

27 August 2015

## **FY15 Results Announcement and Trading Update**

Donaco International Limited (“**Donaco**” or “**the Company**”) today released its statutory results and preliminary accounts for the 12 month period ending on 30 June 2015.

Investors should note that the Company successfully completed the acquisition of the Star Vegas Resort and Club in Cambodia on 1 July 2015. Accordingly, the FY15 statutory results relate only to the Company’s pre-existing business, the Aristo International Hotel in Vietnam. Based on unaudited Star Vegas management accounts for FY15, the Aristo represents approximately 15% of the Company’s overall business, in terms of net (reported) revenue.

### **Highlights**

- **Star Vegas Resort & Club results show very strong growth in FY15.**
- **Aristo International Hotel FY15 normalised results are in line with expectations.**
- **Trading update for July 2015 shows a strong performance at both properties, with actual net revenue for the month of USD9.9 million at Star Vegas (54% above the average for FY15), and USD1.8 million at Aristo (55% above the average for FY15).**
- **Upward trend at both properties has continued into August to date.**
- **Recent deals with Manchester United and Heng Sheng Group will drive additional revenue growth in FY16.**

### **Summary and Outlook**

Managing Director of Donaco, Mr Joey Lim, stated “The new financial year has begun on a very bright note for Donaco. Our Star Vegas property has demonstrated the power of its diversified revenue streams, with rapid growth in turnover and revenue over the past 12 months. This strong business growth has continued into July and August to date.

“Our new deal with Heng Sheng Group, one of Macau’s leading junket operators, will bring substantial numbers of VIP players from outside Thailand to the Star Vegas Resort & Club. This deal is expected to generate significant additional revenues for Donaco in FY16.

“The fitout for the new Heng Sheng gaming room at the Star Vegas has begun, and is progressing at a rapid pace. Currently the work is on target to meet the proposed start date of mid-September.

“Our Aristo property is also back on track in recent months, after a difficult first year. Record levels of visitation and strong turnover figures give us confidence in the performance of this business for the coming year.

“Further, we recently signed a groundbreaking sponsorship deal with Manchester United, which is also expected to drive further growth in the year ahead, at both the Star Vegas and the Aristo. Our appointment as the Official Casino Resort Partner of Manchester United will drive increased positive awareness of both properties in the Company’s key target markets, and is expected to generate significant value for the Company.

“Marketing plans are already being implemented, with a Manchester United legendary player to visit both properties soon and formally launch the relationship.”

### **Star Vegas Resort & Club – Performance Summary**

As noted above, the Star Vegas became part of the Donaco Group on 1 July 2015. Unaudited management accounts for FY15 show the following actual (not normalised) results (in Australian dollar terms, in order to be consistent with Donaco’s FY15 results announcement):

<b>Actual Results (AUD)</b>	<b>FY15 (AUD)</b>	<b>FY14 (AUD)</b>	<b>Increase</b>
VIP Table Games – Rolling Chip Turnover	4,679,024,010	2,510,614,125	↑ 86%
VIP Table Games – Gross Revenue	125,179,483	73,898,816	↑ 69%
Main Hall Table Games – Gross Revenue	23,137,701	17,817,667	↑ 30%
Table Games – Net Revenue (A)	50,592,947	37,842,306	↑ 34%
Slot Machines – Net Revenue (B)	38,848,829	31,834,469	↑ 22%
Non-Gaming Revenue (C)	3,214,459	2,179,694	↑ 47%
<b>Total Net Revenue (A+B+C)</b>	<b>92,656,236</b>	<b>71,856,470</b>	<b>↑ 29%</b>
Operating Expenses before depreciation	(22,433,521)	(18,796,790)	↑ 19%
<b>EBITDA</b>	<b>70,222,715</b>	<b>53,059,680</b>	<b>↑ 32%</b>

*Note: All figures have been converted from USD into AUD at the average exchange rate during each year. FY15: 1 USD = 1.2066 AUD. FY14: 1 USD = 1.0931 AUD.*

Normalised results for the Star Vegas for FY15 show total net revenue of AUD100.83 million, and EBITDA of AUD78.39 million.

Further details on the performance of the Star Vegas are provided in the Investor Presentation released to the market today.

### **Aristo International Hotel – Performance Summary**

Casino visitation at the Aristo grew by 28% over the year. Table game turnover grew steadily, by 17% in Australian dollar terms, while slot machine turnover grew by 294%. These results are in clear contrast to Macau-based gaming operators, who have experienced declining visitation and gaming turnover over the past year.

Normalised results for the Aristo show operating revenue grew by 51%, driven by strong growth in slot machine and non-gaming revenue, while EBITDA at the property (before corporate costs) grew by 67%.

Actual results for the Aristo were affected by a below theoretical gross win rate on VIP table games, which averaged 1.93% of rolling chip turnover in FY15. For comparison purposes, the VIP gross win rate in FY14 was 2.78%, and in FY13 was 2.98%.

Further details on the Aristo’s performance are provided under “FY15 Results Analysis” below, and in the Investor Presentation released to the market today.

### **Star Vegas Resort & Club – Trading Update**

The Star Vegas business has grown significantly over FY15, and this growth has continued into July 2015. Management accounts for July 2015 show that rolling chip turnover on table games grew by 40% compared to July 2014, reaching a total of USD360.8 million for the month. This primarily relates to VIP table games, but includes a small amount of rolling chip turnover on main hall games.

Revenue from table games was further boosted by an above-theoretical gross win rate of 3.9%, compared to 3.0% in July 2014. Net revenue from table games reached USD6.6 million. Slot machine net revenue was USD 3.1 million.

Overall, the actual net revenue from the property in the month of July 2015 was USD9.9 million, which is 54% above the monthly average for FY15.

Visitor numbers at the Star Vegas have continued to increase, with an average of 5,101 visitors to the casino per day in the six months to June 2015. This is an increase of 21% year-on-year above the average of 4,200 per day in the six months to June 2014. Visitation in the month of July 2015 increased again, to an average of 5,409 visitors per day.

According to the Ministry of Tourism in Cambodia, total visitor arrivals to Cambodia grew by 4.6% year-on-year to 2.3 million tourists in the six months to June 2015. Visitors from China increased by 22% year-on-year to 335,042 tourists during the period. This provides strong support for the ongoing growth of the business, particularly given the recent deal with the Heng Sheng Group to bring Chinese players to the Aristo, via Siam Reap in Cambodia.

### **Aristo International Hotel – Trading Update**

Recent trading at the Aristo has also been positive. Visitors to the casino hit a record level of 10,254 players in May, and have remained high, with 9,931 players in June, and 9,766 players in July. These visitor numbers are well above the previous corresponding months in 2014, by 18%, 59% and 43% respectively. The increased visitation was driven by successful marketing promotions during the period.

In addition, the VIP gross win rate stabilized in June and July, at 2.49% and 2.43% respectively. While gaming turnover was down 10% compared to the same months last year, net gaming revenue was 34% higher.

Non-gaming revenue has continued to grow strongly, with hotel occupancy hitting a new monthly record high of 80% in July, at an average room rate of USD60 per night.

In total, actual net revenue from the property in July 2015 was USD1.8 million, which is 69% higher than July 2014, and 55% above the monthly average for FY15.

## FY15 Group Financial Performance Summary

### NORMALISED RESULTS

### ACTUAL RESULTS

FY15	FY14	% Change	All figures in AUD <sup>(a)</sup>	FY15	FY14	% Change
\$30,795,240	\$20,334,357	↑ 51%	<b>Operating Revenue (from continuing operations) <sup>(b)</sup></b>	\$17,069,618	\$19,471,405	↓ 12%
(\$2,208,639)	(\$1,270,995)		<b>- Cost of Sales</b>	(\$2,208,639)	(\$1,270,995)	
(\$8,550,718)	(\$5,969,270)		<b>- Operating Expenses</b>	(\$8,550,718)	(\$5,969,270)	
(\$478,885)	(\$1,398,501)		<b>- Minority interest</b>	\$72,326	(\$1,476,679)	
<b>\$19,556,998</b>	<b>\$11,695,591</b>	<b>↑ 67%</b>	<b>= <u>Property Level EBITDA</u></b>	<b>\$6,382,587</b>	<b>\$10,754,461</b>	<b>↓ 41%</b>
\$34,930	\$2,086,096		<b>+ EBITDA from discontinued operations <sup>(b)</sup></b>	\$34,930	\$2,086,096	
(\$5,867,222)	(\$2,845,242)		<b>- Corporate Costs</b>	(\$5,867,222)	(\$2,845,242)	
<b>\$13,724,706</b>	<b>\$10,936,444</b>	<b>↑ 25%</b>	<b>= <u>Group EBITDA</u></b>	<b>\$550,295</b>	<b>\$9,995,315</b>	<b>↓ 94%</b>
\$356,876	\$1,005,465		<b>+ Net Interest (income and expense) <sup>(c)</sup></b>	\$356,876	\$1,005,465	
\$1,769,566	\$121,674		<b>+ Other Income <sup>(c)</sup></b>	\$1,769,566	\$121,674	
(\$715,187)	(\$1,134,099)		<b>- Non-recurring costs <sup>(c)</sup></b>	(\$715,187)	(\$1,134,099)	
(\$4,859,863)	(\$292,090)		<b>- Depreciation &amp; Amortisation</b>	(\$4,859,863)	(\$292,090)	
(\$2,731,164)	(\$3,079,856)		<b>- Income tax expense</b>	(\$29,762)	(\$2,902,862)	
\$8,260,121	\$8,691,638	↓ 5%	<b>= Net Profit After Tax (excl. non-recurring costs) <sup>(c)</sup></b>	(\$2,212,888)	\$7,927,502	↓ 128%
\$7,544,934	\$7,557,539	0%	<b>= Net Profit After Tax (after non-recurring costs) <sup>(c)</sup></b>	(\$2,928,075)	\$6,793,403	↓ 143%

Notes: (a) All figures converted to AUD at the average exchange rate during each year. FY15: 1 USD = 1.2066 AUD. FY14: 1 USD = 1.0931 AUD.

(b) Aristo is the only continuing operation. The Gaming Technology businesses (iSentric and Way2bet) were sold during the year, and are thus discontinued operations. In this summary, their EBITDA up to the date of sale has been listed separately, with gain on sale included in "Other Income" (see page 4).

(c) Interest, Other Income and Non-Recurring Costs are set out on page 4.

## **FY15 Results Analysis**

As noted above, the FY15 statutory results include only the Aristo International Hotel, which is approximately 15% of the Company's overall business, in terms of net (reported) revenue.

The performance of the Aristo International Hotel was affected by a number of specific factors during the year, which have previously been disclosed to the market. The property was in soft opening mode until November 2014, with not all facilities available. Further, the performance of the property in the December half was adversely affected by China's travel warning for Vietnam, the Soccer World Cup, and an earthquake in the Aristo's main target market of Yunnan Province.

Despite these factors, the Aristo saw steady increases in casino visitation and gaming turnover, as noted above. However actual results were affected by the below theoretical win rate on VIP table games.

The theoretical win rate for VIP baccarat in Asia is generally accepted to range between 2.7% and 3.0% of rolling chip turnover. The Company normalises its revenue from VIP table games in the middle of this range, at 2.85%, in line with other Asian casino operators. In December 2014, the Aristo ceased using rolling chips for main hall table games, and accordingly the Company does not normalise main hall revenues.

The process of normalisation assumes that turnover remains unchanged. Gross gaming revenue is calculated using the theoretical win rate, which is a percentage of turnover. Junket commissions and gaming tax are then deducted. Since turnover is not adjusted, junket commissions are also unchanged, since they are calculated as a percentage of turnover. However gaming tax is adjusted, since it is calculated as a percentage of gross gaming revenue. The result is the net revenue figure.

The difference between the theoretical win rate of 2.85% and the actual win rate of 1.93% represents a difference of AUD13.73 million in net revenue. The majority of this net revenue amount would drop to the Company's earnings and net profit lines, but not all of it, as normalisation also requires the adjustment of two other lines: corporate income tax; and the minority interest held by the Company's joint venture partner, the Government of Vietnam.

The VIP win rate at the Aristo has been closely monitored by the Board and management team. This process of scrutiny has included the engagement of external consultants, who have confirmed that while some processes could be tightened (and this has been addressed), the low win rate simply comes down to the luck factor. With the Aristo having a heavy concentration of VIP players, the business currently lacks the spread of smaller players required to counter the effects of a significant win by a VIP player. Management is working to address this issue via marketing plans to attract more main hall players. Recent trading shows that this has had a positive effect (see "Aristo Trading Update" above).

Investors should note that the recent devaluation of the Chinese renminbi is not expected to have any impact on operations at the Aristo. Unlike the Macau casinos, Chinese players at the Aristo do not need to change money, as the gaming floor and hotel operate using renminbi.

Thus, players will have no reason to change their behaviour as a result of the currency devaluation. However, exchange rates do have an impact on Donaco's earnings in USD and AUD terms. Foreign exchange gains and losses are disclosed in the group financial results.

Longer term growth at the Aristo will be supported by current plans to build an airport near Lao Cai. The Vietnam Aviation Agency has recently signed a number of preliminary contracts for the site. The proposed facility will be a regional airport, capable of handling domestic and international flights from cities within a five hour flight time. This would include multiple cities within China, Indonesia and Malaysia, amongst other countries. Stage 1 of the new airport is due to commence operations in 2020.

### **Operating Expenses and Corporate Costs**

Increases in operating expenses at the Aristo International Hotel primarily relate to the increased scale of operations at the new property, which opened in May 2014. The workforce was scaled up from 420 staff at the start of FY14, to 850 staff at the start of FY15. Staff numbers were scaled down to 800 during the year, but due to recent increases in business activity and visitation, have again been increased to 850.

The increase in cost of sales relates to food and beverage consumables, driven by the 149% increase in food and beverage revenues during the year. Property costs (housekeeping items etc) also increased, due to the 994% increase in accommodation revenues during the year.

In relation to corporate costs, the majority of the increase relates to expensing of employee options. This is a **non-cash** item, which did not appear at all in the FY14 accounts. Expensing of options commenced in FY15, and totaled \$1.97 million for the year.

The remainder of the increase in corporate costs (approximately \$1.05 million) relates to travel expenses, consultants, legal fees, Board and senior management costs, as required to expand the overall Group to its current size and scale.

### **Interest, Other Income and Non-Recurring Costs**

Interest income was generated on the Company's cash holdings, while interest and other finance costs were paid on the Aristo's loan facility with Ocean Bank of Vietnam. The loan of USD100 million from Mega Bank of Taiwan, used for the acquisition of the Star Vegas, was drawn down on 1 July 2015, and accordingly has no impact on the FY15 results.

Other income consists primarily of the gain on sale of the Gaming Technology businesses (iSentric Sdn Bhd and Way2Bet Pty Limited), together with foreign exchange gains or losses.

Non-recurring costs in FY15 relate to corporate activity, primarily the acquisition of the Star Vegas.

Further detail on these items is provided in the Investor Presentation released to the market today.





**For further information:**

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

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

Our major business is the Star Vegas Resort and Club, a successful casino and hotel complex in Poipet, Cambodia, on the border with Thailand. Star Vegas was established in 1999, and is the largest and highest quality of the Poipet casino hotels. The property has more than 100 gaming tables, more than 1400 slot machines, and 385 hotel rooms.

Our flagship business is the Aristo International Hotel, a successful boutique casino in northern Vietnam, located on the border with Yunnan Province, China. Established in 2002, the property has recently been expanded to a brand new five star resort complex with 400 hotel rooms. Donaco is a pioneer casino operator in Vietnam, and owns a 95% interest in the business, in a joint venture with the Government of Vietnam.

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

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