



ASX: DNA

ASX RELEASE

25 November 2014

Annual General Meeting Presentations

In accordance with Listing Rule 3.13.3, Donaco International Limited lodges the attached Chairman's address and Managing Director's presentation, 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 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



**2014 Annual General Meeting of
Donaco International Limited
25 November 2014
Sydney**

CHAIRMAN'S ADDRESS

Shareholders, Ladies and Gentlemen

Good afternoon and welcome to the second Annual General Meeting of Donaco International Limited. I am your Chairman, Stuart McGregor.

Thank you for being with us today.

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

And non-executive directors

- Mr Benjamin Lim
- and Mr Rob Hines.

Also in attendance are CFO, Richard Na, and Deputy CFO, Kenny Goh. And also Mr Leo Tutt and Mr Paul Collins from the Company's auditors, William Buck.

As I noted in the FY14 Annual Report, our Company achieved a series of major milestones during the 2014 financial year.

The most important development was the opening of the Aristo International Hotel in May 2014. Through this brand new resort complex in northern Vietnam, we now have a greatly expanded leisure and entertainment offering.

The target market for this business is primarily visitors from China, but we have also taken steps recently to develop a local mass market offering to expatriates living in Hanoi. The ongoing improvements in transport infrastructure, on both the Chinese and Vietnamese sides of the border, will help to bring our customers to the property in increasing numbers.

We also successfully increased our stake from 75% to 95% in our joint venture with the Vietnamese government. This took effect on 1 January 2014.

The financial results of the business for the year were pleasing, with an 80% increase in operating revenue; a 29% increase in earnings before interest, tax, depreciation and amortisation; and a 52% increase in net profit after tax (excluding non-recurring items)

The growth and success of the Company's business was reflected by the increase in the Company's share price and market capitalisation during the year. The growth of our business was further recognised in September 2014, when your Company was admitted to the ASX300 index.

While the Board and management team focussed on our existing flagship business in Vietnam, we also placed a high priority on adding value to shareholders through corporate activity. We announced the spin-off of our mobile technology business, iSentric, into a separate ASX listed company. This transaction was successfully completed in September 2014, with shares in the newly listed entity distributed in specie, as a return to our loyal shareholders.

As our Managing Director Joey Lim will report shortly, we have also taken other steps to restructure the business and prepare for the addition of our major new acquisition in Cambodia. This was announced in broad terms to the market on 3 November.

Shareholders should rest assured that the proposed acquisition will have substantial benefits for the Company. While there is limited information that we can reveal at this point, we are confident that once the market is made fully aware of the benefits of the deal, it will be well received.

I would now like to hand over to our Managing Director, Joey Lim, who will provide more detail on the Company's recent performance and the current state of our business.

Thank you.



donaco
I N T E R N A T I O N A L

Annual General Meeting Presentation

Mr Joey Lim
Managing Director & CEO
25 November 2014

FY14 Highlights

- ① 80% increase in operating revenue, driven by:
 - 33% increase in operating revenue at Lao Cai International Hotel (18% in USD terms)
 - 67% increase in VIP turnover (49% in USD)
 - 144% increase in slot machine turnover (117% in USD)
 - Full 12 month contribution from acquired Gaming Technology businesses
- ① Results in line with market expectations, with a 29% increase in EBITDA, and a 52% increase in NPAT (excluding non-recurring items)
- ① Soft opening of new Aristo International Hotel on 18 May 2014, with 400 guest rooms, 40 gaming tables and 58 slot machine/EGM positions
 - Very limited contribution to FY14 result – six weeks in soft opening mode only
- ① Completed acquisition of additional 20% stake in Lao Cai International Hotel joint venture (moved to 95% ownership as of 1 January 2014)
- ① Restructured and strengthened the Board
- ① Spin off of iSentric mobile technology business (completed September 2014)

FY14 Financial Performance Summary

	FY14	FY13	% Change
Operating Revenue	\$28,240,282	\$15,671,759	↑ 80%
– Cost of Sales	(\$6,358,524)	(\$1,020,377)	
– Operating Expenses	(\$11,543,863)	(\$5,745,565)	
– Minority interest	(\$1,476,679)	(\$2,017,037)	
= EBITDA	\$8,861,216	\$6,888,780	↑ 29%
+ Net Interest and Other Income *	\$1,127,139	\$2,996,866	
– Depreciation & Amortisation	(\$292,090)	(\$191,877)	
– Income tax expense	(\$2,902,862)	(\$2,667,590)	
= Net Profit After Tax (reported)	\$6,793,403	\$7,026,199	↓ 3%
Net Profit After Tax (excl. non-recurring items) *	\$7,927,502	\$5,208,825	↑ 52%
Earnings Per Share	2.22 cents	2.53 cents	

* *Interest, Other Income and Non-Recurring Items are set out on slide 12*

NOTES: (a) All figures converted to AUD at the average exchange rate during each year: FY14: 1 USD = 1.0931 AUD;
FY13: 1 USD = 0.9736 AUD.

(b) FY13 includes acquired Gaming Technology businesses for part of the year only: Two Way Limited from 1 February 2013;
iSentric Sdn Bhd from 1 June 2013. FY14 includes both businesses for the whole year.

Aristo International Hotel – Construction Update

- ❶ Five star certification has now been granted
- ❶ Paves the way for finalisation of gaming table numbers
- ❶ Aristo can now be added to online hotel booking websites
- ❶ New retail shop leases for hair salon and souvenir store, in addition to ticketing agency and convenience store
- ❶ Five restaurants, including fine dining, theatre restaurant and VIP lounge – all proving very popular with local residents
- ❶ Swimming pool, gym, sauna, spa, tennis court, and children's play area all now operational
- ❶ Proposals for food court, video arcade and golf driving range under consideration
- ❶ Remaining works include normal touch up and defect work



Aristo International Hotel – Five Star Certified



Aristo International Hotel – Trading Update

- ⊕ Aristo affected by headwinds during soft opening period, including China/Vietnam tensions, Soccer World Cup, and Yunnan earthquake
- ⊕ Despite this, trading showed good growth in the September quarter, with casino visitation up 20%, and VIP turnover up 20% *
 - This is in clear contrast to recent news reports from Macau, where visitation and VIP turnover have been declining
 - Aristo VIPs are more like the Macau premium mass market, which has been more resilient
- ⊕ VIP gross win rate unusually low in the September quarter at 1.29%, compared to 3.08% in the previous corresponding quarter
 - Normal feature of gaming operations – win rates fluctuate in the short term
 - In the long term, win rates tend to converge to a theoretical level, typically accepted as 2.85%
 - The Company does not currently report normalised results based on a theoretical win rate, but is considering doing so for the December 2014 half results onwards
- ⊕ As a result, revenue for the September quarter was well below expectations
- ⊕ Head count and cost base at the Aristo have been cut to suit operating conditions. Aristo opex running at under USD800k per month (excluding interest and D&A)

Aristo International Hotel – Trading Update cont.

- Win rates bounced back strongly in the October month, reaching 3.88% overall, and 4.01% on VIP play
- Total net revenue for October, after tax and junket commissions, was 56% ahead of last year
- Visitation in October increased 15% from September – again in clear contrast to Macau. However VIP turnover was lower, partly due to the improved win rate for the casino (ie. players lost their money faster)
- Slot machine business is essentially new, with very strong growth in the September quarter (turnover up 1224%, revenue up 880%)
 - Jackpot payouts in July & August affected revenue growth
 - Old property had 36 slot machines, of which only 12 were new. Aristo has 58 new machines, consisting of 34 slots and 24 electronic roulette seats
- Non-gaming hotel business is also essentially new, with revenue up 848% in the September quarter
- October month hotel occupancy reached 65%, with average room rate USD61
- Based on unaudited management accounts, overall revenue increase for October year to date (4 months), at normalised win rate, would be 46.9%

Aristo International Hotel – Marketing Update

- ❶ Mass market turnover up only 7% in September quarter, due to China's travel warning for Vietnam (still in place, more than 6 months after the protests in the south of Vietnam)
- ❷ Political relationship has improved markedly, and travel warning should be lifted soon
- ❸ Three more junkets have been signed up to increase VIP numbers, and marketing efforts have been stepped up in Yunnan Province
- ❹ Corruption crackdown in China has begun to deter some VIP players, but not others. Many VIPs looking for more discrete alternatives to Macau
- ❺ New highway from Hanoi officially opened on 21 September 2014. Longest and most modern highway in Vietnam. Now 3 hours drive from Hanoi airport to the Aristo
- ❻ Now much easier to bring in VIPs from outside Yunnan Province. Groups have come via this route from Shanghai, Shenzhen, and other cities
- ❼ Aristo opened a marketing office in Hanoi on 1 October, in an area called "Koreatown". Expats are offered weekend tour packages, and early results are promising
- ❽ Increasing numbers of players coming from deeper within Yunnan, and from outside Yunnan

New Hanoi Marketing Office



ARISTO
INTERNATIONAL
HOTEL
凯源国际大酒店



Licensing and Regulatory Update

- ❶ Vietnamese Government now considering draft decree allowing local citizens to enter casinos
- ❷ Latest proposal is that locals may enter if they possess an APEC Business Travel Card, rather than a minimum level of monthly income (which would be difficult to verify)
- ❸ Trial location may be selected for first phase of locals gaming
- ❹ Potential tax changes may apply to properties allowed to admit locals. Net effect would be very positive for the Aristo
- ❺ Timing and detail of potential changes is uncertain, but would benefit Aristo by allowing development of local mass market

Corporate Activity Update

- ❶ Exclusive term sheet signed for material acquisition of a significant gaming and hospitality business in Cambodia
- ❷ The business is highly profitable, with a very good market position, and generates strong cash flows. Due diligence is progressing well
- ❸ Acquisition price will be 6x EBITDA for 2014
- ❹ Consideration will be a mixture of cash, debt, and equity for the vendor
- ❺ The proposed acquisition is expected to generate very strong earnings per share accretion
- ❻ Also provides scale and diversification benefits – customer base is not dependent on Chinese visitation
- ❼ Management is well aware of potential changes in Vietnam to allow locals to gamble. Even if this change occurs, it would not have a negative impact on the proposed acquisition, which is a compelling opportunity
- ❽ Announcement represents concrete progress in our acquisition and diversification strategy

Other Developments

Sale of Way2Bet

- The Way2Bet online wagering marketing business in Australia was sold on 31 October 2014, with net proceeds to the Company of \$0.45m
- With the successful spinoff of iSentric completed in September 2014, this means that the Company's former Gaming Technology business segment has now been wholly disposed of

Senior Executive Appointment

- As part of our preparation for the pending acquisition, Mr Kent Ang Teck Foo has now been appointed as Group Chief Operating Officer
- Mr Ang has worked for Donaco Singapore since 1991, and has substantial experience in business development, corporate affairs, and project management. His most recent role was successfully project managing the construction of the Aristo International Hotel
- Mr Ang is originally from Singapore and is fluent in four languages, including Vietnamese

Summary and Outlook

- ❑ Ramp-up of operations at the Aristo has continued in the September quarter, and into October, albeit at a slower pace than expected due to headwinds
- ❑ The property is seeing good growth in visitation and VIP turnover
 - ✓ Clear contrast to recent news reports from Macau, where visitation and turnover have been declining
 - ✓ Momentum expected to continue to build, with removal of travel warning and continued marketing efforts in Yunnan Province and elsewhere
- ❑ Low win rate in September quarter has affected revenues. October win rate and revenues bounced back strongly
- ❑ Very strong growth in slot machines and non-gaming revenue
- ❑ New marketing strategies launched to attract VIPs from Yunnan and elsewhere, together with local mass market from Hanoi
- ❑ Exclusive term sheet signed for a material acquisition, which will provide strong earnings per share accretion, as well as scale and diversification benefits

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