

**ASX RELEASE**
**26 August 2013**
**Donaco Reports Strong Growth in FY13**

Donaco International Limited (the **Company**) today released its financial report and accounts for the 12 months ending 30 June 2013. This is the Company's first annual results announcement as an ASX listed entity.

The results reflect very strong growth at the Company's flagship casino property, the Lao Cai International Hotel in Vietnam, resulting in a 41% increase in net profit after tax.

**Key Financial Information**

	<b>FY13</b>	<b>FY12</b>	<b>% Change</b>
Operating Revenue	\$15,671,759	\$11,121,438	↑ 41%
Other Income excluding non-recurring items <sup>1</sup>	\$1,188,764	\$975,976	
Operating Expenses	(\$6,076,617)	(\$2,958,573)	
EBITDA before non-recurring items <sup>1</sup>	\$10,783,906	\$9,138,841	↑ 17%
Non-Recurring Items <sup>1</sup>	\$1,192,470	nil	
Depreciation & amortisation	(\$265,554)	(\$211,126)	
Income tax expense	(\$2,667,590)	(\$2,254,206)	
Net Profit after tax and before minority interest	\$9,043,232	\$6,673,508	
Minority interest	(\$2,017,035)	(\$1,673,182)	
Net Profit After Tax	\$7,026,197	\$5,000,327	↑ <b>41%</b>
Earnings per Share	2.6 cents		

1. Other Income and Non-Recurring Items are set out on pages 3 and 4 below

**NOTES:** (a) All figures converted to AUD at the average exchange rate during each year: 2013: 1 USD = 0.9736 AUD; 2012: 1 USD = 0.9651 AUD.

(b) FY12 comparatives are to Donaco Singapore Pte Ltd. FY13 includes Two Way Limited from 1 February 2013 and iSentric Sdn Bhd from 1 June 2013.

## Review of Operations

### ***Lao Cai International Hotel and Casino***

The strong growth in the Company's revenue and net profit after tax were underpinned by an 18% increase in casino patrons at the Lao Cai International Hotel. Total visitation increased to 69,560 persons in FY13, from 59,078 persons in FY12.

The increase in visitation was due to the effective junket marketing program instituted by the Company, and to the road and rail improvements on the Chinese side of the border, which have continued at pace in recent months. The highway from Kunming, the capital of Yunnan Province in China, is now 90% complete, with total driving time to Lao Cai now reduced to five hours, from the previous 7-8 hrs. The new train line from Kunming now carries passengers as far as Mengzi, which is 1.5 hours drive from Lao Cai.

These infrastructure improvements make the Company's gaming business more accessible for the target market in Yunnan Province. This supports the strong future prospects for the Company's new five-star casino property, which is currently under construction.

During FY13, main hall table games revenue increased by 10% to \$3.60m, from \$3.27m in FY12. VIP table games revenue increased by 43% to \$10.05m, from \$7.05m in FY12. The dramatic growth in VIP revenue again reflects the success of the Company's junket marketing program.

The Company does not normalise its reported results based on a theoretical win rate. This is due to the relatively small size of the current property; the rapid growth it is experiencing; and the construction of the new much larger casino and hotel, which will open in FY14. Accordingly, reported results may fluctuate based on normal fluctuations in the win rate. For FY13, the gross win rate (before gaming tax) experienced across all table games in the property was 3.03%.

In February 2013, the Company introduced 12 new high quality slot machines at the property, adding to an installed base of 24 much older machines. This improvement in slot machine inventory saw slot machine revenues jump by 71% to \$296k, from \$173k in FY12. The increase in the June 2013 month was 333%, compared to June 2012.

It should be noted that slot machines contributed only a very small share of total gaming revenue (2.1% in FY13). This is due to the overwhelming popularity of card games, especially baccarat, amongst the Company's patrons from China. However, the very positive reaction to better quality machines suggests that there is a good opportunity for the Company to grow slot machine revenues, once the new hotel property is completed and more space is available to house them. The Company's existing casino licence allows for 150 slot machines, and 150 electronic gaming tables.

The Board and management team were particularly pleased to see the phenomenal growth at the Lao Cai casino in the June 2013 half. Total revenue rose to \$8.58m, an increase of 72% on the previous corresponding half, while net profit after tax rose to \$4.75m, an increase of 85% on the previous corresponding half.

Full details on the business performance of the Lao Cai International Hotel are included the Results Presentation released to the market today.



## **Gaming Technology operations**

The Company's Gaming Technology division consists of the former Two Way Limited business operating in Australia and New Zealand, which was acquired on 1 February 2013, together with the iSentric mobile technology business acquired on 1 June 2013.

The former Two Way Limited business as a whole contributed revenue of \$537k for the five months from 1 February to 30 June 2013. The "TAB Active" TV wagering service was sold to Tabcorp Holdings Limited on 30 June 2013, with the sale proceeds of \$863k booked as a one-off gain (see "Non-Recurring Items" below). The cost base in Australia was reduced further via a restructure of the workforce, and a move to new office premises in July 2013.

The Company continues to operate the Way2Bet wagering affiliate portal, which has all of the major corporate bookmakers in Australia as clients. Total revenue for this business in the 12 months to 30 June 2013 was \$501k, which was an increase of 60% on the previous year.

Technical support for the Way2Bet business is now being provided from Malaysia by the iSentric gaming technology team. In addition, the iSentric team has been engaged to develop customer relationship management and loyalty systems for the new Lao Cai International Hotel.

The iSentric mobile payments business contributed revenue of \$470k and net profit after tax of \$61k for the June 2013 month.

## **Operating Expenses**

Operating expenses at the Lao Cai International Hotel increased during the year to \$4.17m, from \$2.93m in FY12. The increase was primarily due to the Company engaging and training more staff in anticipation of the new hotel property opening, in addition to regular salary increases. In total, personnel expenses increased by \$0.81m.

In addition, marketing costs increased by \$0.17m to support the Company's engagement with junket operators, including renting additional premises in Lao Cai City to accommodate junket operators and their clients. The need to incur rental costs will reduce when the Company's new 428 room hotel opens. Finally, cost of sales increased by \$0.13m, reflecting additional sales of food and beverage consumables due to increased patronage.

Apart from the Lao Cai International Hotel, operating expenses increased in two other main areas: corporate overhead to support the Company's listing on the ASX (\$0.77m), and cost base of the businesses acquired during the year (\$1.2m). For future years, corporate overhead costs are not expected to increase unless the scale of the Company's operations increases.

The cost base of the businesses acquired during the year has already been reduced, including by the sale of the "TAB Active" business. Although the sale proceeds have been treated as a one-off gain (see "Non-Recurring Items" below), there is a further benefit in saving the costs of operation of that business, which will be reflected in the FY14 results.

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

The "Other Income" line includes interest income from cash held, and exchange rate gains at the Lao Cai International Hotel. All casino operations are conducted in Chinese currency (renminbi),



and so the casino can benefit from exchange rate fluctuations against the US dollar. Details are as follows:

<u>Other Income</u>	<u>FY13</u>	<u>FY12</u>
Interest income	\$865,980	\$361,242
Exchange rate gain – Lao Cai Hotel	\$322,784	\$614,734
<b>Total</b>	<b>\$1,188,764</b>	<b>\$975,976</b>

The FY13 reported result was impacted by a number of non-recurring items, which taken together, had a net positive impact of \$1.19m. Details are as follows:

<u>Non-Recurring Items</u>	<u>FY13</u>
Exchange rate gain - Singapore <sup>a</sup>	\$945,158
Gain on sale of “TAB Active” <sup>b</sup>	\$862,964
Merger, acquisition and restructuring costs <sup>c</sup>	(\$615,652)
<b>Total</b>	<b>\$1,192,470</b>

- (a) This exchange rate gain relates to the successful capital raising of AUD25m (before costs), which was completed in two tranches in March and May 2013. Of this amount, AUD20m was transferred to the Company’s USD account in Singapore, at a time when the AUD to USD exchange rate was favourable. This has been treated as a one-off gain.
- (b) The sale of the “TAB Active” TV wagering service to Tabcorp Holdings Limited was completed on 30 June 2013.
- (c) M&A costs relate to the successful acquisition of Two Way Limited and the Company’s listing on the ASX, completed on 1 February 2013, and the acquisition of iSentric Sdn Bhd, completed on 1 June 2013.

## **Construction Update**

The Company is pleased to confirm that the construction of its new five star, 428 room hotel in Lao Cai continues to be on schedule. The Company continues to target a soft opening, involving the full new gaming floor and at least 100 hotel rooms, in time for Chinese New Year at the end of January 2014.

The Company announces today that it has revised its budget for the construction costs upwards to USD57m (from the previous budget of USD52m). The increased investment is for higher quality materials to ensure better quality finishes at the new hotel, and also for increased and improved customer registration facilities. The Company is investing more in the project in anticipation of an increase in the number of visitors, and a greater volume of business at the new casino.

The increase in budget for the new property may require an increase in the Company’s existing debt facility of USD9m, which is currently undrawn. The increase in the debt facility is viewed positively by financiers, but is still under discussion.



## Summary and Outlook

Managing Director, Mr Joey Lim Keong Yew, said “I am pleased to report this strong growth in revenue and net profit after tax for our first annual result as an ASX listed company. For many years now, we have seen the enormous potential of our casino operations in Vietnam, which are perfectly positioned to ride the wave of Chinese growth. This potential is now being realised, with all financial metrics at the Lao Cai International Hotel reaching record highs during FY13.

“The Board and management team has now positioned the Company for even stronger financial performance in the year ahead, with our new five star resort hotel due to open in January 2014. This will allow us to service more of the strong demand for gaming entertainment from our target market in the Yunnan Province of China.

“Equally significant is our recent agreement to increase our stake in the Lao Cai International Hotel joint venture to 95%. The additional 20% stake will allow us to capture an even greater share of the revenue and profit potential from our magnificent new hotel property.

“I am pleased to report that our results for July 2013 have continued the strong trend of the June quarter, based on management accounts. Compared to July 2012, visitation by our casino patrons increased by 16.8% (to 6,088 persons), while total revenue increased by a very healthy 130% (to USD1.68m). This augurs well for a strong start to FY14.

“Further, a number of macro economic factors will support our profits in FY14, including the strength of the US dollar against our reported results in Australian dollars, and the planned reduction in corporate income tax rates in Vietnam.

“In addition, media reports have indicated the possibility of a potential liberalisation of gaming regulation in Vietnam, including a possible trial program of allowing Vietnamese citizens to enter casinos. While this possible reform is only in its very early days, any such relaxation of the ban on local citizens entering casinos would be highly beneficial to us.”

### **For further information:**

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

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

Our flagship business is the Lao Cai International Hotel, a successful boutique casino in northern Vietnam. The Lao Cai International Hotel was established in 2002, and is located on the border with Yunnan Province, China. Donaco operates the business and owns a 75% interest, in a joint venture with the Government of Vietnam.

The Lao Cai International Hotel is the first fully licensed table gaming business in Vietnam. The property is currently being expanded from a 3-star 34 room hotel, to a brand new resort complex with 428 hotel rooms.



Donaco also owns and operates successful gaming technology businesses, including secure mobile payment gateways across South East Asia, and the Way2Bet wagering portal, whose customers include all major corporate bookmakers in Australia.

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

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