

# Chairman & CEO's Statement



Timothy Patrick McNally  
Chairman



Tan Sri Dr Chen Lip Keong  
CEO

To our Shareholders:

## **A HISTORIC MOMENT FOR BOTH CAMBODIA AND NAGACORP**

On 19 October 2006, we together with our shareholders witnessed the initial public listing of NagaCorp Ltd. (the "Company" or "NagaCorp") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It is the first listing of a gaming and entertainment company with operations in Cambodia on the Stock Exchange through an initial public offering (the "IPO"). It is a historic milestone for the Company and signifies a rising Cambodia. We are grateful to all the professional parties involved in the IPO for their professionalism and endeavour demonstrated in this landmark listing.

## **LICENCE TO GAMBLE**

We manage and operate the only licensed casino in Phnom Penh, the capital of Cambodia. Our casino licence is valid for a period of 70 years from 2 January 1995 with the first 41 years on an exclusive basis near and around Phnom Penh. The duration and exclusivity of the licence is considered by many as rare in the gaming industry in Asia.

From the IPO, we raised gross proceeds of over HK\$822 million by the issue of 575 million shares at HK\$1.43 each to investors, the public portion of which was oversubscribed by 118 times.

## **POLITICAL STABILITY AND ECONOMIC GROWTH**

Between 1995 and 2005, tourist arrivals to Cambodia had increased at the compound annual growth rate of 25.28%. The number has risen to 1.7 million visitors in 2006 and there were about 500,000 visitor arrivals to Phnom Penh. Cambodia is becoming more and more stable politically, economically and socially, and NagaCorp stands to benefit. Cambodia is a constitutional monarchy, providing multi-party democracy and is a member of the United Nations, World Trade Organisation, Association of Southeast Asian Nations ("ASEAN") and Asia/Pacific Group on Money Laundering. The government, led by one of Asia's longest serving leaders the Prime Minister Samdech Hun Sen, is politically stabled, leading to an average annual GDP growth of about 7% between 1999 and 2004. The GDP growth in 2005 and 2006 were 13.4% and 10.4% respectively (*source: The International Monetary Fund*).

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The Economist (London, February 24, 2007.Vol.382, Iss. 8517; p. 61) wrote ".....it is a prime attraction in the country's booming tourist industry. In 1993, as United Nations-sponsored elections signalled the end of the civil war that followed the Khmer Rouge regime's collapse, Cambodia got only 154,000 foreign visitors. Last year there were 1.7 million, up 20% on the previous year, and they spent some \$1.0 billion, or around twice the government's entire tax revenues. Everything from construction to financial services is booming too. Last year's overall economic growth was far better than expected, at 10.5%. Cambodia is slowly but, it seems, surely dragging itself up from a very low base. And things could get brighter still: substantial oil and gas reserves have recently been found off Cambodia's coasts."

## TOURISM AND GAMING IN PHNOM PENH

NagaCorp has helped to increase tourist arrivals to Phnom Penh and income from tourism for Cambodia.

Amongst other places of interest in Phnom Penh, NagaWorld is an integral part of the tourist agenda for visit to the capital. In 2006, NagaCorp received about 13,115 visitors as specialized tour group ("STG") players and an unrecorded number of visitors to its public floor out of a total number of 500,000 visitors to Phnom Penh in 2006. There were in total about 1.7 million visitor arrivals to Cambodia in 2006 (*source: Ministry of Tourism, Cambodia*).

In view of the above and as a result of the political, economic, cultural and social developments and improvements in Cambodia seen in recent years, NagaCorp is optimistic about the prospects and potential of growth in the tourism sector. Through private-public participation programs, NagaCorp will continue to create a win-win scenario with the Ministry of Phnom Penh, help in general to promote tourism in the ancient city of Siem Reap where the world famous Angkor Wat is sited and in particular, play a major role to promote tourism in Phnom Penh alongside with other government agencies.

Advanced negotiations are underway with the Ministry of Tourism and the Phnom Penh municipality to devise a 5-pronged strategy to enhance tourism in Phnom Penh by creating more places of attractions, organizing more tourism related events and increasing flights to the Capital. We are aiming to become a legal representative in tourism of the Cambodian Government in major cities in Asia and a partner of tourism promotions in cities where NagaCorp has existing and potential customers.

## KEY SUCCESS FACTORS

- A cohesive, forward looking, positive & experienced management team
- A monopolistic business in a low cost operating environment by proven management
- Low tax and competitive labor costs and an established relationship with the government
- Strategic location of our NagaWorld in Phnom Penh about 25-minute ride from the Phnom Penh International Airport within easy reach to and from major cities in Asia
- Target regional mid-size players with relatively stable earnings

## FINANCIAL REVIEW

- 32.9% growth in Revenue to US\$85.4 million
- 30.8% growth in Net Profit to US\$32.6 million
- Gross margin reduced from 61.8% to 59.6%
- Net margin reduced from 38.8% to 38.2%, despite the significant IPO related cost, insurance and casino license amortization cost incurred
- Win rate was 3.0% (based on rollings) or 17.5% (based on revenue over check-in amounts)
- Strong balance sheet with net assets of US\$235.9 million, net cash of US\$78.3 million and zero-gearing



## OPERATIONS REVIEW

- 44 tables in operations, 22 of which on STG Floors and 22 on Public Floor
- Total of 13,115 STG Players
- 41 active STG operators, 7 CRP (complimentary rated programme) operators
- Improved quality in STG Players, growth in average check per player to US\$22,900 from US\$15,800
- STG cost per player maintained at US\$400
- STG cost reduced to 0.30% of Rollings from 0.50%
- Opened additional 40 tables on Levels 5 & 6 by end of 2006
- Marketing Department reorganized and strengthened
- 60 hotel rooms completed by end of 2006 and additional 157 rooms to be completed by first half of 2007
- Levels 5 & 6 of the South Tower of the Entertainment Wing were completed by end of 2006

## OUTLOOK OF GAMING INDUSTRY IN ASIA

Phnom Penh, Cambodia is sited in the midst of “Gaming Culture” in Asia, reaching 3 billion people within a radius of about 5-hour flight (to the next country nearest destination). The Asian gaming market may compare to the continent of the United States of America with a population of about 300 million and has many successful casino destinations, like Las Vegas in Nevada, the Atlantic City areas, the Indians Conservation casinos areas and casino in the Mississippi areas.

In North Asia, the more visibly publicized and mature gaming destination is Macau. Opened competition in 2002, Macau has three main casino concessionaires and another three sub-concessionaires. Macau has seen many Las Vegas-based mega-casino operators joining its casino market, which brought the total number of casinos to about 24 now.

In Southeast Asia, a footprint of 550 million people with combined GDP of approximately US\$867 billion, there are three visible gaming destinations, namely the government-owned PagCor operated casinos in the Philippines, and two other public listed companies owned casinos namely Genting in Malaysia and NagaCorp in Cambodia. Each casino group has its own catchment area, customer profile, marketing approach, unique customers’ economic and cultural background and management risks.

Given the number of gaming destinations in Asia offering gaming services for players, each gaming destination has its own unique attractiveness and gaming blue print for their domestic market and the traveling gaming community in their respective markets regions in Asia.

Since the adoption of the “open sky” policy by the Cambodian Government, the frequency of flights between Phnom Penh and other major cities in the region has increased to 147 flights a week and is still increasing. Reaching 1.8 billion people within 2 hours 30 minutes (China and Southeast Asia) and 3 billion people within about 5 hours (including East Asia and India) with a captive market of its own within a combined market footprint of at least 150 million people with combined GDP of US\$229 billion in the expanding economies of Thailand and Vietnam, NagaCorp has carved out a niche market of its own.



Monopoly in Phnom Penh for 40 years in a low cost environment by a cohesive management, a proven business model of attracting regional mid-size players and an established regional gaming operation.

The competitive labor costs and low tax advantage provide a more competitive cost advantage for NagaCorp to offer more attractive commissions to tour operators as compared to many other establishments.

Furthermore, low investments costs, no gearing and conservative gaming risks profile provide stable earnings.

We are of the view that there are different types or segments of customers with varying degree of financial resources and gaming preferences. Depending on their resources and levels of risk aversion, casino operators may target their preferred segments of customers. For us, we aim to strike a balance between revenue growth and stability of revenue by targeting players with mid-range check-ins continuum as the preferred customer segment.

Being the first gaming operation listed through an initial public offering in Hong Kong and committed to good corporate governance and stringent anti-money laundering (“AML”) internal controls in an Asian environment, NagaCorp attracts awareness and confidence with players quality improved in the financial year 2006 (increased amount of check-ins and rollings).

Upon the full opening of NagaWorld by the end of 2007, NagaWorld is poised to position itself as a world-class gaming destination offering almost similar leisure, recreational and

entertainment facilities like many other casinos in the regions differing only in scale. As a destination in Cambodia, there is the unique experience of experiencing history by visiting Angkor Wat, a world heritage site, in an ancient culture.

Fuelled by sustained economic growth and the increase in per capita GDP growth, the momentum of the liberalization of the casino industry will continue in Asia. The tourism industry in the region shall be more and more underpinned by a robust life-style entertainment gaming industry. The growth of the gaming industry would mean more governmental acceptance of gaming providers, more work force, more exposure and awareness, and more participants in an expanding ‘Gaming Culture’ of Asia.

## **NAGAWORLD IN ASIA**

It is noteworthy to emphasize that out of the three visible gaming destinations in Southeast Asia, namely Pagcor-licensed casinos in the Philippines, Genting in Malaysia and NagaCorp in Cambodia, the gaming markets of which cover a population of about 550 million and combined GDP of US\$867 billion, NagaCorp has its neighbors, Thailand and Vietnam as the immediate catchment areas with a population base of about 150 million and combined GDP of about US\$229 billion, and yet successfully maintains its traditional proven markets such as Malaysia, Singapore and China.

Meanwhile the NagaCorp’s business model of attracting regional mid-size players, relatively low table limit, personalized VIP services to this segment of the market has its own niche markets.

# Chairman & CEO's Statement

There are many reasons why NagaCorp is optimistic of better prospects ahead:

1. It is noteworthy that NagaCorp generated its 2006 revenue with devoted gamblers who visited the operating casino devoid of facilities like hotel rooms, entertainment and other recreational outlets.

We are hopeful that revenues shall continue to increase with the impact of the new facilities coming in at various points of time.

2. The business profile for the casino is such that for the sake of maintaining stability of earnings, the casino has focused on attracting mid-size players of average check-in amount of approximately US\$15,800 per customer. By controlling table limits at up to US\$18,000 per table. In 2006, we have seen an increased average check-in amount of US\$22,900 and a higher amount of rollings made by the STG Players.

We have adopted a strategy of slowly increasing table limits to US\$35,000 and US\$50,000. We are hopeful that revenue and the table win per day will increase after the opening of more tables with higher table limits without adversely affecting the stability of our earnings.

3. We do have capacity for expansion, should the need arise. There is no restriction on the number of tables and the types of games in our casino. For planning purposes, we have earmarked 20 tables per floor for 8 floors of the North and South Tower of the Entertainment Wing, meaning that the maximum capacity for the total number of 320 tables in the Entertainment Wing, excluding the Hotel Wing. As disclosed in the prospectus and for implementation purposes, we will have 176 tables by year end 2007 in both the Entertainment and Hotel Wings of the Complex. Besides we are going to introduce other types of game to satisfy different customer needs as we are adding on more tables.
4. In order to monitor closely that gaming tables are well patronized in our casino, we have implemented at least 7 different programs in our casino. These programs cater for different needs and risk profiles of customers coming

in from various regions in Southeast Asia and China. In addition to the traditional Junket Operator Programs for mid-size players, we have Local Tourist Programs, Phnom Penh Program for Cambodians holding foreign passports, the Vietnam Ground Program for Vietnamese visitors, the Special Incentive Package for Thai players, the Mini-Junket Programs for Malaysians and the Complimentary Rated Programs for attracting the Chinese players. These programs are dynamic and may vary to suit customer needs.

5. Monitoring closely the completion of NagaWorld valued at approximately US\$90.5 million within budget will keep the capital commitment of NagaWorld in check and provide us a competitive cost advantage when compared to the investment costs of other regional casinos. Upon full completion of NagaWorld by the end of 2007, we will have 508 rooms and yet provide similar basic entertainment-recreational facilities, like many other international casinos except differences in scale and size.
6. The rapidly developing economy of Cambodia recorded GDP growth of 13.4% in 2005 and 10.4% in 2006, and per capita GNP income rise from US\$125 in 2001 to US\$500 in 2005. The burgeoning economic growth assures a good future for companies like NagaCorp with monopolistic operation rights in Phnom Penh and without gearing. Our casino is also situated in an area which registers one of the highest economic growth in Asia.

## **MOVING FORWARD – VISION, POSITIONING AND BRANDING**

We do hope that, one day, Phnom Penh's gaming revenue will become a small part of the global gaming revenue. Meanwhile, the strategy is FOCUS. Focus on existing gaming business and 'squeeze' more value from the existing operation/location as a key casino located in the heart of an ASEAN city. It is the immediate way forward and allows us to benefit from the completion of the full facilities of NagaWorld by year end of 2007 and ride on the hype and growth of Cambodia.

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To 'squeeze' more value, we have put in place 4-pronged strategy:

1. Capitalizing on the increased awareness and confidence shown to us as a result of completion of IPO in an established reputable exchange, creating a visible and responsible brand name as an international 5-star gaming entertainment complex not only in the fast growing Indo-China but also in Asia.
2. Penetrating the neighboring markets like Vietnam and Thailand while attempting to capture more market share of our traditional markets like China, Malaysia and Singapore, alongside with other regional casinos.
3. Taking advantage of the simple tax regime by giving more benefits to our operators and allow them to share the rewards as 'co-owners' of our casino, whilst gradually increasing the number of tables and table limits.
4. Moving towards to adopt a 5-pronged strategy of creating win-win Smart Partnership with Ministry of Tourism and the municipality of the City of Phnom Penh by penetrating the regional countries.

The vision is NagaCorp will move on and react to the opportunity of the wave of the liberalization of gaming in Asia, especially in Thailand and Vietnam. Meanwhile NagaCorp will like to lay down a strong foundation and position as a world-class Indo-China casino with strong corporate governance, and shall maximize benefit from the fast growing economies of its immediate neighbors like Thailand and Vietnam. At the same time, the corporate direction is to capture more market share from its traditional markets like Singapore and Malaysia, especially China where NagaCorp will be tapping on the 6 million Chinese population within the income bracket of US\$100,000 to US\$1 million and shall see a significant increase in number of visitors from the PRC in the years to come.

## OUR CONTINUOUS COMMITMENTS TO CORPORATE GOVERNANCE

A high standard of corporate governance is a priority for us. We have applied and observed the code provisions of the Code on

Corporate Governance Practices. Furthermore, we have engaged independent professional parties to review the internal control system of the Company and its subsidiaries (the "Group") with a focus on AML and assess the investment risks in Cambodia. Having reviewed the reports from those parties and discussions with the Audit Committee, the Directors are of the view that the internal controls of the Group have been implemented effectively.

## SOCIAL RESPONSIBILITY

NagaCorp is a sponsor of the Red Cross in Cambodia. It is the intention of the Company to organize more events driven charitable programs with one of the world's most reputable advertising agencies to promote charitable purposes in Cambodia.

NagaCorp has recently obtained approval from the Phnom Penh Municipality to create a win-win development of the upgrading and beautification of a public garden in front of NagaWorld, for both the benefits and enjoyment of the city folks and tourists and at the same time to create a world-class "entrance statement" for NagaWorld.

NagaCorp has also recently launched a NagaCorp Scholarship program for all deserving suitable Cambodians who qualify to pursue their studies overseas.

NagaCorp's interest in youth promotion in the country is seen in its promotion of football, a popular game in Cambodia, by the formation and running of a NagaCorp FC Club to participate in the national team.

## OUR APPRECIATION

Finally, we would like to express our gratitude to our shareholders, suppliers and customers for their unfaltering support. We would also like to thank our dedicated staff for their contribution to the success of the Group in the past year.

Timothy Patrick McNally  
Chairman

Tan Sri Dr Chen Lip Keong  
Chief Executive Officer

Hong Kong  
23 March 2007





Gateway to  
excitement