

ASX : DNA

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23 November 2017

Annual General Meeting – Chairman’s Address and Managing Director’s Address

In accordance with Listing Rule 3.13.3, Donaco International Limited lodges the attached Chairman’s address and Managing Director’s address, to be delivered at today’s Annual General Meeting of shareholders.

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

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Chairman's address – Stuart McGregor

On behalf of the Board I am pleased to welcome you to the 2017 Annual General Meeting of Donaco International Limited. I am your Chairman, Stuart McGregor, thank you for being with us today. I confirm that the meeting is properly constituted, and that a quorum is present. I declare the meeting open for business.

I would like to begin by introducing our board of directors:

- Our Managing Director and CEO, Mr Joey Lim;
- Executive Director and Company Secretary, Mr Ben Reichel.

Non-executive directors,

- Mr Benjamin Lim;
- Mr Rob Hines.

Our Director from Thailand:

- Mr Ham Techatut Sukjaroenkraisri.

Also in attendance is our CFO, Mr Chong Kwong Yang.

We also welcome Ms Suwarti Asmono from the Company's auditors, Crowe Horwath.

I'd like to start by running through the highlights of the past financial year and some Board and Management updates before handing over to your CEO Mr Joey Lim for a financial overview of the year and an update on operations so far in the current financial year.

It was a busy year for the company as we began preparing for the transition of the Star Vegas business to full in-house management by Donaco, and launched a number of international marketing initiatives at the property, all during the tougher economic conditions brought on by the late King of Thailand's passing and year of mourning that followed. Over at Aristo, we continued to drive strong growth, marking another record result for the venue.

Star Vegas remains the dominant contributor to Donaco's revenue and earnings, and we're very positive about the potential for the business now that we have obtained full management control since 1 July of this year, following the cessation of the management contract with the vendor on 30 June 2017.

As I mentioned at last year's Annual General Meeting, the three strategic objectives the Board sought to pursue in the 2017 financial year were:

- 1) Firstly, to utilise our strong cash flow to further reduce our debt. We signed a new debt facility with Mega Bank in August 2017, and reduced our net debt to equity ratio from 15.4% in FY16 to 8.7% at the end of FY17.
- 2) Secondly, to continue to reward our shareholders with annual dividend payments, and consider additional capital management initiatives at the appropriate time. We have

announced a new policy of paying out dividends of 10-30% of net profit after tax, commencing with a dividend of half a cent per share paid in October of this year. We also announced the implementation of an on-market share buyback program, which also commenced in October. Both initiatives are designed to reward our shareholders.

- 3) Lastly, to consider further value accretive acquisitions to grow our business should they arise. We are continuing to consider various opportunities, while we implement our plans to deliver growth at our current two properties.

The Board sees the use of capital to support organic growth initiatives in our existing venues as an important objective in the coming year for the company.

Donaco remains in a growth phase, and the Board considers it prudent to retain sufficient cash to pursue these important strategic growth opportunities, as well as repaying debt in accordance with our revised debt facilities.

Environmental, Social & Governance

A key feature of the Donaco business is the strength of our corporate governance practices. We are widely recognised in the Asian region by governments and our customers as a Group which operates with high standards of integrity and governance. We firmly believe that our commitment to robust corporate governance principles provides us with a competitive advantage in pursuing further growth opportunities as they arise.

We believe in the importance of making a positive contribution to the communities in which we operate, and last year continued to engage in a number of charitable events to support the underprivileged in these local regions.

During the year we supported a number of schools in the Lao Cai region of Vietnam, focusing on poor and underprivileged students. We supported these students through practical and well received gifts of computers, school uniforms, and bicycles, as well as cash donations to their schools. We also provided further practical help to assist the poor in our region, through gifts of blankets to the poor, and cash donations to charities such as the Children's Care Fund of Lao Cai.

In Cambodia, the previous casino management at Star Vegas has not been so strongly engaged in charitable work. We plan to change this, and will be engaging in a number of charitable activities in coming months.

To begin with, we are very pleased to announce today that we are donating two mobile medical clinics to Samdech Techo Voluntary Youth Doctors Association. This is a not for profit organisation which mobilises medical professionals, medical students and volunteers to help provide free healthcare to rural Cambodians throughout the country.

With the two new mobile clinics, the Association will be able to conduct minor surgeries and tests in the villages of rural Cambodia. This helps to address a significant problem faced by poor families in remote areas of Cambodia, who often have difficulty accessing proper medical and dental treatment.



The mobile clinics will be assembled in Thailand from parts sourced from around the world, and we expect them to be delivered in December. Donaco is pleased to be able to make this significant contribution to the wellbeing of the Cambodian people.

Management and Board updates

With the management of the Star Vegas now under our full control, a number of new key management appointments were made. We welcomed Mr. Kenny Bee Meng Chuan on 1 September 2017 as General Manager of Star Vegas. Mr Bee brings with him a wealth of experience, having held previous roles at Wynn Macau as Casino Manager, and also extensive experience at the Genting Group. Additionally, we have appointed a new Hotel Manager, Head of Human Resources and a Casino Cage Manager, putting us in the optimal position to deliver operational success and growth at this property.

Following the expiration of the management contract with the former Star Vegas vendor, there were a number of associated resignations. Non-Executive Director Paul Porntat Amatavivadhana resigned from his Board position in July 2017. Att Asavanund, previously Deputy CEO, also resigned from his role on 31 August, and following the close of this AGM, Executive Director Ham Techatut Sukjaroenkraisri will also step down from his position on the Board. On behalf of the Board I would like to thank each of them for their contributions to the business during their tenure at Donaco, and wish them well for the future.

I would also like to thank our shareholders, staff and customers for their loyalty and support and look forward to your continued support in the years ahead.

I would now like to invite Chief Executive Officer Joey Lim to present more detail regarding Donaco's operational and financial highlights in the 2017 financial year and our performance so far in the current financial year.

Managing Director's Presentation – Joey Lim

Thank you Stuart. Good afternoon and thank you all for attending.

The 2017 financial year was a year of consolidation at Star Vegas and a year of growth for Aristo. Overall, we had solid financial year performance, despite a challenging economic period in Thailand following the passing of the late King.

The group generated \$136 million in revenue, of which Star Vegas contributed \$110 million, with an underlying EBITDA of \$84 million, only slightly down on the previous year.

Overall, our net profit after tax was \$31 million, including negative non-recurring items of \$24 million. This amount included the final Star Vegas final vendor management fee of \$19 million, with the balance of non-recurring items being non-cash adjustments with respect to warrants. The contract with the Thai vendor for the management of the Star Vegas property expired in

accordance with its agreed terms on 30 June 2017, and his involvement with the Star Vegas business ceased at that time.

After adjusting for the non-recurring items, our underlying net profit after tax of A\$54 million was in line with 2016 financial year.

The cash flow from operations of \$47 million remained strong and allowed us to continue with our capital management initiatives, repaying our debt, paying dividends and announcing an on-market buy-back of shares.

In terms of operating performance, despite being faced with a subdued consumer sentiment and economic climate in Thailand, the Star Vegas venue experienced only a moderate reduction in revenue, and a favourable increase in the VIP gross win rate to 3.54%, which was up from 3.16% achieved in the previous year. Overall, net profit after tax at Star Vegas declined by 7.3% to 1,466 million Thai Baht.

The last two financial years have experienced strong win rates in favour of the house at Star Vegas, and whilst our win rate continues to be healthy in the current year to date, shareholders should expect that the win rate will fluctuate in future periods. This is normal and to be expected.

During the 2017 financial year, we had the opportunity to observe, as well as influence, the management practices of the previous management team at Star Vegas, and we looked for opportunities to better utilise the venue. It was pleasing to see the result of these initiatives start to flow through in the non-gaming revenue, which experienced robust growth over the year.

During the year we also announced a partnership with Poker King Club to host a major international poker tournament, that was accredited as the South-East Asia leg of the Asian Poker Tour. The event included a press conference held by the guests of honour, the Manchester United Class of '92 players, and was the official launch of our Manchester United Partnership to increase awareness and visitation of the Star Vegas property for the target market of middle class Thai visitors.

In Vietnam, the Aristo continued to grow strongly over the course of the 2017 financial year, with impressive EBITDA growth of 40% driven by increases in both gaming and non-gaming revenue, while tight cost management resulted in outstanding NPAT growth of 130% to 31.8 million RMB.

Our visitor numbers continued to grow at the venue, increasing by 18% to 174,000 over the year, including a new monthly record of 18,356 players in August 2016. Our marketing strategies were focused on increasing lower volatility mass market play, which drove strong growth in net gaming revenue, up 36%, and our non-gaming revenue, up 12% over the

previous year. The average VIP win rate achieved of 2.28%, a slight improvement on last year's 2.20%.

The Aristo also recorded particularly strong growth in slot machine revenues, up 62% for the year to 14.9 million RMB. To capitalise on this growth, we added 10 new Aruze slot machines to the gaming floor in April 2017, which resulted in particularly strong growth of 238% in slot machine revenue in the fourth quarter.

Our focus has been on developing a leading Asian gaming and entertainment brand, and with two blue chip assets under our management, we are uniquely placed to grow over the long term.

Turning now to the financial performance to date in the 2018 financial year. At both of our properties, the main hall and slot machine businesses have been healthy, and so has the non-gaming side, particularly at the Aristo. However in the VIP segment of our business, the two properties have almost been mirror images of each other in the year to date.

At Star Vegas we were impacted by the transition to a new set of VIP junket customers, which has previously been flagged to the market. As a result, VIP rolling chip turnover for the four month period was well below last year (although we are rebuilding it strongly), but this has been offset to some extent by a high VIP win rate, particularly in the months of July and August. In September and October the win rate started to come back to the theoretical level, but is still running at 3.65% for the year to date, which is well above the theoretical win rate of 2.85%.

At the Aristo, the opposite has occurred, with VIP rolling chip turnover substantially higher than last year (up by 136%), but the win rate has been much weaker. In September and October the win rate has started to improve back towards the theoretical level, but is still only running at 1.34% for the year to date.

As a result, the group has recorded unaudited four month revenue of A\$30 million. At Star Vegas, there were some one-off expenses paid in the months of September and October, which mean that earnings in those months were lower than July and August. The property has recorded EBITDA of \$14.1m for the year to date. At the Aristo, the low VIP win rate has resulted in EBITDA of \$3.6m for the year to date. Corporate costs were \$4m, which is a reduction of \$0.2m (or 5%) from last year. Accordingly, group EBITDA for the year to date is \$13.7m. On a normalised basis (adjusting for win rates), EBITDA would be A\$5.6 million higher.

We are rapidly gathering momentum at Star Vegas, and I will elaborate on this shortly, so we do expect a significantly stronger remainder of the year, with financial results skewed heavily to the June half of the financial year.



A very significant change occurred on July 1 with the management of Star Vegas being taken in-house by Donaco. This has freed us to utilise our extensive experience in managing Asian casino operations, rather than rely on, and pay for, the management by the vendor of the business.

In this period of management hand-over, we have appointed all key staff by recruiting externally, as well as using our depth of management at Aristo. The new management team has brought new ideas and energy, which are already starting to take effect. We now have additional flexibility to implement initiatives to increase visitation and performance over time.

The main hall and slot machine business, which is the mainstay of the Star Vegas operation, has remained robust. Main hall rolling chip turnover is up in every month, and up by 66% for the four months to the end of October, although the majority of turnover in the main hall involves regular chips (where no commission is paid) and not rolling chips.

However, as expected and previously stated, the VIP junket turnover at Star Vegas for the period from July to October is substantially below last year. This has occurred due to a change in active junkets at the property, following the management transition. However, we have seen strong recovery from the low point in July, with high growth in the month by month turnover as we add new junket operators and rebuild this business towards previous levels.

The monthly figures show the strong growth in VIP turnover, as we introduce new junkets to replace the old. The VIP rolling chip turnover figures in Thai Baht are: July 668 million, August 1877 million, September 3480 million, and October 6179 million. This represents an almost 10-fold increase in turnover in the four month period, starting from the low point in July. While total VIP turnover is still well down on last year, we are rebuilding it strongly.

Total casino visitation for the period to the end of October is down 28%, reflecting ongoing weakness in the Thai economy. For this period, we are comparing to a period of strength in the prior year, before the passing of the former Thai king in mid October 2016. For the month of October 2017, visitation was down by only 14%, despite being impacted by the cremation ceremony for the former king. Thailand is now expected to move to a period of celebration as the new king is crowned in December.

As part of our strategy to increase visitation from international players at Star Vegas, we have contracted the international casino marketing agency Vivo Tower Limited to sign up international junkets to utilise the available capacity at Star Vegas, and to bring players to the property from all around Asia. We are also in discussion with Chinese tour agents, to bring groups of mass market players to Star Vegas from Bangkok and Siem Reap.

In order to appeal more to the international market, we have been busy upgrading the non-gaming facilities at Star Vegas. A new Chinese restaurant opened in early November, with a new café set to open next month, in order to fill out the dining options at the property. A new

video arcade for family members is due to open in the next month. For adult guests, a new nightclub opened in October, which has already proven to be very popular. This will be accompanied by a new karaoke club due to open in December.

We have also recently announced the upgrade of our gaming management systems and the introduction of 900 new slot machines onto the main floor, replacing older underperforming machines. The rollout of the new slots will commence in December, with a slots tournament organised for the weekend of 9-10 December, to be attended by Manchester United ambassadors, with the grand prize being a trip to Old Trafford for a Manchester United game. The enhanced slot machine portfolio is expected to contribute higher revenues as the new machines are rolled out over the June half.

The initial launch of our online gaming business has been slightly delayed, and is now also expected in December.

In addition to these business growth initiatives, we have also successfully reduced operating expenses by 15.5% under DNA's new management team, due to a more professional approach to staffing and procurement practices. Several one-off expenses were paid in September and October, and management is confident that ongoing reductions in opex can be achieved over the full year.

Unfortunately, we have found it necessary to commence legal proceedings against the former Thai vendor, for breaches of his agreements with us, relating to gaming activities continuing at the neighbouring Star Paradise property without our consent. Discussions are ongoing with a view to resolving all matters, but in the meantime we have now lodged an application for an injunction with the Cambodian courts, and we have also taken steps to initiate arbitration proceedings in Singapore. While these matters are resolved, we have withheld payment of the final vendor management fee for the Star Vegas business that related to the 2017 financial year.

At Aristo, we have continued to focus on our mass market strategy, and have seen improving results from the slot machine business, hotel accommodation and non-gaming revenues over the four month period to the end of October. However, total casino visitation has declined compared to the previous year, due to the cancellation of a marketing incentive that was running in the previous year, but was subsequently misused by some junket operators.

We have seen a massive increase in the table game turnover which has more than doubled over the equivalent period last year, due to increased activity from VIP junkets. Although we remain focused on main floor players, we were approached by two new junket operators in March and June 2017 which we accepted, as we do not intend to turn away any reasonable business growth opportunities. The combined VIP and Premium gross win rate for the four months was weak in July and August, and improved in September and October, although overall it is below last year's high win rates recorded for the four month period. This represents normal fluctuations in the luck factor that always applies to VIP gaming.



The slot machine turnover is up strongly on the previous period, with net win up 47% for the four months, reflecting the continued benefit of the 10 new machines that were added to the floor in April.

Hotel occupancy has also been much stronger, with total non-gaming revenue up 21% for the period to the end of October. This reflects successful marketing of the property to the local Vietnamese population, and allows us to grow our non-gaming revenue even if casino visitation declines. In fact, for the first four months of the financial year, total non-gaming revenue has exceeded net gaming revenue, due to the lower VIP win rate as noted above.

I continue to be excited about our prospects as we focus our attention on internal management of our key Star Vegas asset. We anticipate an improvement in sentiment in Thailand, now that we have formally concluded the official mourning period and begin to celebrate the coronation of the new king. We anticipate that we will continue to gain momentum as the 2018 financial year progresses, with activity at Star Vegas expected to recover to normal levels. We also expect to benefit from our latest growth initiatives, including the deal with Vivo Tower, the new entertainment facilities that are being built out, and the enhancement of the slot machine portfolio. The financial performance of this property will be skewed to the June half, consistent with the seasonality we have observed in previous years, and as these new growth initiatives start to take effect.

There are no further management payments to be made to the vendor of Star Vegas, which will improve the statutory profit performance for FY18.

At the Aristo, we will continue to focus on the mass market and slot machines, to further increase earnings from both the gaming and non-gaming assets.

Overall, it is a challenging but exciting time for our business, and we look forward to reporting back to our shareholders on the progress of our initiatives as we seek to add value to our operations over the long term.

Ladies and gentlemen, in conclusion, I would like to thank our team and the Board for their hard work during the 2017 financial year, and especially in their efforts as we have taken full control of the management of both properties in the 2018 financial year.

We appreciate your attendance with us today and will now hand you back to our Chairman to conduct the formal business of the meeting.