

13 February 2018

Results Preview, Impairment and Management Appointment

Donaco International Limited (“Donaco” or “the Company”) provides the following update.

Half Year Results Consistent with Trading Update

The December 2017 half year results are expected to be consistent with the trading update provided to the market at the Annual General Meeting on 25 November 2017. The AGM update covered the first four months of the period. Group revenue and EBITDA has continued at approximately the same run rate for the final two months of the period.

Group revenue is expected to be in the range of \$43-44 million, with EBITDA in the range of \$19-20 million. Statutory net profit after tax (before impairment) is expected to be in the range of \$9-\$9.5 million. These are preliminary figures, prior to completion of audit review.

Last year’s half year statutory NPAT of \$14.8 million did not include the management fee payable to the Thai vendor of the Star Vegas property. The half year management fee of \$7.1 million was treated as a contingent liability in the December 2016 accounts. There is no management fee payable this year, or in future years. Adjusting for the management fee, profitability is expected to improve, from \$7.7 million last year, to \$9-9.5 million this year.

The statutory NPAT figures should also be adjusted by non-recurring items, to show the underlying NPAT result. Last year’s result included non-recurring items (warrant amortisation and revaluation, and exchange rate losses) with a net negative impact of (\$2.9 million). This year’s result is expected to include non-recurring items (warrant revaluation, and exchange rate gains), with a net positive impact of \$1 million, before the non-cash impairment charge discussed below.

Anticipated Impairment Charge on Star Vegas Casino Licence

Since 1 July 2015, the Company’s balance sheet has included an intangible asset representing the casino licence to operate the Star Vegas property. The licence is stated at cost less any impairment losses. This intangible asset is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Details are set out in note 14 to the FY17 annual accounts. The carrying value of the licence was \$386.7 million as at 30 June 2017.

The Company has been informed by its auditors, Crowe Horwath, that there are indicators of impairment applying to the Star Vegas casino licence, based on the preliminary results of the business for the six months to December 2017. Accordingly the Company and its valuation experts from Colliers Hong Kong are currently conducting the required impairment testing. Although it is open to question whether the business is permanently impaired at this point, the Board currently considers it prudent to incur an impairment charge on the casino licence. Current indications, prior to completion of the audit review, are that the impairment charge will be approximately \$144 million.

The impairment of the Star Vegas business is a direct result of the breaches of agreement by the Thai vendor, Mr Somboon Sukcharoenkraisri, and his two sons, “Ham” Techatut Sukcharoenkraisri and “Qoo” Bhuvasth Chaiarunroj. The Company has commenced litigation against Mr Sukcharoenkraisri and his sons over their breaches of their agreements, which specifically relate to the operation of competing casino and gaming businesses in the Poipet area. The Company has succeeded in gaining a preliminary injunction against these defendants, as announced to the market on 28 December 2017.

The litigation continues in Cambodia, and the Company has also commenced arbitration proceedings in Singapore. In the arbitration proceedings, the Company is claiming damages of USD120 million, which is more than the anticipated impairment charge.

The impairment is a non-cash charge, which has no impact on the Company’s cash flows, or on the underlying performance of the business. However, it will have an impact on the Company’s statutory net profit result for the December 2017 half and the FY18 full year.

This means that there will also be an impact on the Company’s capital management plans for FY18. Under the Company’s loan agreements with Mega International Commercial Bank of Taiwan, dividends and buy backs are restricted to 30% of statutory net profit after tax, until the loan balance falls below USD50m. The loan balance will fall below USD50m at the end of February, when the Company makes the next principal repayment (which has already been transferred to Mega Bank). After that date, dividends and buy backs combined are restricted to 100% of net profit after tax. The impairment charge means that there will be no statutory net profit after tax for the December 2017 half and the FY18 full year.

Accordingly, any additional dividends in FY18, or extension of the current buy back program announced to the market on 16 October 2017, will be subject to approval by Mega Bank. In recent weeks, the Company has paused its buying of shares on market, due to the pending announcements now released today, as well as other factors, including the current black out period prior to the release of the half year results. However, the Company will be in a position to recommence buying shares on market at appropriate times, after the release of the half year results on 28 February 2017.

Executive Management Appointment

The Board has decided to appoint Mr Gerald Tan as Chief Operating Officer of the Company. Mr Tan is currently the Vice President of Business Development at Donaco, spearheading Donaco’s business partnerships and VIP/junket operations at Star Vegas. He has played a key role in rebuilding the VIP business over the past six months, following the former vendor’s breaches of his agreements. In this new role, Mr Tan will continue to be based primarily in Poipet, with a focus on driving revenue and earnings from the Star Vegas business.

Mr Tan is a former investment banker, and a successful entrepreneur and investor with extensive experience in gaming and leisure, mobile technology and new media businesses throughout Asia, Europe and Australia.



Managing Director of Donaco, Mr Joey Lim said “I am delighted to be working closely with Gerald Tan, who has proven to be an effective operator under difficult circumstances at Star Vegas over the past six months. We are confident that we have turned the corner in terms of the impact on the business caused by the recent disruptions. We are implementing a number of exciting initiatives to drive earnings higher over the next six months. I am looking forward to providing details of these initiatives at our results announcement on 28 February.

“I have also voluntarily offered to cut my own base salary by one-third, with effect from March 2018. This is a sign of my commitment to the business, and my desire to ensure that corporate costs are kept under control during this rebuilding phase at Star Vegas. I am looking forward to interacting with our investors, to explain our progress and plans in detail.”

Chairman of Donaco, Mr Stuart McGregor, said “With this new management appointment, the Company’s operating businesses will receive an enhanced level of focus. I also very much welcome Joey’s renewed commitment to the business, and look forward to sharing the benefits of these changes with all shareholders over the coming months.”

Details of Results Announcement

The Company will release its statutory results and preliminary accounts for the December 2017 half year before the market opens on 28 February 2018.

A results briefing hosted by the MD, Mr Joey Lim, will commence at 11:00am (Sydney time) on 28 February 2018. To access the live audio webcast of the results briefing, investors may go to:

<http://www.openbriefing.com/OB/2827.aspx>

For further information:

Ben Reichel
Executive Director
(m) +61 412 060 281

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
