vegas vendor on 30 June 2017, management was taken in-house, and this allowed us to take full advantage of the Group's expertise and experience in managing Asian gaming businesses. Accordingly, the management team was refreshed and a number of key appointments made – including Kenny Bee Meng Chuan as General Manager – to position Donaco for a strong year in 2018.

Despite the challenging conditions in our major market, the strong earnings and cash flow generated from Star Vegas and Aristo further strengthened our financial position.

The Board sees capital allocation as one of the most important areas of value creation for shareholders, and on behalf of the Board we were delighted to begin to implement a range of capital management initiatives.

In addition to our debt obligations, we see the capital we have available as being directed in four possible ways:

(i) To provide capital to support organic growth initiatives in our existing venues

(ii) To look for acquisitive growth opportunities in the region

(iii) To apply surplus capital towards dividends, and

(iv) To apply surplus capital towards the buyback of shares.

We recognise that as we reduce our debt, and gain greater flexibility with our balance sheet, all these areas of capital deployment become available. With the new debt facility that has come into effect for the 2018 financial year (FY18) we are pleased to announce our intention to move to regular six-monthly dividend payments, commencing with a dividend of half a cent per share payable in October 2017. As a further measure to create value for shareholders, the Board also announced an intention to implement an on-market share buyback program commencing in October 2017.

Although the transition to in-house management at Star Vegas was a key focus towards the end of the 2017 financial year (FY17), our senior management team continued to implement initiatives to improve the performance of our Aristo business in Vietnam. Pleasingly, the trajectory of strong growth has continued, aided by initiatives to focus on mass market players (away from the more volatile VIP segment) and the strong economy in Vietnam underpinned by tourism from China.

As Chairman of the Group it was pleasing to see the share price recover to be up 40% over the financial year, despite the challenging economic conditions in Thailand, and we believe that by delivering strong financial management and earnings growth, shareholders will continue to be rewarded in future years.

One of Donaco's strengths is our adherence to strong corporate governance practices. In the Asian region we are widely recognised by governments, our visitors and our customers, as a Group that operates with high standards of probity and good governance. We believe that this becomes a competitive advantage in pursuing further growth opportunities as they arise into the future. Our Board is culturally and geographically diverse, which is an element of our success, given we operate in multiple geographies and our target customers come from a diverse range of backgrounds.

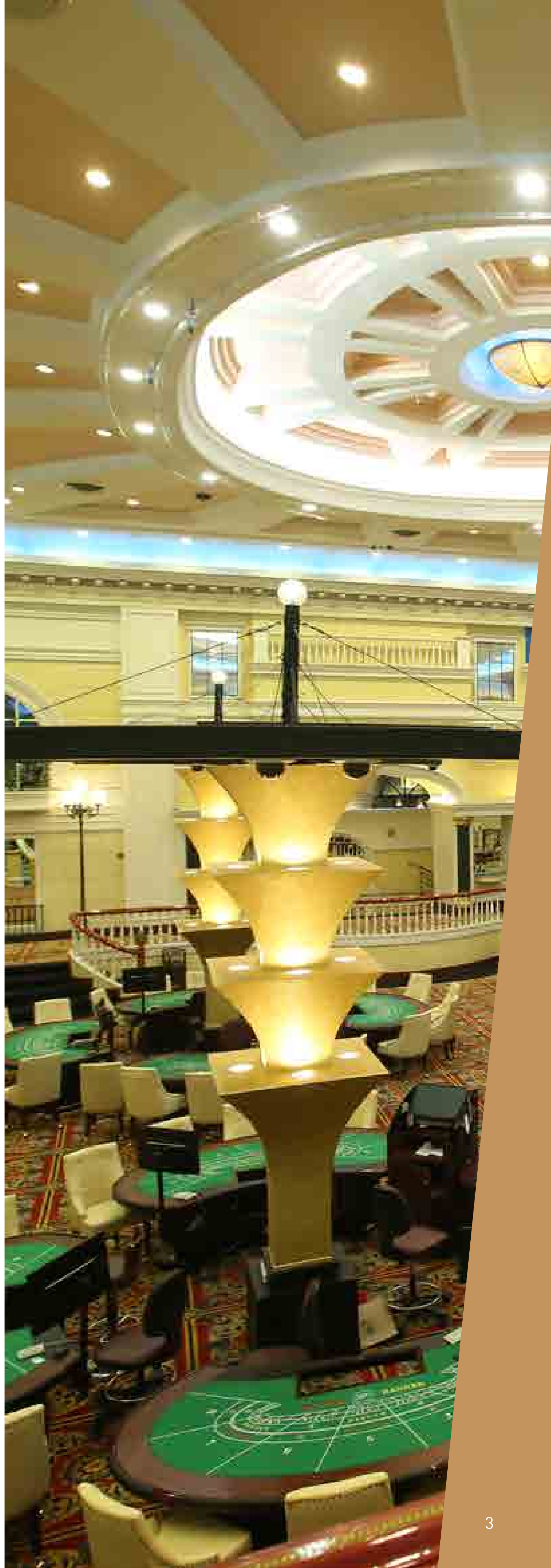
We believe it is important to make a positive contribution to the communities we operate in, and accordingly we engaged in a range of charitable activities to support the wellbeing of the underprivileged in our regions. During the year we presented gifts to students at Nam Lu School in Lao Cai province in Vietnam, and donated 50 computers to students at Nguyen Ba Ngoc Primary School, to assist them with their studies. We also presented gifts to students with blood cancer, school uniforms to other students, and warm blankets to underprivileged men and women during winter. Other initiatives included donating bicycles to students in the Lao Cai province, and donating to the Children's Care Fund of Lao Cai.

With the management of the Star Vegas being brought in-house, Non-Executive Director Paul Porntat Amatavivadhana resigned after the conclusion of the financial year. Mr Amatavivadhana made a valuable contribution to Donaco's Board over the two-year period since Star Vegas became part of the Group, and I would like to thank him for his contribution on behalf of the Board.

In summary, FY17 was one in which Donaco delivered strong results despite a challenging economic period. While the result at Star Vegas was down slightly on FY16, earnings at Aristo continued to grow strongly, and our underlying Group profit was in line with last year. In addition, our debt was further reduced, and we employed capital management initiatives including a dividend and a buyback program to reward shareholders.

We are excited about the flexibility that in-house management of Star Vegas brings, and the opportunities to improve our financial performance over FY18, at a time when the mourning period in Thailand is about to conclude. Overall, we are confident that our focus on driving strong underlying performance at both of our blue-chip gaming assets will result in positive results for our shareholders over the long term.

Stuart McGregor
Chairman



From the Managing Director

Star Vegas is a world class gaming and entertainment property and, following the transition to full management control, we have additional flexibility to implement initiatives to increase visitation and performance.

Dear Fellow Shareholders

The 2017 financial year produced solid performance, despite a challenging economic period in Thailand following the passing of the late King. The Group generated $136.4 million in revenue, of which Star Vegas contributed $110.2 million, with an underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of $84.4 million, only slightly down on the previous year. Aristo in Vietnam continued its strong growth, as we repositioned the business towards the mass market.

Overall, our net profit after tax (NPAT) was $31.0 million, including negative non-recurring items of $23.6 million. This amount included the final Star Vegas vendor management fee of $19.0 million, which became payable as the business exceeded its earnings targets. The balance of non-recurring items related to non-cash movements with respect to warrants.

In FY16 the non-recurring items totalled a positive $24.1 million, predominantly due to the benefit of the revaluation of Star Vegas following its acquisition, offset by the initial vendor management fee and acquisition expenses.

After adjusting for the non-recurring items, our underlying net profit after tax of $54.6 million was in line with last year. The cash flow from operations of $47.4 million remained strong, although slightly below the $50.0 million generated last year.

Despite the subdued consumer sentiment and economic climate in Thailand, the Star Vegas property experienced only a moderate reduction in revenue, and a favourable increase in the VIP gross win rate to 3.54%, which was up from 3.16% achieved over FY16. We should note that given the inherent volatility of the VIP gaming business, we do not always expect to have the win-rate run so strongly in our favour. We were also pleased to see management initiatives to improve utilisation of the venue take effect, with non-gaming revenue experiencing robust growth over the year. Overall, net profit after tax at Star Vegas declined by 7.3% to THB1,466 million.

The previous contract with the former Thai vendor for the management of the Star Vegas property expired in accordance with its agreed terms on 30 June 2017, and his involvement with the Star Vegas business ceased on 30 June 2017. Management of the venue has now been taken in-house by Donaco, and all key management roles have been filled, utilising our extensive experience in managing Asian casino operations. We move ahead into FY18 in full operational control of the venue.

Star Vegas is a world class gaming and entertainment property and following the transition to full management control, we have additional flexibility to implement initiatives to increase visitation and performance. As part of our strategy to increase visitation from international players, we signed a contract in June 2016 with international casino marketing agency, Vivo Tower Limited, to sign up international junkets and to bring players to the property from all around Asia.

During the year we announced a partnership with Poker King Club to host a major international poker tournament, which was accredited as the South-East Asian leg of the Asian Poker Tour. The event included a press conference held by the guests of honour, the Manchester United 'Class of '92' players. This tied in with the official launch of our Manchester United partnership, which is designed to increase awareness and visitation of Star Vegas property for the target market of middle-class Thai visitors.

As we enter FY18 we have made good progress in signing up additional junket operators, with new customers joining us during August and September 2017, and further arrangements due to commence in the coming months. Although we do expect the earnings from the VIP portion of the business to be lower in the September quarter, this line of business is currently rebuilding well. Overall, the main hall and slot machine business has remained robust during the transition period to Donaco management, and we have now been able to implement significant cost savings in the areas of staffing and procurement.

Some of our new junket customers will shortly commence offering online gaming as new facilities are built out. In addition, we have brought in a number of professional third-party operators to build new entertainment facilities, at their own cost, for our VIP guests. The new facilities include a nightclub, karaoke rooms and a new café, which will help to generate additional visitation to the property.

In Vietnam, the Aristo International Hotel continued to grow strongly over the course of FY17, with impressive EBITDA growth driven by increases in both gaming and non-gaming revenue. Tight cost management resulted in outstanding NPAT growth of 130.9% to RMB31.8 million. Our visitor numbers continued to grow, up 18% to 174,000 over FY17, including a new monthly record of 18,356 players in August 2016. Our marketing strategies were focused on increasing lower volatility mass market play, which drove strong growth in net gaming revenue (up 36%), while our non-gaming revenue also grew, up 12% over the previous year. The average VIP win rate achieved was 2.28%, a slight improvement on last year's 2.20%.

We recorded particularly strong growth in slot machine revenues at the Aristo, up 62% for the year to RMB14.9 million. To capitalise on this growth, we added 10 new Aruze slot machines to the gaming floor in April 2017, which resulted in particularly strong growth of 238% in slot machine revenue in the fourth quarter.

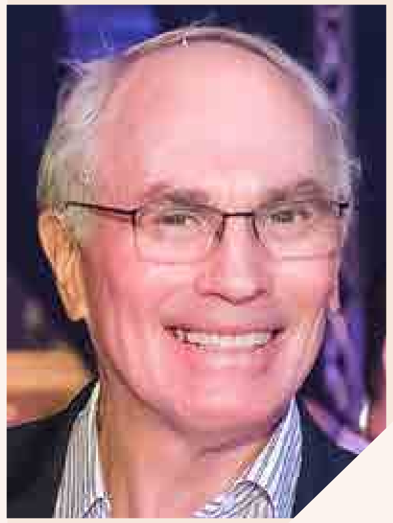
In recent years, our focus has been on developing a leading Asian gaming and entertainment brand, and with two blue-chip assets under our management, we are uniquely placed to grow over the long term.

I am excited about our prospects as we implement our management plans for our key Star Vegas asset, at a time when we approach the conclusion of Thailand's official mourning period. We anticipate that the business will gain momentum in FY18, with activity at Star Vegas expected to recover to normal levels following the first quarter. We also expect to benefit from the deal with Vivo Tower, as new entertainment facilities are built out and offered to our guests. This will help to utilise the full capacity of the venue. At the Aristo, we will continue to focus on the mass market and slot machines, to further increase earnings from both the gaming and non-gaming assets.

Overall, it is a promising time for our business and we look forward to keeping you updated on the progress of our management initiatives.

Joey Lim
Managing Director and Chief Executive Officer

Board of Directors



Stuart James McGregor

Independent Non-Executive Chairman
(appointed 19 November 2004)

B.Com, LLB, MBA

Experience and expertise

Over the last 30 years, Mr McGregor has had a wide-ranging business career with active involvement across the Australasian and Asian Region. In business, he has been Company Secretary of Carlton United Breweries, Managing Director of Cascade Brewery Company Ltd in Tasmania and Managing Director of San Miguel Brewery Hong Kong Ltd, a publicly listed Hong Kong-based company with subsidiary businesses in China. In the public sector, he served as Chief of Staff to a Minister for Industry and Commerce in the Australian Federal Government, and as Chief Executive of the Tasmanian Government's economic development agency.

Other current directorships

EBOS Group Limited (ASX:EBO) (appointed in July 2013)

Former directorships (last three years)

None

Special responsibilities

Member of the Audit & Risk Management Committee and the Nominations, Remunerations & Corporate Governance Committee

Interests in shares

411,735 ordinary shares

Interests in options

None

Joey Lim Keong Yew

Managing Director and Chief Executive Officer
(appointed 1 February 2013)

B. Computer Science

Experience and expertise

Mr J Lim is the Managing Director and Chief Executive Officer (CEO) of Donaco International Limited. He is also a director of Malahon Securities Limited, a stock brokerage company founded in 1984, and is a member and participant of the Hong Kong Exchange. He is also the principal of the Slingshot Group of Companies, which are investment companies based in Hong Kong. Relevant experience includes: working as an Executive Director to M3 Technologies (Asia) Bhd where he was responsible for strategic investments and corporate affairs; working at VXL Capital, China, a company whose business was focused on investing in and restructuring companies in Malaysia, Beijing, Shanghai and Hong Kong; and working as Project Manager for Glaxo Wellcome, London, UK.

Other current directorships

None

Former directorships (last three years)

None

Special responsibilities

None

Interests in shares

230,059,325 ordinary shares

Interests in options

1,931,757 unlisted employee options

Benedict Paul Reichel

Executive Director, Group General Counsel,
Company Secretary (appointed 20 July 2007)

BA, LLB (Hons), LLM (Hons)

Experience and expertise

Mr Reichel is an executive and company director in the gaming, media, and technology sectors, with more than twenty years' experience in major Australian listed public companies and law firms. Mr Reichel held the position of CEO and Managing Director of the Company (then called Two Way Limited) from July 2007 to January 2012, and has remained on the Board since then. Previously, Mr Reichel was General Counsel of Tab Limited, a $2 billion ASX-listed company with operations in wagering, gaming and media. Prior to that, he was General Counsel of racing broadcaster Sky Channel Pty Limited, and held a number of executive positions at Publishing and Broadcasting Limited.

Other current directorships

None

Former directorships (last three years)

None

Special responsibilities

None

Interests in shares

400,094 ordinary shares

Interests in options

1,026,593 unlisted employee options

Benjamin Lim Keong Hoe

Non-Executive Director
(appointed 1 February 2013)

B. International Business

Experience and expertise

Mr B Lim is a director of Donaco Singapore Pte Ltd, and a major shareholder of Genting Development Sdn Bhd, a substantial property development business in Malaysia. He has a bachelors degree in international business with design management from Regent Business School in the United Kingdom.

Other current directorships

None

Former directorships (last three years)

None

Special responsibilities

Member of the Audit & Risk Management Committee and the Nominations, Remuneration & Corporate Governance Committee.

Interests in shares

107,311,200 ordinary shares

Interests in options

None

Board of Directors

Robert Andrew Hines

Independent Non-Executive Director (appointed 1 November 2013)

Experience and expertise

Mr Hines is one of Australia's leading gaming and wagering executives. As CEO of Racing Victoria Limited from 2008 to 2012, he led and managed the Victorian racing industry through a period of substantial change. Mr Hines also held CEO roles at Jupiters Limited (2000 to 2004), which was acquired by Tabcorp; and at AWA Limited (1997 to 2000), which was acquired by Jupiters. From 2005 to 2008, he was CEO UK and Europe for Vecommerce Limited, a natural language speech recognition company providing services to wagering operators. Mr Hines currently holds the positions of Non-Executive Director with Sportsbet Australia Pty Ltd, Group Chairman CEO Circle, and Non-Executive Director of the Sporting Chance Cancer Foundation.

Other current directorships

None

Former directorships (last three years)

None

Special responsibilities

Chair of the Audit & Risk Management Committee and the Nominations, Remuneration & Corporate Governance Committee

Interests in shares

145,321 ordinary shares

Interests in options

None

Ham Techatut Sukjaroenkraisri

Executive Director (appointed 1 July 2015)

BSc Chemical Engineering

Experience and expertise

Mr Sukjaroenkraisri is Vice President, Casino at Star Vegas Casino & Resorts Co, Ltd. He has more than nine years' experience in gaming and casino management. In his role at Star Vegas, one of Cambodia's largest and most successful casino resorts, Mr Sukjaroenkraisri has been responsible for developing the model for the slot machine business. This has become one of the most successful and profitable businesses for Star Vegas, and has helped to put Star Vegas into its current leadership position in the Cambodian gaming market.

Other current directorships

None

Former directorships (last three years)

None

Special responsibilities

None

Interests in shares

74,599,764 ordinary shares

Interests in options

None

Paul Porntat Amatavivadhana

Non-Executive Director (resigned 3 July 2017)

MSc Management Science, BA Finance and Banking

Experience and expertise

Mr Amatavivadhana is a founding principal and the CEO of Infinite Capital, a successful boutique corporate advisory firm based in Bangkok. He has considerable experience in mergers and acquisitions, corporate restructuring and capital raisings. Mr Amatavivadhana is currently an independent director at Sansiri Plc., one of the largest real estate developers in Thailand, which is listed on the Stock Exchange of Thailand. His previous roles include: senior positions at Ayudhya Securities Plc (Managing Director); Ploenchit Advisory Co Ltd (Assistant Managing Director); UOB KayHian Securities (Thailand) Ltd; BNP Paribas Peregrine Securities (Thailand) Ltd and Securities One Plc.

Other current directorships

Sansiri Plc (SET: SIRI) (appointed 13 June 2008)

Former directorships (last three years)

None

Special responsibilities

None

Interests in shares

None

Interests in options:

None

'Other current directorships' and 'Former directorships (last three years)' quoted above are directorships for listed entities only, and exclude directorships of all other types of entities, unless otherwise stated.

A

B

C

E

F

G

Community is important to us

We are committed to contributing to our local communities through engagement, purposeful charitable activities and supporting targeted development and wellbeing initiatives to enhance the welfare and quality of life for people in our region. Making a positive contribution helps build resilience and provides our employees with a sense of pride.

D

Community news

A Students receive generous support at Nam Lu School

Aristo presented gifts to underprivileged and talented students at Nam Lu primary-secondary school in the Muong Khuong district of Lao Cai province.

B Nguyen Ba Ngoc Primary School receives 50 new computers

Aristo donated 50 computers to students to help with study at Nguyen Ba Ngoc Primary School in Lao Cai city.

C Young students with blood cancer offered critical support to keep up spirits

Aristo presented gifts to students with blood cancer at Nguyen Ba Ngoc Primary School in Lao Cai city. We hope they have a speedy recovery and continue to receive plenty of support.

D Lovely new school uniforms for everyone to be proud of

Aristo presented new school uniforms to happy children in the Muong Khuong district of Lao Cai province.

E Warm blankets for winter

Aristo presented warm blankets to underprivileged men and women and their families at Lao Cai city during the Winter of 2016.

F Donated bicycles make pedalling to school fun and easy

Aristo presented beautiful new bicycles to underprivileged students of Lao Cai province and generously donated to the Children Care Fund of Lao Cai province.

G Generous gifts donated to support education at Nguyen Ba Ngoc Primary School

Aristo presented gifts to students at Nguyen Ba Ngoc Primary School in Lao Cai city to help them with their study.

Awards and recognition

1. Top 100 ASEAN Powerful Companies Award for the Lao Cai International Hotel JVC Limited which it received from the Vietnam–Laos–Cambodia Association for Economic Cooperation and Development.
2. Diploma of Merit by People's Committee of Lao Cai province in recognition for the Group's contribution to the 25th anniversary of Lao Cai province's re-establishment.
3. Vietnam Private Business Association's Honoured Award for outstanding entrepreneur, awarded to Mr Joey Lim Keong Yew, Chairman of Lao Cai International Hotel JVC Ltd.
4. Vietnam Private Business Association's Honoured Award for the outstanding enterprise awarded to Lao Cai International Hotel JVC Ltd for performance excellence.

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Donaco International Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of Donaco International Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Stuart James McGregor – Chairman

Joey Lim Keong Yew

Benedict Paul Reichel

Benjamin Lim Keong Hoe

Robert Andrew Hines

Ham Techatut Sukjaroenkraisri

Paul Porntat Amatavivadhana (resigned 3 July 2017).

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of the operation of leisure and hospitality businesses across the Asia-Pacific region. This included:

- operation of a hotel and casino in northern Vietnam
- operation of a hotel and casino in Cambodia.

Dividends

A dividend of $8,246,843 (1 cent per ordinary share) was paid on 19 October 2016. The dividend was 100% conduit foreign income and was unfranked. Subsequent to the reporting date, the consolidated entity has declared an ordinary dividend of 0.5 cents per share, amounting to $4,156,057. The dividend is 100% conduit foreign income and is unfranked.

On 29 August 2017, the consolidated entity announce a new dividend policy, which stated that the consolidated entity intends to pay out 10–30% of net profit after tax as dividends to shareholders, with the intention to provide regular half-yearly dividend payments, subject to the consolidated entity's then current working capital requirements and growth plans. Shareholders should note that the payment of dividends is not guaranteed.

Review of operations and financial results

Result highlights

Underlying NPAT of $54.6 million in line with $54.6 million in FY16, with strong second half-year recovery at Star Vegas and continuing growth at Aristo.

	2017 $ million	2016 $ million
• Statutory NPAT:	31.0	78.7
– Both venues performed consistently with market guidance provided		
• Contribution of non-recurring items in NPAT result	(23.6)	24.1
• Underlying NPAT:	54.6	54.6
• Group revenue:	136.4	143.4
– Star Vegas revenue, impacted by mourning period for the late King of Thailand	110.2	120.1
– Aristo revenue, growth from mass market focus and slot machines	26.2	23.2
• Group Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	65.3	55.5
• Underlying Group EBITDA	84.4	87.9
• Strong balance sheet with:		
– Cash	66.0	78.2
– Borrowings	108.4	151.8
– Net debt	42.4	73.6
– Net debt to equity ratio	8.7%	15.4%
– New debt facility signed and completed with Mega Bank		

Reported NPAT was $31.0 million, which included non-recurring items totalling negative $23.6 million. In contrast, FY16 included non-recurring items totalling positive $24.1 million.

The non-recurring items in FY17 were due to the final $19.0 million management fee expense payable to the Star Vegas vendor (vs $20.5 million in FY16). In addition, there was positive non-cash warrant revaluation income of $1.1 million (vs $2.6 million in FY16); a net foreign exchange loss of $1.1 million (vs none in FY16); and amortisation and other costs associated with a working capital facility, totalling negative $4.6 million (vs negative $1.4 million in FY16). The working capital facility has now been repaid and fully amortised, and no further expense will be incurred in future periods.

In FY16 there was also a valuation uplift of $55.2 million for Star Vegas, offset by $11.8 million of merger and aquisition fees, which did not recur in this period. Excluding the non-recurring items, underlying NPAT for the Group was $54.6 million, in line with $54.6 million in FY16.

Venue performances

Star Vegas FY17/compared to FY16

- Net gaming revenue down 8.2% to THB2,747.6 million
- Non-gaming revenue up 31.7% to THB149.3 million
- EBITDA down 6.3% to THB2,107.9 million
- Property level NPAT down 7.3% to THB1,465.7 million
- VIP gross win rate 3.54%.

Star Vegas performed consistently with the market guidance provided, and recorded an EBITDA of USD60.5 million. The business produced a strong June half performance assisted by the high win rate achieved on junket play, and the seasonal benefits which feature in the June half. Overall, for the full 12 month period, the EBITDA at Star Vegas declined by 6.3% in local currency terms to THB2,107.9 million, due to weaker consumer sentiment and economic conditions in Thailand, following the passing away of the late King.

Aristo International Hotel FY17/compared to FY16

- Net gaming revenue up 36.3% to RMB80.0 million
- Non-gaming revenue up 11.6% to RMB53.6 million
- EBITDA up 39.6% to RMB74.8 million
- Property level NPAT up 130.9% to RMB31.8 million
- VIP gross win rate 2.28%.

The Aristo International Hotel continued to grow substantially, with the strategy to focus on mass market continuing to provide benefits to the Group. EBITDA increased by 39.6% in local currency terms to RMB74.8 million.

Capital management

The Company remains in a growth phase, and the Board aims to retain sufficient cash to pursue growth opportunities and repay debt as priorities.

However, with the strong cash generated by the business and no imminent acquisition opportunities, the Board is pleased to announce a new dividend policy of paying out 10–30% of NPAT in the form of dividends, with the intention to provide regular half-yearly dividend payments, subject to the consolidated entity's then current working capital requirements and growth plans.

In addition, the Board has announced an intention to pay a final dividend of 0.5 cents per share, unfranked. The planned record date for the dividend is 6 October 2017, and planned payment date is 20 October 2017. Shareholders should note that the payment of dividends is not guaranteed.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during FY17.

Matters subsequent to the end of the financial year

Dividend

On 29 August 2017, the Board of Donaco International Limited has announced that it intends to declare an ordinary dividend of 0.5 cents per share, amounting to $4,156,057. The dividend is 100% conduit foreign income and is unfranked. Proposed dates for the dividend payment are: ex-dividend date 5 October 2017, record date 6 October 2017 and payment date 20 October 2017.

Refinance of loan with Mega International Commercial Bank Co. Limited

The Company has refinanced its term loan facility with Mega International Commercial Bank Co. Limited of Taiwan. The Company has now repaid a total of USD63.4 million in the past two years, with the remaining principal amount of the previous facility standing at USD56.6 million.

The previous facility had a three-year term, with the remaining USD56.6 million being repayable within the next 12 months. This consisted of USD20.8 million repayable in January 2018, and the remaining USD35.8 million repayable in July 2018.

The new facility is for an amount of USD57 million. The term has been extended to three years from the date of drawdown, which occurred on 28 August 2017, following the completion of the conditions precedent.

Under the new loan, 15% of the principal amount is repayable every six months. This means that the next principal repayment has been reduced to approximately USD8.6 million, due in February 2018.

The interest rate on the loan has also been reduced slightly, from a margin of 6.75% over the six month USD LIBOR rate, to a margin of 6.0%, provided that the net debt (total borrowings minus cash) of Donaco Hong Kong Limited is less than the EBITDA of Donaco Hong Kong Limited. If net debt exceeds EBITDA, then the margin may increase to a maximum of 6.5%.

In addition, a number of covenants controlling capital management (dividends and buybacks) have been relaxed, but there are still some restrictions in place until the remaining principal falls below USD50 million, which is expected to occur following the next repayment in February 2018.

Share options

On 28 July 2017, the Company announced the expiration of 1,651,883 options on 1 July 2017 in accordance to their terms. The options were part of the FY14 and FY15 option series. Currently, there are 5,444,810 remaining options on issue.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Directors' Report

Likely developments and expected results of operations

The Company operates leisure and entertainment businesses across the Asia-Pacific region.

Our largest business is the Star Vegas Resort & Club, a successful casino and hotel complex in Poipet, Cambodia, on the border with Thailand. Star Vegas was established in 1999, and is the largest and highest quality of the Poipet casino hotels. The property has more than 100 gaming tables, more than 1,500 slot machines, and 385 hotel rooms.

Our flagship business is the Aristo International Hotel, a successful boutique casino in northern Vietnam, located on the border with Yunnan Province, China. Established in 2002, the property has recently been expanded to a brand new five-star resort complex with 400 hotel rooms. Donaco is a pioneer casino operator in Vietnam, and owns a 95% interest in the business, in a joint venture with the Government of Vietnam.

The operation and marketing of both of these properties will underpin our growth during the next 12 months. Our strategy is to take advantage of the demand for leisure and entertainment in the Asia-Pacific region, and to leverage the experience of the Board and management in the gaming sector. This will complement the growth at the expanded casinos in both Cambodia and Vietnam, and provide for diversification.

The Company has now moved to full management control of the Star Vegas operation, following the exit of the former Thai manager. This will provide greater flexibility and control in marketing the property. While VIP earnings at Star Vegas are expected to be lower in the September quarter of FY18 versus the corresponding period last year due to the transition to in-house management, the main hall and slot machine business is robust, and VIP revenues are already rebuilding well as new junket operators enter the property. In addition, no further management fees are payable to the former Thai manager.

Material risks to the Company's strategy include those affecting listed entities generally, and companies operating in Thailand, Cambodia and Vietnam generally. These risks include the possibility of adverse macroeconomic developments, such as exchange rate declines; cross-border disputes; or terrorist attacks affecting the Company's key target markets. Other material risks include the possibility of adverse regulatory change affecting casino operators, such as changes in tax rates, and the possibility of breach of licences or legislation. These risks are carefully monitored by the Board and management team.

These key risks should not be taken as the only risks that may affect the Company's operations, and many risks are outside the control of the Board and management team.

Except as noted above, information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulations

The consolidated entity is not subject to any significant environmental regulation under Australian commonwealth or state law.

Company Secretary

Benedict Paul Reichel is an Executive Director and the Company Secretary. His qualifications and experience are set out on page 7.

Meetings of directors

The number of meetings of the Company's Board of Directors (the Board) and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Audit & Risk Management Committee		Nominations, Remuneration & Corporate Governance Committee	
	Attended	Held*	Attended	Held*	Attended	Held*
Stuart James McGregor	9	9	2	2	1	1
Joey Lim Keong Yew	8	9	–	–	–	–
Benedict Paul Reichel	9	9	–	–	–	–
Benjamin Lim Keong Hoe	5	9	1	2	–	1
Robert Andrew Hines	9	9	2	2	1	1
Ham Techatut Sukjaroenkraisri	6	9	–	–	–	–
Paul Porntat Amatavivadhana	8	9	–	–	–	–

* 'Held': represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* (Cth) and its regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- principles used to determine the nature and amount of remuneration
- details of remuneration
- share-based compensation
- additional disclosures relating to key management personnel.

Principles used to determine the nature and amount of remuneration

Introduction

The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract and retain high quality personnel, and motivate them to achieve high performance.

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward.

Board oversight

The Board has an established Nominations, Remuneration & Corporate Governance Committee (the Remuneration Committee), consisting only of Non-Executive Directors, with a majority of independent directors. It is primarily responsible for setting the overall remuneration policy and guidelines for the Company, and its functions include:

- reviewing and recommending to the Board for approval, the Company's general approach towards remuneration, and to oversee the development and implementation of remuneration programs
- reviewing and recommending to the Board for approval, corporate goals and objectives relevant to the remuneration of the Managing Director/CEO, and evaluating the performance of the Managing Director/CEO in light of those goals and objectives;
- reviewing and recommending to the Board for approval, remuneration programs applicable to the Company executives, and ensuring that these programs differ from the structure of remuneration for Non-Executive Directors; and
- reviewing the remuneration of Non-Executive Directors, and ensuring that the structure of Non-Executive Directors' remuneration is clearly distinguished from that of executives by ensuring that Non-Executive Directors are remunerated by way of fees, do not participate in schemes designed for the remuneration of executives, do not receive options or bonus payments, and are not provided with retirement benefits other than statutory superannuation.

Remuneration framework

In consultation with external remuneration consultants when necessary (refer to the section 'Use of Remuneration Consultants' below), the Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity. The framework is designed to satisfy the following key criteria for good reward governance practices:

- aligned to shareholders' interests
- competitiveness and reasonableness
- performance linkage/alignment of executive compensation
- transparency.

The remuneration framework is aligned to shareholders' interests, it:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholders' wealth, consisting of growth in share price, as well as focusing the executive on key non-financial drivers of values
- attracts and retains high-calibre executives.

The remuneration framework is also aligned to program participants' interests, because it:

- rewards capability and experience
- reflects competitive rewards for contribution to growth in shareholders' wealth
- provides a clear structure for earning rewards.

Directors' Report

All remuneration paid to directors and executives is valued at cost to the Company and expensed.

In accordance with best practice corporate governance, the structures of remuneration for Non-Executive Directors and for executives are separate.

Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market.

There are no bonuses payable to Non-Executive Directors, and there are no termination payments for Non-Executive Directors on retirement from office, other than statutory superannuation entitlements. Non-Executive Directors are not granted options.

ASX Listing Rules require that the aggregate of Non-Executive Directors' remuneration be determined periodically by a general meeting. The most recent determination was at the 2013 Annual General Meeting, where the shareholders approved a maximum aggregate remuneration of $750,000, including statutory superannuation contributions.

Executive remuneration

The consolidated entity's remuneration policy is to ensure that executive remuneration packages properly reflect a person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating executives of the highest calibre. As a result, remuneration packages for the Managing Director/CEO and senior executives include both fixed and performance-based remuneration.

The executive remuneration and reward framework has three components:

- fixed remuneration, consisting of base salary and non-monetary benefits, together with other statutory forms of remuneration such as superannuation and long service leave
- short-term performance incentives
- long-term incentives, currently consisting of restricted shares purchased on market.

The combination of these components comprises the executive's total remuneration.

Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits (if any), is determined by considering the scope of the executive's responsibility, importance to the business, competitiveness in the market and assessed potential. The total remuneration package for executives includes superannuation and other non-cash benefits to reflect the total employment cost to the Company, inclusive of any fringe benefits tax.

Fixed remuneration is reviewed annually by the Remuneration Committee, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example, motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The objective of the fixed remuneration component is to attract and retain high-quality executives, and to recognise market relativities and statutory requirements.

Short-term incentives

The short-term incentive (STI) framework provides senior executives with the opportunity to earn an annual cash bonus, up to a maximum amount of 50% of base salary. Clear key performance indicators (KPIs) have been established by the Remuneration Committee. Achievement of these KPIs gives the executive an opportunity to earn a fixed percentage of their maximum STI, subject to final review and approval by the Board.

For FY17, the KPIs applied and the applicable percentage of STI were:

1. Achievement of the EBITDA target for the Donaco Group (30%)
2. Achievement of the budgeted revenue target for the Star Vegas property, in Thai baht terms (25%)
3. Achievement of the budgeted revenue target for the Aristo property, in Chinese renminbi terms (25%)
4. Achievement of a personal KPI relating to the executive's individual areas of responsibility (20%).

The objective of these KPIs is clearly designed to focus on financial criteria, including top-line revenue growth, while maintaining a focus on disciplined cost control, as expressed through the EBITDA target for the Group.

In addition, executives also maintained a focus on key non-financial criteria, relating to the personal KPI applicable to the individual executive's area of responsibility.

Long-term incentives

The long-term incentive (LTI) program currently consists of restricted shares purchased on market. This plan was adopted in FY17 to replace the former option plan, which was thought to be excessively complex, and could potentially result in significant dilution of shareholders.

Under the new LTI scheme, the Board has actively sought to align senior executive remuneration with shareholder interests. Shares are purchased on market and held in an employee share trust (the Trust). The shares will vest to the employees over the vesting period of three years. The aim of the scheme is to ensure that executives are motivated to think like shareholders, with a focus on taking actions that will lead to sustainable increases in the share price. The structure of the scheme also ensures that there is no dilution of shareholders.

The total annual dollar value of shares to be purchased is a maximum of $1,000,000. The number of shares to be purchased each year will depend on the share price at the time that purchases take place.

The scheme is executed in a similar manner to an on-market buyback, allowing the Trust to stand in the market and purchase shares at appropriate times. However, the shares will not be cancelled, but will be held in the Trust, to be distributed to employees over the vesting period of three years.

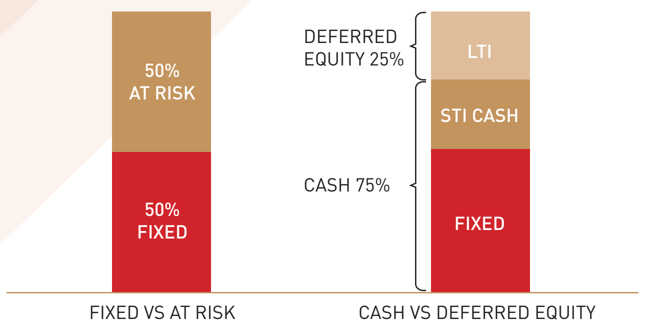
LTI awards are made on an annual basis, subject to achievement of applicable KPIs. This ensures that at any given time, the executives have at risk a number of LTI awards, with different vesting periods and amounts. This helps to smooth out both the risk and the cash flow for the Company and for executives.

The LTI scheme allows for an award of a maximum of 75% of base salary in the form of restricted shares, subject to achievement of applicable KPIs which are set annually. For FY17, the applicable KPI related to the achievement of the budgeted EBITDA target for the Group.

During FY17 the Trust purchased 2,376,653 shares on market in September 2016, at an average price of 41.99 cents per share. Once awarded, these shares will vest over the three year vesting period commencing on 1 July 2017.

The objective of the LTI component is to focus on sustainable shareholder value creation, as expressed through share price growth.

SENIOR EXECUTIVES' REMUNERATION MIX

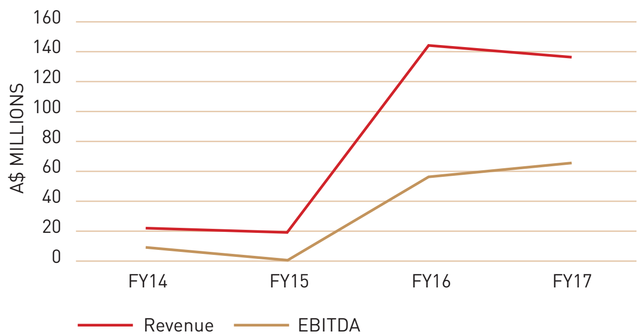


Relationship between remuneration policy and company performance

As detailed above, Donaco's remuneration policy is directly linked to Company performance, particularly in relation to top-line revenue growth and cost control, to ultimately create long-term shareholder value. STI and LTI awards are dependent on defined KPIs being met, which are primarily financial in nature, and are at the discretion of the Remuneration Committee.

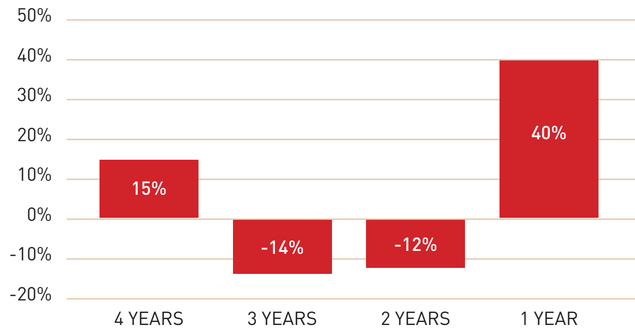
In the three years from FY14 to FY16, Donaco's revenue increased by a compound annual growth rate of 109%. The four-year period from FY14 to FY17 also shows a strong upward trend in revenue and EBITDA.

DONACO REVENUE AND EBITDA



Given the nature of Donaco's business, revenue and earnings volatility is expected. However, over the medium term the Company has seen the transformation in earnings growth translate to share price appreciation. During FY17, the share price increased 40% and the share price has grown by an average of 15% per annum over the four years to 30 June 2017.

DNA SHARE PRICE GROWTH PER ANNUM



The Remuneration Committee considers that the increase in the size and scale of the consolidated entity's revenues, earnings, profits and cash flow over the past four years can be attributed in part to the adoption of performance-based compensation, and is satisfied with the upwards trend in shareholder wealth. The Remuneration Committee also considers that the remuneration framework in place will continue to increase shareholder wealth if maintained over the coming years, subject to any adjustments that are necessary or desirable to reflect the Company's growth.

Use of remuneration consultants

During the financial year ended 30 June 2016, the consolidated entity received a remuneration recommendation (as defined in the Corporations Act) from Egan Associates Pty Limited, to review its existing remuneration policies and provide market benchmarking. Egan Associates was paid $25,725 plus GST for these services.

An agreed set of protocols is put in place at the time of engaging remuneration consultants, to ensure that any remuneration recommendations are free from undue influence from key management personnel. The Board is satisfied that there was no undue influence.

There were no remuneration consultants engaged during the financial year ended 30 June 2017.

Voting and comments made at the Company's 2016 Annual General Meeting

At the Annual General Meeting (AGM) held on 24 November 2016, 93.09% of the eligible votes received supported the adoption of the remuneration report for the year ended 30 June 2016. Eligible votes received represented approximately 39% of the total voting power in the Company at that time. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Donaco International Limited:

- Stuart James McGregor – Non-Executive Director and Chairman
- Joey Lim Keong Yew – Managing Director and CEO
- Benedict Paul Reichel – Executive Director, General Counsel and Company Secretary
- Benjamin Lim Keong Hoe – Non-Executive Director
- Robert Andrew Hines – Non-Executive Director
- Ham Techatut Sukjaroenkraisri – Executive Director
- Paul Porntat Amatavivadhana – Non-Executive Director (resigned 3 July 2017).

And the following persons:

- Kenny Goh Kwey Biaw – Deputy Chief Financial Officer and CEO of Donaco Singapore
- Chong Kwong Yang – Chief Financial Officer
- Att Asavanund – CEO and Deputy Chief Operating Officer (resigned 31 August 2017).

	Short-term benefits		Post employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus paid	Super	Leave entitlements	Equity-settled	Total
2017	$	$	$	$	$	$
Non-Executive Directors						
S J McGregor	155,606	–	14,783	–	–	170,389
Lim K H	178,929	–	–	–	–	178,929
R A Hines	137,300	–	13,044	–	–	150,343
P P Amatavivadhana	101,809	–	–	–	–	101,809
Executive Directors						
Lim K Y	671,962	288,935	–	–	115,368	1,076,265
B P Reichel	327,170	125,000	42,406	–	57,684	552,259
H T Sukjaroenkraisri	79,524	–	–	–	–	79,524
Other key management personnel						
Goh K B	257,117	96,920	–	–	23,752	377,789
Chong K Y	252,000	96,000	33,060	–	–	381,060
A Asavanund	310,144	69,584	–	–	–	379,728
	2,471,560	676,439	103,292	–	196,804	3,448,095

Bonuses that related to FY17 performance are not payable until October 2017. The bonus amounts accrued to directors and key management personnel in FY18 are summarised below:

	Total
	$
Executive Directors	
Lim K Y	335,981
B P Reichel	166,350
Other key management personnel	
Goh K B	128,558
Chong K Y	126,000
A Asavanund	124,057
	880,946

	Short-term benefits		Post employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus Paid	Super	Leave entitlements	Equity-settled	Total
2016	$	$	$	$	$	$
Non-Executive Directors						
S J McGregor	155,606	–	14,783	–	–	170,389
Lim K H	195,521	–	–	–	–	195,521
R A Hines	137,300	–	13,044	–	–	150,344
P P Amatavivadhana	106,104	–	–	–	–	106,104
Executive Directors						
Lim K Y	696,106	349,198	–	–	405,145	1,450,449
B P Reichel	224,799	113,052	33,347	13,172	217,952	602,322
H T Sukjaroenkraisri	23,220	–	–	–	–	23,220
Other key management personnel						
Na C W	298,632	232,268	–	–	523,920	1,054,820
Goh K B	266,362	84,954	–	–	314,423	665,739
Chong K Y	193,708	32,000	21,933	5,169	–	252,810
A Asavanund	144,165	–	–	–	–	144,165
	2,441,523	811,472	83,107	18,341	1,461,440	4,815,883

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	2017	2016	2017	2016	2017	2016
Non-Executive Directors						
S J McGregor	100%	100%	0%	0%	0%	0%
Lim K H	100%	100%	0%	0%	0%	0%
R A Hines	100%	100%	0%	0%	0%	0%
P P Amatavivadhana	100%	100%	0%	0%	0%	0%
Executive Directors						
Lim K Y	62%	48%	27%	24%	11%	28%
B P Reichel	67%	43%	23%	19%	10%	36%
H T Sukjaroenkraisri	100%	100%	0%	0%	0%	0%
Other key management personnel						
Na C W	0%	28%	0%	22%	0%	50%
Goh K B	68%	40%	26%	13%	6%	47%
Chong K Y	75%	87%	25%	13%	0%	0%
A Asavanund	82%	100%	18%	0%	0%	0%

The proportion of the cash bonus paid/payable or forfeited is as follows:

	Cash bonus paid/payable		Cash bonus forfeited	
Name	2017	2016	2017	2016
Executive Directors				
Lim K Y	100%	100%	–	–
B P Reichel	100%	100%	–	–
Other key management personnel				
Na C W	n/a	100%	–	–
Goh K B	100%	100%	–	–
Chong K Y	100%	100%	–	–
A Asavanund	100%	–	–	–

Criteria for performance-based remuneration

The STI program is designed to align the targets of executives with the targets of the consolidated entity. STI payments are granted to executives based on specific annual targets and KPIs being achieved. The Board, advised by the Remuneration Committee, applied these criteria in determining the award of performance-based remuneration during the year.

Performance-based bonuses were paid in October 2016. Cash bonuses of $676,439 were awarded to the Executive Directors and other key management personnel. A break up of the bonuses paid is in the tables above.

For performance during FY17, the relevant criteria for the award of bonuses relate to revenue growth at each operating business, namely Star Vegas and Aristo International Hotel, as well as the achievement of budgeted EBITDA targets for the consolidated entity and a personal KPI for each executive.

The proportion of the share options granted or forfeited is as follows:

	Share options granted		Share options forfeited	
Name	2017	2016	2017	2016
Executive Directors				
Lim K Y	–	100%	–	–
B P Reichel	–	100%	–	–
Other key management personnel				
Na C W	–	100%	–	–
Goh K B	–	100%	–	–

The proportion of the share issued or forfeited is as follows:

	Shares issued		Shares forfeited	
Name	2017	2016	2017	2016
Executive Directors				
Lim K Y	–	100%	–	–
B P Reichel	–	100%	–	–
Other key management personnel				
Na C W	–	100%	–	–
Goh K B	–	100%	–	–

Service agreements

Remuneration and other terms of employment for the Managing Director, Chief Financial Officer and the other key management personnel (other than Ham Techatut Sukjaroenkraisri) are formalised in contracts of employment. The service agreements specify the components of remuneration, benefits and notice periods. The specified executives are employed under contracts with no fixed term. The Company may terminate the contracts immediately if the executive is guilty of serious misconduct or wilful neglect of duties. Otherwise, the Company may terminate the contracts by giving three months' notice or paying three months' salary, or six months in the case of Mr Reichel. In the case of Mr J Lim (Lim K Y), termination for any reason other than just cause will result in a termination payment of 24 months' base salary (subject to shareholder approval).

Share-based compensation

Issue of shares

There were no shares issued as part of compensation during the year ended 30 June 2017.

Options

There were no options issued as part of compensation during the year ended 30 June 2017.

Options granted carry no dividend or voting rights.

Approval for the prior year issue of these options was obtained pursuant to ASX Listing Rule 10.14.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of options granted during the year 2017	Number of options granted during the year 2016	Number of options vested during the year 2017	Number of options vested during the year 2016
Lim K Y	–	2,002,967	872,059	326,116
B P Reichel	–	1,001,484	496,744	229,796
Goh K B	–	412,376	552,020	442,099

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

Name	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
S J McGregor	411,735	–	–	–	411,735
Lim K Y	264,659,325	–	2,900,000	–	267,559,325
B P Reichel	400,094	–	–	–	400,094
Lim K H	144,811,200	–	–	–	144,811,200
R A Hines	145,321	–	–	–	145,321
H T Sukjaroenkraisri	147,199,529	–	1,000,000	–	148,199,529
Goh K B	768,464	–	–	(68,464)	700,000
	558,395,668	–	3,900,000	(68,464)	562,227,204

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

Name	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year	Vested	Unvested
Options over ordinary shares							
Lim K Y	2,410,339	–	–	(152,466)	2,257,873	1,198,175	1,059,698
B P Reichel	1,408,857	–	–	(152,468)	1,256,389	726,540	529,849
Goh K B	1,622,550	–	–	(410,258)	1,212,292	994,119	218,173
	5,441,746	–	–	(715,192)	4,726,554	2,918,834	1,807,720

Transactions with related parties and key management personnel

The following transactions occurred with related parties:

	Consolidated 2017 $	2016 $
Labour hire fee paid to Star Vegas Resort & Club Co., Ltd – a director-related entity	11,959,472	10,915,776
Leasing fees paid to Lee Hoe Property Co., Ltd – a director-related entity	156,012	16,159
Rental received from director's immediate family	111,734	116,100
Purchase of fixed assets by DNA Star Vegas from Star Vegas Resort & Club Co., Ltd – a director-related entity	–	1,030,727
Technical support fees paid by Lao Cai JVC to iSentric Limited – a director-related entity	187,214	–
Licence agreement for occupation of office space paid to Infinite Capital Co., Ltd – a director-related entity	45,840	–
Management fees received for Star Paradise Casino property from MMD Travel Co Ltd – a director-related entity	2,338,782	–
Management fees paid to previous owner of DNA Star Vegas Co., Ltd – a director-related entity	19,045,688	20,492,174
Disposal of property, plant and equipment to previous owner of DNA Star Vegas Co., Ltd – a director-related entity	586,237	–

The above transactions occurred at commercial rates.

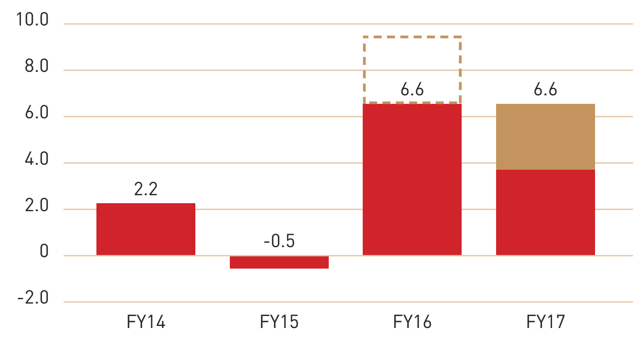
This concludes the remuneration report, which has been audited.

Additional information on company performance

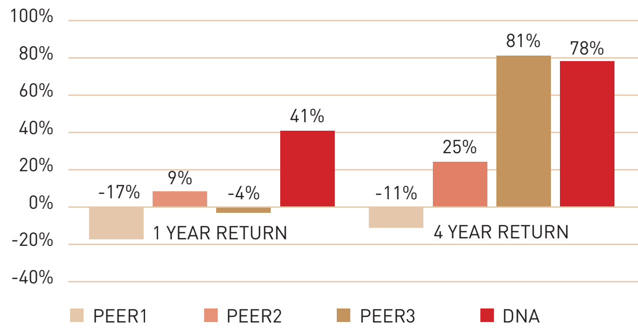
Earnings per share, adjusted for the impact of non-recurring items, is set out in the graph below.

Donaco's total shareholder return, consisting of both share price growth and dividend payments, is superior when compared to a number of peer casino and gaming companies listed on the ASX and in Asia.

ADJUSTED EARNINGS PER SHARE



TOTAL SHAREHOLDER RETURN



Shares under option

Unissued ordinary shares of Donaco International Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
1 July 2014	1 July 2018	$0.590	1,149,717
1 July 2015	1 July 2018	$0.890	395,208
1 July 2015	1 July 2019	$0.890	349,376
25 August 2015	1 July 2018	$0.770	1,385,700
25 August 2015	1 July 2019	$0.770	1,156,784
25 August 2015	1 July 2020	$0.770	1,008,025
			$5,444,810

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

In addition to the above, on 7 July 2015, Donaco International Limited issued 70 warrants to subscribe for its ordinary shares. Each warrant has a notional value of USD100,000. The warrants have a term of 39 months and expire on 6 October 2018. The exercise price is AUD0.7579 cents and the maximum number of ordinary shares which may be issued is 12,339,408. The Company may elect to settle the difference between the share price and exercise price in cash.

Shares issued on the exercise of options

The were no ordinary shares of Donaco International Limited issued, during the year ended 30 June 2017 and up to the date of this report, on the exercise of options granted (2016: nil).

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 30 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Crowe Horwath

There are no officers of the Company who are former partners of Crowe Horwath.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on the following page 27.

Auditor

Crowe Horwath Sydney continues in office in accordance with section 327 of the Corporations Act.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporation Act.

On behalf of the directors

S. J. McGregor

Mr Stuart McGregor
Chairman

29 September 2017, Sydney

Auditor's Independence Declaration

Crowe Horwath

Crowe Horwath Sydney
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29 September 2017

The Board of Directors
Donaco International Limited
Level 18
420 George Street
Sydney NSW 2000

Dear Board Members

Donaco International Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Donaco International Limited.

As lead audit partner for the audit of the financial report of Donaco International Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Crowe Horwath Sydney

CROWE HORWATH SYDNEY

SUWARTI ASMONO
Partner

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donaco
INTERNATIONAL

financials

2017

2017 Financials

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated	
	Note	2017	2016
		$	$
Revenue from continuing operations	4	136,443,789	143,385,778
Other income/(expense)	5	(4,867)	2,596,962
Gain on bargain purchase	40	–	55,165,316
Total income		136,438,922	201,148,056
Expenses			
Food and beverages		(6,018,409)	(6,182,949)
Employee benefits expense		(22,891,204)	(22,773,119)
DSV management fee	40	(19,045,688)	(20,492,174)
Depreciation and amortisation expense	6	(10,129,299)	(9,945,976)
Legal and compliance		(680,734)	(382,525)
Marketing and promotions		(4,618,018)	(4,696,896)
Professional and consultants		(1,338,743)	(13,304,649)
Property costs		(5,952,199)	(5,862,681)
Telecommunications and hosting		(382,062)	(267,816)
Gaming costs		(2,970,244)	(6,559,572)
Other expenses		(7,127,174)	(7,264,048)
Finance costs		(20,559,623)	(20,545,536)
Total expenses		(101,713,397)	(118,277,941)
Profit before income tax expense from continuing operations		34,725,525	82,870,115
Income tax (expense)	7	(3,536,476)	(3,996,731)
Profit after income tax expense for the year		31,189,049	78,873,384
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(15,422,693)	7,763,303
Other comprehensive income for the year, net of tax		(15,422,693)	7,763,303
Total comprehensive income for the year		15,766,356	86,636,687
Profit for the year is attributable to:			
Non-controlling interest		198,751	149,883
Owners of Donaco International Limited		30,990,298	78,723,501
		31,189,049	78,873,384
Total comprehensive income for the year is attributable to:			
Non-controlling interest		198,751	149,883
Owners of Donaco International Limited		15,567,605	86,486,804
		15,766,356	86,636,687

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

		Consolidated	
	Note	2017	2016
		Cents	Cents
Earnings per share for profit attributable to the owners of Donaco International Limited			
Basic earnings per share	37	3.73	9.47
Diluted earnings per share	37	3.73	9.47

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

AS AT 30 JUNE 2017

	Note	Consolidated 2017	2016
		$	$
Assets			
Current assets			
Cash and cash equivalents	8	66,022,749	78,221,019
Trade and other receivables	9	17,596,767	24,002,817
Inventories	10	893,474	1,418,876
Prepaid construction costs	11	341,184	12,800
Other current assets	12	3,238,891	3,120,464
Total current assets		88,093,065	106,775,976
Non-current assets			
Property, plant and equipment	13	161,344,373	171,715,958
Intangibles (including licences)	14	389,140,234	403,005,941
Construction in progress	15	595,885	1,143,158
Other	16	3,895	78,451
Total non-current assets		551,084,387	575,943,508
Total assets		639,177,452	682,719,484
Liabilities			
Current liabilities			
Trade and other payables	17	41,788,107	47,754,947
Borrowings	18	54,908,598	40,107,134
Financial liabilities	19	681,507	1,794,520
Income tax	20	1,127,767	1,560,149
Employee benefits	21	981,006	482,097
		99,486,985	91,698,847
Non-current liabilities			
Borrowings – non-current	22	53,553,627	111,693,999
Employee benefits – non-current	23	32,669	16,212
Total non-current liabilities		53,586,296	111,710,211
Total liabilities		153,073,281	203,409,058
Net assets		486,104,171	479,310,426
Equity			
Issued capital	24	359,968,884	360,968,368
Reserves	25	9,425,778	24,574,755
Retained profits	26	115,374,413	92,630,958
Equity attributable to the owners of Donaco International Limited		484,769,075	478,174,081
Non-controlling interest		1,335,096	1,136,345
Total equity		486,104,171	479,310,426

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

	Issued capital	Reserves	Retained profits	Non-controlling interest	Total equity
Consolidated	$	$	$	$	$
Balance at 1 July 2015	246,719,609	15,757,522	13,907,457	986,462	277,371,050
Loss after income tax benefit for the year	–	–	78,723,501	149,883	78,873,384
Other comprehensive income for the year, net of tax	–	7,763,303	–	–	7,763,303
Total comprehensive income for the year	–	7,763,303	78,723,501	149,883	86,636,687
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 40)	154,999,579	–	–	–	154,999,579
Shares issued to employees	341,455	–	–	–	341,455
Adjustment to value of shares issued for acquisition (note 40)	(41,363,075)	–	–	–	(41,363,075)
Employee share options	–	1,324,730	–	–	1,324,730
Transfer from reserves	270,800	(270,800)	–	–	–
Balance at 30 June 2016	360,968,368	24,574,755	92,630,958	1,136,345	479,310,426

	Issued capital	Reserves	Retained profits	Non-controlling interest	Total equity
Consolidated	$	$	$	$	$
Balance at 1 July 2016	360,968,368	24,574,755	92,630,958	1,136,345	479,310,426
Profit after income tax expense for the year	–	–	30,990,298	198,751	31,189,049
Other comprehensive income for the year, net of tax	–	(15,422,693)	–	–	(15,422,693)
Total comprehensive income for the year	–	(15,422,693)	30,990,298	198,751	15,766,356
Transactions with owners in their capacity as owners:					
Acquisition of shares for Employee Share Trust	(999,484)	–	–	–	(999,484)
Dividends paid	–	–	(8,246,843)	–	(8,246,843)
Employee share options	–	273,716	–	–	273,716
Balance at 30 June 2017	359,968,884	9,425,778	115,374,413	1,335,096	486,104,171

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Consolidated 2017	2016
		$	$
Cash flow from operating activities			
Receipts from customers		142,484,849	132,729,587
Payments to suppliers and employees		(78,700,882)	(59,945,137)
		63,783,967	72,784,450
Interest received		100,011	72,805
Other revenue		–	11,058
Interest and other finance costs paid		(11,878,988)	(14,947,469)
Government levies, gaming taxes and GST		(4,649,592)	(7,920,049)
Net cash flows from operating activities	36	47,355,398	50,000,795
Cash flow from investing activities			
Payments for property, plant and equipment		(5,727,117)	(1,851,232)
Cash investment in subsidiary, net of cash retained	40	–	(322,655,000)
Payment of expenses relating to acquisitions	40	–	(11,819,338)
Net cash flows from investing activities		(5,727,117)	(336,325,570)
Cash flow from financing activities			
Repayment of borrowings		(69,817,576)	(3,218,668)
Drawdown of borrowings		25,603,177	150,276,599
Payments of dividends		(8,246,843)	–
Payments for acquisition of employee shares		(999,484)	–
Share issue transaction costs		–	(442,613)
Net cash flows from financing activities		(53,460,726)	146,615,318
Net (decrease) in cash and cash equivalents		(11,832,445)	(139,709,457)
Cash and cash equivalents, beginning of the financial year		78,221,019	210,175,119
Effects of exchange rate changes on cash and cash equivalents		(365,825)	7,755,357
Cash and cash equivalents at the end of the financial year	8	66,022,749	78,221,019

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

Note 1: Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any material impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the AASB and the Corporations Act, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Presentation of the statement of cash flows

The consolidated entity has changed its policy to present gaming receipts from customers and payments to junket operators on a net basis in the Statement of Cash Flows. Previously, the receipts and payments were reported on a gross basis based on cash received and paid out. The restated presentation is considered more appropriate as it is consistent with the recognition of income and expenses on a net basis in the profit and loss statement. The comparative figures have been restated. Additionally, the comparative figures have been restated using the average foreign currency rate instead of the closing rate which was used previously. A summary of the effect of the change in presentation is provided below.

	Restated	Previously	Variance
	$	$	$
Receipts from customers	132,729,587	447,352,472	(314,622,885)
Payments to suppliers and employees	(59,945,137)	(376,237,266)	316,292,129
	72,784,450	71,115,206	1,669,244
Cash flow from operating activities	50,000,795	48,657,537	1,343,258
Cash flow from investing activities	(336,325,570)	(330,085,975)	(6,239,595)
Cash flow from financing activities	146,615,318	144,301,206	2,314,112
Effects of exchange rate changes on cash and cash equivalents	7,755,357	5,173,132	2,582,225

Parent entity information

In accordance with the Corporations Act, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Donaco International Limited ('the Company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Donaco International Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the Statement of Profit or Loss and other Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity of the Consolidated Entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Donaco International Limited's functional and presentation currency.

DNA Star Vegas Co., Ltd, a subsidiary within the Group, has casino and hotel operations in Cambodia. Its functional currency is Thai baht.

Donaco Singapore Pte Ltd has an interest in the Lao Cai International Hotel Joint Venture Company which operates a casino and hotel in Vietnam. The functional currency of the Joint Venture Company is Vietnamese dong.

The subsidiaries of Donaco that operate in the aforementioned foreign countries are consolidated into the Hong Kong Group (Star Vegas Group) and the Singapore Group (Aristo Group). At this level, the presentation currency is US dollar.

Subsequently, these consolidated groups are consolidated with the Australian operations and converted to Australian dollars.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Goodwill, casino licence and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the closing rate.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2017

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Gaming revenue

Revenue at the playing tables is recognised upon the differences between chips at the closing and chips at the opening of each table plus chips transferred from the playing table to the cage, less chips transferred from the cage to the playing table. Revenue is recognised on a net basis after commission and profit sharing is paid to junket operators.

Revenue from slot machines represents the amount received over the exchange counter less the amount returned to customers and profit-sharing paid.

Sale of goods

The consolidated entity sale of goods consists of food and beverages sales. Revenue from the sale of goods is recognised at the point of sale, when a group entity sells a product to the customer.

Rendering of services

Revenue from the provision of accommodation and hospitality services is recognised in the accounting period in which the services are rendered.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the Statement of Financial Position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Inventories include consumable stores, food and beverages and are carried at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and comprises all costs of purchases, conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised in the Statement of Profit orLoss and Other Comprehensive Income, in the period in which the reversal occurs.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings and structures	25 years
Machinery and equipment	5–10 years
Motor vehicles	3–6 years
Office equipment and other	3–10 years
Furniture and fittings	5 years
Consumables	1–8 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2017

Operating lease payments, net of any incentives received from the lessor, are charged to the Statement of Profit or Loss and Other Comprehensive Income, on a straight-line basis over the term of the lease.

Intangible assets

Land rights

The intangible asset includes costs incurred to acquire interests in the usage of land in the Socialist Republic of Vietnam for the original hotel, located in Lao Cai. The term of the agreement is 30 years from the initial licencing date of 19 July 2002. These land use rights are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over a period of 30 years, from the licencing date. At the expiry of the land term it is expected, that the relevant state body will consider an application for extension.

Casino licence

The consolidated entity considers casino licences to be intangible assets with indefinite useful lives. Accordingly, they are not amortised and are tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on casino licences are recognised in the profit or loss.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Prepaid construction costs

Amounts recognised as prepaid construction costs relate to tranche payments made to third party developers in connection with the construction of the new Lao Cai Casino. Tranche payments are made in advance of construction work being performed in accordance with the terms of the contractor agreements; however, once associated works have been completed an amount equal to the tranche payment is transferred from prepaid construction costs to construction in progress. Once recognised as part of construction in progress the amounts are then carried on the Statement of Financial Position at cost, until such time as the asset is completed and ready for its intended use. Work in progress is not depreciated, but tested for impairment annually. Once ready for its intended use an amount equal to the cost of the completed asset will be transferred to property plant and equipment and accounted for in accordance with the consolidated entity's accounting policy for property plant and equipment.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Warrants

Warrants issued as part of financing arrangements, which may be net settled in cash or through the issue of shares of the parent entity are recognised as derivative financial liabilities measured at fair value through profit or loss. The fair value of the warrants is determined using the Black-Scholes model.

At each reporting date the warrants are revalued to fair value with any difference recognised in the profit or loss.

As the warrants were issued in connection with a loan facility, on initial recognition the fair value of the related loan facility is calculated as the difference between the proceeds and the fair value of the warrants.

The difference between the fair value of the loan facility and the proceeds is then amortised over the term of the loan using the effective interest rate method.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred including interest on short term and long term borrowings.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be wholly settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating sick leave is expensed to profit or loss when incurred.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be wholly settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees. Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using an amended Black-Scholes-Merton model that takes into account the exercise price, the term of the option, an exercise price multiple, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The financial instruments recognised at fair value in the Consolidated Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consist of the following levels:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

During the 2016 reporting period, the Group issued warrants which are classified as derivative financial liabilities and which are measured at fair value through profit or loss. The warrants (as detailed in note 19) are classified as level 2 in the fair value hierarchy, as the value is based on an adjustment to quoted market prices.

The warrants are measured using a Black-Scholes model.

There were no transfers between the levels of the fair value hierarchy during either the current or previous reporting period.

The directors consider that the carrying amount of all other financial assets and liabilities recorded in the financial statements approximate their fair value.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the consolidated entity purchases the Company's equity instruments, for example as the result of a share buyback or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Donaco International Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Donaco International Limited.

Dividends

Provision is made for the amount of any dividend declared, determined or announced by the directors on or before the end of the financial year but not distributed at balance date.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Donaco International Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and services tax and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated good and services tax (GST), unless the GST incurred is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the Statement of Financial Position.

Cash flows are presented gross of GST and similar taxes. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

AASB 9 Financial Instruments and applicable amendments, effective from 1 January 2018, addresses the classification, measurement and derecognition of financial assets and financial liabilities. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. It has now also introduced revised rules around hedge accounting and impairment. The consolidated entity will adopt this standard and the amendments from 1 July 2017 and it does not expect this to have a significant impact on the recognition and measurement of the consolidated entity's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the consolidated entity does not apply hedge accounting.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's Statement of Financial Position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 and is assessing the impact of its adoption.

AASB 16 Leases

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16. AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The accounting by lessors, however, will not significantly change. The consolidated entity has not elected early adoption and is assessing the impact of its adoption.

IFRS 2 – Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

This standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash settled share-based payments and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash settled to equity settled. Adoption of IFRS 2 is not mandatory until annual period beginning on or after 1 January 2018 and the consolidated entity is assessing the impact of its adoption.

New and amended standards adopted by the Group

AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)

This standard makes amendments to AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets. The main principle is to establish the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset rather than associated to revenue streams. This standard applies to annual reporting periods beginning on or after 1 January 2016. The adoption of the standard has not had a material effect on the financial statements.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by using an amended Black-Scholes-Merton model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

The value of shares issued to employees is based on the market value of shares traded on the ASX at the time of issue.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

The casino licence is stated at cost less impairment losses, if any. The licence issued by the Royal Government of Cambodia is renewable annually and deemed to be with indefinite useful life, and therefore should not be amortised. Its useful life is reviewed at each reporting period to determine whether events and circumstances continue to exist to support indefinite useful life assessment. An impairment test, by comparing its recoverable amount with its carrying amount, is performed annually. In the event that the expected future economic benefits are no longer probable of being recovered, the licences are written down to their recoverable amount.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on the higher of value-in-use calculations and fair value less costs of disposal. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates, including Cambodia, Vietnam and Hong Kong. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Warrants

The consolidated entity measures the cost of warrants issued by the reference to the fair value of the equity instruments at the date at which they are granted. The fair value of warrants is determined by using an amended Black-Scholes-Merton model taking into account the terms and conditions upon which the instruments were granted.

Employee share trust and option trust

The consolidated entity has engaged an external unrelated third party to form trusts to administer the Group's employee share schemes. The consolidated entity has no ownership interest in the trusts and the trusts are not consolidated as they are not controlled by the consolidated entity. In determining whether or not the consolidated entity had control over the trusts, management considered the trust's status as an independent trust with an independent trustee, which holds the assets for the benefit of the employees rather than the consolidated entity.

In making this determination management have considered a number of factors, the most relevant being that the trust deed which governs the trusts, outlines that the trustees have no obligation to comply with the consolidated entity's directions in respect of the allocation and issue of shares and share options.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into three operating segments: Casino Operations in Vietnam, Casino Operations in Cambodia and Corporate Operations. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The consolidated entity is domiciled in Australia and operates predominantly in six countries: Australia, Cambodia, Hong Kong, Vietnam, Singapore and Malaysia. The casino operations are segmented geographically between casino operations in Vietnam and Cambodia.

The CODM reviews EBITDA. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Casino Operations – Vietnam	Comprises the Aristo International Hotel operating in Vietnam. These operations include hotel accommodation and gaming and leisure facilities.
Casino Operations – Cambodia	Comprises the Star Vegas Resort and Club, operating in Cambodia. These operations include hotel accommodation and gaming and leisure facilities.
Corporate Operations	Comprises of the development and implementation of corporate strategy, commercial negotiations, corporate finance, treasury, management accounting, corporate governance and investor relations functions.

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Operating segment information for continuing operations

	Casino Operations – Vietnam	Casino Operations – Cambodia	Corporate Operations	Total
Consolidated – 2017	$	$	$	$
Revenue				
Sales to external customers	26,156,663	110,188,090	235	136,344,988
Interest and other income	29,478	–	69,323	98,801
Total revenue	26,186,141	110,188,090	69,558	136,443,789
Other income	–	–	(4,867)	(4,867)
Total income	26,186,141	110,188,090	64,691	136,438,922
EBITDA	14,676,730	61,190,103	(10,546,320)	65,320,513
Depreciation and amortisation	(5,294,247)	(4,624,353)	(210,699)	(10,129,299)
Interest revenue	29,478	–	69,323	98,801
Other income	–	–	1,113,012	1,113,012
Net exchange gains	(727,577)	–	(390,302)	(1,117,879)
Non-controlling interest	(198,751)	–	–	(198,751)
Finance costs	(1,591,881)	–	(18,967,742)	(20,559,623)
Profit before income tax expense	6,893,752	56,565,750	(28,932,728)	34,526,774
Income tax expense				(3,536,476)
Profit after income tax expense attributable to the owners of Donaco International Limited				30,990,298
Assets				
Segment assets	90,565,671	505,688,488	42,923,294	639,177,452
Total assets				639,177,452
Liabilities				
Segment liabilities	41,265,145	25,039,076	86,769,060	153,073,281
Total liabilities				153,073,281

	Casino Operations – Vietnam	Casino Operations – Cambodia	Corporate Operations	Total
Consolidated – 2016	$	$	$	$
Revenue				
Sales to external customers	23,202,203	120,116,215	361	143,318,779
Interest	13,962	–	53,037	66,999
Total revenue	23,216,165	120,116,215	53,398	143,385,778
Gain on bargain purchase	–	–	55,165,316	55,165,316
Other income/(expense)	–	–	2,596,962	2,596,962
Total income	23,216,165	120,116,215	57,815,676	201,148,056
EBITDA	11,683,102	66,571,238	(22,721,990)	55,532,350
Depreciation and amortisation	(5,704,998)	(4,008,916)	(232,062)	(9,945,976)
Interest revenue	13,962	–	53,037	66,999
Other income	–	–	57,774,655	57,774,655
Net exchange gains	(557,147)	–	544,770	(12,377)
Non-controlling interest	(149,883)	–	–	(149,883)
Finance costs	(1,466,270)	–	(19,079,266)	(20,545,536)
Profit before income tax benefit	3,818,766	62,562,322	16,339,144	82,720,232
Income tax benefit				(3,996,731)
Profit after income tax benefit				78,723,501
Assets				
Segment assets	97,614,196	537,688,394	47,416,894	682,719,484
Total assets				682,719,484
Liabilities				
Segment liabilities	28,996,850	29,961,285	144,450,923	203,409,058
Total liabilities				203,409,058

Geographical information

	Sales to external customers		Geographical non-current assets	
	2017	2016	2017	2016
	$	$	$	$
Australia	235	361	2,828,823	2,952,743
Vietnam	26,156,663	23,202,203	71,201,965	78,629,651
Cambodia	110,188,090	120,116,215	477,053,600	494,361,114
	136,344,988	143,318,779	551,084,387	575,943,508

Revenue and other income

	Consolidated	
	2017	2016
	$	$
Total reportable segment revenues	136,344,988	143,318,779
Other segment revenues	93,934	57,829,277
Total revenue and other income	136,438,922	201,148,056

Major customers

Transactions involving a single external customer amounting to 10 per cent or more of the consolidated entity's revenue at the end of the current and previous financial year is set out below:

2017	Number of customers	% of revenue	$
Casino Operations – Cambodia	1	23%	31,417,980
2016	**Number of customers**	**% of revenue**	**$**
Casino Operations – Cambodia	1	29%	41,017,389

Note 4. Revenue

	Consolidated	
	2017	2016
From continuing operations	$	$
Sales revenue		
Casino		
– gaming revenue	120,217,587	128,512,879
– non-gaming revenue	13,788,384	14,805,539
Management fee from Star Paradise	2,338,782	–
Corporate Operations	235	361
Interest	98,801	66,999
Revenue from continuing operations	136,443,789	143,385,778

Note 5. Other income/(expense)

	Consolidated	
	2017	2016
	$	$
Net foreign exchange loss	(1,117,879)	(12,377)
Gain on derivative financial instrument at fair value through the profit and loss	1,113,012	2,609,339
Other income/(expense)	(4,867)	2,596,962

Note 6. Expenses

	Consolidated	
	2017	2016
	$	$
Profit/(loss) before income tax from continuing operations includes the following specific expenses:		
Depreciation		
Land, buildings and structures	4,115,611	4,278,759
Furniture and fittings	478,683	483,024
Machinery and equipment	1,936,041	2,786,083
Office equipment and other	1,519,440	285,413
Motor vehicles	303,678	115,978
Consumables	1,773,683	1,994,417
	10,127,136	9,943,674
Amortisation		
Land right	2,163	2,302
Total depreciation and amortisation	10,129,299	9,945,976
Operating lease payments	267,906	526,546
Merger and acquisition costs	–	11,819,338
Superannuation expense		
Defined contribution superannuation expense	23,258	92,249
Impairment of assets		
Leasehold buildings	160,011	–
Furniture and fittings	22,348	–
Other equipment and other	16,426	–
	198,785	–

Note 7. Income tax expense

	Consolidated 2017 $	2016 $
Income tax expense		
Current tax	3,536,476	3,232,356
Adjustment recognised for prior periods	–	764,375
Aggregate income tax expense	3,536,476	3,996,731
Income tax expense is attributable to:		
Profit from continuing operations	3,536,476	3,996,731
Aggregate income tax expense	3,536,476	3,996,731
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense from continuing operations	34,725,525	82,870,115
Profits tax using:		
Australian corporation tax at the statutory tax rate of 30% (2016: 30%)	10,417,658	24,861,035
Tax effect of difference in overseas corporation tax at the statutory tax rate of 20% (2016: 20%)	(4,270,855)	(9,473,073)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income	1,254,958	(10,930,302)
Prior year tax losses applied to current year tax	–	(267,212)
Losses not brought into account	5,333,402	6,065,355
Tax exempt profits from Cambodian operations (note (a))	(11,313,150)	(9,049,176)
Obligation payments in Cambodia (note (a))	2,654,361	2,932,732
Adjustment for investment spending in Vietnam	(539,898)	(188,616)
	3,536,476	3,950,742
Adjustment recognised for prior periods	–	45,989
Income tax expense/(benefit)	3,536,476	3,996,731

(a) Income tax in profit or loss

Income tax includes obligation payments totalling $2,654,361 (2016: $2,932,732) payable to the Ministry of Economy and Finance of Cambodia (MOEF).

As at the date of this report, the Casino Law in respect of casino taxes in Cambodia is yet to be introduced. The MOEF levies an Obligatory Tax Payment, payable on a monthly basis. The Obligatory Tax Payment is comprised of a fixed gaming tax and a fixed non-gaming tax payment. In addition, an annual casino licence fee of USD30,000 is paid.

In respect of gaming activities, DNA Star Vegas Co., Ltd (DNA Star Vegas) has to pay the obligatory payment which is a fixed gaming tax and with the payment of this fixed gaming tax, DNA Star Vegas will be exempted from all categories of taxes on gaming activities including advance profits tax, minimum tax and advance tax on distribution of dividends.

As for non-gaming obligatory payment, it is considered as a composite of various other taxes such as salary tax, fringe benefit tax, withholding tax, value-added tax, tax on rental of moveable and unmoveable assets, minimum tax, advance profit tax, advertising tax and specific tax on entertainment services.

Monthly payments for the obligatory payment are due on the first week of the following month. DNA Star Vegas has made the obligatory payment on timely manner.

In the event of late payment within seven days from the due date, there will be a penalty of 2% on the late payment and interest of 2% per month. In addition, after 15 days when official government notice is issued to DNA Star Vegas for the late payment and an additional penalty of 25% will be imposed. In the case where DNA Star Vegas does not comply with the above-mentioned requirements, the MOEF will not issue the casino licences to DNA Star Vegas in the successive years.

Certain amendments to the Law of Investment (LOI) and Law of Taxation (LOT) were promulgated in March 2003. Under the amendments made to the LOT, distribution of dividends to non-residents will be subject to a withholding tax on the distribution of net of 20% corporate tax, at a rate of 14%, resulting in a net distribution tax of 31.2%. These amendments are not applicable to DNA Star Vegas as they will be regulated by the Casino Law which is yet to be enacted.

(b) The parent entity has not brought to account tax losses with a tax effect of $824,314 (2016: $612,978).

Note 8. Current assets – cash and cash equivalents

	Consolidated 2017 $	2016 $
Cash on hand	21,300,658	26,704,465
Cash at bank	41,835,143	49,512,338
Cash in transit	1,203,118	1,996,278
Short-term deposit	1,683,830	7,938
	66,022,749	78,221,019

Note 9. Current assets – trade and other receivables

	Consolidated 2017 $	2016 $
Trade receivables	17,581,840	23,980,927
Interest receivable on bank deposits	467	1,678
Tax related receivables	14,460	20,212
	17,596,767	24,002,817

Impairment of receivables

The consolidated entity has recognised a loss of $0 (2016: $0) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

Note 10. Current assets – inventories

	Consolidated 2017 $	2016 $
Food and beverage – at cost	893,474	1,418,876

Note 11. Current assets – prepaid construction costs

	Consolidated	
	2017	2016
	$	$
Prepaid construction costs	341,184	12,800

Amounts recognised as prepaid construction costs relate to tranche payments made to third-party developers in connection with the construction of the new Aristo International Hotel. Tranche payments are made in advance of construction work being performed in accordance with the terms of the contractor agreements; however, once associated works have been completed an amount equal to the tranche payment is transferred from prepaid construction costs to non current construction in progress.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2017

Note 12. Current assets – other

	Consolidated	
	2017	2016
	$	$
Bonds and security deposits	5,379	8,167
Prepayments	226,565	2,606,234
Other receivables	3,006,947	506,063
	3,238,891	3,120,464

Note 13. Non-current assets – property, plant and equipment

	Consolidated	
	2017	2016
	$	$
Leasehold buildings and structures – at cost	152,241,908	156,603,786
Less: accumulated depreciation	(12,931,787)	(9,144,218)
	139,310,121	147,459,568
Furniture and fittings – at cost	4,597,726	4,673,598
Less: accumulated depreciation	(4,160,572)	(3,716,907)
	437,154	956,691
Machinery and equipment – at cost	34,696,929	32,856,942
Less: accumulated depreciation	(18,513,168)	(15,619,942)
	16,183,761	17,237,000
Motor vehicles – at cost	1,869,091	1,726,296
Less: accumulated depreciation	(1,312,898)	(1,105,804)
	556,193	620,492
Office equipment and other – at cost	4,702,496	3,621,967
Less: accumulated depreciation	(2,584,380)	(2,284,589)
	2,118,116	1,337,378
Consumables	2,739,028	4,104,829
Less: accumulated depreciation	–	–
	2,739,028	4,104,829
	161,344,373	171,715,958

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold buildings $	Furniture and fittings $	Machinery and equipment $	Motor vehicles $	Office equipment and other $	Consumables $	Total $
Balance at 1 July 2015	60,709,290	–	14,266,923	393,558	1,311,121	5,337,017	82,017,909
Acquisition of a subsidiary	90,768,919	1,245,292	2,662,344	354,580	46,903	–	95,078,038
Additions	1,434,892	246,750	3,077,746	–	251,858	391,951	5,403,197
Disposals	–	–	(704)	–	–	–	(704)
Exchange differences	(1,008,995)	–	(35,554)	(11,668)	12,909	370,278	(673,030)
Transfers in/(out)	(165,779)	(52,327)	52,328	–	–	–	(165,778)
Depreciation expense	(4,278,759)	(483,024)	(2,786,083)	(115,978)	(285,413)	(1,994,417)	(9,943,674)
Balance at 30 June 2016	147,459,568	956,691	17,237,000	620,492	1,337,378	4,104,829	171,715,958
Additions	1,461,303	7,045	693,813	319,835	1,168,053	–	3,650,049
Disposals	(480,951)	(20,817)	–	(66,429)	(21,604)	(1,224,055)	(1,813,856)
Impairment	(160,011)	(22,348)	–	–	(16,426)	–	(198,785)
Exchange differences	(4,854,177)	(4,734)	(3,509,508)	(14,027)	2,791,554	1,631,937	(3,958,955)
Transfers in/(out)	–	–	3,698,497	–	(1,621,399)	–	2,077,098
Depreciation expense	(4,115,611)	(478,683)	(1,936,041)	(303,678)	(1,519,440)	(1,773,683)	(10,127,136)
Balance at 30 June 2017	139,310,121	437,154	16,183,761	556,193	2,118,116	2,739,028	161,344,373

Consumables represent low value, high turnover items that are depreciated in accordance with company policy and local legislation.

Note 14. Non-current assets – intangibles

	Consolidated 2017 $	Consolidated 2016 $
Goodwill – at cost	2,426,187	2,426,187
Land right – at cost	67,004	70,047
Less: accumulated amortisation	(34,651)	(33,650)
	32,353	36,397
Casino licence	386,681,694	400,543,357
	389,140,234	403,005,941

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2017

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $	Land right $	Casino licence $	Total $
Balance at 1 July 2015	2,426,187	38,390	–	2,464,577
Additions through business combinations	–	–	400,543,357	400,543,357
Disposal	–	–	–	–
Exchange differences	–	309	–	309
Amortisation expense	–	(2,302)	–	(2,302)
Balance at 30 June 2016	2,426,187	36,397	400,543,357	403,005,941
Additions through business combinations	–	–	–	–
Disposals	–	–	–	–
Exchange differences	–	(1,881)	(13,861,663)	(13,863,544)
Amortisation expense	–	(2,163)	–	(2,163)
Balance at 30 June 2017	2,426,187	32,353	386,681,694	389,140,234

Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill is monitored by the Chief Operating Decision Maker (CODM) at the cash-generating unit level. CODM reviews the business performance based on geography and type of business. It has identified two reportable cash-generating units, Lao Cai and DNA Star Vegas. A business-level summary of the goodwill allocation is presented below:

	Consolidated 2017 $	Consolidated 2016 $
Lao Cai International Hotel JVC	2,426,187	2,426,187
Total goodwill	2,426,187	2,426,187

Lao Cai – goodwill

The recoverable amount of the cash-generating unit of Lao Cai has been determined based on the value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period.

The Group determines whether goodwill is impaired at least on an annual basis. To do so, the Group employs a value in use calculation using cash flow projections from financial budgets approved by senior management. Management has forecast a strong growth rate in budgeted gross margin for FY18 based on the growth in revenue from Aristo's main gaming floor, VIP gaming, and the increase in the number of slot machines. The new hotel room, entertainment, restaurant and bar revenue lines, with associated marketing programs, will increase visitation to the new hotel, which will also contribute to overall revenue growth. Gross margin projections for future years are based on past performance and management's expectations for future performance in each segment.

Management determined budgeted gross margin based on past performance and its expectations for the future and are considered to be reasonably achievable. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments and the countries in which they operate.

The recoverable amount calculation for goodwill is most sensitive to changes in growth rate and EBIT margin on sales. Based on sensitivity analysis performed, no reasonable change in these assumptions would give rise to an impairment.

No impairment has been recognised for the year ended 30 June 2017 (2016: nil).

DNA Star Vegas – casino licence

The casino licence relates to the licence to operate the DNA Star Vegas casino acquired on 1 July 2015. The licence is stated at cost less any impairment losses. This intangible asset is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of the cash-generating unit of DNA Star Vegas has been determined based on the fair value less costs of disposal. An independent valuation of the 100% equity interest in DNA Star Vegas Company Limited was undertaken as at 31 March 2017. Adjustments were made to determine the fair value less cost of disposal of the cash-generating units which was reasonably determined to be $497,685,767 (USD380,431,000 converted at the spot rate).

The valuation was determined using budgeted gross margin based on past performance and its expectations for the future and are considered to be reasonably achievable. The valuation is classified as level 3 fair values in the fair value hierarchy as it was based on a 10 year cash flow forecast period. The weighted average growth rates used are consistent with forecasts included in industry reports. The valuation uses a growth rate of 4.5% in the first year, 4% in the following nine years and a terminal growth rate of 3%. The discount rates used of 16.31% reflect specific risks relating to the relevant segments and the countries in which they operate. The valuation was determined using a foreign exchange rate between Thai baht and US dollar of 34.353 THB:1 USD. A capital expenditure percentage of 1.5% has also been included in the valuation. Furthermore, the valuation includes a Discount for Lack of Marketability (DLOM) of 25%.

The recoverable amount calculation for the cash-generating unit of DNA Star Vegas is most sensitive to changes in the DLOM changes in growth rate, EBIT margin on sales and a change in exchange rate between Thai baht and US dollar. An increase in excess of 1% in the DLOM would result in impairment of the cash generating unit of DNA Star Vegas. Additionally, an increase in excess of 0.5 THB:1 USD would result in impairment of the cash-generating unit of DNA Star Vegas.

Management reassessed the position as at 30 June 2017 based on this valuation and determined that no impairment needed to be recognised as at 30 June 2017.

Land use right

An intangible asset of $32,353 (2016: $36,397) which relates to a 30-year land use right in the Socialist Republic of Vietnam. Land use right is stated at cost less accumulated amortisation and any impairment losses. The amortisation period is 30 years. This intangible asset is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Note 15. Non-current assets – construction in progress

	Consolidated	
	2017	2016
	$	$
Property construction works in progress	595,885	1,143,158

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Construction work in progress $
Balance at 1 July 2014	205,737
Additions	1,539,648
Exchange differences	7,031
Transfer in/(out)	(609,258)
Balance at 30 June 2015	1,143,158
Additions	1,612,657
Exchange differences	(82,832)
Transfers out	(2,077,098)
Balance at 30 June 2017	595,885

Construction relates to costs incurred by the new construction of the Aristo International Hotel.

Amounts previously recognised as prepaid construction costs, are transferred to construction in progress, once associated works have been completed.

Once recognised as part of construction in progress the amounts are then carried on the Statement of Financial Position at cost, until such time as the asset is completed and ready for its intended use. Work in progress is not depreciated, but tested for impairment annually. Once ready for its intended use an amount equal to the cost of the completed asset will be transferred to property, plant and equipment or non-current prepayment and accounted for in accordance with the consolidated entity's accounting policy for each asset class.

Note 16. Non-current assets – other

	Consolidated	
	2017	2016
	$	$
Other debtors	3,895	78,451

Note 17. Current liabilities – trade and other payables

	Consolidated	
	2017	2016
	$	$
Trade payables	4,472,103	5,046,135
Deposits received	101,974	111,510
Floating chips	13,013,770	13,652,683
Interest payable	2,060,154	93,071
Other payables and accrued expenses	22,140,106	28,851,548
	41,788,107	47,754,947

Refer to note 28 for further information on financial instruments.

Floating chips

The number of floating chips is determined as the difference between the number of chips in use and the actual chips counted by the casino as at the reporting date.

Note 18. Current liabilities – borrowings

	Consolidated	
	2017	2016
	$	$
Joint Stock Commercial Ocean Bank	2,791,979	2,942,907
Mega International Commercial Bank Co. Limited	52,116,619	37,164,227
	54,908,598	40,107,134

Refer to note 28 for further information on financial instruments.

Total secured liabilities

The total secured current liabilities are as follows:

	Consolidated	
	2017	2016
	$	$
Joint Stock Commercial Ocean Bank	2,791,979	2,942,907
Mega International Commercial Bank Co. Limited	52,116,619	37,164,227
	54,908,598	40,107,134

Assets pledged as security

The loan from Mega International Commercial Bank Co. Limited is secured by the following:

i. a parent company guarantee from the parent entity for the debt owed by Donaco Hong Kong Limited;

ii. a pledge of the shares in Donaco Hong Kong Limited owned by the parent entity (carrying value $293,608,393, 2016: $293,608,393);

iii. a pledge of the shares in DNA Star Vegas Co., Ltd owned by Donaco Hong Kong Limited (carrying value $426,270,598, 2016: $441,516,797);

iv. a pledge of the debt service reserve account maintained by Donaco Hong Kong Limited;

v. a security assignment of contractual rights held by the parent entity under the purchase agreement for DNA Star Vegas;

vi. a security agreement over the assets of DNA Star Vegas; and

vii. a hypothec agreement over the land and buildings of DNA Star Vegas.

Mortgage to Joint Stock Commercial Ocean Bank

The loans from Ocean Bank of Vietnam are secured by first mortgages over the land and buildings in Vietnam, more specifically the Aristo International Hotel operation (carrying value $67,974,718, 2016: $74,479,953).

A mortgage was registered by the Ocean Bank of Vietnam over the assets of the Aristo International Hotel, on 11 July 2011. Total borrowings as per the Statement of Financial Position as at 30 June 2017 under this arrangement were $9,771,928 (2016: $13,243,081).

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit (current and non current):

	Consolidated	
	2017	2016
	$	$
Total facilities		
Bank loans	108,462,225	151,801,133
Used at the reporting date		
Bank loans	108,462,225	151,801,133
Unused at the reporting date		
Bank loans	–	–

Note 19. Current liabilities – financial liabilities

	Consolidated	
	2017	2016
	$	$
Derivative financial liability at fair value through profit and loss		
Warrants	681,507	1,794,520

As a requirement of the terms of the Group's facility provided by OL Master Limited, the Company as guarantor has issued 70 warrants to subscribe for its ordinary shares. Each warrant has a notional value of USD100,000. The warrants have a term of 39 months and expire on 6 October 2018. The exercise price is AUD0.7579 and the maximum number of ordinary shares which may be issued is 12,334,408, and the Company may elect to settle the difference between the share price and exercise price in cash.

The warrants associated with this transaction are classified as a derivative financial liability. On initial recognition the warrants issued are measured at fair value. At each reporting date the derivative financial liability is revalued to fair value with the movement in the fair value recorded in profit or loss.

For the warrants granted during the prior financial year, fair value at grant date was $4,403,859. The valuation model inputs used to determine the fair value at the balance date, are as follows:

Grant date	Expiry date	Share price at reporting date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value
07/07/2015	07/10/2018	$0.580	$0.76	47.85%	–	1.66%	$681,507

The remaining contractual life at 30 June 2017 is 1.27 years (2016: 2.27) The warrants are classified as current liabilities as they can be exercised at any time.

Note 20. Current liabilities – income tax

	Consolidated	
	2017	2016
	$	$
Provision for income tax	1,127,767	1,560,149

Note 21. Current liabilities – employee benefits

	Consolidated	
	2017	2016
	$	$
Annual leave	95,613	39,775
Accrued salaries, wages and other benefits	885,393	442,322
	981,006	482,097

Note 22. Non-current liabilities – borrowings

	Consolidated	
	2017	2016
	$	$
Joint Stock Commercial Ocean Bank	6,979,949	10,300,174
OL Master Ltd	–	22,519,671
Mega International Commercial Bank Co. Limited	46,573,678	78,874,154
	53,553,627	111,693,999

Refer to note 28 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2017	2016
	$	$
Joint Stock Commercial Ocean Bank	9,771,928	13,243,081
OL Master Ltd	–	22,519,671
Mega International Commercial Bank Co. Limited	98,690,297	116,038,381
	108,462,225	151,801,133

Assets pledged as security

A term loan facility from OL Master Limited was drawn down on 7 July 2015 to provide working capital for the consolidated entity. As a requirement of the terms of the consolidated entity's facility provided by OL Master Limited, the Company as guarantor has issued 70 warrants to subscribe for its ordinary shares. Each warrant has a notional value of USD100,000. The warrants have a term of 39 months and expire on 6 October 2018. The exercise price is AUD0.7579 and the maximum number of ordinary shares which may be issued is 12,339,408. The Company may elect to settle the difference between the share price and exercise price in cash.

Note 23. Non-current liabilities – employee benefits

	Consolidated	
	2017	2016
	$	$
Long service leave	32,669	16,212
	32,669	16,212

Note 24. Equity – issued capital

	Consolidated			
	2017	2016	2017	2016
	Shares	Shares	$	$
Ordinary shares – fully paid	831,211,424	831,211,424	359,968,884	360,968,368

Details	Date	Shares	Issue price	$
Balance	30 June 2015	683,250,290	$ –	246,719,609
Issued share – consideration for DNA Star Vegas Co Ltd	1 July 2015	147,199,529	$ 0.775	114,079,635
Employee short term incentive	1 October 2015	487,793	$ 0.700	341,455
Less: transaction costs arising on share issue	multiple	–	$ –	(443,131)
Adjustment to equity reserve on issue of shares for acquisition	multiple	–	$ –	–
Transfer from share based payments reserve for 2014 share based payments		273,812	$ –	270,800
Balance	30 June 2016	831,211,424	$ –	360,968,368
Acquisition of shares for employee share scheme	–	–	$ –	(999,484)
Balance at 30 June 2017	–	831,211,424	$ –	359,968,884

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. The financing arrangements contain certain covenants relating to interest cover (the ratio of consolidated EBITDA to consolidated finance charges), and debt ratio (the ratio of consolidated net debt to EBITDA), which apply to Donaco Hong Kong Limited. In addition, covenants relating to the debt equity ratio (the ratio of consolidated total debt to consolidated total equity), and minimum cash holdings, apply to the consolidated entity.

There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 2016 financial statements.

Treasury shares are shares in Donaco International Limited that are held by Smartequity EIS Pty Ltd for the purpose of issuing shares under the employee share scheme. Shares issued to employees are recognised on a first-in-first-out basis.

Details	Number of shares	$
Opening balance 1 July 2015	–	–
Acquisition of shares by the Trust	–	–
Balance 30 June 2016	–	–
Acquisition of shares by the Trust (average price:$0.4199 per share)	2,376,653	999,484
Balance 30 June 2017	2,376,653	999,484

Note 25. Equity – reserves

	Consolidated	
	2017	2016
	$	$
Revaluation surplus reserve	1,855,327	1,855,327
Foreign currency reserve	4,275,055	19,697,748
Employee share option reserve	3,295,396	3,021,680
	9,425,778	24,574,755

Consolidated	Revaluation surplus reserve $	Employee share option reserve $	Foreign currency $	Total $
Balance at 1 July 2016	1,855,327	1,967,750	11,934,445	15,757,522
Foreign currency translation	–	–	7,763,303	7,763,303
Employee share option expense	–	1,324,730	–	1,324,730
Transfer to retained earnings	–	(270,800)	–	(270,800)
Balance at 30 June 2016	1,855,327	3,021,680	19,697,748	24,574,755
Foreign currency translation	–	–	(15,422,693)	(15,422,693)
Employee share option expense	–	273,716	–	273,716
Balance at 30 June 2017	1,855,327	3,295,396	4,275,055	9,425,778

Nature and purpose of equity reserves

Revaluation surplus

The revaluation surplus reserve is used to record increments and decrements in the fair value of net assets of disposed entities.

Employee share option

The employee share option reserve is used to recognise:

- the grant date fair value of options issued to key management personnel but not exercised; and
- the issue of options held by the Employee Share Option Trust to key management personnel.

Foreign currency

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Note 26. Equity – retained profits

	Consolidated 2017 $	Consolidated 2016 $
Retained profits at the beginning of the financial year	92,630,958	13,907,457
Profit/(loss) after income tax expense/(benefit) for the year	30,990,298	78,723,501
Dividends paid	(8,246,843)	–
Retained profits at the end of the financial year	115,374,413	92,630,958

Note 27. Equity – dividends

A dividend of $8,246,843 (1 cent per ordinary share) was paid on 19 October 2016. The dividend was 100% conduit foreign income and was unfranked. On 29 August 2017, the consolidated entity announced a final unfranked dividend of 0.5 cents per share, amounting to $4,156,057. The planned record date for the dividend is 6 October 2017 and planned payment date is 20 October 2017.

A new dividend policy was announced on 29 August 2017, which stated that the consolidated entity intends to pay out 10–30% of net profit after tax as dividends to shareholders, with the intention to provide regular half-yearly dividend payments, subject to the consolidated entity's then current working capital requirements and growth plans. shareholders should note that the payment of dividends is not guaranteed.

Franking credit balance

The dividend recommended after 30 June 2017 is fully unfranked and 100% conduit foreign income.

	Consolidated 2017 $	Consolidated 2016 $
Franking credits available for subsequent reporting periods after payment of tax liability based on a tax rate of 30% (2016: 30%)	501,543	501,543

Note 28. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives (finance) under policies approved by the Board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rate will affect the consolidated entity's income.

Foreign currency risk

The consolidated entity is exposed to foreign exchange fluctuations in relation to cash generated for working capital purposes, denominated in foreign currencies and net investments in foreign operations, in which the functional currencies are Vietnamese dong and Thai baht.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. An assessment of the sensitivity of the consolidated entity's exposure to interest rate movements was performed, and was found to be immaterial for the purposes of this disclosure.

Exchange rate exposures are managed within approved policy parameters and material movements are not expected. The consolidated entity does not enter into any forward exchange contracts to buy or sell specified foreign currencies.

The average exchange rates and reporting date exchange rates applied were as follows:

	Average exchange rate		Reporting date exchange rate	
	2017	2016	2017	2016
Australian dollars				
USD	1.3254	1.3730	1.3001	1.3466
THB	0.0380	0.0387	0.0382	0.0382
VND	0.0001	0.0001	0.0001	0.0001
CNY	0.1946	0.2132	0.1921	0.2027
MYR	0.3093	0.3322	0.3028	0.3344
SGD	0.9520	0.9881	0.9436	0.9973
HKD	0.1707	0.1770	0.1666	0.1736

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2017	2016	2017	2016
Consolidated				
USD	39,885,279	49,687,955	(101,805,116)	(141,980,071)
VND	6,666,217	3,402,538	(11,036,948)	(14,033,888)
CNY	14,514,911	14,511,848	(13,013,771)	(12,845,036)
MYR	34,749	63,329	(82,477)	–
THB	26,675,967	27,617,696	(25,316,206)	–
SGD	203,720	199,763	(13,219)	(100,494)
EUR	6,685	–	–	–
HKD	183,740	164,218	(55,193)	(55,576)
	88,171,269	95,647,346	(151,322,930)	(169,015,064)

A 5% strengthening of the Australian dollar against the various foreign currencies at the balance date would increase/(decrease) the Company's profit/(loss) after tax by the amounts shown below. The analysis assumes that all other variables remain constant.

		Australian dollar strengthened	
	% Change	Effect on profit after tax	Effect on profit after tax
		2017	2016
		$	$
Consolidated			
USD	5%	3,095,992	4,614,606
VND	5%	218,537	531,568
CNY	5%	(75,057)	(83,341)
MYR	5%	2,386	(3,166)
THB	5%	(67,988)	(1,380,885)
SGD	5%	(9,525)	(4,963)
EUR	5%	(334)	–
HKD	5%	(6,427)	(5,432)
		3,157,583	3,668,386

A 5% weakening of the Australian dollar against the various currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The consolidated entity's exposure to the risk of changes in market interest rates relates primarily to the consolidated entity's bank loans and debt obligations and its cash and cash equivalents. The consolidated entity manages its interest rate risk by using a combination of variable and fixed rate borrowings.

As at the reporting date, the consolidated entity had the following cash and cash equivalents:

	2017		2016	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$	%	$
Consolidated				
Bank loans	8.09%	(108,462,225)	8.12%	(151,801,133)
Cash on hand and cash at bank	0.00%	64,338,919	0.05%	78,213,081
Short-term deposits	0.00%	1,683,830	0.00%	7,938
Net exposure to cash flow interest rate risk		(42,439,476)		(73,580,114)

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

An assessment of the sensitivity of the consolidated entity's exposure to interest rate movements was performed, and was found to be immaterial for the purposes of this disclosure.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity maintains cash to meet all its liquidity requirements and manages its liquidity by carefully monitoring cash outflows due in a day-to-day and week-to-week basis. Furthermore, the consolidated entity's long-term liquidity needs are identified in its annual Board approved budget, and updated on a quarterly basis through revised forecasts.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual maturities
Consolidated – 2017	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	–	4,472,103	–	–	–	4,472,103
Floating chips	–	13,013,770	–	–	–	13,013,770
Interest-bearing – variable						
Bank loans	8.09%	54,908,598	53,553,627	–	–	108,462,225
Total non-derivatives		72,394,471	53,553,627	–	–	125,948,098

	Weighted average interest rate	1 year or loss	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual maturities
Consolidated – 2016	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	–	5,046,135	–	–	–	5,046,135
Floating chips	–	13,652,683	–	–	–	13,652,683
Interest-bearing – fixed						
Bank loans	9.64%	2,942,907	5,885,813	26,934,032	–	35,762,752
Non-interest bearing – variable						
Bank loans	7.65%	37,164,227	38,484,710	40,389,444	–	116,038,381
Total non-derivatives		58,805,952	44,370,523	67,323,476	–	170,499,951

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 29. Key management personnel disclosures

Directors

The following persons were directors of Donaco International Limited during the financial year:

Stuart James McGregor	Non-Executive Director and Chairman
Joey Lim Keong Yew	Managing Director and CEO
Benedict Paul Reichel	Executive Director and Company Secretary
Benjamin Lim Keong Hoe	Non-Executive Director
Robert Andrew Hines	Non-Executive Director
Ham Techatut Sukjaroenkraisri	Executive Director
Paul Porntat Amatavivadhana	Non-Executive Director (resigned 3 July 2017)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Kenny Goh Kwey Biaw	Deputy Chief Financial Officer and CEO of Donaco Singapore
Chong Kwong Yang	Chief Financial Officer
Att Asavanund	Chief Operating Officer and Deputy CEO (resigned 31 August 2017)

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2017	2016
	$	$
Short-term employee benefits	3,147,999	3,252,995
Post-employment benefits	103,292	83,107
Long-term benefits	–	18,341
Share-based payments	196,804	1,461,440
	3,448,095	4,815,883

Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Crowe Horwath the auditor of the Company, and unrelated firms:

	Consolidated	
	2017	2016
	$	$
Audit services – Crowe Horwath Sydney (2016: William Buck)		
Audit or review of the financial statements	97,500	91,570
Other services – Crowe Horwath Sydney (2016: William Buck)		
Preparation of the tax return	–	10,000
	97,500	101,570
Audit services – related firms		
Audit or review of the financial statements	239,202	–
Preparation of the tax return	1,022	–
	240,223	–
	240,223	–
Audit services – unrelated firms		
Audit or review of the financial statements	74,135	198,409
Other services – unrelated firms		
Preparation of the tax return	5,019	7,509
Other services provided for Donaco Singapore	–	343,892
	5,019	351,401
	79,154	549,810

Note 31. Commitments

	Consolidated	
	2017	2016
	$	$
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property construction works	637,089	1,291,389
Car	44,028	–
	681,117	1,291,389
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	371,396	304,374
One to five years	792,453	817,283
More than five years	7,443,115	7,709,285
	8,606,964	8,830,942

Operating lease commitments includes contracted amounts for various offices and sites within Australia and South-East Asia under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Note 32. Related party transactions

Parent entity

Donaco International Limited is the legal parent entity. Donaco International Limited is listed on the Australian Securities Exchange (ASX: DNA).

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the Directors' Report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2017	2016
	$	$
Labour hire fee paid to Star Vegas Resort & Club Co., Ltd – a director-related entity	11,959,472	10,915,776
Leasing fees paid to Lee Hoe Property Co., Ltd – a director-related entity	156,012	16,159
Rental received from director's immediate family	111,734	116,100
Purchase of fixed assets by DNA Star Vegas from Star Vegas Resort & Club Co., Ltd – a director-related entity	–	1,030,727
Technical support fees paid by Lao Cai JVC to iSentric Limited – a director-related entity	187,214	–
Licence agreement for occupation of office space paid to Infinite Capital Co., Ltd – a director-related entity	45,840	–
Management fees received for Star Paradise Casino property from MMD Travel Co Ltd – a director-related entity	2,338,782	–
Management fees paid to previous owner of DNA Star Vegas Co., Ltd – a director-related entity	19,045,688	20,492,174
Disposal of property, plant and equipment to previous owner of DNA Star Vegas Co., Ltd – a director-related entity	586,237	–

The above transactions occurred at commercial rates.

Receivable from and payable to related parties

A management fee of $19,045,688 (2016: $20,492,174) was payable to the previous owner of Star Vegas and a management fee of $2,338,782 was receivable from Star Paradise Casino at year end. There were no other receivables from related parties at the current or previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2017

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of Profit or Loss and Other Comprehensive Income

	Parent	
	2017	2016
	$	$
Profit/(loss) after income tax	2,015,705	(16,796,945)
Total comprehensive income	2,015,705	(16,796,945)

Statement of Financial Position

	Parent	
	2017	2016
	$	$
Total current assets	19,672,065	35,588,600
Total assets	370,065,828	372,146,330
Total current liabilities	33,990,140	29,089,505
Total liabilities	33,982,653	29,105,717
Equity		
Issued capital	407,931,972	408,931,972
Employee share option reserve	3,295,396	3,021,680
Accumulated losses	(75,144,193)	(68,913,039)
Total equity	336,083,175	343,040,613

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

As at 30 June 2017, the parent entity acts as a guarantor for the facility provided by Mega International Commercial Bank Co. Limited to a controlled entity, Donaco Hong Kong Limited.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Capital commitments – property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2017 and 30 June 2016.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity
- dividends received from subsidiaries are recognised as other income by the parent entity.

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Ownership interest	
	Principal place of business/ country of incorporation	2017	2016
Name		%	%
Donaco Australia Pty Ltd	Australia	100%	100%
Donaco Singapore Pte Ltd	Singapore	100%	100%
Donaco Holdings Ltd*	British Virgin Islands	100%	100%
Donaco Holdings Sdn Bhd*	Malaysia	100%	100%
Lao Cai International Hotel Joint Venture Company*	Vietnam	95%	95%
Donaco Hong Kong Limited	Hong Kong	100%	100%
Prime Standard Limited	Hong Kong	100%	100%
Donaco Holdings (Hong Kong) Pte Ltd*	Hong Kong	100%	100%
DNA Star Vegas Co. Limited**	Cambodia	100%	100%
Donaco Entertainment & Marketing (Thailand) Ltd*	Thailand	49%	49%

* Subsidiary of Donaco Singapore Pty Ltd
** Subsidiary of Donaco Hong Kong Limited

The principal activities of each subsidiary are:

Donaco Australia Pty Ltd	Dormant (previously operated New Zealand games service, discontinued in January 2015).
Donaco Singapore Pte Ltd	Holding company for Vietnamese casino operations.
Donaco Holdings Ltd	Cost centre for corporate operations.
Donaco Holdings Sdn Bhd	Cost centre for corporate operations.
Donaco Holdings (Hong Kong) Pte Ltd	Cost centre for corporate operations and marketing activities.
Lao Cai International Hotel Joint Venture Company	Operates Vietnamese casino operations.
Donaco Hong Kong Limited	Holding company for Cambodian casino operations.
Prime Standard Limited	Cost centre for corporate operations.
DNA Star Vegas Co., Limited	Operates Cambodian casino operations.
Donaco Entertainment & Marketing (Thailand) Ltd	Provision of marketing services. While the ownership of this entity is below 50%, it is considered a controlled entity due to the provisions of the shareholders agreement which give the consolidated entity the right to appoint a majority of the Board.

Summarised financial information

Summarised financial information of the subsidiary with non-controlling interests that are material to the consolidated entity are set out below:

Lao Cai International Hotel Joint Venture Company

	2017	2016
	$	$
Summarised Statement of Financial Position		
Current assets	14,894,013	14,098,132
Non-current assets	54,766,529	58,391,246
Total assets	69,660,542	72,489,378
Current liabilities	18,413,616	20,060,871
Non-current liabilities	13,326,362	17,514,202
Total liabilities	31,739,978	37,575,073
Net assets	37,920,564	34,914,305
Summarised Statement of Profit or Loss and Other Comprehensive Income		
Revenue	26,186,141	22,659,016
Expenses	(19,093,638)	(18,690,367)
Profit before income tax expense	7,092,503	3,968,649
Income tax expense	(880,886)	(296,582)
Profit after income tax expense	6,211,617	3,672,067
Other comprehensive income	–	–
Total comprehensive income	6,211,617	3,672,067
Statement of Cash Flows		
Net cash from operating activities	13,982,466	8,794,600
Net cash used in investing activities	(1,556,309)	(685,635)
Net cash used in financing activities	(9,897,377)	(2,483,479)
Net decrease in cash and cash equivalents	2,528,780	5,625,486
Other financial information		
Profit attributable to non-controlling interests	198,751	149,883
Accumulated non-controlling interests at the end of reporting period	1,335,096	1,136,345

Note 35. Events after the reporting period

Dividend

On 29 August 2017, the Board of Donaco International Limited has announced that it intends to declare an ordinary dividend of 0.5 cents per share, amounting to $4,156,057. The dividend is 100% conduit foreign income and is unfranked. Proposed dates for the dividend payment are: ex-dividend date, 5 October 2017; record date, 6 October 2017; and payment date, 20 October 2017.

Refinance of loan with Mega International Commercial Bank Co. Limited

The Company announced to the ASX on 15 August 2017 that it has refinanced its loan facility with Mega International Commercial Bank Co. Limited of Taiwan (Mega Bank). Of the original USD100 million term loan facility with Mega Bank drawn down in July 2015 and the additional USD20 million drawn down in July 2016, the Company has repaid a total of USD63.4 million in the past two years, with the remaining principal amount of the previous facility standing at USD56.6 million.

The previous facility had a three-year term, with the remaining USD56.6 million being repayable within the next 12 months. This consisted of USD20.8 million repayable in January 2018, and the remaining USD35.8 million repayable in July 2018.

The new facility will be for an amount of USD57 million. The term has been extended to three years from the date of drawdown, which occurred on 28 August 2017, following the completion of the conditions precedent.

Under the new loan, 15% of the principal amount is repayable every six months. This means that the next principal repayment has been reduced to approximately USD8.6 million, due in February 2018.

The interest rate on the loan has also been reduced slightly, from a margin of 6.75% over the six month LIBOR rate, to a margin of 6.0%, provided that the net debt (total borrowings minus cash) of Donaco Hong Kong Limited is less than the EBITDA of Donaco Hong Kong Limited. If net debt exceeds EBITDA, then the margin may increase to a maximum of 6.5%.

In addition, a number of covenants controlling capital management (dividends and buybacks) have been relaxed, but there are still some restrictions in place until the remaining principal falls below USD50 million, which is expected to occur following the next repayment in February 2018.

Share options

On 28 July 2017, the Company announced the expiration of 1,651,883 options on 1 July 2017 in accordance with their terms. The options were part of the FY14 option series. Currently, there are 5,444,810 remaining options on issue.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2017	2016
	$	$
Profit after income tax expense for the year	31,189,049	78,873,384
Adjustments for:		
Depreciation and amortisation	10,129,299	9,945,976
Impairment of assets	198,785	–
Net loss/(gain) on disposal of non-current assets	–	167,630
Gain on bargain purchase	–	(55,165,316)
Share-based payments	273,716	1,666,185
Foreign exchange movements	–	(680,309)
Expenses related to acquisition	–	11,819,338
Non-cash finance costs	8,037,166	5,598,067
Gain on revaluation of derivative financial liability	(1,113,012)	(2,609,339)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	5,581,440	(21,943,702)
Decrease/(increase) in inventories	525,402	(718,010)
Decrease/(increase) in other operating assets	38,057	(1,949,631)
(Decrease)/increase in trade and other payables	(7,587,488)	23,690,460
(Decrease)/increase in provision for income tax	(432,382)	1,132,643
Increase in provisions for employee benefits	515,367	173,419
Net cash from operating activities	47,355,398	50,000,795

Note 37. Earnings per share

	Consolidated 2017	Consolidated 2016
	$	$
Earnings per share for profit/(loss) from continuing operations		
Profit/(loss) after income tax	31,189,049	78,873,384
Non-controlling interest	(198,751)	(149,883)
Profit/(loss) after income tax attributable to the owners of Donaco International Limited	30,990,298	78,723,501
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	831,211,424	831,087,477
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	–	376,433
Weighted average number of ordinary shares used in calculating diluted earnings per share	831,211,424	831,463,910
	Cents	Cents
Basic earnings per share	3.73	9.47
Diluted earnings per share	3.73	9.47

An additional 7,096,693 options over ordinary shares and 12,339,408 shares subject to warrants are antidilutive and have been excluded from the above calculations as the exercise price of these warrants exceeds the average market share price during the year.

Note 38. Share-based payments

Employee options

Employee option allocation FY14

At the Annual General Meeting on 21 November 2013, shareholders approved the establishment of a long-term incentive (LTI) plan for executives, consisting of the annual grant of units under an option share trust (OST). On 23 December 2013, the Company announced that it had issued options amounting to 1% of its then issued capital (a total of 4,010,511 options) under the LTI plan. Approval for the issue of these options under an employee incentive scheme was obtained pursuant to ASX Listing Rule 10.14.

These options were not contributed to the OST until 1 July 2014. Accordingly employees were not allocated units in the OST until 1 July 2014.

Employee option allocation FY15

Pursuant to the approval granted by shareholders at the FY13 Annual General Meeting, further options were contributed to the OST for FY15. These options were not contributed to the OST until 1 July 2015, and accordingly employees were not allocated additional units in the OST until 1 July 2015.

Employee option allocation FY16

Pursuant to the approval granted by shareholders at the FY13 Annual General Meeting, further options were contributed to the OST for FY16. These options were contributed to the OST and employees were allocated additional units on 25 August 2015.

Set out below are summaries of options outstanding under the plan during the year ended 30 June 2017:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired forfeited/other	Balance at the end of the year
01/07/2014	01/07/2016	$0.59	1,365,960	–	–	(1,365,960)	–
01/07/2014	01/07/2017	$0.59	1,294,836	–	–	(100,000)	1,194,836
01/07/2014	01/07/2018	$0.59	1,249,716	–	–	(99,999)	1,149,717
01/07/2015	01/07/2017	$0.89	457,047	–	–	–	457,047
01/07/2015	01/07/2018	$0.89	395,208	–	–	–	395,208
01/07/2015	01/07/2019	$0.89	349,376	–	–	–	349,376
25/08/2015	01/07/2018	$0.77	1,385,700	–	–	–	1,385,700
25/08/2015	01/07/2019	$0.77	1,156,784	–	–	–	1,156,784
25/08/2015	01/07/2020	$0.77	1,008,025	–	–	–	1,008,025
			8,662,652	–	–	(1,565,959)	7,096,693

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	Exercise price	2017 Number	2016 Number
01/07/2014	01/07/2017	$0.59	2,344,553	1,294,836
01/07/2015	01/07/2017	$0.89	457,047	457,047
01/07/2015	01/07/2018	$0.89	395,208	–
25/08/2015	01/07/2018	$0.77	1,385,700	–
			4,582,508	1,751,883

The weighted average share price during the financial year was $0.43 (2016: $0.65).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.27 years (2016: 1.89 years).

The weighted average exercise price for all outstanding options is $0.73 (2016: $0.71).

Note 39. Contingent liabilities

As part of the agreement for the purchase of the Star Vegas Resort & Club, the vendor of the business will manage the business for two full years following completion on 1 July 2015. The vendor also provided a guarantee that the EBITDA of the business would be not less than USD60 million per year for the two full years following the acquisition, being FY16 and FY17.

If the target EBITDA of USD60 million is not met, the vendor will top up the shortfall in cash. However, if the target is met, the vendor will receive a management fee in return for the management services provided, in the sum of 25% of the NPAT of the business. No other management fee is payable for the management services.

These arrangements are set out in a Share Sale Agreement and Management Agreement dated on 23 January 2015, a Supplemental Share Sale Agreement dated 22 May 2015, and an Amending and Restating Deed dated 18 June 2015.

At 31 December 2016, the possible obligation to pay a management fee in respect of the December 2016 half year was disclosed as a contingent liability as a reliable estimate of the amount payable could not be made. A contingent liability is 'a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity'.

At 30 June 2017, the earnings met the EBITDA target and a management fee was payable by the consolidated entity. A management fee of $19,045,688 has been recognised in the Statement of Comprehensive Income and as a liability by the consolidated entity at 30 June.

The consolidated entity has no contingent liabilities at 30 June 2017 (2016: nil)

Note 40. Business combinations

On 1 July 2015, the Group acquired Star Vegas Resort & Club as it is complementary to the leisure and entertainment activities of the Group, offers geographic and market diversification and significantly increases the revenue and earnings of the Group.

Control was acquired by the Group acquiring 100% of the issued capital of DNA Star Vegas Co., Ltd, which is the owner of all the assets of the Star Vegas business, for agreed consideration of USD360 million (AUD471,841,466). This consideration consisted of USD240 million cash (AUD316,451,000) and AUD147,199,529 ordinary shares in the Company, with an agreed value of USD120 million (AUD154,999,579) and the Company credited AUD154,999,579 to share capital net of transaction costs. The Company's stock closing price on 1 July 2015 was AUD0.775 (equivalent to approximately USD0.59698) and the fair value of the shares issued as consideration on the Completion Date was USD87,396,776 (AUD114,079,635). As a result of this variance between the fair value of the shares issued and the agreed price, AUD41,363,075 was debited to contributed equity to ensure the value of contributed equity was not recorded at an amount higher than its fair value. A further adjustment was made for movements in foreign exchange rates between the date of the agreement and the date the transaction occurred.

Pursuant to a detailed valuation report and purchase price allocation report dated 20 June 2016 prepared by Colliers International Hong Kong Limited and its related parties Colliers International Thailand and Singapore, the fair value of the business acquired by Donaco was USD368.1 million (AUD495,621,397). The difference between the fair value of the business acquired and fair value of the purchase consideration of USD327.9 million (AUD440,456,080) gives rise to a bargain purchase amounting to USD40.2 million (AUD55,165,316). The bargain purchase of AUD55,165,316 is recognised as a gain in the Company's income statement in 2016 in accordance with the Accounting Standard AASB 3 Business Combinations.

Details of the acquisition and the values of assets acquired are as follows:

	Fair value
	$
Equity	–
Casino licence – at fair value	400,543,357
Buildings	90,768,920
Plant and equipment	1,447,911
Motor vehicles	354,580
Slot machines	1,261,336
Furniture and fittings	1,245,293
Cash	4,245,871
Trade and other payables	(4,245,871)
Net assets acquired	495,621,397
Gain on bargain purchase	(55,165,316)
Acquisition-date fair value of the total consideration transferred	440,456,080
Representing:	
Cash paid or payable to vendor	322,655,000
Donaco International Limited shares issued to vendor at agreed price	155,442,710
Share issue transaction costs	(443,131)
Adjustment to value of Donaco International Limited shares issued to vendor	(41,363,075)
Effect of exchange rate movements	4,164,576
	440,456,080
Acquisition costs expensed to profit or loss	11,819,338

The operating results for DNA Star Vegas Co., Ltd since acquisition are shown in Casino Operations – Cambodia in note 3 above.

As part of the agreement for the purchase, the vendor will manage the business for two full years following completion on 1 July 2015. The vendor also provided a guarantee that the EBITDA of the business would be not less than USD60 million per year for the two full years following the acquisition, being FY16 and FY17.

If the target EBITDA of USD60 million is not met, the vendor will top up the shortfall in cash. However, if the target is met, the vendor will receive a management fee in return for the management services provided, in the sum of 25% of the NPAT of the business. No other management fee is payable for the management services. The amount of the management fee recognised in 2017 is AUD19,045,688 (2016: AUD20,492,174).

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001* (Cth), the Accounting Standards, the Corporations Regulations 2001 (Cth) and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act.

On behalf of the directors

S J McGregor

Mr Stuart McGregor
Chairman

29 September 2017, Sydney

Crowe Horwath

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Independent Auditor's Report to the Members of Donaco International Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Donaco International Limited (the Company and its subsidiaries (the consolidated entity)), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the consolidated entity is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Crowe Horwath

Decentralised operations

Key Audit Matter	How we addressed the key audit matter
The consolidated entity comprises subsidiaries (components) whose operations are spread across Cambodia, Vietnam and Hong Kong. The decentralised and varied nature of these operations require significant oversight by management to monitor the activities, review financial reporting by the components, and undertake the group consolidation. This matter has been identified as a key audit matter given the following: • number and significance of the subsidiaries to the consolidated entity. • varied nature of the operations and accounting systems and processes. • manual nature of the consolidation process. • multiple foreign currencies involved.	Our audit procedures included the following: • Visited the operations in Cambodia and Vietnam, and held discussions with the local management and component auditors in January 2017. • Held discussions with the component auditor of the subsidiaries based in Hong Kong. • Visited the component auditor of DNA Star Vegas Co. Limited in August 2017. • Tailored our group reporting instructions and designed audit procedures based on information obtained during the site visits and our assessment of the consolidated entity's overall audit risks. • Maintained communication with the component auditors throughout the audit process. • Evaluated the work performed by the component auditors for sufficiency for our overall group audit purpose. • Agreed the financial data used in the consolidation to the component auditors' group reporting. • Tested the mathematical accuracy of the consolidation workings, including reperforming foreign currency translations and evaluating the completeness and accuracy of the consolidation elimination entries.

Independent Auditor's Report to the Members of Donaco International Limited

Crowe Horwath

Revenue recognition for casino revenue (Notes 1 and 4)

Key Audit Matter	How we addressed the key audit matter
The consolidated entity's revenue is predominantly made up of revenue from gaming. Revenue recognition for casino revenue is a key audit matter because of the high volume of transactions and the relationship with junket operators and joint venture partners that supports a significant portion of the revenue generating capability of the consolidated entity.	Our audit procedures included the following: • Visited the casinos in Cambodia and Vietnam, in January 2017 to gain an understanding of the consolidated entity's revenue recognition processes, including how gaming transactions with customers are initiated and settled, gaining an understanding of the impact of commission arrangements with junket operators, and forming a view about the key drivers and relationships that are used to monitor revenue. • Challenged the adequacy of revenue recognition accounting policies, classification and disclosures in the financial report. Revenue recognition accounting policies and disclosures have been enhanced in the financial report, including the restatement to the presentation of cash flows as disclosed in Note 1. • Considered whether the consolidated entity's revenue recognition practices are consistent with industry practice, our knowledge of the business, and AASB 118 *Revenue*.

Impairment assessment of intangible assets (Note 14)

Key Audit Matter	How we addressed the key audit matter
The consolidated entity recorded a casino licence asset of $386.68 million as at 30 June 2017. The licence is classified as an intangible asset with indefinite useful life and is subject to annual impairment assessment. The impairment assessment of the intangible asset is a key audit matter because of the complexity and subjectivity involved, specifically in relation to the Fair Value less Cost of Disposal model adopted by management and the key assumptions that are used to determine the inputs to the assessment.	Our audit procedures included the following: • Together with our accounting technical specialist, assessed whether the methodology used by management in the impairment assessment met the requirements of *AASB 136 Impairment of Assets*. • Assessed management's determination of the cash generating unit ("CGU") and the CGU's carrying value. • Assessed reasonableness of cash flow forecasts by comparing the base year in the forecast calculation to the current year's actual results.

Crowe Horwath

Key Audit Matter	How we addressed the key audit matter
	• Assessed the appropriateness of the currency used in the model. The cash flow forecast is calculated in the Thai Baht (THB) and translated to the US Dollar (USD) at the valuation date. • Together with our valuation specialists, assessed reasonableness of the key assumptions used, being revenue growth rate, discount rate, terminal growth rate and discount for lack of marketability. • Together with our valuation specialists, tested the mathematical accuracy and components of the model that supports the impairment assessment. • Checked the sensitivity of the impairment assessment by focusing on the discount for lack of marketability and THB/USD translation rate. • Evaluated the adequacy of the judgments and sources of estimation uncertainty disclosures in the consolidated financial report.

Obligatory payments (Note 7)

Key Audit Matter	How we addressed the key audit matter
The consolidated entity paid monthly obligation payments to the government of Cambodia in respect of its casino business in Cambodia. These payments are made in accordance with practices previously agreed with the Ministry of Economy and Finance of Cambodia ("MOEF") and as the Casino Law which is to cover taxation of gaming activities in Cambodia has yet to be promulgated. We determined this to be a key audit matter given the inherent nature of this matter.	Our group audit procedures included the following: • Held discussions with the component auditor and management, and researched the tax obligation in respect of the casino business in Cambodia to gain an understanding of the obligatory payments. • Obtained correspondence with the MOEF relevant to gaming and non-gaming obligation payments and conditions attached to the income tax liabilities (obligation payments). • Obtained a legal confirmation on the following: (a) There is no Casino Law in respect of casino taxes has been promulgated. (b) The obligatory payment comprised of fixed gaming tax and fixed non-gaming tax. (c) DNA Star Vegas Co. Limited is under a Lump Sum tax regime on its gaming and non-gaming earnings until a new law on gambling is passed.

Crowe Horwath

Key Audit Matter	How we addressed the key audit matter
	• Checked the payments of monthly obligatory payments to the bank transfer slips. • Evaluated the adequacy of disclosure in the consolidated entity's financial report. The disclosures in Note 7 have been enhanced.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf .This description forms part of our auditor's report.

Crowe Horwath

Report on the Remuneration Report

Opinion on the Remuneration Report
We have audited the Remuneration Report included in pages 16 to 24 of the directors' report for the year 30 June 2017.

In our opinion, the Remuneration Report of Donaco International Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Crowe Horwath Sydney

CROWE HORWATH SYDNEY

SUWARTI ASMONO
Partner

Dated at Sydney this 29th day of September 2017

The shareholder information set out below was applicable as at 31 August 2017.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	356
1,001 to 5,000	662
5,001 to 10,000	397
10,001 to 100,000	796
100,001 and over	133
	2,344

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number held	% of total shares issues
HSBC Custody Nominees (Australia) Limited	353,840,450	42.57%
Slim Twinkle Limited	84,437,882	10.16%
Convent Fine Limited	60,353,318	7.26%
Total Alpha Investments Limited	56,962,025	6.85%
Citicorp Nominees Pty Limited	42,906,502	5.16%
Mr Keong Yew Lim	34,208,800	4.12%
National Nominees Limited	28,176,810	3.39%
J P Morgan Nominees Australia Limited	26,530,631	3.19%
Max Union Corporate Development Ltd	26,000,000	3.13%
BNP Paribas Noms Pty Ltd <DRP>	20,013,224	2.41%
HSBC Custody Nominees (Australia) Limited – A/C 2	12,624,303	1.52%
BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAILCLIENT DRP>	3,872,307	0.47%
UBS Nominees Pty Ltd	3,725,656	0.45%
BNP Paribas Noms Pty Ltd <UOB KAY HIAN PRIV LTD DRP>	2,874,247	0.35%
Smartequity EIS Pty Ltd	2,376,653	0.29%
Vintage Crop Pty Ltd	2,348,338	0.28%
Mrs Antonia Collopy	2,250,000	0.27%
BNP Paribas Noms Pty Ltd <UOB KH P/L AC UOB KH DRP>	2,215,443	0.27%
Holdex Nominees Pty Ltd <NO 392 A/C>	2,000,000	0.24%
N2 Global (HK) Limited	1,650,000	0.20%
	769,366,589	92.56%

Shareholder Information

FOR THE YEAR ENDED 30 JUNE 2017

Unquoted equity securities

	Number on issue
Employee options	5,444,810
Warrants	70

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary Shares	
	Number held	% of total shares issues
Lim Keong Yew	267,559,325	32.2
Lim Keong Hoe (jointly held as part of Lim Keong Yew's holding)	144,811,200	17.4
Perpetual Limited and subsidiaries	111,583,714	13.4
Lee Bug Tong	73,599,765	8.9
Lee Bug Huy	74,599,764	9.0

Voting rights

The voting rights attached to ordinary shares and options are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

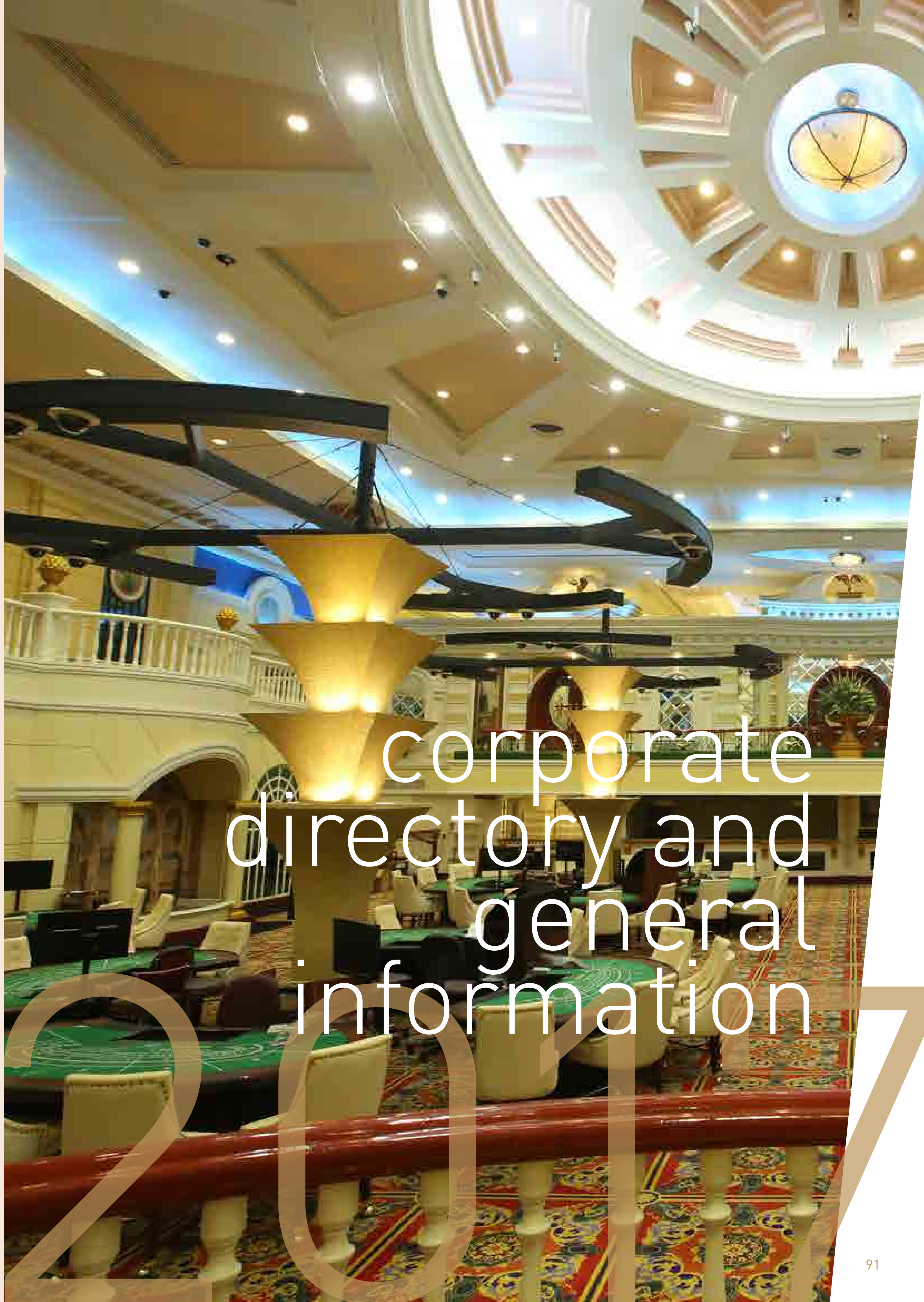
Options

There are no voting rights attached to options. Upon exercise of the option, the issued shares will confer full voting rights.

Warrants

There are no voting rights attached to warrants. Upon conversion of the warrant, the issued shares will confer full voting rights.

There are no other classes of equity securities.



Corporate Directory and General Information

FOR THE YEAR ENDED 30 JUNE 2017

Directors	Stuart James McGregor – Chairman Joey Lim Keong Yew – Managing Director and CEO Benedict Paul Reichel – Executive Director Benjamin Lim Keong Hoe – Non-Executive Director Robert Andrew Hines – Non-Executive Director Ham Techatut Sukjaroenkraisri – Executive Director Paul Porntat Amatavivadhana – Non-Executive Director (resigned 3 July 2017)
Company Secretary	Benedict Paul Reichel
Registered office	Level 18, 420 George Street Sydney NSW 2000, Australia Telephone: +61 2 9106 2149 Facsimile: +61 2 9106 2106
Principal place of business	Level 18, 420 George Street Sydney NSW 2000, Australia
Share register	Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000, Australia +61 2 9290 9600
Auditor	Crowe Horwath Sydney Level 15, 1 O'Connell Street Sydney NSW 2000, Australia
Stock exchange listing	Donaco International Limited shares are listed on the Australian Securities Exchange (ASX code: DNA)
Website	www.donacointernational.com
Corporate Governance Statement	The Corporate Governance Statement of Donaco International Limited is available from our website www.donacointernational.com, via the tab headed 'Investor Relations'.

General information

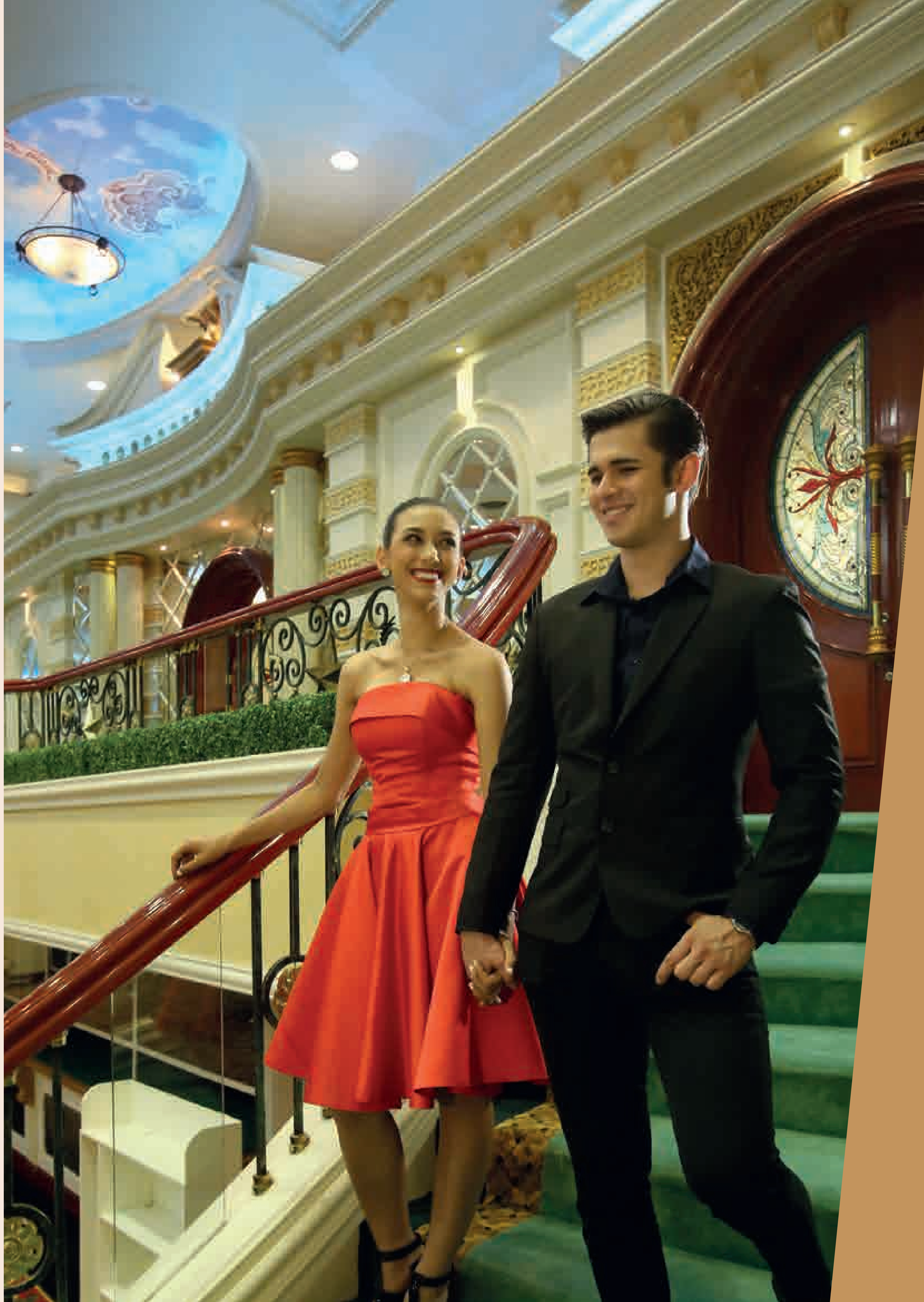
The financial statements cover Donaco International Limited as a consolidated entity consisting of Donaco International Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Donaco International Limited's functional and presentation currency.

Donaco International Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 18, 420 George Street
Sydney NSW 2000, Australia

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 September 2017. The directors have the power to amend and reissue the financial statements.



donaco
INTERNATIONAL

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