

ASX RELEASE
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Continued Growth in Vietnamese Casino Operations

Donaco International Limited (**the Company**) today released its half-year results for the six months ending 31 December 2013. The results show continued growth in the Company's flagship business, the Lao Cai International Hotel in Vietnam.

Highlights include a 100% increase in operating revenue, compared to the previous corresponding period (December 2012 half).¹ This was driven by a 44% increase in VIP turnover at the Lao Cai International Hotel, together with a full six month contribution from the Gaming Technology businesses acquired during the June 2013 half.

| Key Financial Information | Dec 13 | Dec 12 ³ | % Change |
|---|---------------|---------------------|----------|
| Operating Revenue | \$12,572,441 | \$6,273,938 | ↑ 100% |
| – Cost of Sales | (\$2,533,040) | (\$337,645) | |
| – Operating Expenses | (\$4,360,877) | (\$2,122,952) | |
| – Minority interest | (\$1,256,245) | (\$827,631) | |
| = EBITDA | \$4,422,279 | \$2,985,711 | ↑ 48% |
| + Other Income² | \$369,925 | \$911,497 | |
| – Depreciation & Amortisation | (\$128,844) | (\$79,469) | |
| – Income tax expense | (\$1,708,198) | (\$1,118,041) | |
| = Net Profit After Tax (reported) | \$2,955,162 | \$2,699,698 | ↑ 9% |
| Net Profit After Tax (excl. non-recurring items)² | \$2,955,162 | \$2,447,521 | ↑ 21% |
| Earnings Per Share | 0.8 cents | | |

NOTES: 1. All figures are in AUD. Comparatives to Dec 2012 reflect exchange rate gains (average rate for each half year: December 2013: 1 USD = 1.084 AUD; December 2012: 1 USD = 0.97 AUD).

2. Other Income and Non-Recurring Items are set out on page 3 below.

3. December 2012 comparatives are to Donaco Singapore Pte Ltd. December 2013 includes acquired Gaming Technology businesses (Two Way Limited from 1 February 2013; iSentric Sdn Bhd from 1 June 2013).

Review of Operations

Lao Cai International Hotel and Casino

The Company's flagship business is the Lao Cai International Hotel, a successful boutique hotel and casino located in Lao Cai, Vietnam, on the border with Yunnan Province, China. The hotel caters primarily to Chinese citizens from Yunnan. Vietnamese citizens are not permitted to enter casinos within Vietnam.

During the six months ending on 31 December 2013, the Lao Cai International Hotel posted a 44% increase in VIP gaming turnover, compared to the previous corresponding period (the December 2012 half). This was driven by an influx of higher spending VIP customers, reflecting the success of the Company's ongoing junket market program.

Total visitation to the casino declined slightly (3.2%), primarily as a result of bad weather which reduced the number of walk-in customers. In September 2013, heavy rains caused a temporary closure of the border crossing from China, and in December 2013, exceptionally cold weather caused snow to fall in the highlands surrounding Lao Cai. Due to the decline in walk-in customers, mass market turnover declined by 15%. This was more than outweighed by the growth in VIP turnover, with total table game turnover increasing by 33% overall.

The win rate on table games improved slightly, from 2.76% to 2.99% overall. This breaks down into a win rate of 3.00% on VIP table games, and 2.92% on mass market table games.

The Company does not currently report normalised results, based on a theoretical win rate. This is due to the relatively small size of the current operation (with 8 licensed tables); the rapid growth it is experiencing; and the fact that the Company is currently building a much larger five star hotel in Lao Cai, which is expected to open with 40 gaming tables. Once the new property has opened and has established some trading history, the Company will give consideration to reporting normalised results.

Slot machine turnover showed very strong growth of 122%, primarily due to the introduction of 12 new machines in February 2013. These have proven to be far more popular with customers than the 24 older machines, which are also still operating. The overall win rate on slot machines declined from 29.31% to 21.22%, due to jackpots which were won in August and October 2013. However this was more than outweighed by the increase in turnover, leading to a 60.3% increase in revenue.

Overall, net revenue from gaming operations (after gaming tax) increased by 51.8%, from \$5.87m to \$8.92m. Hotel food and beverage and accommodation revenue declined slightly (1.5%), from \$0.404m to \$0.398m.

The Company continues to focus on the construction of its new five star hotel in Lao Cai, which continues to be under budget, at an expected total construction cost of USD53m. The property is on track for a soft opening in May 2013, which is expected to give sufficient time for the re-registration of the Company's investment certificate. This process is currently under way, and once completed, the casino and hotel operations will be permitted to relocate to the new site.

In November 2013, the Vietnamese authorities gave an indicative grant of a maximum of 50 gaming tables at the new Lao Cai Hotel, with a minimum of 26 tables. While the final number is still to be resolved, management currently plans to open the new hotel with 40 tables.



Gaming Technology Operations

The Company also operates Gaming Technology businesses, consisting primarily of iSentric Sdn Bhd, a successful mobile commerce business based in Kuala Lumpur. iSentric has significant interests and expertise in almost every segment of the mobile services sector, including mobile content distribution, mobile payment aggregation, mobile banking and bespoke corporate mobility solutions.

The Gaming Technology team also provides technology services to the Company's core hotel and casino business in Vietnam. This includes advising on the property management system, loyalty program, third party system integration, and network design. In addition, the Gaming Technology team manages the Way2Bet wagering marketing portal in Australia.

During the December 2013 half, the Gaming Technology operations posted total revenue of \$3.26m, with EBITDA of \$0.37m.

Operating Expenses

Compared to the December 2012 half, the Company's total costs increased from \$2.46m to \$6.89m. The most significant area of increase was in cost of sales, which rose from \$0.34m to \$2.55m, with almost all of the increase due to the cost of sales incurred by the iSentric business (which was not part of the consolidated group in the December 2012 half). In addition, operating costs of the acquired businesses totalled \$0.82m.

Cost increases at the Lao Cai International Hotel totalled \$0.87m, and mainly related to hiring and training of additional staff, in preparation for the opening of the new 428 room, five star property. Total staff numbers increased from 420 in December 2012, to 594 in December 2013.

The other main area of increase was in corporate operations. In the December 2012 half, Donaco Singapore was a private company; by December 2013, it was part of a public company group listed on the ASX, with market capitalisation of around \$400m. As a result, additional costs are now required to be incurred in the areas of Board and senior management fees, travel costs, listing fees, audit fees, tax advice, and other regulatory costs.

Other Income and Non-Recurring Items

Other income consists of interest on cash holdings, together with exchange rate gains. The Lao Cai International Hotel conducts all operations in Chinese renminbi, and so can benefit from exchange rate movements against the US dollar.

There were no non-recurring items in the December 2013 half. However the December 2012 half included both non-recurring income and non-recurring cost items, relating to the restructure of Donaco Singapore prior to the listing on the ASX on 1 February 2013. These non-recurring items had a net positive impact in the December 2012 half, and so stripping out these items has the effect of increasing the growth in net profit after tax from 9% to 21%.

Other Highlights of the December 2013 Half

During the half year, the Company announced that it had signed a non-binding Memorandum of Understanding to increase its stake in the Lao Cai International Hotel joint venture from 75% to 95%. This was duly followed by a binding Capital Transfer Agreement, and the deal was



completed with effect from 1 January 2014. The remaining 5% stake continues to be owned by the Government of Vietnam.

The Company also successfully completed a \$25 million capital raising, to ensure sufficient liquidity for the expanded casino business, and to invest in marketing. The Board was also restructured and strengthened, with the appointment of Mr Rob Hines as a non-executive director. Mr Hines is one of Australia's leading gaming and wagering executives. During the half year, Mr Gerald Tan and Mr Mak Siew Wei also resigned from the Board.

Summary and Outlook

Managing Director and CEO, Mr Joey Lim, said "We are very pleased that despite the capacity constraints at the existing property, our Vietnamese casino operations continue to show robust growth, particularly in VIP turnover. This is a testament to the hard work of our staff, and the ongoing success of our junket marketing program.

"The level of demand for gaming entertainment at the Lao Cai International Hotel gives us great confidence in the success of our new 428 room, five star property, which is now nearing completion. The Board and management team have maintained our focus on ensuring that this project is completed on time, and under budget. In preparation for the soft opening in May, our marketing team has begun to reach out across China, and is sourcing patrons from outside Yunnan Province for the first time.

"In order to capture more of the potential from our Lao Cai property, we have increased our stake in the joint venture to 95%, with effect from 1 January 2014. This, together with the reduction in the Vietnamese corporate income tax rate from the same date, will have a significant positive impact on future results.

"We are also pleased to announce today the spin-off of the iSentric mobile technology business. We feel that the time is right to allow iSentric to pursue its own growth path in the rapidly evolving m-commerce space. Establishing iSentric as a separate ASX-listed company will enable it to receive the proper focus from investors, who have been eager to follow similar businesses operating in this space. By distributing the shares in the new company in specie, we can provide a reward to our loyal shareholders.

"The transaction will also confirm Donaco as a pure play entertainment and leisure business, tapping the huge demand for gaming services from the expanding middle class in Asia."

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 95% interest, in a joint venture with the Government of Vietnam.

The Lao Cai International Hotel is a pioneer casino operator in Vietnam. The property is currently being expanded from a 3-star 34 room hotel, to a brand new 5-star 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

