

ASX : DNA

asx release



02 March 2020

Conclusion of negotiations and settlement with Thai Vendor and DNA Star Vegas lessor

Donaco International Limited (“**Donaco**” or “the **Company**”) is pleased to announce it has now settled the various proceedings in Singapore, Australia, Thailand and Cambodia with Somboon Sukcharoenkraisri, Lee Bug Tong, Lee Bug Huy, Lee Hoe Property Co., Ltd, Paramax Co., Ltd and related persons (together, the **Thai Vendors**) arising from Donaco’s acquisition of the Star Vegas business (**Litigation**).

The Board’s focus in conducting settlement discussions has been to act in the best interest of the company by preserving shareholder value in the Star Vegas business and to provide a certain and stable platform to support the ongoing improvements at Star Vegas, which has remained profitable and generating positive cashflow.

In reaching the decision the Board had to assess the different potential outcomes arising from the Litigation. Albeit that the Singapore arbitration was assessed to have some merit, this had to be balanced against the termination of the Star Vegas lease as a result of the Cambodian arbitration award which would have led to:

- the closure of the Star Vegas business and subsequently a full write off of the remaining carrying value of Star Vegas.
- a significant reduction in amount likely to be awarded in the Singapore arbitration as any claim for compensation would only be calculated to the date of termination of the Star Vegas lease.

In the event of the termination of the Star Vegas lease the Company’s ability to service its current debts in the meantime would have been detrimentally impacted.

The settlement reached provides certainty of tenure for the Star Vegas business and will conclude all disputes between the parties. It will also allow the Company and management to now focus on the forward momentum of the profitable Star Vegas business, and continued improvements to the Company’s balance sheet and financial position ahead of any COVID-19 impacts to second half revenue and earnings.

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Commenting on the settlement, Chairman Mel Ashton said;

“We have reached a pragmatic and fair settlement of this long running dispute, in what we believe is a timely manner. Most importantly the remaining value of the Star Vegas business is retained for shareholders, and we do not expect any changes to the carrying value of the asset as a result of this settlement.

This gives us the stable platform we need to press forward on our other two key priorities for shareholders – firstly continued improvement to the financial position of the Company, as demonstrated by our 23% reduction in borrowings at the recent half year result, and looking forward making sure we have in place the necessary facilities to weather the short term impacts of COVID-19 in the current half.

Secondly, resolution of the uncertainty around the dispute will allow us much greater leverage in addressing the conditions around contracts with third party vendors which we are seeking to move on to more commercial terms, in line with our focus on operational and corporate expenses, to improve efficiencies across the business.”

Settlement Details

On 02 March 2020 Donaco and DNA Star Vegas Co., Ltd executed settlement agreements with all parties to the Litigation (**Settlement Agreements**).

On the date of the Settlement Agreements, the parties executed an amended Perpetual Lease Agreement for the Star Vegas casino, granting Donaco security of tenure over the Star Vegas casino until 15 June 2115.

The parties have otherwise agreed:

- a) Donaco will receive USD \$38 million to remove the non-competition and non-solicitation clauses in the Share Sale Agreement.
- b) Donaco will pay USD \$18 million to settle the claims for unpaid managements fees plus interest.
 - a. These unpaid management fees were recorded as a current liability in the 1HFY19 accounts, and represented approximately 80% of the net current liabilities of Donaco.

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- c) Donaco will pay any outstanding rent and an additional lease payment of USD \$20 million to Lee Hoe Property.
 - a. Following payment of this additional lease payment the lease agreement shall resume and continue as perpetual, with the monthly rental restructured as follows:
 - i. USD 20,000 per month for 5 years from the effective settlement date
 - ii. USD 30,000 per month starting from the 6th year to the end of the 10th year
 - iii. From the 11th year onwards, the monthly rent will increase 3% every 3 years
 - iv. For the five financial years commencing 1 July 2020 (i.e. FY21) an entitlement to share 25% of the Star Vegas business EBITDA in excess of USD 16,000,000 of the EBITDA of the relevant financial year (i.e. if EBITDA is USD 20m, then 25% of USD 4m, which is USD 1m for that year). EBITDA for FY19 was USD17.4m (equivalent to AUD26.4m).
- d) The counterparty to the proceedings has agreed not to dispose of their shares in Donaco International for a period of six months from the date of settlement.
 - a. Currently the counterparty holds 148,199,529 shares or 17.99% of Donaco
- e) The management agreement will be terminated.
 - a. Operational management of the Star Vegas business will continue to be handled by Donaco employees, with no additional expected cost implications for the Company
- f) The Share Sale Agreement will be amended to acknowledge the existence of the competing casino constructed near to the Star Casino.
- g) The cessation of all legal actions and mutual releases.

Benefits of the Settlement

The settlement retires over 80% of the net current liabilities of the Company (as at 31 December 2019) and preserves entirely the Star Vegas business, which is the main cash and profit generating asset of the Company. This provides certainty for shareholders in relation to the value of the Star Vegas business going forward and allows the Company to plan for the future free of litigation uncertainty. This planning will include further balance sheet improvements, securing facilities to address any short term liquidity impacts of COVID-19 and a further tightening the control of operational and corporate expenses, to improve efficiencies across the business and also to bring the conditions around contracts with third party vendors on to more commercial terms.

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The economic interests of the Thai Vendors are also aligned with the Company, through their escrowed equity position in Donaco and the restructured lease agreement.

No net change to the cash position of the Company will eventuate from the settlement.

For further information around the Litigation, refer to our previous ASX announcements from 23 November 2017 to 03 February 2020.

[ENDS]

Authorised for release by the Board.

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