

DONACO INTERNATIONAL LIMITED**Appendix 4E****Preliminary final report****1. Company details**

Name of entity: Donaco International Limited
ABN: 28 007 424 777
Reporting period: For the year ended 30 June 2019
Previous period: For the year ended 30 June 2018

2. Results for announcement to the market

Revenues from ordinary activities down 6.8% to \$ 86,263,580

Loss for the year attributable to the owners of Donaco International Limited up 55.8% to (193,992,693)

	30 Jun 2019	30 Jun 2018
	Cents	Cents
Basic loss per share	(23.55)	(15.03)
Diluted loss per share	(23.55)	(15.03)

Dividends

No dividends were paid for the year ended 30 June 2019.

Comments

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$193,992,693 (30 June 2018: loss of \$124,510,815). This includes an impairment loss of \$200,084,349. The profit before impairment loss is \$6,091,656 (30 June 2018: profit of \$19,350,158).

3. Net tangible assets

	Reporting period	Previous period
	Cents	Cents
Net tangible assets per ordinary security	<u>14.33</u>	<u>14.05</u>

DONACO INTERNATIONAL LIMITED
Appendix 4E
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4. Control gained over entities

Name of entities (or group of entities)	Date control gained	
Not applicable		\$
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)		-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)		-

5. Loss of control over entities

Name of entities (or group of entities)	Date control lost	
Not applicable		\$
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)		-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material)		-

6. Dividends

Current period

No dividends were paid for the year ended 30 June 2019.

Previous period

The company paid a dividend on ordinary shares of 0.5 cents per share on 20 October 2017, to shareholders registered on 5 October 2017. The dividend is sourced 100% from conduit foreign income and unfranked.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
Lao Cai International Hotel Joint Venture Company	95.00%	95.00%	4,787,292	8,623,629
<i>Group's aggregate share of associates and joint venture entities' profit (where material)</i>				
Profit from ordinary activities before income tax			4,787,292	8,623,629
Income tax on operating activities			608,126	1,035,477

9. Foreign entities

Details of origin of accounting standards used in compiling the report

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

This Preliminary Final Report for the year ended 30 June 2019 is based on accounts which are currently being audited by the company's Independent auditor, Crowe Sydney.


The audit opinion may include an emphasis of matter on going concern.

11. Attachments

Details of attachments (if any):

The Preliminary Final Report of Donaco International Limited for the year ended 30 June 2019 is attached.

12. Signed

Signed  _____

Date: 28 August 2019

Sydney

DONACO INTERNATIONAL LIMITED
ABN 28 007 424 777

Preliminary Final Report
30 June 2019

DONACO INTERNATIONAL LIMITED

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30 June 2019

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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 ended 30 June 2019. 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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2019. The directors have the power to amend and reissue the financial statements.

DONACO INTERNATIONAL LIMITED
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

		Consolidated	
	Note	2019	2018
		\$	\$
Revenue from continuing operations	3	86,263,580	92,606,141
Other income	4	(559,270)	1,022,878
Total income		<u>85,704,310</u>	<u>93,629,019</u>
Expenses			
Food and beverages		(4,704,645)	(5,112,751)
Employee benefits expense		(24,375,795)	(22,902,710)
Depreciation and amortisation expense	5	(10,127,357)	(9,981,320)
Impairment expense	5	(200,084,349)	(143,860,973)
Legal and compliance		(3,442,915)	(829,360)
Marketing and promotions		(5,465,129)	(6,756,555)
Professional & consultants		(1,016,974)	(1,924,893)
Property costs		(5,703,812)	(6,114,966)
Telecommunications and hosting		(343,163)	(497,219)
Gaming costs		(2,094,285)	(1,488,052)
Other expenses		(11,988,983)	(4,491,571)
Finance costs		(6,517,906)	(10,255,853)
Total expenses		<u>(275,865,313)</u>	<u>(214,216,223)</u>
Loss before income tax expense from continuing operations		(190,161,003)	(120,587,204)
Income tax expense		(3,611,734)	(3,661,667)
Loss after income tax expense from continuing operations		(193,772,737)	(124,248,871)
Loss after income tax expense for the year		(193,772,737)	(124,248,871)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		19,368,661	13,600,431
Other comprehensive income for the year, net of tax		19,368,661	13,600,431
Total comprehensive loss for the year		<u>(174,404,076)</u>	<u>(110,648,440)</u>
Loss for the year is attributable to:			
Non-controlling interest		219,956	261,944
Owners of Donaco International Limited		(193,992,693)	(124,510,815)
		<u>(193,772,737)</u>	<u>(124,248,871)</u>
Total comprehensive loss from continuing operations for the year is attributable to:			
Non-controlling interest		219,956	261,944
Owners of Donaco International Limited		(174,624,032)	(110,910,384)
		<u>(174,404,076)</u>	<u>(110,648,440)</u>
Loss per share for loss attributable to the owners of Donaco International Limited			
		Cents	Cents
Basic loss per share	11	(23.55)	(15.03)
Diluted loss per share	11	(23.55)	(15.03)

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

DONACO INTERNATIONAL LIMITED
Statement of financial position
As at 30 June 2019

	Note	Consolidated 2019 \$	2018 \$
Assets			
Current assets			
Cash and cash equivalents	6	27,377,908	47,075,589
Trade and other receivables		2,777,446	10,545,030
Inventories		1,149,324	1,397,344
Prepaid construction costs		38,800	1,811,360
Other current assets		1,005,918	451,329
Total current assets		<u>32,349,396</u>	<u>61,280,652</u>
Non-current assets			
Property, plant and equipment	7	167,960,128	162,172,238
Intangibles (including licences)	8	77,572,736	254,064,321
Construction in progress		505,527	591,787
Other non-current assets		2,147	4,018
Total non-current assets		<u>246,040,538</u>	<u>416,832,364</u>
Total assets		<u>278,389,934</u>	<u>478,113,016</u>
Liabilities			
Current liabilities			
Trade and other payables		44,189,694	34,652,015
Borrowings		16,563,907	24,594,915
Income tax		1,764,696	2,008,402
Employee benefits		690,488	1,261,325
Total current liabilities		<u>63,208,785</u>	<u>62,516,657</u>
Non-current liabilities			
Trade and other payables		123,760	-
Borrowings		19,379,454	45,806,572
Employee benefits		55,594	42,408
Total non-current liabilities		<u>19,558,808</u>	<u>45,848,980</u>
Total liabilities		<u>82,767,593</u>	<u>108,365,637</u>
Net assets		<u>195,622,341</u>	<u>369,747,379</u>
Equity			
Issued capital		358,656,945	358,656,945
Reserves		42,188,163	22,540,464
Retained profits		(207,242,713)	(13,250,020)
Equity attributable to the owners of Donaco International Limited		<u>193,602,395</u>	<u>367,947,389</u>
Non-controlling interest		2,019,946	1,799,990
Total equity		<u>195,622,341</u>	<u>369,747,379</u>

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

DONACO INTERNATIONAL LIMITED
Statement of changes in equity
For the year ended 30 June 2019

Consolidated	Issued capital \$	Reserves \$	Retained profits \$	Non-controlling interest \$	Total equity \$
Balance at 1 July 2017	359,968,884	9,425,778	115,374,413	1,335,096	486,104,171
Loss after income tax expense for the year	-	-	(124,510,815)	261,944	(124,248,871)
Other comprehensive income for the year, net of tax	-	13,600,431	-	-	13,600,431
Total comprehensive loss for the year	-	13,600,431	(124,510,815)	261,944	(110,648,440)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	-	-	-	202,950	202,950
Shares issued to employees	766,014	(766,014)	-	-	-
Share buyback	(2,077,953)	-	-	-	(2,077,953)
Dividend paid	-	-	(4,113,618)	-	(4,113,618)
Share-based payments	-	280,269	-	-	280,269
Balance at 30 June 2018	<u>358,656,945</u>	<u>22,540,464</u>	<u>(13,250,020)</u>	<u>1,799,990</u>	<u>369,747,379</u>
Balance at 1 July 2018	358,656,945	22,540,464	(13,250,020)	1,799,990	369,747,379
Loss after income tax expense for the year	-	-	(193,992,693)	219,956	(193,772,737)
Other comprehensive income for the year, net of tax	-	19,368,661	-	-	19,368,661
Total comprehensive loss for the year	-	19,368,661	(193,992,693)	219,956	(174,404,076)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	279,038	-	-	279,038
Balance at 30 June 2019	<u>358,656,945</u>	<u>42,188,163</u>	<u>(207,242,713)</u>	<u>2,019,946</u>	<u>195,622,341</u>

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

DONACO INTERNATIONAL LIMITED
Statement of cash flows
For the year ended 30 June 2019

	Note	Consolidated	
		2019 \$	2018 \$
Cash flow from operating activities			
Receipts from customers		90,887,653	102,284,185
Payments to suppliers and employees		(48,835,323)	(49,947,841)
		<u>42,052,330</u>	<u>52,336,344</u>
Interest received		79,946	93,786
Interest and other finance costs paid		(5,728,909)	(7,829,780)
Government levies, gaming taxes and GST		(10,166,853)	(9,968,146)
Net cash flows from operating activities		<u>26,236,514</u>	<u>34,632,204</u>
Cash flow from investing activities			
Payments for property, plant and equipment		(5,649,675)	(5,668,289)
Net cash flows from investing activities		<u>(5,649,675)</u>	<u>(5,668,289)</u>
Cash flow from financing activities			
Repayment of borrowings		(39,749,023)	(41,862,974)
Payments of dividends		-	(4,113,618)
Payments for share buyback		-	(2,077,954)
Net cash flows from financing activities		<u>(39,749,023)</u>	<u>(48,054,546)</u>
Net decrease in cash and cash equivalents		(19,162,184)	(19,090,631)
Cash and cash equivalents, beginning of the financial year		47,075,589	66,022,749
Effects of exchange rate changes on cash and cash equivalents		(535,497)	143,471
Cash and cash equivalents at the end of the financial year	6	<u>27,377,908</u>	<u>47,075,589</u>

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

Note 1. Significant accounting policies

These preliminary financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Going concern

At 30 June 2019, the consolidated entity recorded net current liabilities of A\$30.8 million. The consolidated entity recorded a net profit after tax of A\$6.1 million before impairment (net loss after tax of A\$194.0 million after impairment charge of A\$200.1 million), and net operating cash inflows of A\$26.2 million for the year ended on that date.

The net current liabilities primarily arise due to the fact that they include a management fee of A\$22.7 million (as at 30 June 2019 spot rate) claimed by the Thai vendor of the Star Vegas business. This claim is disputed, and having considered legal advice, the Board considers that the claim is not payable. The claims are unresolved as at 30 June 2019 (note 10) and as a result the amount continued to be recognised as a liability in accordance with the relevant accounting standards. Without the management fee payable, the consolidated entity's net current liabilities would total approximately A\$8.1 million.

Notwithstanding the net current liability position, management have prepared the 30 June 2019 financial report on a going concern basis. It is management's estimate that the consolidated entity will be able to generate sufficient operating cash inflows to cover the net current liability and therefore, will be able to pay its debts as and when they become due and payable.

The consolidated entity met all of its obligations to repay principal and interest under its loans during the period and up to the date of this report. The consolidated entity also remains in compliance with its loan covenants. Management has signed binding agreements with Mega Bank to refinance and restructure its existing term loan facility during the year. As part of the restructure, the principal repayment that was previously due in August 2019 was brought forward and repaid in June 2019. As at 30 June 2019, approximately A\$32.5 million remains unpaid under the loan. Subsequent principal repayments have also been reduced to US\$5 million (AU\$7.1 million at spot rate) with the next repayment due in December 2019. Certain loan covenants have also been relaxed. The consolidated entity expects to receive continual financing from Mega Bank in regard to the existing loan, and thus the going concern basis has not been affected.

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.

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

Note 2. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into three operating segments: Casino Operations - Vietnam, Casino Operations - 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, Vietnam, Singapore, Malaysia and Hong Kong. The Casino operations are segmented geographically between casino operations in Vietnam and Cambodia.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). 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 the development and implementation of corporate strategy, commercial negotiations, corporate finance, treasury, management accounting, corporate governance and investor relations functions.

DONACO INTERNATIONAL LIMITED
Notes to the financial statements
30 June 2019

Note 2. Operating segments (continued)

Intersegment transactions

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

	Casino Operations Vietnam \$	Casino Operations Cambodia \$	Corporate Operations \$	Total \$
Consolidated - 2019				
Revenue				
Sales to external customers	21,509,789	64,674,383	56	86,184,228
Interest	48,475	-	30,877	79,352
Total revenue	<u>21,558,264</u>	<u>64,674,383</u>	<u>30,933</u>	<u>86,263,580</u>
EBITDA				
Depreciation and amortisation	(4,488,371)	(5,553,091)	(85,895)	(10,127,357)
Impairment of assets	-	(200,084,349)	-	(200,084,349)
Interest revenue	48,475	-	30,877	79,352
Non-recurring items	-	-	(2,509,106)	(2,509,106)
Net exchange losses	(508,705)	-	(50,565)	(559,270)
Non-controlling interest	(219,956)	-	-	(219,956)
Finance costs	(890,933)	-	(5,626,973)	(6,517,906)
Profit/(loss) before income tax expense	<u>4,787,292</u>	<u>(179,223,395)</u>	<u>(15,944,856)</u>	<u>(190,380,959)</u>
Income tax expense	-	-	-	(3,611,734)
Loss after income tax expense attributable to the owners of Donaco International Limited	-	-	-	<u>(193,992,693)</u>
Assets				
Segment assets	83,902,536	187,064,234	7,423,164	278,389,934
Total assets	-	-	-	<u>278,389,934</u>
Liabilities				
Segment liabilities	14,935,618	11,786,631	56,045,345	82,767,593
Total liabilities	-	-	-	<u>82,767,593</u>
Consolidated - 2018				
Revenue				
Sales to external customers	25,905,755	66,606,184	199	92,512,139
Interest	57,851	-	36,151	94,002
Total revenue	<u>25,963,606</u>	<u>66,606,184</u>	<u>36,350</u>	<u>92,606,141</u>
EBITDA				
Depreciation and amortisation	(4,719,576)	(5,047,359)	(214,385)	(9,981,320)
Impairment of intangible asset	-	(143,860,973)	-	(143,860,973)
Interest revenue	57,851	-	36,151	94,002
Non-recurring items	-	-	681,507	681,507
Net exchange gains	171,936	-	169,435	341,371
Non-controlling interest	(261,944)	-	-	(261,944)
Finance costs	(1,156,882)	-	(9,098,971)	(10,255,853)
Profit/(loss) before income tax expense	<u>8,623,629</u>	<u>(110,237,988)</u>	<u>(19,234,789)</u>	<u>(120,849,148)</u>
Income tax expense	-	-	-	(3,661,667)
Loss after income tax expense attributable to the owners of Donaco International Limited	-	-	-	<u>(124,510,815)</u>
Assets				
Segment assets	87,094,230	373,661,535	17,357,251	478,113,016
Total assets	-	-	-	<u>478,113,016</u>
Liabilities				
Segment liabilities	16,657,078	26,608,658	65,099,901	108,365,637
Total liabilities	-	-	-	<u>108,365,637</u>

DONACO INTERNATIONAL LIMITED
Notes to the financial statements
30 June 2019

	Consolidated	
	2019	2018
	\$	\$
Note 3. Revenue		
From continuing operations		
<i>Sales revenue</i>		
Casino		
- Gaming revenue	71,799,087	74,514,551
- Non-gaming revenue	14,385,085	17,997,389
Corporate operations	56	199
Interest	79,352	94,002
	<u>86,263,580</u>	<u>92,606,141</u>
Revenue from continuing operations	<u>86,263,580</u>	<u>92,606,141</u>
Note 4. Other (expenses) / income		
Net foreign exchange (loss) / gain	(559,270)	341,371
Gain on derivative financial instrument at fair value through the profit and loss	-	681,507
	<u>(559,270)</u>	<u>1,022,878</u>
Other (expenses) / income	<u>(559,270)</u>	<u>1,022,878</u>
Note 5. Expenses		
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Land, buildings and structures	4,748,917	4,216,435
Furniture and fittings	86,623	305,076
Machinery and equipment	1,879,131	3,328,285
Office equipment and other	2,164,873	539,637
Motor vehicles	257,772	248,188
Consumables	987,801	1,341,602
Land right	2,241	2,098
	<u>10,127,357</u>	<u>9,981,320</u>
Total depreciation	<u>10,127,357</u>	<u>9,981,320</u>
<i>Impairment expense</i>		
Casino licence (see note 8)	186,644,711	143,860,973
Interactive gaming (see note 7)	3,674,155	-
Trade and other receivables	9,765,483	-
	<u>200,084,349</u>	<u>143,860,973</u>

DONACO INTERNATIONAL LIMITED
Notes to the financial statements
30 June 2019

	Consolidated	
	2019	2018
	\$	\$
Note 6. Current assets - cash and cash equivalents		
Cash on hand	20,308,499	28,360,270
Cash at bank	5,695,441	16,130,913
Cash in transit	961,482	840,465
Short-term deposit	412,486	1,743,941
	<u>27,377,908</u>	<u>47,075,589</u>

Note 7. Non-current assets - property, plant and equipment

Leasehold buildings and structures - at cost	174,655,552	160,430,636
Less: Accumulated depreciation for leasehold buildings and structures	(24,420,906)	(17,975,569)
	<u>150,234,646</u>	<u>142,455,067</u>
Furniture and fittings - at cost	5,594,200	4,905,381
Less: Accumulated depreciation for furniture and fittings	(5,505,540)	(4,753,580)
	<u>88,660</u>	<u>151,801</u>
Machinery and equipment - at cost	46,433,136	40,459,999
Less: Accumulated depreciation for machinery and equipment	(31,448,420)	(24,964,399)
	<u>14,984,716</u>	<u>15,495,600</u>
Motor vehicles - at cost	2,569,132	2,298,287
Less: Accumulated depreciation for motor vehicles	(1,969,042)	(1,528,435)
	<u>600,090</u>	<u>769,852</u>
Office equipment and other - at cost	3,820,296	3,463,739
Less: Accumulated depreciation for office equipment and other	(2,321,067)	(1,594,665)
	<u>1,499,229</u>	<u>1,869,074</u>
Consumables	552,787	1,430,844
	<u>552,787</u>	<u>1,430,844</u>
Interactive gaming - at cost	3,804,363	-
Less: Accumulated impairment	(3,804,363)	-
	<u>-</u>	<u>-</u>
	<u>167,960,128</u>	<u>162,172,238</u>

Note 8. Non-current assets - intangibles

Goodwill - at cost	2,426,187	2,426,187
Land right - at cost	72,737	69,449
Less: Accumulated amortisation for land right	(42,610)	(38,262)
	<u>30,127</u>	<u>31,187</u>
Casino licence	424,607,676	395,467,920
Less: Accumulated impairment	(349,491,254)	(143,860,973)
	<u>75,116,422</u>	<u>251,606,947</u>
	<u>77,572,736</u>	<u>254,064,321</u>

Note 8. Non-current assets - intangibles (continued)

Impairment testing of goodwill and intangibles with indefinite useful lives

Impairment of intangibles 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, Donaco Singapore and DNA Star Vegas. A business-level summary of the allocation of intangibles with indefinite useful lives is presented below:

	Consolidated	
	2019	2018
	\$	\$
Donaco Singapore - goodwill	2,426,187	2,426,187
Total goodwill	2,426,187	2,426,187

Donaco Singapore - goodwill

The recoverable amount of the cash generating unit of Donaco Singapore 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.

No impairment has been recognised for the year ended 30 June 2019 (2018: 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 its value in use. Independent valuations of the 100% equity interest in DNA Star Vegas Company Limited were undertaken as at 31 December 2018 and as at 30 June 2019. As at 31 December 2018, adjustments were made to determine the value in use of the cash-generating unit which was reasonably determined to be \$331,232,365 (US\$233,789,077 converted at the spot rate). Based on the valuation undertaken as at 30 June 2019, the value in use was determined to be \$165,735,942 (US\$116,232,514).

The valuation as at 30 June 2019 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 based on a 5-year cash flow forecast period. The weighted average growth rates used are consistent with forecasts included in industry reports. The valuation uses a negative growth rate of 1.9% in the first year and a growth rate of 3% in subsequent years, with a terminal year growth rate of 3%. The discount rate used of 18.93% reflects specific risks relating to the relevant segments and the countries in which they operate. The discount rate has been increased compared to the prior period as a result of the increase in the company-specific risk premium from 2.5% to 6%. The valuation was determined using a foreign exchange rate between Thai Baht and US Dollar of 30.68 THB:1 USD. No capital expenditure has been included in the valuation.

Based on the valuation, the Directors determined an impairment loss of \$186,644,711 needed to be recognised for the year ended 30 June 2019.

Apart from the impairment loss, the movement in the historical cost of the casino licence is due to foreign exchange translation as the licence is denominated in foreign currency.

Note 9. Events after the reporting period

Sale of shares

On 5 July 2019, ASIC appointed Morgan Stanley Wealth Management Australia to sell 80,000,000 ordinary shares in the Company, pursuant to a decision by the Takeovers Panel to vest shares in the Commonwealth for sale by ASIC. These shares, representing approximately 9.71% of the Company's issued capital, were initially acquired by OL Master (Singapore Fund 1) Pte. Limited (OCP) between 7 and 31 December 2018, at the same time that OCP was seeking to liaise with Total Alpha Investments Limited (Alpha), a related party of Mr Joey Lim, the former Managing Director and Chief Executive Officer of the Company, in respect of a potential restructure of the terms of the bonds between OCP and Alpha (OCP and companies controlled by Mr Lim, including Alpha, had entered into a secured lending arrangement in 2017). On 27 February 2019, OCP enforced its security interest over defaults by the companies controlled by Mr Lim and acquired shares of approximately 27.25% of the Company. This resulted in OCP having a total of 37% voting interest in the Company.

An application was submitted on 8 April 2019 by several shareholders of the Company (some, if not all of whom were parties to the secured lending arrangement) to the Takeovers Panel (the Panel) for a declaration of unacceptable circumstances. On 7 May 2019, the Panel made a declaration of unacceptable circumstances in relation to the share acquisition by OCP and ordered that the 80,000,000 shares be vested in ASIC for sale and that the sales process was to follow the requirements specified by the Panel.

The Directors are not aware of any other events subsequent to the reporting period that may have a material impact on the financial statements.

Note 10. Contingent assets and liabilities

Court proceedings

Proceedings against the vendor for breach of non-competition clauses under the agreements of the sale and purchase of Star Vegas are still in process. The Company obtained an injunction on 25 December 2017, ordering the closure of the Star Paradise and Star Paramax casinos which were illegally operated by the vendor. A further appeal was submitted to a higher court by the vendor, contesting against the injunction. On 5 October 2018, the injunction was removed, but this is not a judgement on the merits of the claim. The vendor had also attempted to seek security rights over certain assets of Star Vegas in relation to his claim for the unpaid FY2017 management fee, however this was rejected by the court on 6 July 2018.

Paramax Co. Ltd, a vendor-related entity, filed a merit case petition against Donaco in Cambodia, requesting that the court order Donaco to refrain from publishing news related to the operations of the Paramax casinos, issue an apology letter and to pay USD1.1 million (equivalent to AUD 1.6 million) as compensation. There have been three pre-hearings for this matter between September and December 2018, however the hearing date is still to be determined.

The vendors are also joint owners of a Cambodian company, Lee Hoe Property Co. Ltd, which owns and leases the land occupied by the Star Vegas business. Threats were made by the vendor to terminate the lease, however an injunction against this was granted in favour of the Company. The vendor has commenced arbitration proceedings in Cambodia which was heard at an oral hearing on 28 February 2019. The arbitrator has extended the timeframe for making an award in this matter, pursuant to the Cambodian arbitration rules. An award was received on 21 August 2019. The arbitrator ruled that the lessor is entitled to terminate the lease. This decision is not enforceable unless it is affirmed by a court. The decision has already been appealed.

On 20 August 2018, the lessor obtained an order allowing him to develop the land outside the Star Vegas boundary, which was always agreed under the lease, provided that no competing casino or gaming business is built. The vendor has also commenced defamation proceedings in Thailand against Donaco and two of its directors, seeking damages of THB1 million (equivalent to AUD48k). No amounts have been recognised as at 30 June 2019 in relation to these proceedings as they are still in the early stages and no damages have been determined.

Donaco's legal claim against the vendor has been set down for arbitration proceedings in Singapore. A nine-day hearing was scheduled to commence on 29 July 2019. The hearing was not completed and a further hearing has been set for one week commencing 25 November 2019. Having considered expert legal and financial advice, the Company initially sought damages of USD190 million (equivalent to AUD271 million), however based on final valuation reports provided by expert valuation witnesses, the claim can be increased to USD240 million (equivalent to AUD342 million). No amount receivable has been recognised as at 30 June 2019 given the uncertainty over the outcome of the proceedings. The Supreme Court of New South Wales has granted a further extension of the freezing order over the Donaco shares held by the vendor until 4 October 2019.

The consolidated entity has no contingent liabilities which are required to be recognised as at 30 June 2019.

DONACO INTERNATIONAL LIMITED
Notes to the financial statements
30 June 2019

Note 11. Loss per share

	Consolidated	
	2019	2018
	\$	\$
<i>Loss per share for profit from continuing operations</i>		
Loss after income tax	(193,772,737)	(124,248,871)
Non-controlling interest	(219,956)	(261,944)
Loss after income tax attributable to the owners of Donaco International Limited	<u>(193,992,693)</u>	<u>(124,510,815)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	823,592,773	828,178,915
Adjustments for calculation of diluted loss per share:		
Options and warrants over ordinary shares which are dilutive	-	-
Weighted average number of ordinary shares used in calculating diluted loss per share	<u>823,592,773</u>	<u>828,178,915</u>
	Cents	Cents
Basic loss per share	(23.55)	(15.03)
Diluted loss per share	(23.55)	(15.03)

Note 12. 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:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		30 Jun 2019	30 Jun 2018
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 Ltd*	Vietnam	95%	95%
Donaco Hong Kong Limited	Hong Kong	100%	100%
Prime Standard Limited	Hong Kong	0%	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	0%	49%
Donaco Investment (S) Pte Ltd *	Singapore	100%	100%

* Subsidiary of Donaco Singapore Pte 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 Ltd - Operates Vietnamese casino operations.

Donaco Hong Kong Limited - Holding company for Cambodian casino operations.

Prime Standard Limited - Dormant (previously cost centre for corporate operations), deregistered 15 February 2019.

DNA Star Vegas Co. Limited - Operates Cambodian casino operations.

Donaco Entertainment & Marketing (Thailand) Ltd - Dormant (previously provided 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. Deregistered January 2019.

Donaco Investment (S) Pte Ltd - Investment company.