

ASX : DNA

asx release

31 July 2020



June 2020 Quarter Trading Update

Highlights

- Quarterly revenue of A\$0.9 million compared to A\$20.3 million in prior corresponding year
- Board and Management continue cost control strategy to manage the downturn related to COVID-19 travel restrictions
- Aristo continues to operate on a limited basis as the border with China remains closed
- Settlement of all legal cases reached with Thai Vendor
- Successful support received from principal lender Mega Bank with the deferral of certain repayments and waiver on covenants to December 2020
- \$14.41 million capital raising to provide immediate capital relief and stabilisation of the business
- Strengthened balance sheet of A\$26.7 million pro forma post raise as at 30 June 2020

Donaco International Limited (“**Donaco**” or “**the Company**”) provides the following trading update for the three-month period ending June 2020.

The June quarter was significantly impacted by the onset of COVID-19 and the resultant restrictions on casino operations and border closures. The closure of both DNA Star Vegas and Aristo International Hotel for an extended period of time has had a material impact on Donaco’s operations.

DNA Star Vegas has been closed since 1 April 2020 following the Cambodian Government’s announcement mandating the closure of all casinos from 1 April 2020. The Vietnam Government also required the closing of casinos from 1 April 2020 with casinos allowed to reopen from 8 May 2020. Despite Aristo officially reopen, the casino has been operating on a limited basis, as the border with China, where most of Aristo’s patrons originate from remains closed.

The closure of the border between China and Vietnam limiting visitors to the casinos led to a drop in visitations by approx. 98% in the June quarter compared to the previous corresponding period.

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As a result of the shutdowns, Donaco has placed heavy emphasis on tightly controlling and reducing costs and capital expenses to ensure the Company's sustainability into the future. With this in mind, Donaco has set a monthly target cash burn rate from maintaining the casino assets and associated corporate costs of approx. USD\$800,000 to USD\$900,000.

Once government restrictions are eased, and as visitations remain subdued, the casino businesses may need to operate at a level which is not at full operating capacity.

Non-Executive Chairman Mel Ashton said: "We have taken pragmatic measures to adopt a cost control strategy at both casinos as Donaco continues to be impacted by COVID-19 related travel restrictions.

A number of positive events occurred during the period as the settlement reached with the Thai Vendor and the support received from principal lender Mega Bank with the deferral of certain repayments and waiver on covenants until the end of the calendar year. The Placement undertaken also reduces debt, and provides immediate financial stability to the Company."

As per 30 June 2020 Appendix 4C, cash and cash equivalents is A\$12.8 million.

As at 30 June 2020, Donaco's pro forma post raise cash at bank and on deposit was A\$26.7 million.

The following update compares in USD the three months to the end of June 2020 to the three months to the end of June 2019, and is based on unaudited management accounts.

Financial Performance

DNA Star Vegas

The Star Vegas property has been temporarily closed effective from 11.59pm on 1 April 2020 according to the announcement of the Cambodian Government. As of to date, the Star Vegas property has not been back in operation.

The net revenue for the June quarter 2020 mainly represents the other income from non-core business. During the closure period, management has implemented tight control measures with average monthly cash burn rate of approximately to USD\$300,000, mainly for payroll and utilities expenses.

DNA Star Vegas	June Quarter 2020	June Quarter 2019
Rolling Chip VIP Turnover	N/A	USD 765.9m
Net Revenue	USD 0.2m	USD 9m
Operating expenses	USD 1.1m	USD 7.0m
Property level EBITDA	(USD 0.9m)	USD 2.0m
Impairment losses	-	USD 9.6m*
Average daily visitation	N/A	4,419
VIP win rate	N/A	2.37%

* Impairment losses of USD\$9.6m include the Star Vegas impairment loss of PPE USD\$2.6m and the impairment loss on receivables of USD\$7.0m.

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Aristo International Hotel

Aristo was heavily impacted by the COVID-19 pandemic due to its proximity to the Chinese border, the reliance on Chinese customers and the restrictions and border closures resulting from the crisis.

The VIP rolling turnover declined significantly by 92% due to drop in average daily visitation. Accordingly, the Aristo business recorded a lower rolling chips VIP turnover of USD\$34m over the June 2020 quarter, compared to USD\$417.4m in the June 2019 quarter.

Net revenue fell 93% to USD\$0.4m during the June 2020 quarter, due to lower net gaming revenue (down 89% to USD\$0.4m) and non-gaming revenue (down 98% to USD\$0.06m).

The overall VIP win rate recorded for the June 2020 quarter was 2.79%, above the 2.16% achieved during the June 2019 quarter. However, this higher win rate was offset by the effect of lower rolling turnover.

In response to the activity slowdown, management has implemented a number of cost-saving measures including a reduction in total staff headcount and deferring various capital expenditure projects. Accordingly, operating expenses decreased to USD\$0.6m, compared to USD\$2.1m in the June 2019 quarter.

As a result, EBITDA was down 105% to negative EBITDA of USD\$0.2m.

Aristo International Hotel	June Quarter 2020	June Quarter 2019
Rolling Chip VIP Turnover	USD 34.0m	USD 417.4m
Net Revenue	USD 0.4m	USD 5.5m
Operating expenses	USD 0.6m	USD 2.1m
Property level EBITDA	(USD 0.2m)	USD 3.3m
Average daily visitation	14 players	572 players
VIP win rate	2.79%	2.16%

Group Summary

DNA Group	June Quarter 2020	June Quarter 2019
Rolling Chip VIP Turnover	AUD 50.7m	AUD 1,653.6m
Net Revenue	AUD 0.9m	AUD 20.3m
Operating expenses	AUD 2.6m	AUD 12.7m
Property level EBITDA	AUD 1.7m	AUD 7.6m
Corporate Costs	AUD 1.3m	AUD 2.8m
Group EBITDA	(AUD 3.0m)	AUD 4.8m

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Star Vegas Settlement

During the period, Donaco reached a pragmatic settlement with the Thai Vendor of the DNA Star Vegas business in Cambodia.

The settlement parties have agreed to defer settlement payments and additional lease payment, whilst awaiting consent from Mega International Commercial Bank Co., Ltd (“Mega Bank”), which was received during the period.

Mega Bank lender support received

As abovementioned, Mega Bank has deferred Donaco’s principal USD\$5m payment, alongside a waiver granted on all June covenants to 31 December 2020.

The covenants included that the aggregate amount of cash and cash equivalents investments of the Donaco group to not be less than AUD\$20m at any time on or after 30 June 2020.

The proceeds from the underwritten rights issue will also be used to settle the USD\$5m principal payment.

The lender support received preserves shareholder value, secures agreeable lease terms and boosts Donaco’s balance sheet at a critical time.

Placement to strengthen balance sheet

During the period, Donaco sought liquidity measures and sources of capital to guarantee the business remains in a healthy position during the unprecedented COVID-19 pandemic.

The Company explored multiple avenues to raise additional liquidity and subsequently undertook a A\$14.41m underwritten rights issue to provide immediate capital relief. The raise is on the basis of 1 new share for every 2 existing shares at an issue price of \$0.035 per new share, with the funds underwritten by Mr Lee Bug Huy and Lee Bug Tong who currently have a relevant interest of 17.99% in the Company.

The financing provides Donaco with the ability to support its immediate term payment obligations and working capital requirements.

Further funding requirements will be needed in the short term for working capital purposes and to meet repayments and covenants under the Mega Bank facility.

The Placement enables the Company to stabilise its immediate financial needs and meet the upcoming repayment requirements on borrowings.

Board Changes

The CEO recruitment process is ongoing. Mr Paul Arbuckle will be stepping down as CEO on 4 August 2020. The Board has interviewed a number of quality candidates that are currently under consideration.

[ENDS]

Authorised for release by the Board.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Donaco International Limited

ABN

28 007 424 777

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	602	58,162
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(2,772)	(13,471)
(c) advertising and marketing	(103)	(3,990)
(d) leased assets		
(e) staff costs	(2,071)	(22,103)
(f) administration and corporate costs	(1,300)	(9,307)
1.3 Dividends received (see note 3)		
1.4 Interest received	3	27
1.5 Interest and other costs of finance paid	(420)	(2,978)
1.6 Income taxes paid	(373)	(10,445)
1.7 Government grants and tax incentives	38	38
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(6,396)	(4,067)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(69)	(1,079)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		52
(d) investments		
(e) intellectual property		
(f) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities	(69)	(1,027)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings	(12)	(9,655)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	(12)	(9,655)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	18,867	27,378
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(6,396)	(4,067)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(69)	(1,027)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(12)	(9,655)
4.5	Effect of movement in exchange rates on cash held	240	1
4.6	Cash and cash equivalents at end of period	12,630	12,630

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	12,630	18,867
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	12,630	18,867

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
274

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

The amounts in item 6.1 are payments to directors, consisting of fees for non-executive directors and salaries for executive directors.

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	28,232	28,232
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	28,232	28,232

7.5 Unused financing facilities available at quarter end

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Lender 1

Name: Mega International Commercial Bank Co Ltd

Interest rate: 7.072%

Maturity date: 28 June 2021

Lender 2

Name: Joint Stock Commercial Ocean Bank

Interest rate: 9.25%

Maturity date: 2 October 2021

Lender 3

Name: Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank)

Interest rate: 8%

Draw down date: 20 February 2020

Maturity term: 9 months

All loans are secured.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(6,396)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	12,630
8.3 Unused finance facilities available at quarter end (Item 7.5)	
8.4 Total available funding (Item 8.2 + Item 8.3)	12,630
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	1.97

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

Yes, due to the current COVID-19 situation.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

Yes. Donaco is in the process of raising funds from issuing rights options and expects to raise AUD 14.41m (before cost).

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Yes, on the basis of the fund raising from the rights issue.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2020

Authorised by: The Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.