



Market Announcement

3 February 2020

Attached for the information of the market is ASX's query letter to Frontier Capital Group Limited (ASX:FCG) dated 2 January 2020 and FCG's response dated 21 January 2020.

ASX's enquiries are ongoing. FCG's securities will remain suspended until further notice.

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21 January 2020

Isabella Wong
Adviser, Listings Compliance

Dear Isabella,

We write in response to the ASX Query Letter dated 2 January 2020 (**ASX Query Letter**) and subsequent queries raised by the ASX.

The Company responds seriatim to the ASX Query Letter as follows:

- 1. Please explain how the directors satisfied themselves that the carrying value of \$40,589,000 for buildings, furniture and equipment is appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as the independent valuations provided by Colliers International.***

The line item in the financial accounts “buildings, furniture and equipment” is based on aggregating the valuations prepared by Colliers International (**Colliers**) of:

Buildings, furniture and equipment	\$23,588,261
Leasehold land	\$17,000,739
Total	\$40,589,000

The valuation approaches used were:

Buildings, furniture and equipment	Cost Approach
Leasehold land	Income Approach

With respect to the Cost Approach, the directors accept Collier’s rational:

“Our valuation is made on the basis of Market Value, which we define as the “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

With respect to the Income Approach:

“The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.”

Management provided Colliers with detailed cashflow projections, which Colliers accepted and utilised in determining their valuation.

The directors have extensive experience and knowledge of casino operations and consider the cashflow projections and valuations appropriate and adopted the valuation determined by Colliers.

It is the Company's view that the revaluation concords with current Australian Accounting Standards.

- 2. Noting that the qualified conclusion in the Auditor's Review Report relates to the auditor's inability to obtain sufficient appropriate audit evidence to support the revaluation of FCG's buildings, furniture and equipment from \$21.8 million to \$40.5 million, please provide a detailed explanation why the auditor has been unable to obtain sufficient appropriate audit evidence to verify the carrying value of FCG's buildings, furniture and equipment.**

The FortuneGate Casino (formally Casablanca Casino) (Casino) recommenced operations on 28 July 2019. This was after the end of the reporting period (30 June 2019). Accordingly, there was insufficient cashflow during the reporting period to provide the auditor with appropriate audit evidence for him to be satisfied with respect to the valuation of the Leasehold land which was based on the Income Approach at the date of his report.

- 3. What steps, if any, has FCG taken or does FCG intend to take to obtain an unqualified audit opinion in relation to its future financial statements?**

The Directors are of the view that forward cashflows when considered against actuals achieved will satisfy the auditor that the assumptions underlying the Income Approach valuation of the Leasehold Land will be adequate and accordingly future financial statements will not have a qualified audit opinion on this matter.

- 4. Please provide details of the intangible assets of \$6,396,000 at 30 June 2019.**

	AUD	
Stotsenberg - right of use asset	1,933,294	Stotsenberg June 2019 Financials Note 11
Stotsenberg - Accumulated amortisation	(1,129,930)	Stotsenberg June 2019 Financials Note 11
Acquisition goodwill - Stotsenberg share issued	5,592,278	Stotsenberg June 2019 Financials Note 18
	6,395,642	

- 5. Please explain why the stock subscription detailed in note b in Note 6 to the Half Year Report (see sub-paragraph L(vi)(c) above) was not completed and the deposits are to be refunded.**

It was agreed between the parties that the stock subscription originally contemplated would not proceed without FCG shareholder approval. Accordingly, the advance provided will be refunded and no securities will be issued.

- 6. Which related party provided the cash advances detailed in note c in Note 6 to the Half Year Report (see sub-paragraph L(vi)(d) above)?**

The cash advance was provided by MPA Luxury Hotels Inc., a company associated with FortuneGate Holdings Philippines Inc., FCG's largest shareholder. Henri Ho, Executive Chairman of FCG, has a 5% interest in FortuneGate Holdings Philippines Inc.

- 7. Please provide details of the non-current financial liabilities of \$1,463,000 and other non-current liabilities of \$5,700,000 at 30 June 2019 (see sub-paragraph L(iii)(e) above).**

\$1,463,000 – Financial liabilities – Finance Leases / Hire Purchases (Stotsenberg June 2019 Financials Note 15)

\$5,700,000 – Deferred Tax Liability – Arising from Stotsenberg land / property fair value revaluation

8. ***The Auditor's Review Report notes that the financial statements in the Half Year Report 'have not included an accounting policy with respect to going concern'.***

Please explain why the Half Year Report does not include an accounting policy with respect to going concern.

The Company's Going Concern Policy is stated in the Company's Annual Financial Statements (see Annual Report December 2018, page 31 and Annual Report December 2017, page 31) as follows:

Going concern

This financial report has been prepared on a going concern basis, which contemplates the continuity of business activities and the realisation of assets and payments of liabilities in the normal course of business.

The Company's Going Concern Policy was inadvertently omitted (fell off in pagination) in the half-year financial accounts of 2017 and 2018, This carried over to the half-year financial accounts of 2019. Notwithstanding, the Company's Going Concern Policy is applicable to each of the half-year financial accounts.

9. ***Given the auditor has stated that a material uncertainty exists that may cast doubt on FCG's ability to continue as a going concern, do the directors consider that FCG is a going concern?***

Yes.

If the answer to this question is 'yes', on what basis do the directors consider that FCG is a going concern?

The directors are of the view that hotel and Casino revenues, since the recommencement of operations of the Casino, are more than to adequate to satisfy the Company's going concern requirements.

10. ***In addition to the matters detailed by the auditor in the material uncertainty as to going concern paragraph in the Auditor's Review Report, ASX notes that:***

- ***FCG had net current liabilities of \$12.534 million at 30 June 2019. This includes cash held in trust and escrowed in current assets. However, if cash held in trust and escrowed is excluded from current assets, FCG's net current liabilities increase to \$24.834 million at 30 June 2019.***
- ***FCG had cash at bank of \$1.963 million at 30 June 2019.***
- ***If the \$21.865 million revaluation of buildings, furniture and equipment is excluded from assets, FCG would have reported total net liabilities of \$9.916 million at 30 June 2019 (rather than net assets of \$11.949 million).***
- ***If the \$21.865 million revaluation of buildings, furniture and equipment and the \$6.396 million of intangible assets are excluded from assets, FCG would have reported total net liabilities of \$16.312 million at 30 June 2019.***

In light of the above, does FCG consider that its financial condition is sufficient to warrant continued listing on ASX under listing rule 12.2? In answering this question, please also explain the basis for FCG's conclusion.

Yes, FCG considers that its financial condition is sufficient to warrant continued listing on the ASX.

Since the recommencement of operations of the Casino, FCG has seen strong revenues sufficient to meet its financial obligations and provide a strong platform for growth.

When considering the extensive renovations that have been completed at the Casino, coupled with successful and experienced management and increasing patronage, the future bodes well for the Company and its shareholders.

The directors will at an appropriate time consider, with shareholder approval, debt reduction through conversion of debt to equity. Over \$10 million in liabilities are in the form of a soft loan (see 6 above).

Profitable operations for the Stotsenberg Hotel and Casino have been re-established since the recommencement of operations at the Casino. EBITDA for Stotsenberg Hotel and the Casino, based on unaudited management accounts January to June 2019 was a **loss** of A\$2.75 million compared with a **profit** of A\$12.6 million for July to December 2019, making a total EBITDA for Stotsenberg Hotel and the Casino of A\$9.8 million for the 12 months to December 2019.

11. In relation to the Half Year Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of FCG's Corporate Governance Statement (see sub-paragraph I(ii) above)?

Yes.

If the answer to this question is 'no', why not?

N/A.

12. What enquiries did the board make of management to satisfy itself that the financial records of FCG have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of FCG?

During the reporting period, the operations of the Company were limited to the operation of the hotel pending recommencement of the Casino operations.

The Managing Director together with reporting staff regularly report to the Executive Chairman, and through him to the board as to the adequacy of financial record keeping. Financial statements are prepared externally by qualified accountants and are reviewed or audited by the Company's auditor. Recommendations of the auditor are implemented.

Operating as a casino the Company is subject to vigorous regulatory review in addition to external audit.

13. Commenting specifically on the qualified conclusion in the Auditor's Review Report, does the board consider that FCG has a sound system of risk management and internal control which is operating effectively? If so, please explain these systems.

The board considers that FCG has a sound system of risk management and internal control and that it is operating effectively.

The qualified conclusion in the Auditor's Review Report states:

Qualified Conclusion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report [see 1 and 2 above], the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- i) *giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the half-year then ended; and*
- ii) *complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.*

The Board, in conjunction with management, assesses risks on an ongoing basis. The Board assesses key risks of the Company which include the financial position and going concern. Further the Board considers PAGCOR regulatory requirements provide an overarching platform to ensure that adequate processes are in place for internal control and assessing and managing risk with respect to the Casino.

14. Please provide a copy of FCG's latest management accounts (not for release to the market).

Please see attached "FCG_20200108_155025".

15. Please provide a copy of the following documents (not for release to the market):

- a. ***the licence to operate the FortuneGate Casino issued by PAGCOR, including any attaching conditions and requirements, and the notice to recommence operations issued on 5 October 2018;***

Please see attached:

"030116 PAGCOR SLPHC Provisional License (PL)";
"PAGCOR_SLPHC_Approval_Notice_of Reactivation 100518"; and
"Casino Open Notice.pdf".

- b. ***the agreement between Stotsenberg Leisure Park & Hotel Corporation ('Stotsenberg') and FortuneGate Holdings Philippines Inc. for the management of the FortuneGate Casino, and any other agreements between Stotsenberg and FortuneGate Holdings Philippines Inc.;***

Please see attached "FHPI SLPHC Investment and Management MOA (signed).pdf"

- c. ***the two independent valuation reports prepared by Colliers International dated November 2019 referred to in the Auditor's Review Report (see sub-paragraph L(vii)(a) above);***

See attached:

"CIPVAL19-160 SLPHC Buildings and Land Improvements Valuation_final.pdf"; and
"CIPVAL19-160 SLPHC Leasehold Land_final"

- d. ***any independent report in relation to the intangible assets of \$6,396,000 at 30 June 2019;***

None prepared.

- e. ***the US\$10,000,000 unsecured loan entered into on 1 November 2018 (see sub-paragraph L(i) above);***

See attached "FCG Loan Agreement.pdf".

- f. ***the 'future stock subscription' agreements detailed in note b in Note 6 to the Half Year Report (see sub-paragraph L(vi)(c) above);***

There are no formal agreements.

- g. ***the cash advance agreement(s) detailed in note c in Note 6 to the Half Year Report (see sub-paragraph L(vi)(d) above); and***
-

There is no formal agreement. The funds were provided in good faith to address an urgent need for cash pending the receipt of loan funds from FortuneGate. The advance is not interest bearing.

h. the audited accounts for Stotsenberg for FY2018 and for the half year to 30 June 2019;

Audited accounts for Stotsenberg for FY2018 are attached as "Stotsenberg 2018 audited financials.pdf"

Half-year accounts to 30 June 2019 are provided (not audited) are attached as "Stots.FS.30June2019.pdf"

16. ASX notes that the Appendices 4E, annual reports and half year reports listed in paragraphs B to I and paragraph L above were all lodged late. Accordingly, FCG has failed to comply with its reporting obligations under the listing rules (see paragraphs M to P above) on nine occasions.

Please explain why the abovementioned Appendices 4E, annual reports and half year reports were lodged late.

With the suspension of casino operations in February 2017, and the subsequent suspension from quotation of the Company's securities. The Company's focus was directed to removing both suspensions. This resulted in the Appendix 4E being lodged late on 24 July 2017 and the Annual Report and Appendix 4G on 15 September 2017.

From 17 January 2018 to 15 February 2019 the Company did not have a compliant board (no Australian resident directors). With the appointment of new directors on 15 February 2019 preparations and finalisation of accounts was able to commence and all outstanding accounts have been progressively and sequentially lodged through 2019.

17. Please confirm whether Stotsenberg is complying with its licence to operate the FortuneGate Casino.

Yes.

18. Please confirm that FCG is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Yes.

19. Please confirm that FCG's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of FCG with delegated authority from the board to respond to ASX on disclosure matters.

Yes.

Yours sincerely,

Henry Kinstlinger
Company Secretary



2 January 2020

Reference: 12144

Mr Henry Kinstlinger
Company Secretary
Frontier Capital Group Limited
Level 2
131 Macquarie Street
Sydney NSW 2000

By email

Dear Mr Kinstlinger

Frontier Capital Group Limited ('FCG'): Query letter

ASX Limited ('ASX') refers to the following:

- A. FCG's announcement titled 'Extension of Suspension' released on the ASX Market Announcements Platform ('MAP') on 22 February 2017, which included the following statements:

'The Casablanca Casino has suspended its casino operations pending the settling of an escrow account in the amount of PHP225 million (A\$6.5 million) as required by the Philippine Amusement and Gaming Corporation (PAGCOR), the government authority that oversees and regulates privately-owned casinos.

The operations of the Stotsenberg Hotel (239 rooms) continue uninterrupted.

The escrow account provides security that the casino remains committed to further developments of the casino and compliance of all regulations as determined by PAGCOR. The escrow amount was originally covered by a bank guarantee, which has lapsed. The Company now intends to secure the escrow with a cash deposit. Hence, the Company is conducting a capital raising and is confident that this will be finalized shortly. A proportion of the amount required may be subject to shareholder approval.

The Casablanca Casino is owned by the Company's 100% owned subsidiary, Stotsenberg Leisure Park & Hotel Corporation.

FCG further advises that the service agreement with Elxcite Gaming and Entertainment Inc has been terminated by mutual consent. Discussion are under way with a new manager that will be appointed concurrent with the escrow account funding and the recommencement of operations at the casino ...'

- B. FCG's Appendix 4E for the financial year ended 31 December 2016 released on MAP on 24 July 2017.
- C. FCG's annual report for the financial year ended 31 December 2016 released on MAP on 15 September 2017.
- D. FCG's half year report for the six months ended 30 June 2017 released on MAP on 24 April 2019.
- E. FCG's Appendix 4E for the financial year ended 31 December 2017 released on MAP on 26 April 2019.
- F. FCG's annual report for the financial year ended 31 December 2017 released on MAP on 26 April 2019.
- G. FCG's half year report for the six months ended 30 June 2018 released on MAP on 15 July 2019.
- H. FCG's Appendix 4E for the financial year ended 31 December 2018 released on MAP on 15 July 2019.

- I. FCG's annual report for the financial year ended 31 December 2018 released on MAP on 15 July 2019, which included:

- (i) The following statements in the 'Review of Operations' on page 3 (emphasis added):

'On 5 October 2018, the Philippines Amusement and Gaming Corporation (PAGCOR) approved the recommencement of operations for Casablanca Casino, subject to general conditions and the deposit for the PAGCOR Escrow Account.'

'On 1 November 2018 the Company has secured a US\$10,000,000 (American Dollars Ten Million) unsecured loan, with no fixed term and a coupon rate of 15% per annum, - to meet the requirements of PAGCOR for the Escrow Account, Performance Assurance and Surety Bonds to enable recommencement of the casino operations. The loan is not from a party, associated or related to the Company.'

- (ii) Confirmation that FCG complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations ('CG Principles and Recommendations') in the Corporate Governance Statement on page 23:

'Complies.'

'The Board requires the Chief Executive Officer and the Chief Financial Officer to provide such a statement before approving the entity's financial statements for a financial period.'

'The Executive Chairman performs the function of the CEO for this purpose.'

- J. FCG's announcement titled 'Casino Operations to Recommence' released on MAP on 23 July 2019, which included the following statements:

- i) FCG 'owner of the Stotsenberg Hotel and FortuneGate Casino (formerly Casablanca Casino) located at Clark Freeport Zone Philippines, advises that operations at the casino will recommence on 28 July 2019.'

- ii) **'Appointment of Casino Management'**

FortuneGate Holdings Philippines Inc (FHPI) ... have been appointed managers of the casino on customary commercial terms.

FHPI is a Philippine registered company that invests in integrated resort projects as well as provides casino operations and management services ...

The Casablanca Casino has been rebranded "FortuneGate Casino" to capitalize on FHPI's south east Asian market presence.'

- K. FCG's announcement titled 'Correction with respect to Casino Managers' released on MAP on 25 July 2019, which included the following statements:

'The Announcement mistakenly states that the managers appointed were FortuneGate Holdings Philippines Inc (FHPI), part of Hong Kong's Goldenway Investment Holdings Limited Group.'

We advise that whilst FHPI has been appointed managers, it is not connected or associated with Goldenway Investment Holdings Limited Group.'

FHPI is a Philippine registered company that invests in integrated resort projects as well as provides casino operations and management services. FHPI have strong support in VIP markets with a focus on the Philippine market. It is majority owned by Tech Innovation Management Limited, a BVI registered company.'

- L. FCG's Appendix 4D and half year report for the six months ended 30 June 2019 ('Half Year Report') released on MAP on 17 December 2019, which included:

- (i) The following statements in the 'Review of Operations' on page 3:

'During the reporting period, the Company has secured the reopening of the FortuneGate Casino (formerly the Casablanca Casino) owned by its subsidiary, Stotsenberg Leisure Park and Hotel Corporation, in Clark, Philippines and is in compliance with the requirements of the Philippines Amusement and Gaming Corporation in relation to an Escrow Account, Performance Assurance and Surety Bonds to enable recommencement of the casino operations.

The Stotsenberg Leisure Park Hotel has been operating throughout the period.

The official opening of the FortuneGate Casino was on 28 July 2019.'

- (ii) In the consolidated statement of profit or loss for the half year ended 30 June 2019 (on page 11):

- (a) Revenue of \$855,000.
- (b) Finance expenses of \$2,712,000.
- (c) Net loss of \$4,613,000.

- (iii) In the consolidated statement of financial position as at 30 June 2019 (on page 12):

- (a) Cash and cash equivalents of \$14,263,000 (see sub-paragraph (v) below).
- (b) Total current assets of \$14,928,000.
- (c) Total current liabilities of \$27,462,000 (see sub-paragraph (vi) below).
- (d) Total non-current assets of \$47,060,000, which included the following key line items:
 - Buildings, furniture and equipment of \$40,589,000 (up from \$18,724,000 at 31 December 2018); and
 - Intangible Assets of \$6,396,000 (up from nil at 31 December 2018).
- (e) Total non-current liabilities of \$22,577,000, which included the following key line items:
 - Trade and other payables of \$15,065,000;
 - Non-current financial liabilities of \$1,463,000; and
 - Other non-current liabilities of \$5,700,000.
- (f) Net assets of \$11,949,000.
- (g) Reserves of \$15,200,000 (up from \$1,079,000 at 31 December 2018).

- (iv) In the consolidated statement of cash flows for the half year ended 30 June 2019 (on page 14):

- (a) Receipts from customers of \$445,000.
- (b) Net cash flows used in operating activities of \$1,728,000.
- (c) Payments for property, plant and equipment of \$9,541,000.
- (d) 'Other contributed equities' of \$5,918,000.
- (e) Advance from other entities of \$3,907,000.

-
- (f) Lease financing of \$1,552,000.
- (v) In Note 4 (Cash and cash equivalents) on page 23:
- (a) Cash at bank of \$1,963,000; and
- (b) Cash held in trust and escrowed of \$12,300,000.
- (vi) In Note 6 (Trade and other payables) on page 24:
- (a) Current trade payables of \$4,326,000.
- (b) Current non-trade payables, deposits and accruals of \$6,308,000 together with the following note:
- ‘Payable to third party, Peso 216 million (2018:Peso 184 million) pertains to expenses incurred in the renovation expenses, capital and operating expenses related to casino.*
- Non-trade includes unpaid balance of Peso 18 million (2018:Peso 91 million) for the construction of hotel and casino.’*
- (c) Current ‘deposit for future stock subscription’ of \$5,918,000 together with the following note:
- ‘Advances Peso 150 million represent amounts payable to controlled entity stockholders arising for the refund of deposits for future stock subscription.*
- The amounts outstanding are unsecured, non-interest bearing, payable on demand and will be settled in cash. No guarantees have been given for these advances.’*
- (d) Current unsecured non-interest bearing payable of \$10,529,000 together with the following note:
- ‘The amounts outstanding Peso 399 million (2018:Peso 165 million) pertains to cash advances provided to finance the controlled entity’s working capital requirements and renovations of hotel from related party.*
- The amounts outstanding are unsecured, non-interest bearing, payable on demand and will be settled in cash. No guarantees have been given with respect to these advances.’*
- (e) Non-current payables of \$14,259,000.
- (f) Other payables to related parties of \$806,000.
- (vii) The independent auditor’s review report (‘Auditor’s Review Report’), which contained:
- (a) A qualified conclusion on the following basis (emphasis added):

‘Basis for Qualified Opinion

We refer to the financial statements regarding Building, furniture and equipment and draw your attention to the revaluation of \$21.8 mil from \$18.7 mil in 2018 to \$40.5 mil as at 30 June 2019.

We have been provided with two independent valuation reports dated November 2019 prepared by Colliers International for the leasehold land and building for the site located at Stotsenberg, Pampangd Philippines.

The valuation report prepared for the freehold land has been prepared on an 'income basis' using projected income and costs for potentialities purposes.

We have formed the view that the valuation reports are not sufficient evidence as they are based on projected income and costs that we were unable to verify, and in the absence of additional sufficient and appropriate evidence we have qualified the revaluation of buildings, furniture and equipment.'

- (b) The following material uncertainty as to going concern paragraph (emphasis added):

'We refer to the financial statements of the Group and note that they have not included an accounting policy with respect to going concern.

The financial statements include in the 'Consolidated Statement of Cash Flows', a \$1.728 million deficiency of net cash flows from operating activities.

Included in the financial statements are additional borrowings that have been used for renovation and working capital.

As the Groups' [sic] business operations are not cash flow positive and reliant upon external borrowing, there exists a material uncertainty that may cast doubt as to whether the Group will be able to continue as a going concern in the absence of further equity and loan raisings.'

- M. Listing rule 4.2B, which states:

'The entity must give the information and documents required by listing rule 4.2A to ASX immediately they are ready to be given to ASX, and no later than the time that it lodges any accounts with ASIC ... It must do so in any event no later than ... two months after the end of the accounting period.'

- N. Listing rule 4.3B, which states:

'The entity must give the information and documents required by listing rule 4.3A to ASX immediately they are ready to be given to ASX, and no later than the time that it lodges any accounts with ASIC ... It must do so in any event no later than two months after the end of the accounting period.'

- O. Listing rule 4.5.1, which states:

'An entity must give ASX ... a copy of the documents which a disclosing entity must lodge with ASIC under section 319 of the Corporations Act. It must give the documents to ASX when it lodges them with ASIC and in any event no later than three months after the end of the accounting period ...'

- P. Listing rule 4.7.1, which states:

'An entity must give ASX ... a copy of the annual report and any concise report provided to security holders under section 314 of the Corporations Act. This must be given to ASX by the earlier of:

- The first day the entity sends the documents to security holders under section 315 of the Corporations Act.*
- The last day for the documents to be given to security holders under section 315 of the Corporations Act.'*

- Q. Listing rule 12.2, which states:

'An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.'

R. Listing rule 19.11A, which states:

'19.11A If a listing rule requires an entity to give ASX accounts, the following rules apply ...

(b) The accounts must be prepared to Australian accounting standards ...'

S. Recommendation 4.2 of the CG Principles and Recommendations, which states:

'The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.'

Questions and Request for Information

Having regard to the above, ASX asks FCG to respond separately to each of the following questions and requests for information.

1. Please explain how the directors satisfied themselves that the carrying value of \$40,589,000 for buildings, furniture and equipment is appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as the independent valuations provided by Colliers International.
2. Noting that the qualified conclusion in the Auditor's Review Report relates to the auditor's inability to obtain sufficient appropriate audit evidence to support the revaluation of FCG's buildings, furniture and equipment from \$21.8 million to \$40.5 million, please provide a detailed explanation why the auditor has been unable to obtain sufficient appropriate audit evidence to verify the carrying value of FCG's buildings, furniture and equipment.
3. What steps, if any, has FCG taken or does FCG intend to take to obtain an unqualified audit opinion in relation to its future financial statements?
4. Please provide details of the intangible assets of \$6,396,000 at 30 June 2019.
5. Please explain why the stock subscription detailed in note b in Note 6 to the Half Year Report (see sub-paragraph L(vi)(c) above) was not completed and the deposits are to be refunded.
6. Which related party provided the cash advances detailed in note c in Note 6 to the Half Year Report (see sub-paragraph L(vi)(d) above)?
7. Please provide details of the non-current financial liabilities of \$1,463,000 and other non-current liabilities of \$5,700,000 at 30 June 2019 (see sub-paragraph L(iii)(e) above).
8. The Auditor's Review Report notes that the financial statements in the Half Year Report *'have not included an accounting policy with respect to going concern'*.

Please explain why the Half Year Report does not include an accounting policy with respect to going concern.
9. Given the auditor has stated that a material uncertainty exists that may cast doubt on FCG's ability to continue as a going concern, do the directors consider that FCG is a going concern?

If the answer to this question is 'yes', on what basis do the directors consider that FCG is a going concern?

10. In addition to the matters detailed by the auditor in the material uncertainty as to going concern paragraph in the Auditor's Review Report, ASX notes that:

- FCG had net current liabilities of \$12.534 million at 30 June 2019. This includes cash held in trust and escrowed in current assets. However, if cash held in trust and escrowed is excluded from current assets, FCG's net current liabilities increase to \$24.834 million at 30 June 2019.
- FCG had cash at bank of \$1.963 million at 30 June 2019.
- If the \$21.865 million revaluation of buildings, furniture and equipment is excluded from assets, FCG would have reported total net liabilities of \$9.916 million at 30 June 2019 (rather than net assets of \$11.949 million).
- If the \$21.865 million revaluation of buildings, furniture and equipment and the \$6.396 million of intangible assets are excluded from assets, FCG would have reported total net liabilities of \$16.312 million at 30 June 2019.

In light of the above, does FCG consider that its financial condition is sufficient to warrant continued listing on ASX under listing rule 12.2? In answering this question, please also explain the basis for FCG's conclusion.

11. In relation to the Half Year Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of FCG's Corporate Governance Statement (see sub-paragraph I(ii) above)?

If the answer to this question is 'no', why not?

12. What enquiries did the board make of management to satisfy itself that the financial records of FCG have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of FCG?

13. Commenting specifically on the qualified conclusion in the Auditor's Review Report, does the board consider that FCG has a sound system of risk management and internal control which is operating effectively? If so, please explain these systems.

14. Please provide a copy of FCG's latest management accounts (not for release to the market).

15. Please provide a copy of the following documents (not for release to the market):

- a) the licence to operate the FortuneGate Casino issued by PAGCOR, including any attaching conditions and requirements, and the notice to recommence operations issued on 5 October 2018;
- b) the agreement between Stotsenberg Leisure Park & Hotel Corporation ('Stotsenberg') and FortuneGate Holdings Philippines Inc. for the management of the FortuneGate Casino, and any other agreements between Stotsenberg and FortuneGate Holdings Philippines Inc.;
- c) the two independent valuation reports prepared by Colliers International dated November 2019 referred to in the Auditor's Review Report (see sub-paragraph L(vii)(a) above);
- d) any independent report in relation to the intangible assets of \$6,396,000 at 30 June 2019;
- e) the US\$10,000,000 unsecured loan entered into on 1 November 2018 (see sub-paragraph I(i) above);
- f) the 'future stock subscription' agreements detailed in note b in Note 6 to the Half Year Report (see sub-paragraph L(vi)(c) above);
- g) the cash advance agreement(s) detailed in note c in Note 6 to the Half Year Report (see sub-paragraph L(vi)(d) above); and
- h) the audited accounts for Stotsenberg for FY2018 and for the half year to 30 June 2019;

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16. ASX notes that the Appendices 4E, annual reports and half year reports listed in paragraphs B to I and paragraph L above were all lodged late. Accordingly, FCG has failed to comply with its reporting obligations under the listing rules (see paragraphs M to P above) on nine occasions.

Please explain why the abovementioned Appendices 4E, annual reports and half year reports were lodged late.

17. Please confirm whether Stotsenberg is complying with its licence to operate the FortuneGate Casino.
18. Please confirm that FCG is complying with the Listing Rules and, in particular, Listing Rule 3.1.
19. Please confirm that FCG's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of FCG with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and FCG's response to the market. Accordingly, FCG's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9:30 am AEDT on Thursday, 9 January 2020.**

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely,

Isabella Wong
Adviser, Listings Compliance (Sydney)