



donaco

INTERNATIONAL

31 December 2017
Half Year Results Presentation

28 February 2018

1H18 Results Key Points

- Statutory NPAT of \$(133.8) million versus \$14.8 million in 1H17
 - Includes non-cash impairment charge of \$143 million on Star Vegas casino licence, due to vendor breaches of non-compete provisions
 - Underlying NPAT of \$8.2m (after non-recurring items) compares to \$10.6m in 1H17, after adjustment for Star Vegas vendor management fee (which is no longer payable)
- Star Vegas EBITDA down 40% to THB 485 million
 - 64% reduction in VIP turnover caused by vendor breach of contract at Star Paradise
 - Lower revenue partially offset by reductions in junket commissions (-56%) and operating expenses (-12%)
 - Win rate of 3.32%, compared to 2.75% in pcp
 - Management initiatives are now driving stronger performance in the June half
- Aristo EBITDA down 22% to RMB 33.1 million
 - 97% increase in table game turnover was offset by a lower VIP win rate of 1.70%, compared to 3.18% in pcp
 - Win rate has stabilised and performance has improved in recent months
- Corporate Costs increased by \$243k to \$5.7m, due to additional expenses associated with the disruption at Star Vegas
- Share buy-back launched in October 2017 for up to \$5.1m worth of shares. To date 2.8m shares have been purchased, at a total cost of \$1.1m

1H18 Operational Highlights

- All senior management roles in place following transition to internal management at Star Vegas
 - Gerald Tan now appointed as Chief Operating Officer
 - CEO Joey Lim has voluntarily offered to reduce his own base salary by one-third
 - Now actively seeking to strengthen the Board, by replacing former representatives of Thai vendor with two new independent directors
- New management initiatives to drive revenues at Star Vegas include:
 - Three new Thai VIP halls and 40 VIP gaming tables added in January / February 2018. This will almost double the number of VIP tables in operation
 - Addition of a second main floor in February with 16 tables, targeting non-Thai players. Will increase to 48 tables over time
 - 900 new gaming machines being rolled out to replace underperforming machines
 - Upgrade of non-gaming facilities to attract international market, including 99 refurbished hotel rooms
 - Vivo Tower now paying a minimum fee of USD3 million per year from January 2018
 - Testing of online gaming platform in progress
- Aristo management initiatives include:
 - Increased utilisation of non-gaming facilities
 - Increasing hotel occupancy
 - Retaining focus on main floor, with selective admission of new junkets
- Strong financial management maintained across the group:
 - New debt facility negotiated and drawn down in August 2017
 - Principal repayment of USD20.8 million in August, with further USD8.5 million repayment in February
 - Share buy-back launched and underway

Star Vegas – Impairment Charge and Litigation Update

- Since 1 July 2015, the Company's balance sheet has included an intangible asset representing the casino licence to operate the Star Vegas property, stated at cost less any impairment losses
 - The carrying value of the Star Vegas casino license was \$386.7 million as at 30 June 2017
 - Accounting rules require this asset be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired
 - Donaco's auditor Crowe Horwath informed the Company there are indicators of impairment applying to the licence, based on the preliminary results of the business for the six months to December 2017
 - The Company and its valuation experts from Colliers Hong Kong conducted the required impairment testing
 - The Board believes it is open to question whether the business is permanently impaired at this point, but considers it prudent to incur an impairment charge on the casino licence
 - The non-cash impairment charge is \$143 million
- Donaco has commenced proceedings to enforce its legal rights against the vendor of the Star Vegas business
 - The vendor continues to breach his agreements with Donaco, by conducting gaming operations at the Star Paradise property next door, and at another casino concealed behind a supermarket operation
 - A Cambodian court has issued an interim injunction to close down the competing gaming operations. This decision was appealed, but the appeal was rejected and the injunction was confirmed on 19 February 2018. One final appeal is still available to the vendor
 - Donaco is also enforcing its legal rights via arbitration proceedings commenced in Singapore. In these proceedings, Donaco is claiming damages of USD120m
 - Donaco has withheld payment of the final vendor management fee of \$19 million for FY17

Group Financial Performance Summary

All figures in AUD (millions)	1H18	1H17
Group Revenue	43.9	59.0
<i>Star Vegas</i>	32.2	45.3
<i>Aristo International Hotel</i>	11.6	13.7
<i>Corporate Operations</i>	0.0	0.1
EBITDA	19.4	33.3
<i>Star Vegas</i>	18.7	30.3
<i>Aristo International Hotel</i>	6.4	8.4
<i>Corporate Operations</i>	(5.7)	(5.4)
Statutory NPAT¹	(133.8)	14.8
Underlying NPAT²	8.2	17.7 ³
Underlying NPAT after vendor management fee²	8.2	10.6

- Operating results consistent with trading update provide at the November AGM
- Revenue at Star Vegas significantly impacted by the breach of contract by the vendor, and subdued domestic demand in Thailand
- Star Vegas VIP win rate of 3.32% was higher than 2.75% in pcp
- Revenue at Aristo impacted by win rate of 1.70%, lower than 3.18% in pcp, and the 2.85% theoretical rate
- EBITDA margin declined to 44% (56% in pcp), due to operating leverage
- Slight (4.5%) increase in corporate costs
- Statutory NPAT includes the impairment charge

1. NPAT after non-controlling interests

2. Underlying NPAT excludes non-recurring items (see slide 4)

3. Difference to 1H17 presentation due to warrant revaluation income and forex losses being reclassified as non-recurring items (consistent with full year FY17 presentation)

Non-Recurring Items

All figures in AUD (millions)	1H18	1H17
Star Vegas impairment	(143.0)	Nil
Warrant Amortisation	Nil	(3.7)
Warrant Revaluation Income	0.6	1.5
Net Foreign Exchange gain/(loss)	0.4	(0.6)
Total	(142.0)	(2.9)¹

Non-recurring items include:

- Non-cash impairment charge on value of Star Vegas casino license
- 1H17 included \$3.7 million of non-cash amortisation of warrants, partially offset by \$1.5m warrant revaluation income
- 1H18 has no warrant amortisation (as warrants now fully amortised), but includes \$0.6m of warrant revaluation income
 - Warrants expire in October 2018
- Net forex gains and losses classified as non-recurring items (consistent with full year FY17 presentation)
- 1H17 had \$7.1 million vendor management fee as a contingent liability and not shown directly in P&L
 - The full year \$19 million vendor management fee was recorded as a liability in the FY17 accounts, but has not been paid
 - No further management fees are payable in FY18 or future years

1. Difference to 1H17 presentation due to warrant revaluation income and forex losses being reclassified as non-recurring items (consistent with full year FY17 presentation)

Cash flow

All figures in AUD (millions)	1H18	1H17
Cash flow from Operations	17.5	25.4
Cash flow from Investing	(1.9)	(3.5)
Cash flow from Financing	(33.9)	(32.4)
Net Increase (decrease)	(18.3)	(10.4)
Cash at end of half year	47.1	68.9

- Reduction in cash flow from operations reflects lower turnover at Star Vegas, due to vendor breach of contract and subdued domestic demand in Thailand
- Improvement in cash flow from investing, reflects lower payments for property, plant and equipment
- 1H18 cash outflow from financing of \$33.9 million reflects repayment of borrowings of \$28.7 million, payment of dividend \$4.1 million, and payment for share buy-backs of \$1.1 million

Group Balance Sheet

All figures in AUD (millions)	31 Dec 2017	30 June 2017	% Change
Cash and cash equivalents	47.1	66.0	-29%
PP&E	157.5	161.3	-2%
Intangibles (including licences)	241	389.1	-38%
Other Assets	13.4	22.7	-41%
Total Assets	458.9	639.2	-28%
Borrowings	76.5	108.5	-29%
Trade and other payables	38.1	41.8	-9%
Other liabilities	1.9	2.8	-31%
Net Assets	342.4	486.1	-30%

- Cash position of \$47.1 million at 31 December 2017
 - Cash holdings include \$19 million vendor management fee for FY17, which has been withheld. Donaco's damages claim against the vendor is much larger (USD120m)
- Movements in PP&E and Intangibles reflect foreign exchange adjustments and the impairment to the Star Vegas casino licence
- Reduction in borrowings reflects debt repayment of USD20.8m paid in August 2017
 - Net debt to equity of 8.6% (even after impairment charge), down from 8.7%

Capital Management

- Borrowings totalled \$76.5 million at 31 December 2017, down from \$108.5 million as at 30 June 2017
 - New 3 year debt facility with improved terms from Mega Bank was drawn down on 28 August 2017, to refinance the existing debt
 - Principal repayment of USD20.8 million made in August 2017
 - Additional repayment of USD8.5 million made in February 2018. Outstanding balance now USD48.5 million
- Given the impact of the non-cash impairment charge on the Company's statutory net profit, there will be an impact on capital management plans for FY18
 - Under the Company's loan agreements with Mega International Commercial Bank of Taiwan, dividends and buy backs combined are restricted to 30% of statutory net profit after tax, until the loan balance falls below USD50 million (which has now occurred)
 - Dividends and buy backs combined are now restricted to 100% of NPAT. However the impairment charge means there is no statutory NPAT for 1H18 and the FY18 full year
 - Accordingly, any additional dividends in FY18, or an extension of the current buy back program, will be subject to approval to Mega Bank
 - Current buy back is not affected

Star Vegas – Profit & Loss

All figures in Thai Baht (millions)			
	1H18	1H17	% Change
Total Revenue	832.9	1,200.4	-31%
- Net Gaming Revenue	775.2	1,131.8	-32%
- Non-Gaming Revenue	57.7	68.6	-16%
Operating Expenses	(348.2)	(397.0)	-12%
EBITDA	484.7	803.4	-40%
Normalised EBITDA	399.3	854.2	-53%
Property Level NPAT	405.9	724.6	-44%
VIP Gross Win rate	3.32%	2.75%	

- Gaming revenue fell 32% compared to the pcp, due to:
 - The breach of non-competition clauses by the Star Vegas vendor, which harmed the VIP business
 - Subdued main floor visitation and turnover due to weak domestic demand in Thailand, caused by royal mourning period and strict military government regime
- Junket commissions reduced by 56% in the period due to lower VIP turnover
- Operating Expenses down 12%
 - Reflects cost savings in the areas of staffing and procurement since Donaco gained full management control
 - Management embarking on cost rationalisation exercise, to reduce operating costs further
- Property level EBITDA down 40%, reflecting lower VIP turnover
- Normalised EBITDA down 53%, after adjusting for win rates

Star Vegas – Key Operational Metrics



Key operational metrics		
(THB millions)	1H18	1H17
VIP Table Game Turnover	18,148	50,836
Gross Gaming Revenue – Table Games	843	1,652
Gross Gaming Revenue – Slot Machines	528	666
Net Gaming Revenue	775	1,132
Non-Gaming Revenue	58	69
VIP Gross Win Rate	3.32%	2.75%
Casino Visitors	0.65m	0.80m
Average Visitors / Day	3,565	4,367

Star Vegas – Operational Commentary

- Following the disruption caused by the vendor breach of contract and the associated reduction in Thai VIP junkets, Donaco management is successfully rebuilding the VIP business
 - Three VIP junket rooms opened in the December half, with 43 VIP tables
 - An additional three VIP junket rooms with 40 VIP tables opened in January / February 2018
 - VIP turnover increased from THB0.67 billion in July, to THB6.2 billion in October, dipping to THB3 billion in November / December, and increasing to more than THB8 billion in February to date
- A second main hall has been launched in February 2018 with 16 additional tables, aimed at non-Thai players
 - Capacity will increase to 48 tables when in full operation
 - Non-Thai players include Chinese and other staff working for online gaming operators in Poipet
 - Games include “no commission” baccarat (Macau style), popular with these players
 - Discussions with Chinese tour agents in progress, to bring mass market players from Bangkok and Siem Reap
- 900 new slot machines are being introduced to replace older underperforming machines
 - Rollout of new machines commenced in December, and will continue over the June 2018 half
- Testing of online gaming operations has commenced, using tables fitted out with cameras for live dealer gaming
- International marketing agency, Vivo Tower Limited, has been engaged to fill unused space at the property and is now paying a minimum fee of USD3 million per annum, from January 2018
- Non-gaming facilities have been upgraded to appeal to the international market, including refurbishment of 99 hotel rooms, a new café and Chinese restaurant, a video arcade, and entertainment facilities
- Successful Chinese New Year event (February), with very strong visitation and turnover. Thai New Year (April) is the major event of the year

Aristo International Hotel – Profit & Loss

All figures in RMB			
(millions)	1H18	1H17	% Change
Total Revenue	60.4	69.4	-13%
- Net Gaming Revenue	29.7	43.1	-31%
- Non-Gaming Revenue	30.7	26.3	+17%
Operating Expenses	27.4	26.8	+2%
EBITDA	33.1	42.6	-22%
Normalised EBITDA	86.2	34.7 ¹	+148%
Property Level NPAT	16.5	17.7	-7%
VIP Gross Win rate	1.70%	3.18%	

- Decline in gaming revenue of 31.1%, while non-gaming revenue was up 16.8%
 - Visitation down 23% to 77k patrons, due to cancellation of marketing initiatives used in pcp which were not meeting objectives
 - Table game turnover up 97%, with management accepting selected new junkets into the property
 - Win rate of 1.70% was below last year's win rate of 3.18% (which was above theoretical)
 - Win rate negatively impacted by a single VIP player who won RMB 22.6m (USD3.4m) in July-August. The VIP win rate has stabilised since then, ranging from 2.24% in November to 2.99% in December
 - Non-gaming revenue up strongly, following management initiatives to diversify revenue streams
- Property level EBITDA down reflecting the lower win rate, while Normalised EBITDA was up 148% after applying the theoretical win rate of 2.85%
- Property level NPAT down 7%

1. Difference to 1H17 presentation due to exclusion of RMB0.2m other income

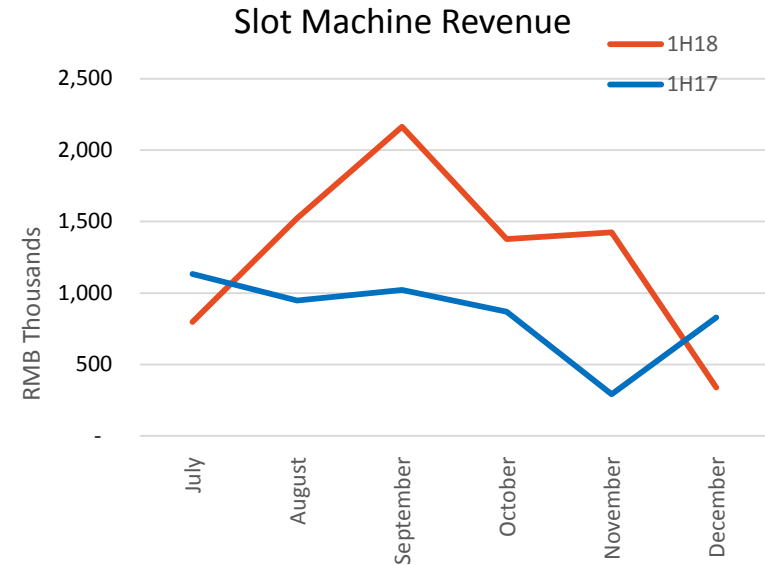
Aristo International Hotel – Key Operational Metrics



Key operational metrics		
(RMB millions)	1H18	1H17
VIP Table Game Turnover	6,884	3,517
Main Hall Turnover	234	118
Gross Gaming Revenue – Table Games	139.5	133.8
Gross Gaming Revenue – Slot Machines	7.6	5.1
Net Gaming Revenue	29.7	43.1
Non-Gaming Revenue	30.7	26.3
VIP win rate	1.70%	3.18%
Casino Visitors	77,030	100,174
Average Visitors / Day	419	544

Aristo International Hotel – Operational Commentary

- Total table game turnover increased by 97%, driven by management’s decision to allow selected new VIP junkets into the property
- Overall decrease in constant currency revenue of 13% and EBITDA of 22% was driven by lower VIP win rate, partially offset by improved non-gaming revenues and cost control measures
 - Improvement in EBITDA over the December quarter, with the VIP win rate stabilising
- In line with strategy, management successfully implemented initiatives to:
 - Control operating costs
 - Increase property utilization – average room occupancy increased to 84.2% compared to 72.0% in pcp
 - Increase local visitation and spending in non-gaming areas – additional events were held including a Halloween party, Christmas party, wedding events, charity dinners, concerts and other events



- Slot machine turnover up 20%, and revenue up 50% to RMB 7.6 million, due to 10 new machines being installed to capitalise on strong demand
- Dip in slot machine revenues in December 2017 due to jackpot strike

Outlook

- Management is confident that Star Vegas has turned the corner following the disruption caused by the Thai vendor's breaches of contract
 - VIP business was rebuilt during the December half, and has now grown further, with additional VIP junkets introduced in January / February 2018
 - Second main hall opened in February 2018, with games catering for non-Thai players
 - Improved slot machine portfolio being rolled out during the June half
 - Testing of online gaming services has commenced
 - Marketing deal with Vivo Tower will add minimum revenue of USD3 million per annum from January 2018
 - Non-gaming facilities substantially expanded and improved during the December half
 - No further management fees are payable to the Thai vendor
 - Litigation continues against the Thai vendor, with USD120m claimed in Singapore arbitration
- Marketing strategies for Aristo continue to be focussed on increasing the number of mass market players visiting the property, to reduce the volatility in win rate and earnings
 - VIP win rate has stabilised in recent months
 - Non-gaming revenues continue to grow strongly
- The new debt facility is being repaid as planned, but further capital management strategies, including any extension of the current buyback, will require discussion with the lender

APPENDIX – 1H18 Financial performance



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Venue Performance (Normalised and Actual)

	1H18 Normalised			1H18 Actual		
All figures in AUD (millions)	Star Vegas	Aristo	Total	Star Vegas	Aristo	Total
Total Revenue	28.9	21.6	50.5	32.2	11.6	43.8
- Net Gaming Revenue	26.7	15.7	42.4	30.0	5.7	35.7
- Non-Gaming Revenue	2.2	5.9	8.1	2.2	5.9	8.1
Operating Expenses	(13.5)	(5.2)	(18.7)	(13.5)	(5.2)	(18.7)
Property level EBITDA	15.4	15.8	31.2	18.7	6.3	24.9
Property level NPAT	12.4	11.1	23.5	15.7	3.3	18.8

Note: numbers may not add due to rounding

Currency Conversions:
1H18: 1 AUD = 0.7791 USD; 5.1753 RMB; 25.8410 THB

1H18 – Group Financial Performance Summary

All figures in AUD	NORMALISED RESULTS			ACTUAL RESULTS		
	1H18	1H17	% Change	1H18	1H17	% Change
Operating Revenue	50.5	59.4	-15%	43.8	59.0	-26%
Property Level EBITDA	31.2	39.1		25.1	38.7	
Corporate Costs	(5.7)	(5.4)		(5.7)	(5.4)	
= Group EBITDA	25.5	33.7	-24%	19.4	33.3	-42%
Net Interest income and Finance costs	(4.6)	(8.5)		(4.6)	(8.5)	
Non-recurring items ¹	(142)	(2.9)		(142)	(2.9)	
Depreciation & Amortisation	(5.0)	(5.1)		(5.0)	(5.1)	
Income tax expense	(3.3)	(1.7)		(1.6)	(1.9)	
Minority Interest	(0.1)	(0.2)		(0.1)	(0.2)	
= Net Profit After Tax (incl. non-recurring items)	(129.5)	15.4		(134)	14.8	
= Net Profit After Tax (excl. non-recurring items)¹	12.6	18.2	-31%	8.2	17.7	-54%

1. Difference to 1H17 presentation due to warrant revaluation income and forex losses being reclassified as non-recurring items (consistent with full year FY17 presentation)

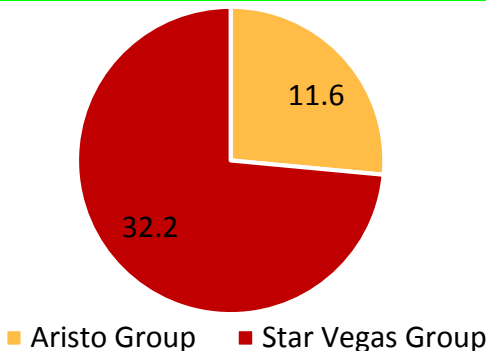
Note: numbers may not add due to rounding

Currency Conversions:

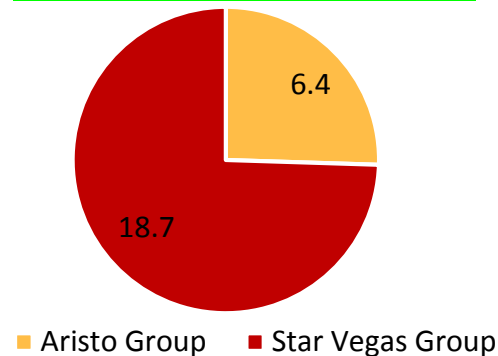
1H18: 1 AUD = 0.7791 USD; 5.1753 RMB; 25.8410 THB
1H17: 1 AUD = 0.7546 USD; 5.0904 RMB; 26.4869 THB

Two strategically located leisure and entertainment businesses

1H18 Revenue (A\$ millions)



1H18 EBITDA (A\$ millions)



Star Vegas

- Largest and most profitable Poipet casino hotel
 - 385 guest rooms
 - Multiple restaurants, shops, health spa, pool
 - Non-gaming revenues growing
- Substantial casino facilities
 - 133 gaming tables, predominantly baccarat
 - 1,522 Electronic Gaming Machines (EGMs), of which 288 are owned outright and 1,234 under profit share deals
 - Wagering and online gaming licences

Aristo International Hotel

- Five star luxury resort
- 400 guest rooms; additional 28 rooms fitted out for recreational facilities (health spa and nightclub)
- Five restaurants, swimming pool, gym, spa, tennis courts
- Retail shop leases
- Boutique gaming facilities
 - 40 gaming tables, primarily baccarat
 - 68 electronic gaming machine positions, with 44 linked jackpot slot machines, and 24 electronic roulette seats, with license allowing up to 300 EGM's

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Normalised results adjust the revenue received from the VIP table games business, by applying a theoretical win rate of 2.85% to VIP rolling chip turnover. This provides a more accurate guide to the underlying operating performance of the VIP table games business, which can experience significant volatility over shorter periods. This is consistent with the practice of Asian listed gaming operators.

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