

**ASX RELEASE**
**26 February 2015**
**Donaco Enters Transformational Period**

Donaco International Limited (**the Company**) today released its financial report and accounts for the six months ending on 31 December 2014.

These results mark the first time that the Company has reported normalised results from its casino operations. Normalised results provides a more accurate guide to the underlying operating performance of the VIP table games business, which can experience significant volatility over shorter periods. Reporting normalised results is consistent with the practice of major casino operators listed in Australia and Asia.

The normalised results show revenue growth of 55%, and EBITDA growth of 52%, in the Company's casino operations in Vietnam. However across the whole Company, the comparison to the December 2013 half is impacted by the successful sale of the Gaming Technology businesses during the reporting period. A one-off gain on sale of \$2.2m was realised, but the revenue and earnings from those businesses were only included for part of the reporting period, rather than for the full period as at December 2013.

<b>Dec 14 Financial Performance (Normalised)</b>	<b>Dec 14</b>	<b>Dec 13</b>	<b>Change</b>
<b>Operating Revenue (inc. Gaming Technology)</b>	\$14,538,291	\$11,743,832	↑ <b>24%</b>
<b>– Cost of Sales</b>	(\$1,856,921)	(\$2,533,040)	
<b>– Operating Expenses</b>	(\$8,880,490)	(\$4,360,876)	
<b>– Minority interest</b>	(\$191,199)	(\$1,107,083)	
<b>= EBITDA</b>	\$3,609,681	\$3,742,833	↓ <b>3%</b>
<b>+ Net Interest and Other Income*</b>	\$2,903,579	\$369,925	
<b>– Depreciation &amp; Amortisation</b>	(\$1,335,983)	(\$128,844)	
<b>– Income tax expense</b>	(\$1,108,384)	(\$1,476,111)	
<b>= Net Profit After Tax (incl non-recurring items)*</b>	\$4,068,893	\$2,507,803	↑ <b>62%</b>
<b>Net Profit After Tax (excl. non-recurring items)*</b>	\$2,478,223	\$2,507,803	↓ <b>1%</b>

*\* Interest, Other Income and Non-Recurring Items are set out on page 4  
 All figures converted to AUD at the average exchange rate during each half year:  
 Dec 14: 1 USD = 1.1217; Dec 13: 1 USD = 1.084 AUD.*



## **Normalised Results and Actual Results**

The Board has decided to adopt the process of normalising results from the table games business by applying a theoretical gross win rate of 2.85% to all table game turnover. This is generally accepted as the theoretical win rate for VIP baccarat games in Asian casinos.

The win rate represents the gross revenue to the casino, as a percentage of rolling chip turnover. Rolling chips are used in VIP table games as a way of measuring the volume of business generated by junket operators, who bring the majority of VIP players to the casino.

In theory this win rate does not apply to cash play, where rolling chips are not used. However the table games business at the Company's property in Vietnam is dominated by VIP and premium baccarat, with the majority of turnover generated by rolling chips. Accordingly the Board has decided that the theoretical win rate of 2.85% should be applied to all table game turnover. This adjusts the revenue from table games, with resulting adjustments to gaming tax, corporate tax, and minority interest (the share of the business owned by the Vietnamese Government).

Normalised results smooth out the volatility that can be experienced in the revenue of the VIP table games business over shorter periods. Over longer periods, the actual gross revenues from VIP table games tend to converge to the theoretical win rate. Accordingly, reporting normalised results provides investors with a better guide to the underlying performance of the business.

The Company's casino operations in Vietnam did experience volatility in the December 2014 half, and particularly in the September quarter, where the gross win rate from VIP play was 1.29% of rolling chip turnover, compared to 3.08% in the previous corresponding quarter. The win rate recovered strongly to 2.94% in the December quarter, but was still below theoretical for the full December half, at 2.09%. Accordingly, the actual results (as shown in the Appendix 4D and statutory accounts released today) are as below.

<b>Dec 14 Financial Performance (Actual)</b>	<b>Dec 14</b>	<b>Dec 13</b>	<b>Change</b>
<b>Operating Revenue (inc. Gaming Technology)</b>	\$9,997,413	\$12,572,441	↓ 20%
<b>– Cost of Sales</b>	(\$1,856,921)	(\$2,533,040)	
<b>– Operating Expenses</b>	(\$8,880,490)	(\$4,360,876)	
<b>– Minority interest</b>	(\$16,123)	(\$1,256,245)	
<b>= EBITDA</b>	(\$756,121)	\$4,422,280	↓ 117%
<b>+ Net Interest and Other Income*</b>	\$2,903,579	\$369,925	
<b>– Depreciation &amp; Amortisation</b>	(\$1,335,983)	(\$128,844)	
<b>– Income tax expense</b>	(\$65,548)	(\$1,708,198)	
<b>= Net Profit After Tax (incl non-recurring items)*</b>	\$745,927	\$2,955,163	↓ 75%
<b>Net Profit After Tax (excl. non-recurring items)*</b>	(\$844,743)	\$2,955,163	↓ 128%

*\* Interest, Other Income and Non-Recurring Items are set out on page 4  
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Dec 14: 1 USD = 1.1217; Dec 13: 1 USD = 1.084 AUD.*



## **Review of Operations**

### **Vietnamese Gaming Operations**

The Company's flagship property is the Aristo International Hotel, an expanded five star property with 428 rooms and 40 gaming tables. The soft opening of the property occurred on 18 May 2014, and the soft opening period continued until November 2014. During this period, construction was still occurring in significant areas of the hotel, and not all facilities were available.

Trading during the soft opening period was impacted by a number of headwinds, including the China/Vietnam tensions, the Soccer World Cup in Jun/July, and a severe earthquake in Yunnan Province in August.

Construction was completed in November 2014, with the Aristo receiving its five star certification from the Vietnamese authorities on 13 November 2014. At that point, management began to implement expanded marketing plans.

Despite the headwinds during the soft opening period, gaming turnover grew steadily during the December half, increasing by 13%.

The most rapid growth was experienced in slot machines, with turnover up 746% and gross revenue up 665% during the half. This reflects an increase in the quality and quantity of machines, with 58 new machines replacing 36 older ones. The 58 machines in the Aristo consist of 36 linked jackpot machines, and three electronic roulette tables with eight seats each.

A key metric showing the success of the new slot machine business is the gross win per machine per day, which reached \$104 during the half, as compared to \$22 at the old property.

Non-gaming revenue also showed strong growth of 822%, reflecting the quality of the guest rooms, food and beverage offerings, and entertainment facilities at the Aristo. Hotel occupancy (of available rooms) averaged 56% during the half, with average revenue per occupied room of \$67.

Further details on the performance of the Vietnamese Gaming Operations are provided in the December 14 Investor Presentation released to the market today.

### **Gaming Technology Operations**

The Gaming Technology businesses were successfully sold during the half. The primary business was iSentric Sdn Bhd, a successful mobile commerce business based in Kuala Lumpur. The spin-off of iSentric was completed on 23 September 2014, when iSentric Limited listed on the ASX under the code "ICU".

The other main Gaming Technology business was Way2Bet Pty Limited, which operated the Company's wagering marketing portal in Australia. This business was sold on 31 October 2014.

As a result of these disposals, both iSentric and Way2Bet have been treated as discontinuing operations in the statutory accounts lodged today. The revenues and cost lines of those businesses have been excluded from the Statement of Profit or Loss in the statutory accounts, with their net profit for the period then added on a separate line. The gain on sale of those businesses has been treated as a non-recurring item in the Investor Presentation.



## **Operating Expenses**

Operating expenses increased in line with the increased size and scale of the Company's operations. The largest areas of increase related to staff and other costs at the Aristo International Hotel, where total staff numbers increased from 420 as at July 2013 (the start of the previous corresponding period), to 800 as of today. Hotel property costs, marketing, travel and other expenses also increased in line with the much larger property.

Included within the "employee benefits expense" line in the statutory accounts is an amount of \$1.2 million for expensing of employee options. This is a non-cash expense item. It appears for the first time in these accounts, as options were first allocated to individual employees on 1 July 2014. In line with accounting standards, the options are valued as at the date of grant, and are expensed over the period from allocation until vesting.

Cost increases in the area of corporate operations include non-recurring costs associated with corporate activity, which were incurred primarily in negotiating the proposed acquisition of Star Vegas Resort & Club in Cambodia. This transformational deal was announced to the market on 30 January 2015 (see further below).

## **Other Income and Non-Recurring Items**

Other income consists of interest on cash holdings, together with exchange rate gains. The Aristo International Hotel conducts all operations in Chinese renminbi, and so can benefit from exchange rate movements against the US dollar. Net exchange rate gains and losses have been disclosed in the Investor Presentation.

A significant non-recurring income item during the period was the gain on sale of the Gaming Technology businesses, which totalled \$2.2 million. The non-recurring cost items in the period relate to corporate activity, as noted above.

## **Proposed Transformational Acquisition**

On 30 January 2015, the Company announced that it had signed a binding agreement to acquire the Star Vegas Resort & Club in Poipet, Cambodia, on the border with Thailand. This successful and well-established business will dramatically expand the size and scale of Donaco's operations. The transaction is expected to provide strong earnings per share accretion, as well as providing significant diversification benefits.

Full details on the current status of the transaction are contained in the Investor presentation released today, and in the Shareholder Booklet and Independent Expert's Report released to the market on 24 February 2015.

The transaction is subject to shareholder approval at an extraordinary general meeting to be held in Sydney on 27 March 2015.

## **Summary and Outlook**

Managing Director and CEO, Mr Joey Lim, said "We are pleased to see good signs of growth at the Aristo International Hotel, after a difficult opening period. With the construction of the property



completed in November 2014, we have accelerated our marketing efforts, and have seen strong growth in casino visitation in recent months. Total visitation increased by 45% in December 2014, and by 82% in January 2015, compared to the previous corresponding months. Hotel occupancy in January reached 71%, which is our best monthly figure for the Aristo so far.

“The travel warning in China for visitors to Vietnam was downgraded in January, although it is still in place. We are working to ensure that the Aristo is positioned as an attractive destination for visitors from China as these tensions ease. We are also signing up increasing numbers of junket operators, from China and elsewhere, and are working to bring in more expatriate visitors from Hanoi, using the new highway.

“At the same time, we are looking forward to completing the proposed acquisition of Star Vegas in Cambodia. This exciting deal will provide the Company with a second market-leading property, in a rapidly growing economy in South-east Asia. It will also diversify our customer base, with the Star Vegas primarily servicing visitors from Thailand, and not being in any way reliant on Chinese visitors.

“The Star Vegas acquisition is still planned for completion in April, subject to satisfaction of all conditions precedent, which are currently being resolved in an orderly fashion.”

**For further information:**

Ben Reichel  
Executive Director  
Phone: + 61 412 060 281

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**ABOUT DONACO INTERNATIONAL LIMITED (ASX: DNA)**

Donaco International Limited operates leisure and entertainment businesses across the Asia Pacific region.

Our flagship business is the Aristo International Hotel, a successful boutique casino in northern Vietnam. Donaco operates the business and owns a 95% interest, in a joint venture with the Government of Vietnam.

Donaco is a pioneer casino operator in Vietnam. The business was established in 2002, and is located on the border with Yunnan Province, China. The property has recently been expanded to a brand new five star resort complex with 428 hotel rooms.

To learn more about Donaco visit [www.donacointernational.com](http://www.donacointernational.com)

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