Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

(Expressed in United States dollars)

1 PRINCIPAL ACCOUNTING POLICIES

NagaCorp Ltd. (the "Company") is a company incorporated in the Cayman Islands and has its principal place of business at NagaWorld Building, South of Samdech, Hun Sen's Park, Phnom Penh, Kingdom of Cambodia.

The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial statements, which are expressed in United States dollars and rounded to the nearest thousand, are prepared on the historical cost basis.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

The International Accounting Standards Board has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. The adoption of the new and revised IFRSs has no material impact on the financial statements of the Group for the years ended 31 December 2005 and 31 December 2006.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 30).

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB"). The consolidated financial statements are presented in United States dollars, rounded to the nearest thousand, and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated financial statements of the Group have been prepared using the historical cost method.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated financial statements at fair value with changes in fair value recognised in the consolidated income statement as they arise.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

(c) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Casino revenue represents net house takings arising from casino operations and is recognised in the income statement when the stakes are received by the casino and the amounts are paid out to the players.

(ii) Gaming machine revenue represents net winnings from the operation of gaming machine stations, and is recognised in the income statement when the stakes are received and the amounts are paid out to players.

(iii) Income from operating lease for the provision and maintenance of gaming machine stations which comprise a minimum profit share and fixed payments from gaming machine operations where third parties provide and maintain the gaming machine stations is recognised in the income statement in equal instalments over the period of the contract, and any additional revenue relating to profit share arrangements are recognised when the right to receive such amounts is ascertained.

(iv) Income from restaurant represents revenue from the provision of food and beverages and is recognised when the service is provided.

(v) Interest income is recognised as it accrues using the effective interest method.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets

(i) Owned assets

The following items of fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(f)).

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(s)); and

— other items of property, plant and equipment.

Capital work-in-progress is stated at specifically identified cost, including aggregate cost of development, materials and supplies, wages and other direct expenses.

(ii) Leased assets

Leasehold land premiums are amortised in equal instalments over the period of the respective leases.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	50 years
Renovations, furniture and fittings	5 - 10 years
Motor vehicles	5 years
Plant and equipment	5 - 10 years

No depreciation is provided for capital work-in-progress.

(e) Intangible assets

Casino licence premium

The premium paid for the licence, and related exclusivity periods, to operate the casino in Phnom Penh is stated at cost less accumulated amortisation and impairment losses (see note 1(f)).

Amortisation is charged to the income statement on a straight-line basis over the period of exclusivity of the licence.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(g) Consumables

Consumables comprising food and beverage, diesel and sundry store items are stated at the lower of cost and net realisable value, which is determined principally on a weighted average basis.

(h) Trade and other receivables

Trade and other receivables (including amounts due from subsidiaries) are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the effect of discounting is immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Trade and other payables

Trade and other payables (including amounts due to subsidiaries and amount due to a related party) are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at their present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The income tax of the gaming branch of the Company's subsidiary, Naga Resorts & Casinos Limited ("NRCL") represents Obligation Payments (refer to note 7(a)).

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Commissions and incentives

Commissions and incentive expenses represent amounts paid and payable to special tour group ("STG") operators and non-STG operators, and are included in cost of sales when incurred by the Group.

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates ruling at the balance sheet date. Foreign currency transactions during the year are translated into United States dollars at the exchange rates ruling at the transaction dates. The results of foreign enterprises are translated into United States dollars at the average exchange rates for the year; balance sheet items are translated into United States dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves. All other translation differences are included in the income statement.

The Functional currency of the Group has been determined as United States dollars rather than Cambodian Riel, the domiciled currency, on basis that the gaming and other operations transactions are undertaken in United States dollars.

(p) Dividends

Interim dividends are recognised as a liability in the period in which they are declared and special and final dividends are recognised as a liability when shareholder approval has been obtained.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purposes of the financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions that are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment tangible assets that are expected to be used for more than one period.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediates, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the party is subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent or a close family member of such an individual or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence or be influenced by, that individual in their dealings with the entity.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Leased assets

Classification of assets leased to the group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(d)(iii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(f). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(ii) Assets held for use in operating lease

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(d)(iii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(f). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(c)(ii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

2 CASINO LICENCE

Pursuant to the terms of the Sihanoukville Development Agreement ("SDA"), Supplemental Sihanoukville Development Agreement ("SSDA") and the Addendum Agreement, the terms of the casino licence were varied and the salient terms of the casino licence are as follows:

(a) Duration of licence

The casino licence is an irrevocable licence with a duration of 70 years from 2 January 1995. The SSDA also states that should The Royal Government of Cambodia (the "Government"), for any reason, terminate or revoke the licence at any time before its expiry, it will pay Ariston Sdn. Bhd. ("Ariston"), a subsidiary of the Company, the amount of monies invested in the business as agreed investment cost and additional mutually agreed damages for the termination and/or revocation of the casino licence at any time before the expiry of the period.

(b) Exclusivity

Ariston has the right of exclusivity in respect of 200 kilometres of Phnom Penh (except the Cambodia-Vietnam Border Area, Bokor, Kirirom Mountains and Sihanoukville) (the "Designated Area") for the period to the end of 2035. During this period, the Government is prohibited from:

— authorising, licensing or approving the conduct of casino gaming within the Designated Area;

— entering into any written agreement with any party with respect to casino gaming within the Designated Area; and

— issuing or granting any other casino licence.

The SSDA also states that the Government will pay Ariston mutually agreed damages if it terminates or revokes its exclusivity rights at any time prior to the expiry of the period.

(c) Casino complex

Ariston has the right to locate the casino at any premises or complex within the Designated Area and is entitled to operate such games and gaming machines at its own discretion without the need for any approval from the Government. There are no restrictions relating to the operating hours of the casino.

3 REVENUE

Revenue represents net house takings arising from casino operations and income from other operations as follows:

	2006	2005
	$'000	$'000
Casino operations	82,023	62,599
Income from operating lease for the provision and maintenance of gaming machine stations	3,097	1,535
Other operations	292	148
	85,412	64,282

Revenue from other operations comprises income from a food and beverage outlet.

4 OTHER REVENUE

	2006	2005
	$'000	$'000
Interest income	1,589	—
Rental income	82	39
Sundry income	—	14
	1,671	53

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2006	**2005**
	$'000	$'000
(a) Staff costs:		
Salaries, wages and other benefits	7,461	6,044
Contributions to defined retirement scheme	4	8
Total staff costs	7,465	6,052
Average number of employees (Full-time equivalent)	978	938
(b) Other items:		
Auditor's remuneration - audit services (note (a))	309	142
Fuel expenses	905	721
Other taxes (note (b))	86	647
Amortisation of casino licence premium	3,547	1,282
Operating lease charges for properties	205	185
Operating income charges for hire of equipment	43	874
Exchange (gain)/loss	(86)	93

Notes:

(a) In addition to the auditor's remuneration for audit services, the auditor's fees in respect of the initial public offering of the Company amounted to $506,000 (2005: $432,000) which qualified as issue costs and were charged to the share premium account.

(b) Other taxes relate to salary taxes, fringe benefit taxes and withholding taxes.

6 DIRECTORS' REMUNERATION, DIRECTORS' INTERESTS AND SENIOR MANAGEMENT REMUNERATION

(a) Directors' remuneration

The remuneration of the Group's directors is as follows:

	Annual performance bonus	Discretionary bonus	Basic salaries, allowances and benefits in kind	Retirement scheme contributions	2006 Total
	$'000	$'000	$'000	$'000	$'000
Executive Directors					
Tan Sri Dr Chen Lip Keong	697	—	240	—	937
Tian Toh Seng	—	—	134	—	134
Lee Wing Fatt	—	—	127	—	127
David Martin Hodson	—	—	51	—	51
Monica Lam Yi Lin	—	—	43	2	45
Lew Shiong Loon	—	98	96	—	194
Independent Non-executive Directors					
Timothy Patrick McNally	—	—	51	—	51
Wong Choi Kay	—	—	26	—	26
Total	697	98	768	2	1,565

6 DIRECTORS' REMUNERATION, DIRECTORS' INTERESTS AND SENIOR MANAGEMENT REMUNERATION (continued)

(a) Directors' remuneration (continued)

The remuneration of the Group's directors is as follows: (continued)

	Annual performance bonus	Discretionary bonus	Basic salaries, allowances and benefits in kind	Retirement scheme contributions	2005 Total
	$'000	$'000	$'000	$'000	$'000
Executive Directors					
Tan Sri Dr Chen Lip Keong	—	—	240	—	240
Tian Toh Seng	—	—	134	—	134
Lee Wing Fatt	—	—	127	—	127
David Martin Hodson	—	—	47	—	47
Monica Lam Yi Lin	—	—	43	2	45
Lew Shiong Loon	—	—	96	—	96
Independent Non-executive Directors					
Timothy Patrick McNally	—	—	47	—	47
Wong Choi Kay	—	—	24	—	24
Total	—	—	758	2	760

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current and prior year.

An analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2006 Number of individuals	**2005 Number of individuals**
Not more than $50,000	2	4
$50,001 - $100,000	2	1
$100,001 - $150,000	2	2
$150,001 - $200,000	1	—
$200,001 - $250,000	—	1
Over $250,000	1	—
	8	8

(Expressed in United States dollars)

6 DIRECTORS' REMUNERATION, DIRECTORS' INTERESTS AND SENIOR MANAGEMENT REMUNERATION (continued)

(a) Directors' remuneration (continued)

There were no emoluments paid during the current year or prior year to former directors in connection with their retirement from the Group. There were no amounts paid during the current year or prior year to directors as an inducement to join or upon joining the Group and no director waived any emoluments.

Tan Sri Dr Chen Lip Keong is entitled to an annual performance bonus based on the Group's consolidated profit before tax and before the annual performance bonus ("PBT") as reported in the Company's consolidated audited financial statements which shall be paid within one month of the approval of the consolidated financial statements. The performance bonus is calculated in accordance with the following formula:

Less than $30 million PBT	:	$Nil performance bonus
Between $30 million to $40 million PBT	:	performance bonus of 2% PBT
More than $40 million but up to and including $50 million	:	performance bonus of $0.8 million plus 3% of additional portion of PBT from $40,000,001 to $50,000,000
More than $50 million	:	performance bonus of $1.1 million plus 5% of additional portion of PBT from $50,000,001 onwards

(b) Directors' interests

An analysis of directors' interests by director is as follows:

	Beneficially owned ordinary shares in NagaCorp Ltd.	
	2006	**2005**
Tan Sri Dr Chen Lip Keong (refer to note 29)	1,391,967,104	1,136,120,510

No other director was the beneficial owner of the Company's ordinary shares during the current year or prior year.

There was no share options issued to directors under the Company's share option scheme.

6 DIRECTORS' REMUNERATION, DIRECTORS' INTERESTS AND SENIOR MANAGEMENT REMUNERATION (continued)

(c) Senior management remuneration

Of the eighteen individuals at 31 December 2006 (2005: ten) with the highest emoluments, eight as at 31 December 2006 (2005: eight) are directors whose emoluments are disclosed in note 6(a). The aggregate of the emoluments in respect of the other ten individuals as at 31 December 2006 (2005: two) are as follows:

	2006	2005
	$'000	$'000
Basic salaries, housing and other allowances and benefits in kind	731	225
Retirement scheme contributions	—	—
Discretionary bonus	28	—
	759	225

The emoluments of the ten individuals as at 31 December 2006 (2005: two) with the highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
Not more than $50,000	1	—
$50,001 - $100,000	6	—
$100,001 - $150,000	3	2
$150,001 - $200,000	—	—
	10	2

7 INCOME TAX

Income tax in the income statement represents:

	2006	2005
	$'000	$'000
Current tax expense (note (a))	1,521	1,352

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2006	2005
	$'000	$'000
Profit before taxation	34,139	26,293
Profits tax using Cambodian corporation tax rate	6,828	5,259
Tax exempt profits from Cambodian operations (note (a))	(6,826)	(5,257)
Obligation payments (note (a))	1,519	1,350
Actual tax expense	1,521	1,352

Notes:

(a) Income tax in the income statement

Income tax represents obligation payments of $126,563 (2005: $112,500) per month payable to the Ministry of Economy and Finance ("MOEF") of Cambodia payable by NRCL Gaming Branch as explained below and minimum profits tax of $1,966 (2005: $1,840) for the NRCL Hotel and Entertainment Branch.

(i) Casino tax and licence fees

As described in note 2, under the Sihanoukville Development Agreement ("SDA") and the Supplementary Sihanoukville Development Agreement ("SSDA") dated 2 January 1995 and 2 February 2000 respectively, the Royal Government of Cambodia ("the Government") has granted a casino licence to a subsidiary, Ariston, which in turn assigned the rights to operate gaming activities in Cambodia to NRCL.

Pursuant to the SDA, Ariston was granted certain tax incentives in respect of the casino operations which include a profits tax exemption for a period of eight years from commencement of business, and profits thereafter would be subject to a concessionary rate of profits tax of 9% as compared to the normal profits tax rate of 20%. Ariston, in turn, has assigned to NRCL all the tax incentives that had been granted to Ariston pursuant to the SDA and SSDA relating to the gaming operations. The assignment of these tax incentives was confirmed by the Senior Minister, Minister in charge of the Council of Ministers, in a letter dated 20 November 2000.

It was contemplated by the SSDA, that the gaming business of NRCL would be regulated by a Casino Law which may prescribe casino taxes and licence fees. However, no Casino Law in respect of casino taxes or licence fees has been promulgated to-date. NRCL has obtained a legal opinion that no casino taxes and licence fees are payable until the relevant legislation is enacted.

7 INCOME TAX (continued)

(a) Income tax in the income statement (continued)

(i) Casino tax and licence fees (continued)

In May 2000, the MOEF levied an "Obligation Payment" of $60,000 per month on NRCL Gaming Branch payable from January 2000 to December 2003, in respect of the gaming activities. The MOEF has also confirmed that gaming taxes and licence fees are not payable in respect of periods prior to January 2000. NRCL has also obtained a legal opinion confirming that the Obligation Payment is not payable prior to January 2000. In December 2003, the MOEF revised the Obligation Payment from $60,000 per month to $100,000 per month for the year ended 31 December 2004, $112,500 per month for the year ended 31 December 2005 and $126,563 per month for the year ended 31 December 2006.

Such payments will be subject to an annual increase of 12.5% thereafter until the full completion of NagaWorld. On 13 November 2006, the MOEF revised the terms of the increase in the Obligation Payments with NRCL and agreed a 12.5% annual increase for a period of seven years to 2013.

In addition, the MOEF has levied a new casino taxation certificate amounting to $30,000 per year payable from year 2004 onwards. However, the MOEF in their letter dated 12 November 2004 acknowledges that under the SDA and SSDA, the casino licence is valid for 70 years.

Monthly payment for the Obligation Payment are due on the first week of the following month. In the event of late payment within 7 days from the due date, there will be a penalty imposed of 2% on the late payment and 2% of interest per month. In addition, after 15 days of official government notice to the Company for the late payment an additional penalty of 25% will be imposed.

During 2004 and 2005, the Group and the Government were in discussions on the settlement of outstanding Gaming and non-Gaming Obligation Payments and their related tax penalties and late payment interest for the period to 31 December 2005.

On 11 May 2006, the Government formally confirmed the settlement terms of outstanding taxes for the period to 31 December 2005 in respect of outstanding Gaming Obligation Payments and non-Gaming Obligation Payments, and their related tax penalties and late payment interest. The Government confirmed that no additional penalties were due to the Government in respect of the year ended 31 December 2005 and that an additional $89,000 of late payment interest is due in respect of outstanding Gaming Obligation Payments and non-Gaming Obligation Payments for the year ended 31 December 2005 and on the previously agreed instalments in accordance with an agreement between the Group and Government dated 12 November 2004 in respect of Gaming Obligation Payments, non-Gaming Obligation Payments and their related penalties and late payment interest for the period ended 31 December 2004.

The outstanding Gaming Obligation Payments and non-Gaming Obligation Payments, and their related tax penalties and late payment interest for 2005, and the outstanding instalments in accordance with the agreement dated 12 November 2004 were settled by the Group in instalments from May to September 2006. The additional late payment interest that the Government formally confirmed on 11 May 2006 has been charged to the income statement during the year ended 31 December 2005.

(ii) Corporate and other taxes on gaming activities

Current tax expense represents Obligation Payments for NRCL Gaming Branch as explained above and minimum profits tax for the Hotel and Entertainment Branch.

NRCL Gaming Branch enjoys certain tax incentives relating to gaming activities which were granted by the Royal Government of Cambodia in the SDA and SSDA, including exemption from corporate tax for eight years. Further tax incentives and extension of the corporate tax exemption period to December 2004 were granted to NRCL, as set out in the letters from the MOEF dated 10 May 2000, 15 September 2000 and 30 November 2000. The tax incentives granted to NRCL up to December 2005 include exemptions from all categories of taxes in respect of gaming activities including advance profits tax, dividend withholding tax, minimum profits tax, value-added-tax and revenue tax, and exemptions from unpaid fringe benefits tax and withholding tax up to 31 December 1999.

7 INCOME TAX (continued)

(a) Income tax in the income statement (continued)

(ii) Corporate and other taxes on gaming activities (continued)

NRCL has further obtained a clarification letter from the MOEF dated 24 February 2003 confirming exemption from salary tax for its gaming employees prior to January 2000.

As explained in note 7(a)(i) above in respect of gaming activities, NRCL has to pay the Obligation Payment. The MOEF confirmed, in a letter to NRCL dated 15 September 2000, clarifying that the Obligation Payment is a fixed gaming tax and with the payment of this fixed gaming tax, NRCL will be exempted from all category of taxes on gaming activities including advance profits tax, minimum tax and advance tax on distribution of dividends. NRCL, however, is obliged to pay taxes on other non-gaming services and activities payable under the law of taxation of Cambodia.

Furthermore, the Senior Minister of the Minister of the MOEF in a circular to all casinos dated 7 December 2000 clarified that with the payment of the Obligation Payment on gaming activities, companies will be exempted from the profits tax, minimum tax, advance tax on dividend distribution and value added tax.

A legal opinion has also been obtained confirming that NRCL will be exempt from the aforementioned taxes subject to the Obligation Payments being made.

With the imposition of the Obligation Payment or fixed gaming tax currently imposed, no Casino Law in respect of casino taxes and licence fees have been promulgated and together with the tax incentives mentioned in the SDA and SSDA that NRCL would enjoy a concessionary rate of profits tax of 9% after the tax exemption period has expired, it is uncertain what applicable rate of tax will be imposed on the profits of NRCL from gaming activities in the future when the Casino Law is eventually promulgated.

In July 2002, the MOEF imposed a non-gaming Obligation Payment on NRCL Gaming Branch in respect of tax on non-gaming activities of a fixed sum of $30,500 per month for the six months ended 31 December 2002. For the two years ended 31 December 2004, the non-gaming Obligation Payment was revised from $30,500 per month to $31,000 per month. In November 2004, the MOEF revised the non-gaming Obligation Payment from $31,000 per month to $34,875 per month for the year ended 31 December 2005 and in December 2005, the MOEF revised the non-gaming Obligation Payment to $39,235 per month for the year ended 31 December 2006. The monthly rate of non-gaming Obligation Payment will be reviewed annually according to circumstances.

The above non-gaming Obligation Payment is considered as representing various other taxes such as salary tax, fringe benefit tax, withholding tax and value-added tax which are included in operating expenses in the income statement. The non-gaming Obligation Payment is due to be paid monthly and in the event of default in payment, the penalties imposed are similar to the Gaming Obligation Payment penalties as stated in note 7(a)(i) above and arrears and related penalties and interest are similar to the Gaming Obligation Payments as stated in note 7(a)(i) above.

(b) Taxes on other businesses

NRCL Hotel and Entertainment Branch that owns NagaWorld has been granted tax incentives by the Council for the Development of Cambodia ("CDC") and the profits from the Branch will be taxed at 9% up to March 2008. Thereafter the profits from the Branch will be subject to normal profits tax of 20%. The Branch is required to pay a minimum profits tax of 1% of turnover in the event of a loss for the year or when the profits tax levied on the profits is less than the minimum profits tax. The CDC has also approved exemption from import duty on materials and equipment imported for the construction of NagaWorld.

Profits from NRCL's operations in Cambodia, other than Gaming and Hotel and Entertainment branches, are subject to normal profits tax of 20%. Revenue from the NRCL's other operations in Cambodia is subject to value-added tax of 10%.

7 INCOME TAX (continued)

(c) Amendments to the Law on Investment and Law of Taxation

Certain amendments to the existing Law on Investment ("LoI") and Law of Taxation ("LoT") of Cambodia were promulgated in March 2003.

Under the amendments made to the LoI, profits tax exemption would be preserved for the term granted under the original investment incentives, and the concessionary 9% profits tax rate will be restricted to five years from the expiry of the tax exemption period and thereafter profits would be subject to the normal tax rate of 20%.

Under the previous LoT, dividends can be distributed to shareholders without further withholding taxes. For entities that enjoy profits tax exemption or a concessionary profits tax rate of 9%, the amendments to the LoT will impose an additional tax that effectively increases the profits tax rate to 20%, upon the distribution of dividends. In addition, under the amendments made to the LoT, distribution of dividends to non-residents will be subject to a withholding tax on the distribution net of 20% tax at a rate of 14%, resulting in a net distribution tax of 31.2%.

As explained above, the Casino Law in respect of casino taxes and licence fees is yet to be promulgated. NRCL has written a letter to the MOEF to clarify whether the amendments of the LoI and LoT will apply to their gaming business and has received a reply dated 9 June 2003 that the amendments of the LoI and LoT do not apply to casinos as they will be regulated by the Casino Administration Law which has yet to be enacted. However, the amendments to the LoI and LoT will apply to NRCL's Hotel and Entertainment Branch.

(d) Deferred taxation

No provision for deferred taxation has been recognised as the Group has no significant deferred tax assets or liabilities at the balance sheet date.

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $16,317,000 (2005: $22,283,000) which has been dealt with in the financial statements of the Company.

9 DIVIDENDS

	2006	2005
	$'000	$'000
Interim dividends declared and paid:		
2005: US cents 1.67 per ordinary share	—	20,737
2006: US cents 1.25 per ordinary share	18,000	—
Special dividend proposed after the balance sheet date of US cents 0.48 per ordinary share (2005: US cents Nil per ordinary share)	10,000	—
	28,000	20,737

The interim dividend of $18,000,000 relating to the year ended 31 December 2006 was declared and paid on 31 May 2006.

The special dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The directors do not recommend the payment of a final dividend.

(Expressed in United States dollars)

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $32,618,000 (2005: $24,941,000) and the weighted average number of 1,541,048,745 (2005: 1,297,667,589) ordinary shares in issue during the year.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2005 and 2006.

The weighted average number of ordinary shares are as follows:

	2006	**2005**
At 1 January	1,297,667,589	1,240,000,080
Effect of shares issued to Tan Sri Dr Chen Lip Keong in settlement of US$55 million due to a related party *(note 28)*	126,942,800	—
Effect of capitalisation issue *(note 22)*	—	57,667,509
Effect of initial public offering *(note 22)*	116,438,356	—
At 31 December	1,541,048,745	1,297,667,589

11 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segment. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Business segments

	Casino operations	Corporate and hotel and entertainment operations	Total
	$'000	$'000	$'000
Revenue from external customers:			
Year ended 31 December			
2005	64,134	148	64,282
2006	85,121	291	85,412
Segment profit/(loss) from operations:			
Year ended 31 December			
2005	28,453	(2,160)	26,293
2006	38,748	(4,609)	34,139
Segment assets:			
31 December 2005	114,299	35,887	150,186
31 December 2006	116,915	131,060	247,975
Segment liabilities:			
31 December 2005	(123,792)	(5,098)	(128,890)
31 December 2006	(8,507)	(3,586)	(12,093)
Total net assets/(liabilities):			
31 December 2005	(9,493)	30,789	21,296
31 December 2006	108,408	127,474	235,882

Revenue and profit from "the hotel and entertainment operations" comprise income from the operation of a food and beverage outlet and restaurant. In addition to assets employed for the operation of the food and beverage outlet and restaurant, the assets of "the hotel and entertainment operations" also include leasehold land and capital work-in-progress for the NagaWorld project in Phnom Penh.

All activities and net assets relate to continuing operations.

11 SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Cashflows from operating and investing activities can be analysed as follows:

	Casino operations	Corporate and Hotel and entertainment operations	Total
	$'000	$'000	$'000
Cashflow generated from/(used in) operating activities:			
31 December 2005	29,770	(4,722)	25,048
31 December 2006	(77,888)	(14,447)	(92,335)
Cashflow (used in)/generated from investing activities:			
31 December 2005	(123)	671	548
31 December 2006	(514)	(10,976)	(11,490)

All cashflows relate to continuing operations.

(b) Geographical segments

The Group's operations and activities are located entirely in Cambodia.

(c) Discontinued operations

There are no discontinued operations during the current year and prior year and there are no net assets relating to discontinued operations as at 31 December 2005 and 2006.

12 FIXED ASSETS

(a) The Group

	Plant and equipment	Buildings	Capital work-in–progress	Renovations furniture and fittings	Motor vehicles	Sub-total	Interest in leasehold land held for own use under operating lease	Total
	$'000	$'000	$'000 (note (a))	$'000	$'000	$'000	$'000 (note (b))	$'000
Cost:								
At 1 January 2005	4,633	2,511	26,809	526	330	34,809	751	35,560
Additions	97	—	3,497	2	125	3,721	—	3,721
Transfer	—	700	(783)	83	—	—	—	—
Disposals	(12)	—	—	—	(88)	(100)	—	(100)
At 31 December 2005	4,718	3,211	29,523	611	367	38,430	751	39,181
At 1 January 2006	4,718	3,211	29,523	611	367	38,430	751	39,181
Additions	587	—	12,534	2	—	13,123	—	13,123
Transfer	—	595	(641)	46	—	—	—	—
Disposals	(45)	—	—	—	—	(45)	—	(45)
At 31 December 2006	5,260	3,806	41,416	659	367	51,508	751	52,259
Accumulated depreciation:								
At 1 January 2005	3,404	66	—	275	269	4,014	55	4,069
Charge for the year	208	57	—	31	49	345	11	356
Disposals	(6)	—	—	—	(75)	(81)	—	(81)
At 31 December 2005	3,606	123	—	306	243	4,278	66	4,344
At 1 January 2006	3,606	123	—	306	243	4,278	66	4,344
Charge for the year	218	73	—	40	32	363	11	374
Disposals	(1)	—	—	—	—	(1)	—	(1)
At 31 December 2006	3,823	196	—	346	275	4,640	77	4,717
Net book value:								
At 31 December 2006	1,437	3,610	41,416	313	92	46,868	674	47,542
At 31 December 2005	1,112	3,088	29,523	305	124	34,152	685	34,837

12 FIXED ASSETS (continued)

(a) The Group (continued)

Notes:

The net book value of assets held under finance leases of the Group was $13,000 (2005: $16,000), and depreciation of $3,000 (2005: $1,000) was charged during the year.

(a) Capital work-in-progress at net book value relates to the following assets under construction:

	The Group	
	2006	**2005**
	$'000	$'000
Hotel and casino complex, Cambodia	41,416	29,523

The hotel and casino complex in Cambodia, known as NagaWorld, is being constructed on land held under a lease expiring on 31 July 2066. The premium paid to obtain the lease of $751,000 is included within land and improvements at its amortised cost.

(b) Interest in leasehold land held for own use under operating lease is located as follows:

	The Group	
	2006	**2005**
	$'000	$'000
Cambodia	674	685

The land has a remaining leasehold period expiring on 31 July 2066. The lease is undertaken between NRCL and the Municipality of Phnom Penh, Cambodia.

(c) The Group

A surplus of approximately $10,251,000 arising as a result of an independent valuation of the Group's property as at 31 July 2006 carried out by C B Richard Ellis has not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2006. It is the Group's policy to state its fixed assets at cost less accumulated depreciation and impairment loss in accordance with International Accounting Standard 16 "Property, plant and equipment" issued by the International Accounting Standards Board. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately $205,000 would be incurred.

12 FIXED ASSETS (continued)

(b) The Company

	Plant and equipment
	$'000
Cost:	
At 1 January 2005 and 31 December 2005	3
At 1 January 2006 and 31 December 2006	3
Accumulated depreciation:	
At 1 January 2005	—
Charge for the year	1
At 31 December 2005	1
At 1 January 2006	1
Charge for the year	2
At 31 December 2006	3
Net book value:	
At 31 December 2006	—
At 31 December 2005	2

13 INTANGIBLE ASSETS

	The Group	
	2006	**2005**
	$'000	$'000
Casino licence premium and extended exclusivity premium, at cost:		
At beginning year	108,000	3,000
Additions	—	105,000
At end of year	108,000	108,000
Less amortisation:		
At beginning of year	2,782	1,500
Charge for year	3,547	1,282
At end of year	6,329	2,782
Net book value	101,671	105,218

During the prior year Ariston entered into an Addendum Agreement which extended the exclusivity period of the Casino Licence for the period to the end of 2035 in consideration of $105 million. Refer to note 2 in respect of the Casino Licence and note 28 for the purchase of the extended exclusivity period.

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	**2005**
	$'000	$'000
Unlisted shares, at cost	15,500	15,500

(Expressed in United States dollars)

14 INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Place of business	Particulars of issued and paid up share capital	Effective equity held by the Company	Effective equity held by a subsidiary	Principal activities
NagaCorp (HK) Limited *	Hong Kong	Hong Kong	10,000 shares of HK$1 each	100%	—	Investment holding
Naga Resorts & Casinos Limited * @	Hong Kong	Cambodia	78,000,000 shares of HK$1 each	—	100%	Gaming, hotel and entertainment operations
Ariston Sdn. Bhd. #	Malaysia	Malaysia & Cambodia	56,075,891 shares of RM1 each	—	100%	Holds casino licence and investment holding
Neptune Orient Sdn. Bhd. #	Malaysia	Malaysia & Cambodia	250,000 shares of RM1 each	—	100%	Inactive
Ariston (Cambodia) Limited #	Cambodia	Cambodia	1,000 shares of KHR 120,000 (equivalent of US$31) each	—	100%	Inactive

The class of shares held is ordinary.

* The financial statements of these subsidiaries were audited by KPMG Hong Kong for each of the years covered by these financial statements.

\# The financial statements of these subsidiaries were audited by other member firms of KPMG International for each of the years covered by these financial statements.

@ The Gaming branch and Hotel and Entertainment branches of Naga Resorts & Casinos Limited were audited by other member firms of KPMG International for each of the years covered by these financial statements.

15 CONSUMABLES

Consumables comprise food and beverage, diesel and sundry store items.

16 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Trade receivables	8,351	7,467	338	—
Other receivables, deposits and prepayments (note)	3,940	2,136	2,335	1,729
Amounts due from subsidiaries (note 18)	—	—	136,364	13,375
Less: Allowance for doubtful debts	(159)	(159)	—	—
	12,132	9,444	139,037	15,104

Note: Included in other receivables, deposits and prepayments at 31 December 2005 were costs of $1,730,000 incurred in relation to the Company's proposed initial public offering which in 2006 have been offset against the proceeds within the share premium account.

Trade receivables (net of allowance for doubtful debts) expected to be recovered within twelve months from the balance sheet date are debtors with the following ageing analysis:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Current	5,635	6,268	13	—
1 to 3 months overdue	1,156	72	325	—
More than 3 months overdue	1,401	968	—	—
	8,192	7,308	338	—

The Group's credit policy is set out in note 27(c).

17 DEPOSIT PAYMENTS FOR THE PURCHASE OF RAW MATERIALS

	2006	2005
	$'000	$'000
Deposit payments for the purchase of raw materials	8,312	—

The deposit payments for the purchase of raw materials relate to deposits made for the purchase of materials for the construction of NagaWorld.

The materials have not been received by NRCL at the year end. It is anticipated that the materials will be used in the construction of NagaWorld within one year.

18 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	The Company	
	2006	2005
	$'000	$'000
Amounts due from Ariston Sdn. Bhd.	104,989	—
Amounts due from NagaCorp (HK) Ltd.	31,375	13,375
	136,364	13,375
Amounts due to Naga Resorts & Casinos Limited	(11,071)	(10,133)

19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Trade payables	1,397	2,248	531	1,020
Deferred income	—	2,465	—	—
Unredeemed casino chips	3,641	4,635	—	—
Deposits	60	1,060	—	—
Construction creditors	1,365	647	—	—
Amount due to Ariston Holdings Sdn. Bhd. (note (a))	—	105,000	—	—
Non-gaming obligation payments and other taxes (note (b))	804	1,509	—	—
Tax penalties and late payment interest	939	1,622	—	—
Other creditors and accruals	1,767	2,811	907	136
Dividends payable	—	2,025	—	2,025
Amounts due to subsidiaries (note 18)	—	—	11,071	10,133
	9,973	124,022	12,509	13,314

Notes:

(a) The amount due to Ariston Holdings Sdn. Bhd., a company controlled by the ultimate controlling shareholder, of $105 million as at 31 December 2005 related to the acquisition of the extended exclusivity period of the gaming licence (refer to notes 13 and 28). The amount due to Ariston Holdings Sdn. Bhd. is unsecured, interest-free and repayable on demand. The amount due to Ariston Holdings Sdn. Bhd. has been settled during 2006 (refer to note 28) which comprised a cash contribution of $55 million and the issue of 202,332,411 ordinary shares in the company with a fair value of $50 million.

(b) Other taxes relate to salary taxes, fringe benefit taxes and withholding taxes.

Included in trade and other payables are trade creditors with the following ageing analysis as of balance sheet date:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Due within 1 month or on demand	118	86	22	3
Due after 1 month but within 3 months	477	31	477	31
Due after 3 months but within 6 months	1	134	1	134
Due over 6 months	801	1,997	31	852
Total	1,397	2,248	531	1,020

20 PROVISIONS

	The Group Litigation
	$'000
Balance at 1 January 2005	2,096
Provisions made during the year	—
Balance at 31 December 2005	2,096
Balance at 1 January 2006	2,096
Provisions made during the year	—
Balance at 31 December 2006	2,096
Non-current	—
Current	2,096
	2,096

Litigation

The provision for litigation relates to the winnings of a Specialised Tour Group ("ST Group"), who had allegedly resorted to cheating. Refer to note 25(b) for further details.

21 OBLIGATIONS UNDER FINANCE LEASES

The Group had obligations under finance leases repayable as follows:

	The Group					
	2006			2005		
	Principal	Interest	Payments	Principal	Interest	Payments
	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	2	1	3	3	1	4
Between one and five years	11	2	13	10	1	11
After 5 years	—	—	—	5	1	6
	13	3	16	18	3	21

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

(Expressed in United States dollars)

22 CAPITAL AND RESERVES

(a) The Group

	Share capital	Share premium	Reserve on consolidation	Capital contribution reserve	Exchange Reserve	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2005	15,500	—	(12,812)	568	—	13,836	17,092
Profit for the year	—	—	—	—	—	24,941	24,941
Interim dividend declared	—	—	—	—	—	(20,737)	(20,737)
At 31 December 2005	15,500	—	(12,812)	568	—	18,040	21,296
At 1 January 2006	15,500	—	(12,812)	568	—	18,040	21,296
Issue of shares	9,717	135,198	—	—	—	—	144,915
Capital contribution	—	—	—	55,000	—	—	55,000
Capitalisation issue	721	(721)	—	—	—	—	—
Profit for the year	—	—	—	—	—	32,618	32,618
Interim dividend declared	—	—	—	—	—	(18,000)	(18,000)
Exchange adjustments	—	—	—	—	53	—	53
At 31 December 2006	25,938	134,477	(12,812)	55,568	53	32,658	235,882

(b) The Company

	Share capital	Share premium	Capital contribution reserve	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2005	15,500	—	—	246	15,746
Profit for the year	—	—	—	22,283	22,283
Interim dividend declared	—	—	—	(20,737)	(20,737)
At 31 December 2005	15,500	—	—	1,792	17,292
At 1 January 2006	15,500	—	—	1,792	17,292
Issue of shares	9,717	135,198	—	—	144,915
Capital contribution	—	—	55,000	—	55,000
Capitalisation issue	721	(721)	—	—	—
Profit for the year	—	—	—	16,317	16,317
Interim dividend declared	—	—	—	(18,000)	(18,000)
At 31 December 2006	25,938	134,477	55,000	109	215,524

22 CAPITAL AND RESERVES (continued)

(c) Share capital

(i) Authorised:

	2006	2005
	$'000	$'000
8,000,000,000 ordinary shares of $0.0125 each	100,000	100,000

(ii) Issued and fully paid:

	2006		2005	
	Number of shares	$'000	Number of shares	$'000
At 1 January	1,240,000,080	15,500	1,240,000,080	15,500
Shares issued during the year	777,332,411	9,717	—	—
Capitalisation issue	57,667,509	721	—	—
At 31 December	2,075,000,000	25,938	1,240,000,080	15,500

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(iii) Shares issued during the year

On 11 May 2006, the Company issued 202,332,411 ordinary shares of $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 $50 million of which $2,529,155 was the par value of the ordinary shares issued and $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 $105,416,667 of which $7,187,500 was the par value of the ordinary shares issued, $98,229,167 was the premium on the issue of the ordinary shares and $10,501,799 was the issue costs.

(iv) Capitalisation issue

On 4 October 2006, an amount of $720,844 standing to be credit of the share premium account was applied in paying up in full 57,667,509 ordinary shares of $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.

(v) Capital contribution

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

22 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following that date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts and they fall due in the ordinary course of business.

(ii) Reserve on consolidation

The reserve on consolidation relates to the pooling of interests under the share swap agreement between, amongst others, Starling Trading Limited, Medallion Asian Fund, the Company and the then sole ultimate controlling shareholder dated 6 June 2003 under which the share capital of the subsidiaries was classified as a reserve on consolidation.

(iii) Capital contribution reserve

The capital contribution reserve comprises the fair value of assets contributed to the Company by the ultimate controlling shareholder.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(e) Distributable reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $55.1 million of which $55 million related to the capital contribution reserve to which the directors of the Company have no current intention of distributing.

After the balance sheet date, the directors proposed a final dividend of 0.48 cents per ordinary share (2005: US cents Nil per share) amounting to $10 million (2005: $Nil), after the Company received a dividend from its subsidiary of $10 million. The dividend has not been recognised as a liability at the balance sheet date.

23 LEASE COMMITMENTS

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	$'000	$'000	$'000	$'000
Within one year	472	185	287	—
After one year but within five years	1,428	742	673	—
After five years	13,507	13,705	—	—
	15,407	14,632	960	—
Land in Phnom Penh for hotel and entertainment complex (note)				
Within one year	170	185	—	—
After one year but within five years	703	742	—	—
After five years	13,507	13,705	—	—
	14,380	14,632	—	—

Significant leasing arrangements in respect of land held under operating leases are described in note 12.

Note: Hotel and entertainment complex, Phnom Penh

The Group has entered into lease arrangements in respect of land in Phnom Penh, Cambodia which forms the site for the NagaWorld hotel and entertainment complex with integrated casino facilities currently under construction. The lease agreement is for a period of seventy years and does not include any provisions for renewal upon expiry or contingent rentals. Provisions for periodic adjustments to reflect market rentals are included in the lease agreement and in the commitments shown above.

24 CAPITAL COMMITMENTS

The Group had the following capital commitments as at each balance sheet date:

	The Group	
	2006	**2005**
	$'000	$'000
Hotel and casino complex, Phnom Penh		
– contracted but not incurred	8,890	6,128
– authorised but not contracted	33,035	55,547
	41,925	61,675

The capital commitments relating to the NagaWorld project are expected to be incurred over two years in accordance with a phased construction plan.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

(Expressed in United States dollars)

25 LITIGATION

(a) Use of vessel

NRCL operated its casino until 30 September 2003 on a vessel rented from Punca Rahmat Sdn Bhd ("Punca"), a company incorporated in Malaysia. NRCL relocated its casino business from the vessel to the land based NagaWorld complex on 1 October 2003.

Punca leased the vessel from the vessel owner, a company incorporated in Singapore. Punca and the owner were in dispute with regard to extension of the charter and new charter fees. The owner on 3 September 2001, through its solicitors, issued a notice to Punca to terminate the lease.

The dispute between Punca and the owner has not disrupted the operations of the casino of NRCL and is not expected to do so in the future as NRCL's operations have moved from the vessel to the land based NagaWorld Complex on 1 October 2003.

NRCL has also received confirmation from Punca that NRCL will not be liable for any amount incurred by Punca in the settlement of the dispute with the owner beyond the agreed lease rental payable to Punca.

(b) ST group cheating case

A Specialised Tour Group ("ST group") comprising 20 members won approximately $2 million during the period from 23 April 2003 to 25 April 2003. Based on the information provided and review of internal security records, the Group believes the ST group may have resorted to cheating in gambling. Therefore, NRCL withheld the money and lodged a report to the Cambodia local court.

NRCL has lodged a report to the Cambodia Ministry of Interior's Police Headquarters and an order was issued by police in Cambodia to NRCL to withhold payment of monies to the ST group until their investigations were completed. On 11 June 2003, a charge warrant was issued by the Prosecutor of the Phnom Penh Municipal Court against certain ST group members. On 12 June 2003, the Phnom Penh Municipal Court issued an order temporarily restraining the company from making the $2 million payment to the ST group until completion of the Phnom Penh Municipal Court's investigations.

In July 2003, the ST group members obtained a discharge warrant from the Phnom Penh Municipal Court discharging them from the criminal charges, and obtained a further warrant from the Phnom Penh Municipal Court cancelling their earlier order that restrained NRCL from making payment to the ST group. NRCL has filed an appeal in the Cambodia Appeal Court against both warrants.

NRCL has commenced a civil action in the Phnom Penh Municipal Court against the ST group members in respect of the disputed amount. On 29 August 2003, the Court of Appeal issued a warrant temporarily suspending the requirements of NRCL from paying the $2 million to the ST group members, pending the judgement of the Cambodia Appeal Court. NRCL has since, on 4 August 2003, received a further demand for the outstanding sum and has been threatened with possible legal action and publicity of the incident.

At this juncture, NRCL has no obligation to pay the withheld money and compensate the ST group for legal costs. However a provision has been made for the ST group's winnings as set out in note 20.

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted upon listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited on 19 October 2006 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company.

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

27 RISK MANAGEMENT

(a) Financial risk management objectives and policies

Exposures to political and economic risks, credit, interest rate and currency risk arise in the normal course of the Group's business. The Group has risk management policies and guidelines which set out its overall business strategies, its tolerance of risk and its general risk management philosophy and has established processes to monitor and control the hedging of transactions in a timely and accurate manner. Such policies are regularly reviewed by the board of directors, and regular reviews will be undertaken to ensure that the Group's policy guidelines are adhered to.

(b) Political and economic risks

The Group's activities are carried out in the Kingdom of Cambodia, a country which, until recently, has had a history of political instability. While the political climate has been more stable in recent years, its political and legal frameworks are still evolving and the economic and legal environments may change significantly in the event of a change of government. Although the Royal Government of Cambodia ("Government") has been pursuing reform policies in recent years, no assurance can be given that the Government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the Government's pursuit of reforms will be consistent or effective. Changes in laws on taxation and investment and in policies affecting the industry in which the Group operates could have a significant negative effect on its operating results and financial condition. The Group has political risk insurance to partially mitigate its exposure to the political and economic risk of its operations in Cambodia.

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date, the Group has a certain concentration of credit risk at 61% (2005: 57%) of the total trade and other receivables that was due from the five largest STG operators.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

27 RISK MANAGEMENT (continued)

(d) Interest rate risk

To date the Group's funding requirements have largely been met by cash flows generated from its operations. In respect of income from monetary assets, the effective interest and term are as follows:

	2006 Effective interest rate		2005 Effective interest rate	
	%	$'000	%	$'000
Fixed term deposits of 7 days or less	5%	73,461	—	—

(e) Foreign currency risk

The Group's income is principally earned in United States dollars ("US dollars"). The Group's expenditure is principally paid in US dollars and to a lesser extent in Cambodian riels. The Group does not therefore have 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.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values at the balance sheet date because of their short term maturity.

28 RELATED PARTY TRANSACTIONS

Significant transactions entered into between the Group, its related companies and controlling shareholder are as follows:

Advances to the controlling shareholder

NRCL has made certain advances to the controlling shareholder. The advances were non-trade in nature, on an interest-free and unsecured basis with no fixed terms of repayment. The amounts due from the controlling shareholder at each year end have been offset against the dividend payable to the controlling shareholder. The advances were settled in full on 31 August 2006.

Settlement of dividend payable to the controlling shareholder

On 24 August 2006, $1,571,000 of the $16,724,000 due to the controlling shareholder was settled by the assignment of $1,571,000 trade receivables due to the Company's subsidiary, NRCL, to the controlling shareholder.

Expenses

	2006	2005
	$'000	$'000
Travel expenses (note)	113	130

Note: The Group has used a related party for the provision of travel and tour services and hotel accommodation.

Intangible assets

On 12 August 2005, Ariston, a subsidiary of the company, and the Government entered into an Addendum Agreement which extended the exclusivity period of the Casino Licence within 200 kilometres of Phnom Penh (except the Cambodia-Vietnam Border Area, Bokor, Kirirom Mountains and Sihanoukville) (the "Designated Area") for the period to the end of 2035 in consideration for the surrender by Ariston of the rights and concessions granted under the Sihanoukville Development Agreement signed on 2 January 1995 and Supplemental Sihanoukville Development Agreement signed on 2 February 2000, both between Ariston and the Government (except for the right to operate the casino within the Designated Area) including, but not limited to, the rights granted in respect of the development in O'Chhoue Teal, Naga Island and Sihanoukville International Airport (the "Assigned Assets"). The Assigned Assets had previously been assigned to Ariston Holdings Sdn. Bhd., a related company that is beneficially owned by the ultimate controlling shareholder of the Company on 30 August 2002. In order to fulfill its obligations under the Addendum Agreement, Ariston proposed to enter into an agreement with Ariston Holdings Sdn. Bhd. pursuant to which Ariston Holdings Sdn. Bhd. would surrender all rights, title, benefits and interests in and to the Assigned Assets to the Government with an effective date of 12 August 2005 in consideration for $105 million.

The $105 million liability in respect of the extended exclusivity period has been settled as follows:

- On 11 May 2006, the Company issued 202,332,411 ordinary shares of $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 $50 million of which $2,529,155 was the par value of the ordinary shares issued and $47,470,845 was the premium on the issue of the ordinary shares; and
- On 16 August 2006, the remaining $55 million due to Ariston Holdings Sdn. Bhd. was settled by way of a capital contribution of $55 million by the ultimate controlling shareholder.

(Expressed in United States dollars)

29 ULTIMATE CONTROLLING SHAREHOLDER

At 31 December 2006, Tan Sri Dr Chen Lip Keong is interested in 1,391,967,104 ordinary shares of the 2,075,000,000 issued ordinary shares of the Company of which 1,230,769,876 ordinary shares are registered in his name and the remaining 161,197,228 ordinary shares are registered in the name of and beneficially owned by the Cambodia Development Corporation, a company incorporated in the British Virgin Islands. The entire issued share capital of Cambodia Development Corporation is beneficially owned by Tan Sri Dr Chen Lip Keong.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

		Effective for accounting period beginning on or after
IFRS 7	Financial instruments: Disclosure	1 January 2007
Amendment to IAS 1	Presentation of financial statements: Capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial positions.