

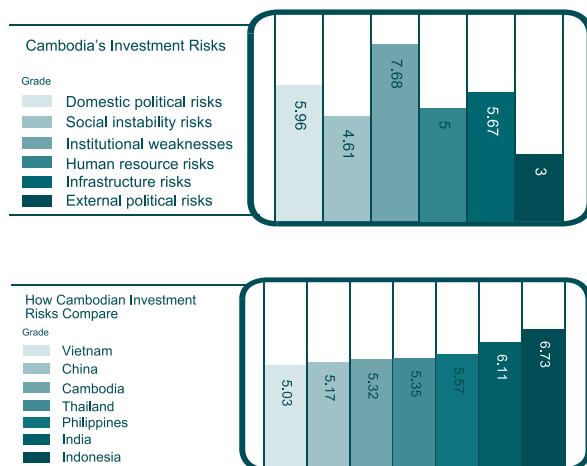
Independent Review of Investment Risks in Cambodia

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We have assessed and reviewed the investment risks in Cambodia and in arriving at our findings below, taken into account, amongst others, domestic political risks, social instability risks, institutional quality, accountability and standards, human resource risks, infrastructure and environmental risks and external political risks.

Based on the assessment and review carried out in the last quarter of 2006 and February 2007, we summarised our findings below:



We quantify investment risks in Cambodia through the measure of socio-political risks which in turn comprised the following variables:

- Domestic political risks
- Social instability risks
- Institutional quality, accountability and standards
- Human resource risks
- Physical factors such as infrastructure and environmental risks
- External political risks

Each of these variables is itself made up of a number of sub-variables relating to specific aspects of the category being assessed. The index score for the investment risks in Cambodia is calculated by adding the products of the individual grades for the specific variables multiplied by their specific weights in percentage terms. We have treated each variable and sub-variables as having equal importance and weights.

The maximum possible risk rating is 10 while the minimum is zero, being the most favorable grade possible. The overall risk rating for Cambodia is 5.32, which is in our view moderate.

The Positive Developments

- Tourism is growing rapidly and shows every sign of continuing to do so, with some of the most rapid growth being from China, Korea and Vietnam.
- Cambodia's external relations are excellent, particularly with countries that will be the leading sources of NagaCorp's client base namely, Malaysia, Singapore, China and South Korea.
- Both the current and future governments of Cambodia will treat tourism as a pillar on which to build the economy's development. They will avoid actions that hurt the tourism industry and major foreign investors in this industry.
- Future exchange rate changes in China and Korea should increase the spending power of NagaCorp's main client base and stimulate growth.
- NagaCorp's profile, which was already high in Cambodia in view of its size compared with other foreign direct investments in a pillar industry like tourism, has been raised further by its listing in Hong Kong. The unique status and international visibility this gives the company is added leverage NagaCorp can use to call on the support of the highest levels of the government if needed to deal with the country's institutional shortcomings.

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- The potential for political instability. Cambodia is unlikely to experience serious political instability during the next two years even though there will be local elections this year and national elections next year.
- The economy of Cambodia has been growing rapidly for well over a decade now. The real growth, in term of GDP, has averaged well over 6.8% p.a. between 2000 and 2005. The final figures for last year are not yet available, but all indications are that it was another good year economically with growth probably in excess of 6% (*Source: National Institute of Statistics, Cambodia*).

The Challenges

- Corruption and weak government institutions. Potential rivals might try to take advantage of these types of systemic deficiencies to gain an advantage.
- Labor issues, including training challenges and a difficulty in using the system to defend against unreasonable labor demands.
- The potential for fallout from adverse political developments in neighboring countries, most notably Thailand, from creating security concerns that hurt the flow of tourists to neighboring countries like Cambodia.
- The potential for social instability. Domestic social conditions are stable and are unlikely to deteriorate, but Cambodia is still hurt by its reputation incurred during the days when the Khmer Rouge were in charge.
- Health and personal security concerns. Media reports focusing on Cambodia's problems like AIDS, inferior sanitation conditions, and crime problems do not generally apply to the conditions that visitors to

NagaCorp's facilities are exposed to from the time they get off their plane until they re-board after their visits.

Robert Broadfoot

Managing Director

PERC

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Robert Broadfoot researched and wrote the report on the review on investment risks in Cambodia. Mr. Broadfoot is the founder and Managing Director of Political & Economic Risk Consultancy, Ltd. (PERC). Established in 1976, PERC is headquartered in Hong Kong and engaged principally in the monitoring and auditing country risks in Asia. From this base PERC manages a team of researchers and analysts in the ASEAN countries, the Greater China region and South Korea. Over 1,200 corporations and financial institutions worldwide currently use PERC's services to assess key trends and critical issues shaping the region, to identify growth opportunities, and to develop effective strategies for capitalizing on these opportunities.

PERC helps companies understand how politics and other subjective variables are shaping the business environment. Such variables may be difficult to quantify, but nevertheless can have a critical impact on investment performance and therefore have to be factored into the decision-making process, which is the function of PERC's services. PERC's value lies in the organization's experience, its Asian network of seasoned analysts, its emphasis on primary research, its complete independence from any vested interest groups, its pioneering work in the technical aspects of country risk research, its discretion, and its integrated, regional approach to analysis.