

Management Discussion & Analysis



This is our first annual report since the initial public listing of shares of the Company (“IPO”) on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 October 2006. We have embarked on the business objectives and future plans set out in the prospectus (the “Prospectus”) dated 6 October 2006 in connection with the public listing. The immediate business objectives and future plans as disclosed in the Prospectus remain unchanged.

Our principal business is the management and operation of the only licensed casino in Phnom Penh, the capital city of Cambodia. We hold a casino licence (the “Casino Licence”) granted to us by the Royal Government of Cambodia (the “Cambodian Government”) with the right to operate casino activities in the country for a period of 70 years commencing from 2 January 1995 with around 41 years on an exclusive basis within 200 km radius of Phnom Penh, Cambodia (except the Cambodia-Vietnam border area, Bokor, Kirirom Mountains and Sihanoukville).

The exclusivity period of the Casino Licence was extended by 20 years to around 41 years up to the end of 2035 pursuant to the agreement entered into between the Cambodian Government and the Group on 12 August 2005.

We considered the duration and the exclusivity period of our Casino Licence valuable assets to our business operations that are not commonly found in the gaming industry in the Southeast Asia region.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report. The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards adopted by the International Accounting Standards Board.

RESULTS

Our gaming business demonstrated strong and steady growth. The financial year under review was a profitable one for our shareholders.

Revenue increased by 32.9% to approximately US\$85.4 million in 2006 from approximately US\$64.3 million in 2005. Profit before taxation increased to approximately US\$34.1 million in 2006 from approximately US\$26.3 million in 2005. Profit attributable to the equity shareholders of our Company amounted to approximately US\$32.6 million in 2006, representing an increase of 30.8% compared to approximately US\$24.9 million in 2005.

DIVIDEND

Interim dividend of US cents 1.25 per share (or equivalent to HK cents 9.75 per share) was paid for the financial year under review. The Board has resolved to recommend the payment of a special dividend of US cents 0.48 per share (or equivalent to HK cents 3.74 per share) for the year ended 31 December 2006. No final dividend is recommended for the year under review.



BUSINESS REVIEW

The political stability and economic expansion of Cambodia continued for the financial year under review. These are favourable conditions for the hospitality industry and our business operations. The number of visitor arrivals to Cambodia increased to around 1.7 million visitors in 2006 from around 1.4 million visitors in 2005. (Source: Ministry of Tourism, Cambodia)

In 2006, casino operations continued to be the mainstay of our revenue and contributed approximately US\$85.1 million, representing over 99.7% of the total revenue. Revenue derived from casino operations was approximately US\$64.1 million in 2005. The increase in revenue from casino operations was attributable mainly to the higher revenue contributions from our STG floor tables and public floor tables in 2006.

Revenue

STG Floor Tables

Revenue from our STG floor tables increased by 49.0% to approximately US\$52.6 million in 2006 from approximately US\$35.3 million in 2005 on account of quality STG Players who visited our casino and deposited more check-in amounts in 2006. Revenue from our STG floor tables accounted for 61.6% of our total revenue in 2006.

There were around 13,115 STG Players who visited our casino in 2006. The check-in amounts deposited by our STG Players increased by 35.6% to approximately US\$300.7 million in 2006 from approximately US\$221.7 million in 2005. The average check-in amounts per STG Player was approximately US\$22,900 per STG Player in 2006, representing an increase of 44.9% compared to US\$15,800 in 2005. We aim to attract quality players to our casino who are more likely to deposit higher check-in amounts and achieve higher rollings.

Public Floor Tables

Our public floor tables generated revenue of approximately US\$29.4 million in 2006 compared to approximately US\$25.8 million in 2005. Revenue derived from public floor tables accounted for 34.4% of our total revenue. The increase of 14.0% in revenue from our public gaming tables was attributed mainly to the higher buy-in amounts made by players which amounted to approximately US\$119.0 million in 2006 compared to approximately US\$102.1 million in 2005.

Gaming Machine Stations

Since 1 July 2005, we have received fixed income payments pursuant to the arrangements with an independent party for the provision of its gaming machine stations in our casino. For the first four years ending 30 June 2009, we will receive fixed income payments in aggregate of US\$10 million. For the next six years thereafter, we are given the right to elect to receive either fixed monthly payments or income based on pre-determined rates. Under the arrangements, we are not required to pay rental costs for the gaming machine stations provided by the independent party.

We recorded revenue derived from the gaming machine stations of approximately US\$3.1 million in 2006 compared to approximately US\$1.5 million in 2005. Revenue derived from casino operations in 2005 included revenue of approximately US\$1.7 million from gaming machine stations under the previous arrangement that expired by the end of June 2005.

As at the end of 2006, there were a total of 211 gaming machine stations offered for patronage in our casino (2005: 211 gaming machine stations).

Gross Profit

In 2006, we recorded cost of sales of approximately US\$34.5 million, which represented an increase of 40.2% over US\$24.6 million in 2005. The increase in cost of sales was attributable mainly to the rise in rollings achieved by STG Players and commissions paid to STG Operators and local operators.

The gross profit margins were 59.6% and 61.8% in 2006 and in 2005 respectively. The slight decline in gross profit margin reflected the larger rate of increase in cost of sales, as explained above, than that of revenue.

Operating Expenses

Staff costs rose to approximately US\$7.5 million in 2006 from approximately US\$6.1 million in 2005 on account of an increase in number of our employees to 978 employees in 2006.

The amortisation expense increased to approximately US\$3.5 million from approximately US\$1.3 million in 2005 as a result of the amortisation on the premium of US\$105 million for the extension of the exclusivity period of the Casino Licence for the whole of the financial year in 2006 compared to five months in 2005.



Finance Cost

We did not incur any significant finance costs as there were no significant financing arrangements in 2006.

Net Profit

Net profit increased to approximately US\$32.6 million in 2006 from approximately US\$24.9 million in 2005, representing an increase of 30.8%. The net profit margin was stable at 38.2% in 2006 compared to 38.8% in 2005.

Earnings per share was approximately US cents 2.12 (HK cents 16.5 per share) in 2006 compared to US cents 1.92 (HK cents 15.0 per share) in 2005.

FINANCIAL REVIEW

Pledge of Assets

As at 31 December 2006 the Group had not pledged any assets for bank borrowings (2005: US\$ Nil).

Contingent Liabilities

As at 31 December 2006, the Group had contingent liabilities of approximately US\$2.1 million in relation to litigation which has been provided in full.

Exchange Rate Risk

The Group's income is earned principally in United States dollars. The Group's expenditure is paid principally in United States dollars and to a lesser extent in Cambodian Riels. The Group therefore does not have any significant exposure to foreign currency risk. The Group does not enter into currency hedging transactions since it considers that the cost of such instruments outweigh the potential cost of exchange rate fluctuation.

Issue of New Shares

In the IPO, we issued a total of 575 million shares at HK\$1.43 each and raised gross proceeds of over HK\$822 million for, among other things, development of NagaWorld and gaming activities. The public tranche of the IPO was approximately 118 times over-subscribed.

Liquidity, Financial Resources and Gearing

As at 31 December 2006, the Group had total cash and bank balances of approximately US\$78.3 million (2005: approximately US\$0.7 million). The increase in cash balance during the year was mainly due to the proceeds raised from the

issue of shares under the IPO. We expect our working capital and investments will be financed mainly by cash generated by our operations and proceeds from the IPO and, if necessary, other forms of financing.

As at 31 December 2006, the Group had net current assets of approximately US\$86.7 million (2005: net current liabilities of approximately US\$118.7 million). The Group had net assets of approximately US\$235.9 million (2005: approximately US\$21.3 million). The increase in net assets and net current assets was to a large extent attributed to the settlement of the amount due to Ariston Holdings Sdn. Bhd. of US\$105 million by 31 December 2006 in relation to the acquisition of the extended exclusivity period of the Casino License, and the net proceeds raised from the IPO.

As at 31 December 2006, the Group had no significant outstanding borrowings.

Capital and Reserves

As at 31 December 2006, the capital and reserves attributable to equity shareholders of our Company was approximately US\$235.9 million (2005: approximately US\$21.3 million). The capital and reserves increased on the back of the issue of new shares in connection with the IPO, the settlement of the consideration for acquisition of the extended exclusivity period of the Casino License by way of issue of new shares and capital contribution and the profit retained for the financial year under review.

Segment Reporting

Our revenue was derived mainly from casino operations and to a lesser extent from the corporate and hotel and entertainment namely, income from the operation of a food and beverage outlet and restaurant. In 2006, casino operations contributed approximately US\$85.1 million (2005: US\$64.1 million) while corporate and hotel and entertainment operations contributed approximately US\$0.3 million (2005: US\$0.1 million) to our revenue. Please refer to note 11 to the consolidated financial statement for further details.

Staff

At 31 December 2006, the Group employed a work force of 978 (2005: 938) stationed in Cambodia, Malaysia and Hong Kong. The remuneration and staff costs for the financial year under review was approximately US\$7.5 million (2005: approximately US\$6.1 million).



Application of IPO Proceeds

The net proceeds from the IPO were approximately US\$94.9 million, after deduction of related expenses. In line with the description in the Prospectus and the announcement issued in connection with the IPO, the net proceeds were utilised as follows:

Descriptions	Approximate net IPO proceeds (US\$ million)	Proceeds	
		utilized as at 31 December 2006 (US\$ million)	Remaining net IPO proceeds (US\$ million)
Development of NagaWorld	69.5	17.2	52.3
Development of gaming activities such as installation of gaming equipment and tables and other ancillary equipment for public gaming floor in the hotel lobby	21.4	0.9	20.5
General working capital	4	2.7	1.3
Total	94.9	20.8	74.1

By the end of 2006, the construction of 60 rooms in the hotel wing of NagaWorld was completed in accordance with the schedule envisaged in the Prospectus. The installation of leisure, entertainment and recreational facilities together with the completion of levels 7 and 8 of the South Tower of the entertainment wing of NagaWorld was behind schedule. The delay was caused mainly by the changes in internal design and layout of NagaWorld.

PROSPECT

We aim to become a world class casino operator with standards comparable to those casinos operating in countries such as Australia and the United States and for NagaWorld to become a preferred tourist destination, alongside Cambodia's ancient temples of Angkor. We will continue to expand our markets in the People's Republic of China and the participating countries in the Association of Southeast Asian Nations, including Thailand and Vietnam.

Thanks to the continued political stability and economic development, Cambodia has witnessed the ever-increasing number of tourists visiting the country for leisure and business purposes. The economic, cultural and social developments seen in recent years have been conducive to our business operations and plan to become the preferred tourist destination.

Internally, we are closely monitoring the construction of NagaWorld to ensure that it will be completed within budget as envisaged in the Prospectus and related announcements. It is expected that another 157 rooms will be completed by the first half of 2007. Subject to the progress of construction and implementation, it is expected that NagaWorld will be completed by the end of 2007.

We have increased slowly our table limits from US\$18,000 up to US\$50,000. Together with the opening of more tables, it is expected that revenue and the table win per day will increase with limited adverse impact on the stability of our earnings.

Externally, we have entered into advanced discussions with the Ministry of Tourism and the Municipality of Phnom Penh to devise and implement a multi-faceted strategy for enhancing tourism in Phnom Penh. We will assist and participate, to the extent possible, in the strategy which, if materialized, is expected to involve the creation of tourist attractions, the organization of tourism related events and an increase in the number of flights to the capital.

We are also in talks with the Cambodian Government in respect of acting as a tourism representative of the Cambodian Government in major Asian cities and in tourism promotions in cities where our existing and potential customers are likely to be. The strategy, if carried out effectively, is expected to raise the profile of Cambodia as a tourist destination as well as promoting NagaWorld.





Luxurious
in oriental
opulence