

Directors' Report

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL PLACE OF BUSINESS

NagaCorp Ltd. (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 25 February 2003 and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business at NagaWorld Building, South of Samdech, Hun Sen's Park, Phnom Penh, Kingdom of Cambodia respectively.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The principal activity of the Company and its subsidiaries (the "Group") is the operation of a hotel and entertainment complex, NagaWorld, in the Kingdom of Cambodia. Other particulars of its subsidiaries are set out in note 14 to the financial statements. An analysis of the Group's performance for the year by business segment is set out in note 11 to the financial statements. As the Group's operations are in Phnom Penh, Cambodia, no geographical segment information is presented.

PROCEEDS FROM THE INITIAL PUBLIC OFFERING ("IPO")

The net proceeds from the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited were approximately US\$94.9 million, after deduction of related expenses. For the year ended 31 December 2006, the net proceeds are being used in the construction of NagaWorld.

MAJOR JUNKET OPERATORS

The information in respect of the Group's revenue and cost of sales attributable to the major junket operators during the financial year is as follows:

	Percentage of the Group's total	
	Revenue	Cost of sales
The largest junket operator	15%	12%
Five largest junket operators in aggregate	37%	41%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the five largest junket operators.

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RESULTS

The profit of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 48 to 95.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 96 of the financial statements.

TRANSFER TO RESERVES

The profit attributable to equity shareholders of the Company, before dividends, of US\$32,618,000 (2005: US\$24,941,000) have been transferred to reserves. Other movements in reserves are set out in note 22 to the financial statements.

An interim dividend of US cents 1.25 per share (2005: US\$ cents 1.67 per share) was paid on 31 May 2006. The directors now recommend the payment of a special dividend of US cents 0.48 per share (2005: US cents Nil) in respect of the year ended 31 December 2006. The Directors do not recommend the payment of final dividend (2005: US cents Nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company (the "Articles") and the laws of the Cayman Islands that oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to US\$213,000 (2005: US\$35,000) of which US\$128,000 (2005: US\$Nil) was donated in Hong Kong and US\$85,000 (2005: US\$35,000) was donated in the Kingdom of Cambodia.

FIXED ASSETS

During the year, the Group acquired fixed assets for approximately US\$13.1 million. Details of these purchases and other movements in fixed assets are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 22 to the financial statements.

(i) Shares issued during the year

On 11 May 2006, the Company issued 202,332,411 ordinary shares of US\$0.0125 each to Tan Sri Dr Chen Lip Keong pursuant to an agreement with, amongst others, Ariston Sdn. Bhd. and Ariston Holdings Sdn. Bhd. The fair value of the 202,332,411 ordinary shares was US\$50 million of which US\$2,529,155 was the par value of the ordinary shares issued and US\$47,470,845 was the premium on the issue of the ordinary shares.

On 19 October 2006 and 2 November 2006, as part of the Company's initial public offering on the Main Board of the Stock Exchange of Hong Kong Limited, the Company issued 575 million ordinary shares for gross proceeds amounting to US\$105,416,667 of which US\$7,187,500 was the par value of the ordinary shares issued, US\$98,229,167 was the premium on the issue of the ordinary shares and US\$10,501,799 was the issue costs.

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(ii) Capitalisation issue

On 4 October 2006, an amount of US\$720,844 standing to the credit of the premium account was applied by paying up in full 57,667,509 ordinary shares of US\$0.0125 each which were allotted and distributed as fully paid to existing shareholders in the proportion of one for every 0.04 shares then held.

(iii) Capital contribution

On 16 August 2006, the remaining US\$55 million due to Ariston Holdings Sdn. Bhd. was settled by way of a capital contribution of US\$55 million by the ultimate controlling shareholder, Tan Sri Dr Chen Lip Keong.

During the year, there were no other purchases, sale or redemptions of the Company's shares by the Company or any of its subsidiaries.

REMUNERATION

In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a Remuneration Committee to formulate compensation policies and determine and manage the compensation of the Company's senior management.

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Company's directors are set out in note 6 to the financial statements.

DIRECTORS

The directors during the year and up to the date of the financial statements were:

Chairman and Independent Non-executive director:

Timothy Patrick McNally ^{R/M/N}

Executive directors:

Tan Sri Dr Chen Lip Keong ^{R/M/N}

Tian Toh Seng ^{R/M/N}

Lee Wing Fatt ^M

David Martin Hodson ^M

Monica Lam Yi Lin

John Pius Shuman Chong

Lew Shiong Loon ^M

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Independent Non-executive directors:

Tun Dato' Seri Abdul Hamid Bin Haji Omar ^{A/R/M/N}

Wong Choi Kay ^{A/M}

Zhou Lian Ji ^{A/R/N}

David Chong Kok Kong (resigned on 22 September 2006)

A: Members of Audit Committee

R: Members of Remuneration Committee

N: Members of Nomination Committee

M: Members of AML Oversight Committee

In accordance with article 87 of the Articles, Tan Sri Dr Chen Lip Keong, Mr. Tian Toh Seng, Mr. Lew Shiong Loon, Mr. Lee Wing Fatt, Mr. David Martin Hodson, Mr. John Pius Shuman Chong, Ms. Monica Lam Yi Lin, Mr. Timothy Patrick McNally, Tun Dato' Seri Abdul Hamid Bin Haji Omar, Ms. Wong Choi Kay and Mr. Zhou Lian Ji shall retire from office by rotation at the annual general meeting and Tan Sri Dr Chen Lip Keong, Mr. David Martin Hodson, Ms. Monica Lam Yi Lin, Mr. Timothy Patrick McNally, Tun Dato' Seri Abdul Hamid Bin Haji Omar, Ms. Wong Choi Kay and Mr. Zhou Lian Ji being eligible, offer themselves for re-election at the annual general meeting. Mr. Tian Toh Seng, Mr. Lew Shiong Loon, Mr. Lee Wing Fatt and Mr. John Pius Shuman Chong do not offer themselves for re-election and accordingly will cease to be Directors on conclusion of the annual general meeting.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The directors who held office at 31 December 2006 had the following interests in the shares of the Company at that date as recorded in the register of directors' and chief executives' interests required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Interests in issued shares

Name of director	Capacity	Number of ordinary shares held	% of total issued ordinary shares
Tan Sri Dr Chen Lip Keong	Beneficial interest in the Company through his interest in Cambodia Development Corporation ("CDC")	161,197,228	7.8
Tan Sri Dr Chen Lip Keong	Personal interest in the Company	1,230,769,876	59.3

Save as disclosed above, as at 31 December 2006, none of the directors of the Company had any interests or short positions in the shares of the Company or any of its subsidiaries as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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SHARE OPTION SCHEME

The Company has a share option scheme which was adopted upon the listing of the Company's shares on The Main Board of the Stock Exchange of Hong Kong Limited on 19 October 2006 (the "Share Option Scheme") whereby the directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up option to subscribe for shares of the Company. The purpose of the scheme is to attract and retain the best personnel and to provide additional incentives to employees and directors to promote the success of the Group.

The Company did not grant any share options during the year and there are no outstanding share options at the year end.

Apart from the foregoing, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as the directors of the Company are aware of, as at 31 December 2006, the shareholders, other than the directors or the chief executives of the Company, who had an interest or short positions in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Substantial shareholders	Number of ordinary shares held	% of total issued ordinary shares
Cambodia Development Corporation #	161,197,228	7.8

The beneficial owner of the Cambodia Development Corporation is Tan Sri Dr Chen Lip Keong

Save as disclosed above and so far as the directors and the chief executives of the Company are aware of, as at 31 December 2006, no other party (other than the directors or the chief executives of the Company) had an interest or short positions in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of these financial statements, the Company has maintained the prescribed public float under the Listing Rules.

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DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the section "Connected Transactions" below, no contracts of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director had a material interest, subsisted at the end of the year or at any time during the year.

PROPERTIES

Particulars of the major properties and property interests of the Group are shown on note 12 of these financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

CONNECTED TRANSACTIONS

During 2006, the Company entered into (or continued to be party to) certain transactions with the First Travel & Tours (M) Sdn Bhd ("FTT"), Karambunai Resorts Sdn Bhd ("KRSB") and Karambunai Corp Bhd. FTT has been providing air ticketing and travel booking services to the Group, primarily in relation to travel between Cambodia and other parts of South East Asia. KRSB has provided accommodation and facilities in Malaysia for the use of the Group. Karambunai Corp Bhd has entered into a lease agreement with the Group for renting an office space in Malaysia. Tan Sri Dr Chen Lip Keong is a controlling shareholder of all three companies and therefore been considered as a connected person.

Although these transactions were "connected transactions" as defined in the Listing Rules, all of them were either sharing of administrative services or de minimis transactions respectively exempted under rules 14A.33(3) of the Listing Rules from all reporting, announcement and independent shareholders' approval requirements.

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MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken in normal courses of business by the Group are set out in note 28 to the financial statements. Those related party transactions which constituted connected transactions under Chapter 14A of the Listing Rules have complied with disclosure requirements thereon.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its Independent Non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive directors to be independent.

By order of the Board

Timothy Patrick McNally

Chairman

Hong Kong,

23 March 2007