

ASX : DNA

asx release



31 January 2020

December 2019 Quarter Trading Update and Quarterly Cash Flow Statement

Quarterly Cash Flow Statement

Donaco International Limited (“Donaco” or “the Company”) has been notified that the Australian Securities Exchange has exercised its discretion to require the Company to file quarterly cash flow statements, pursuant to the new ASX Guidance Note 23 published in December 2019.

The reasons for this do not relate to the Company’s cash flow, but to the net working capital deficit identified in the FY19 audited accounts. As explained in Note 1 to the accounts, this is primarily due to a disputed claim by the Thai vendor of the Star Vegas business, which the Board considers is not payable.

In accordance with the ASX’s new requirement, an Appendix 4C quarterly cash flow statement is attached.

The Board notes that the Company is cash flow positive from operations, and has been cash flow positive at all times since it first listed on the ASX, seven years ago.

The Board also notes that as at 31 December 2019, the Company had only approximately AUD3 million of net debt, having repaid AUD8.9m of debt in the past six months.

December 2019 Quarter Trading Update

The Company also provides the following trading update for the three month period ending December 2019.

The performance of the Company’s businesses deteriorated following the Annual General Meeting in November 2019. At DNA Star Vegas, a solid November month was followed by a very weak December. At the Aristo International Hotel, a weak November was followed by an extremely poor December. However both businesses have improved in January 2020 to date.

The following update compares the three months to the end of December 2019 to the three months to the end of December 2018, based on unaudited management accounts.

DNA Star Vegas

The December 2019 quarter continued the trend established in the September 2019 quarter, with lower VIP turnover, but generally improved VIP win rates. As previously noted, the VIP win rate will always fluctuate on a month to month and quarter to quarter basis. November month recorded a strong VIP gross win rate of 4.54%, declining to 3.06% in December.

Donaco International Limited

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The Star Vegas business is feeling the impact of increased competition in the Poipet area, particularly from the new Galaxy casino, which opened in May 2019. In addition, illegal casinos in Bangkok were active in December, causing a decline in visitation to the whole Poipet strip in that month.

The decline in casino visitation caused a reduction in main hall and slot machine revenues in December 2019, resulting in a very weak EBITDA figure of THB24.15m for the month. This was approximately THB70m below the previous December 2018 month, which was boosted by a very high VIP win rate of 3.81%.

Operating expenses continued to be tightly controlled and were significantly reduced from last year, despite higher legal costs caused by the dispute with the Thai vendor.

In summary, while November month was in line with last year, both October and (in particular) December were weaker, resulting in a much weaker December quarter and year to date.

| DNA Star Vegas | December Quarter 2019 | December Quarter 2018 |
|--------------------------|------------------------------|------------------------------|
| VIP Turnover | THB 9.59bn | THB 17.05bn |
| Net Revenue | THB 282.38m | THB 421.28m |
| Operating expenses | THB 185.07m | THB 226.68m |
| Property level EBITDA | THB 97.31m | THB 194.60m |
| Average daily visitation | 3,646 | 4,352 |
| VIP win rate | 3.48% | 3.27% |

For the December 2019 half year (six months), Star Vegas EBITDA was THB225.52m. This is well behind the previous December 2018 half year, when EBITDA was THB314.75m.

Aristo International Hotel

The Aristo business recorded a gross VIP win rate of 2.18% in the month of November, but suffered a remarkable run of losses to big VIP players in the month of December, resulting in a gross VIP win rate of only 0.12% for the month.

As a result, the Aristo suffered an EBITDA loss of (USD1.1m) in the month of December, and recorded EBITDA (after minority interests) of USD0.3m for the December quarter.

| Aristo International Hotel | December Quarter 2019 | December Quarter 2018 |
|-----------------------------------|------------------------------|------------------------------|
| Rolling Chip Turnover | USD 249.33m | USD 169.83m |
| Net Revenue | USD 2.15m | USD 3.45m |
| Operating expenses | USD 1.86m | USD 1.72m |
| Property level EBITDA | USD 0.30m | USD 1.70m |
| Average daily visitation | 488 players | 516 players |
| VIP win rate | 1.73% | 1.95% |

For the December 2019 half year (six months), Aristo EBITDA was USD3.2m. This is still well ahead of the previous December 2018 half year, when EBITDA was only USD1.9m.

Group Summary

| DNA Group | December Quarter 2019 | December Quarter 2018 |
|-----------------------|-----------------------|-----------------------|
| Net Revenue | AUD 16.73m | AUD 22.65m |
| Property Level EBITDA | AUD 5.06m | AUD 10.63m |
| Corporate Costs | AUD 1.97m | AUD 1.91m |
| Group EBITDA | AUD 3.09m | AUD 8.72m |

Summarising the overall results for the three months of the December 2019 quarter in Australian dollar terms, the weaker performance of the operating businesses in the December 2019 month caused a poor overall result.

As noted, both the Star Vegas and Aristo businesses have improved in January 2020 to date. At Star Vegas, the slot machine business in particular has posted better results in January, due to management initiatives to deploy new slot machines on the floor, from new suppliers, on better terms and conditions. At the Aristo, the VIP gross win rate has improved to a more normal level, and turnover levels are strong. The Board and management continues to work on a detailed plan to improve the operations of both businesses.

The results above include non-recurring items, including the legal fees incurred in the dispute with the Thai vendor of the Star Vegas business, most of which are currently reflected in the Star Vegas results. When the Company reports its half year results at the end of February 2020, the legal costs recorded at Star Vegas will be reclassified to Corporate Costs, and treated as a non-recurring item.

For the December 2019 half year (six months), the Company has recorded underlying EBITDA of AUD13.7m (before audit adjustments), compared to AUD12.9m last year. These underlying EBITDA figures are before non-recurring items, including the legal fees noted above.

Authorised by the Board

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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

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Donaco International Limited

ABN

28 007 424 777

Quarter ended ("current quarter")

31 December 2019

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 23,145 | 48,126 |
| 1.2 Payments for | | |
| (a) research and development | | |
| (b) product manufacturing and operating costs | (6,280) | (8,137) |
| (c) advertising and marketing | (1,309) | (2,680) |
| (d) leased assets | | |
| (e) staff costs | (6,386) | (12,976) |
| (f) administration and corporate costs | (3,329) | (6,485) |
| 1.3 Dividends received (see note 3) | | |
| 1.4 Interest received | 12 | 24 |
| 1.5 Interest and other costs of finance paid | (994) | (1,659) |
| 1.6 Income taxes paid | (3,636) | (8,598) |
| 1.7 Government grants and tax incentives | | |
| 1.8 Other (provide details if material) | | |
| 1.9 Net cash from / (used in) operating activities | 1,223 | 7,615 |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | | |
| (b) businesses | | |
| (c) property, plant and equipment | (707) | (956) |
| (d) investments | | |
| (e) intellectual property | | |
| (f) other non-current assets | | |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | | |
| | (b) businesses | | |
| | (c) property, plant and equipment | | 74 |
| | (d) investments | | |
| | (e) intellectual property | | |
| | (f) other non-current assets | | |
| 2.3 | Cash flows from loans to other entities | | |
| 2.4 | Dividends received (see note 3) | | |
| 2.5 | Other (provide details if material) | | |
| 2.6 | Net cash from / (used in) investing activities | (707) | (882) |

| | | | |
|-------------|---|----------------|----------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | | |
| 3.2 | Proceeds from issue of convertible debt securities | | |
| 3.3 | Proceeds from exercise of options | | |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | | |
| 3.5 | Proceeds from borrowings | | |
| 3.6 | Repayment of borrowings | (7,471) | (8,920) |
| 3.7 | Transaction costs related to loans and borrowings | | |
| 3.8 | Dividends paid | | |
| 3.9 | Other (provide details if material) | | |
| 3.10 | Net cash from / (used in) financing activities | (7,471) | (8,920) |

| | | | |
|-----------|--|--------|--------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 31,568 | 27,378 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 1,223 | 7,615 |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (707) | (882) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (7,471) | (8,920) |
| 4.5 | Effect of movement in exchange rates on cash held | 283 | (295) |
| 4.6 | Cash and cash equivalents at end of period | 24,896 | 24,896 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|------------|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 24,896 | 31,568 |
| 5.2 | Call deposits | | |
| 5.3 | Bank overdrafts | | |
| 5.4 | Other (provide details) | | |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 24,896 | 31,568 |

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

323

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

The amounts in item 6.1 are payments to directors, consisting of fees for non-executive directors and salaries for executive directors.

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

| | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|---------------------------------------|---|--|
| 7.1 Loan facilities | 27,847 | 27,847 |
| 7.2 Credit standby arrangements | | |
| 7.3 Other (please specify) | | |
| 7.4 Total financing facilities | 27,847 | 27,847 |

7.5 Unused financing facilities available at quarter end

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Lender 1

Name: Mega International Commercial Bank Co Ltd

Interest rate: 8.5601%

Maturity date: 28 June 2021

Lender 2

Name: Joint Stock Commercial Ocean Bank

Interest rate: 9.8%

Maturity date: 2 October 2020

Lender 3

Name: Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank)

Interest rate: 6%

Draw down date: 20 December 2019

Maturity term: 3 months

All loans are secured.

| 8. | Estimated cash available for future operating activities | \$A'000 |
|-----------|---|----------------|
| 8.1 | Net cash from / (used in) operating activities (Item 1.9) | 1,223 |
| 8.2 | Cash and cash equivalents at quarter end (Item 4.6) | 24,896 |
| 8.3 | Unused finance facilities available at quarter end (Item 7.5) | |
| 8.4 | Total available funding (Item 8.2 + Item 8.3) | 24,896 |
| 8.5 | Estimated quarters of funding available (Item 8.4 divided by Item 8.1) | N/A * |

* Not applicable as the Company is cash flow positive from operations.

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: Not applicable

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Not applicable

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Not applicable

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2020

Authorised by: The Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.