

ASX : DNA

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29 November 2019

Annual General Meeting – Chairman’s Address and Managing Director’s Address

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

Chairman's Address

Ladies and gentlemen, thank you for being with us today. On behalf of your Board I am pleased to welcome you to the 2019 Annual General Meeting of Donaco International Limited. I am the Chairman, Stuart McGregor. I confirm that the meeting is properly constituted, and that a quorum is present. I declare the meeting open for business.

I would like to begin by introducing the rest of our Board:

- Executive Director and Company Secretary, Ben Reichel;

Our independent directors:

- David Green, and Yugo Kinoshita;

And our non-executive directors from Argyle Street Management:

- Leo Chan, and Kurkye Wong.

Also in attendance is our CEO, Paul Arbuckle, and our CFO, Mr Chong Kwong Yang. I will hand over to Paul a little later to provide an update on the business performance and outlook.

We also welcome Ms Suwarti Asmono from the Company's auditors, Crowe Sydney; and Ms Li-Jean Chew from the Company's lawyers, Addisons.

The Board regrets to announce that Ben Reichel has announced his intention to step down from the Board at the conclusion of today's meeting. Ben has contributed significantly to both executive and Board deliberations over the preceding seven years, and although he stays on as an executive, his contribution around the Board table will be sorely missed.

Over the past 12 months the company has been substantially transformed, with a new shareholder base, new Board, and new Chief Executive Officer.

The resolutions we are putting forward at this AGM are designed to seek endorsement by shareholders of these changes.

The Board seeks to confirm the ongoing appointments of the remaining current directors. The Board also proposes that the name of the company be changed to Pan Asian Leisure Limited, as a public statement that we are leaving the past behind.

The financial performance of the company during the past two financial years has been unacceptable. Although the company has always operated profitably and been cash flow positive during this period, revenues and earnings have declined, and significant statutory losses have been recorded, due to the non-cash impairment charges on the Star Vegas business.

The Board has taken strong action to address this decline, in two key areas: by removing and replacing the management team responsible for the operational performance during this period; and by taking legal action to protect and preserve shareholder rights.

In the Board's view, the decline in financial performance is largely due to the breaches of the non-compete agreement by the Thai vendor of the Star Vegas business. The company has launched legal proceedings against the Thai vendor, and the arbitration hearing resumed in Singapore this week. As this process is confidential, we unfortunately cannot provide any further details. Rest assured that the Board is pressing the claim as forcefully as possible, in order to obtain some compensation for shareholders.

In retaliation for this claim, the Thai vendor has launched a number of actions in the Cambodian courts, which caused disruption to the Star Vegas business. In particular, the Thai vendor has sought to terminate the registered perpetual lease of the land on which the Star Vegas business sits. Rather than go through all the detail again, I would like to direct you to our ASX release dated 22 August 2019, which accurately sets out the facts of this matter.

We have lodged our appeal against this ruling with the Appeal Court in Phnom Penh. There is a further avenue to appeal this matter to the Supreme Court of Cambodia, should it be required.

Pleasingly the most recent ruling by the Appeal Court in mid-November was in our favour, in relation to a separate claim, being the Thai vendor's attempts to freeze assets of the Star Vegas business. In that matter, no further appeal is available.

Apart from the legal disputes, the Board has also focused on the major tasks of renewing the management team, and renewing the Board itself. I will not recap all of the changes over the past 12 months, which are set out in full in the Notice of Meeting for today's AGM. I would note only that in July 2019, shareholders voted overwhelmingly to remove Mr Joey Lim and Mr Ben Lim from the Board.

We are now faced with an attempt by Mr Joey Lim's good friend and business associate, Mr Gerald Tan, to seize control of the Board, and therefore of the Company. The proposed new directors include a gentleman who is a business associate of the Thai vendor.

I would like to make some observations about the Company's application to the Takeovers Panel in this matter. On 1 July 2019, the Board stated clearly that "it will do everything in its power to protect the interests of minority shareholders, and to ensure that control of the Company does not pass unless all legal requirements are satisfied and an appropriate control premium is paid."

The Board provided 237 pages of material to the Takeovers Panel, pointing out the links and common dealings between the Thai vendors, Joey Lim, and the requisitioners seeking to spill the Board today. In the Board's view, these matters warranted further investigation, in the light of the Board's stated commitment to protect the interests of minority shareholders. However the Takeovers Panel has taken a different view.

The Board has fought hard, and will continue to fight hard, to protect and preserve shareholder value. It is now time to leave the past behind and allow the Company to move forward with the current stable Board, which is not subject to challenge, and can focus on creating value for shareholders.

I would now like to invite Chief Executive Officer Paul Arbuckle to present more detail regarding Donaco's operational and financial performance for FY19 and our performance so far in the current financial year.

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Chief Executive Officer's Address

Thank you Mr Chairman. Good afternoon and thank you all for attending.

As the Chairman has just detailed, the year has seen a significant strengthening of the Board composition, and the replacement of the previous senior management team.

I am pleased to have been appointed to the role of Group Chief Executive Officer in mid-June. In terms of my background, I have 30 years of experience in gaming and casinos, across Australia and Asian markets in major gaming businesses.

I have taken the role because I am excited by the quality of the venues, and the opportunity they present to deliver substantial improvements in their operating performance.

Pleasingly we have been able to make some initial operational improvements over the past few months, which are starting to deliver improved overall financial performance for the group. The more significant improvement opportunities will be implemented over the next two years.

Despite the statutory loss recorded in the 2019 financial year, overall our financial position remains sound, with low levels of debt. Although underperforming, both businesses in Vietnam and Cambodia remained profitable. The businesses produced an EBITDA of \$29.6 million and positive cash flow of \$25 million in the 2019 financial year, which highlights how robust these businesses are, given the challenges faced during the financial year.

I believe Star Vegas has the potential to be an exceptional business, and in my view, even with the recently increased level of competition, it remains a premier venue in the Poipet strip. Despite difficulties during the year, the business still had a profitable baseline performance and that provides me with great encouragement on what can be achieved over a relatively short period of the next few years.

To recap the FY19 results, reflecting the period prior to my appointment, there was a decline of 9.9% in net gaming revenue to THB 1368.5 million. This was partly due to a lower VIP win rate of 2.69%, compared to 3.00% in the prior year. Non-gaming revenue was down by 19% to THB 124.2 million, and some further changes will be introduced to boost the attractiveness of the non-gaming businesses.

The EBITDA decline of 37.2% to THB 610.2 million was due to a combination of the lower win rate, higher staff count required for operation of the online gaming business, and higher marketing costs related to our events program, which drove the strong increase in visitation. We are currently reviewing the appropriateness of each of these aspects of the business.

We have straightforward opportunities to improve the gaming machine arrangements at Star Vegas, although these will take a number of months to implement. We also have the opportunity to utilise the ample space at the venue to introduce more non-gaming facilities. We have already commenced work on restructuring the VIP junket arrangements, to bring in a more manageable and uniform set of arrangements with our junket operators.

We have continued the process of reducing costs and improving returns from our facility. Examples include the doubling of rent for our night club operators, a more accurate allocation of utilities expenses which had previously been borne by Star Vegas, and close monitoring of labour and procurement expenses.

In Vietnam, the Aristo is operating at a reasonable baseline level, with strong momentum in the past few months. I can see a significant revenue and profit opportunity with the managed introduction of a revamped mix of table games and slot machines, and potentially increasing the overall machine numbers.

The first half of the 2019 financial year was challenging for Aristo, as it was impacted by a Chinese crime syndicate seeking to disrupt our operations in July and August 2018, which significantly affected results in those months. However, in the second half year the business returned to more normal operating conditions.

While net gaming revenue fell 15% over the year to RMB 60.5 million, the second half produced RMB 41.5 million, which was in line with the RMB 41.5 produced in the previous year. Non-gaming revenues

were down 25% for the year to RMB 45.3 million, but only 8.4% down in the second half compared to last year. The second half EBITDA of RMB 38.7 million was in line with the previous year.

Accordingly, while the full year results reflect the disruptions that occurred in July and August, the operating performance has now fully recovered. This provides a good baseline for us to look to improve performance, and our license allows additional gaming machines to be introduced. We are working on how we can take advantage of this opportunity over the next few years.

I would now like to provide a trading update for the first four months of the 2020 financial year.

The Aristo has continued its recent trend of improved performance. We had another strong month in October, contributing to a four month EBITDA of USD4.2 million, which is well ahead of last year. We have recently signed with a Korean tour group who will organise golf tours during the winter months via our hotel. We do have some golf courses that are relatively close, and the Lao Cai Golf Course is being built and is scheduled to open next year. This group has commenced booking hotel rooms, and plans to open a new Korean restaurant at our hotel to help cater for these tour groups.

At Star Vegas, we are broadly in line with last year, although our October performance was weaker. This was particularly due to a lower VIP win rate, and it is normal for the VIP win rate to fluctuate on a month to month basis. There was also some impact from flooding in Poipet, and a temporary tightening of the border restrictions with Thailand, which have now gone back to normal. Overall, while our performance at Star Vegas to the end of October is broadly in line with the previous year, we are structurally in better shape.

For example, the revised rental agreements and the fairer cost allocations of overheads for our third party operated non-gaming outlets are flowing through. In addition, we have just commenced arrangements with a new Chinese tour group operator, on our standard terms, who will be bringing in new groups of players. We have just had the first group of 200 players stay for a 3 day period. The intention is to initially have one group come to our venue each fortnight, and eventually progress to one group per week. This opportunity has arisen for us due to the clamp down on online gaming that has impacted Sihanoukville, together with improved access to the Siem Reap airport, only two hours away from our property, which has recently been approved for direct flights arriving from 8 Chinese provinces.

We have continued to reduce and tighten up on corporate costs, and have made substantial savings in this area. Overall, our group performance is ahead of last year, with group EBITDA of AUD11.2 million at the end of October, despite significant legal costs as we prosecute our claims against the Thai vendor. The changes we are implementing at both properties are already showing encouraging signs, although more substantial financial improvements are expected to flow through over the next few financial years.

As the new Group Chief Executive Officer, I have confidence in the calibre and composition of the new Board, and I know they will be working tirelessly to resolve the litigation issues. My role and focus is entirely on improving the operational performance of the properties, without distraction. I believe there is significant growth potential achievable, and look forward to delivering improved performance from both properties.

We appreciate your attendance with us today and I will now hand you back to our Chairman to conduct the formal business of the meeting.

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