

CHAIRPERSON'S STATEMENT

MANAGEMENT DISCUSSION AND ANALYSIS

The current year is the first time Emperor Entertainment Hotel Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") incorporated a full-scale gaming operation in its financial results. The Group's recently-acquired cruise vessel the "Golden Princess" made a fair contribution to the earnings of the Group, while the flagship project – the Grand Emperor Hotel in the Macau Special Administrative Region made a solid debut and contributed cashflow following commencement of operations in January 2006.

Revenue for the Group was HK\$345.8 million during the year, compared with HK\$18.2 million in 2005, while net profit was HK\$166.8 million, up from HK\$17.6 million in the previous year. The construction of the Group's property development project – a shopping arcade and serviced apartment complex in Shanghai, the PRC – is proceeding as planned and is expected to be completed in 2008.

OPERATIONAL REVIEW

The Group's development projects and various investments are discussed as follows:

CRUISE AND CRUISE-RELATED ACTIVITIES

The Group received revenue of approximately HK\$137.9 million and profit of approximately HK\$49.4 million from this segment during the year. "Golden Princess" was acquired in February 2005 from the Company's substantial shareholder. The cruise liner provides entertainment, gaming and accommodation to a maximum of 570 guests.

Revenue from this segment was derived from rental and operation of cruise-related activities. This segment constitutes a stable revenue stream, generating steady cashflow for the Group.

HOTEL AND GAMING OPERATIONS

This segment, referring to the Grand Emperor Hotel in Macau, is the principal business of the Group. To get in early in the fast growing and lucrative market, the Group chose to acquire an existing building and convert it into a gaming hotel. The hotel officially commenced business in January 2006, following only a 12-month renovation period. It was the Group's first hotel to launch in Macau in 2006.

The Grand Emperor Hotel is located at the heart of Macau's city centre, a short distance from the main ferry terminal and the casino landmark Hotel Lisboa. Targeting medium to high rollers, the Grand Emperor Hotel has 136,660 square feet of gaming space spreading over seven floors, offering 333 slot machine seats and 86 gaming tables in gaming concourses and VIP rooms featuring mainly baccarat – the most popular game in Macau with the best odds among major table games.

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OPERATIONAL REVIEW (continued)

HOTEL AND GAMING OPERATIONS (continued)

The luxuriously designed hotel also provides comprehensive entertainment and dining facilities with a European-themed decor. It has 291 hotel rooms, including the fabulously appointed The Emperor Suite, which at a size of more than 7,000 square feet offers stimulation for every sense, with its private rooftop garden balcony, sauna room, card room, snooker room and karaoke room.

The hotel also boasts its famous "golden avenue", the only gold-laden pavement in the world. The avenue has 78 pieces of one-kilogram gold bars along the footpath in the hotel lobby. Together with one of Asia's largest display screens installed along its facade, the hotel is an eye-catching landmark in Macau and a must-see spot for tourists.

The Group owns 45% of the project. With management control vesting in the Group and other stakeholders remaining passive investors, the project's financials are consolidated into the Group's financial statements in order to provide transparency for the market and investors.

Since the commencement of business in January 2006, the hotel has been well-received and garnered significant market share in Macau, the world's second biggest gaming market.

Gaming

Given the fact that the casino has been in operation for approximately three months during the period under review, the Group was satisfied with the casino operations, the performance of which was in line with management expectations. All segments picked up quickly after the year and expenses stabilised after the hotel's opening. The management expected further advancement when the hotel operates at a full capacity of 64 gaming tables and eight VIP rooms.

Gaming Concourse

During the period under review, the Group had 44 tables operating in the mass market-targeted concourse, contributing a gross win of HK\$87.5 million. Income was HK\$35.0 million since the hotel soft launched in early January 2006. The 44 tables returned an average win of approximately HK\$23,000 per table per day.

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OPERATIONAL REVIEW (continued)

HOTEL AND GAMING OPERATIONS (continued)

Slots

Slot machines contributed a gross win of HK\$19.7 million during the year. The 333 seats had an average win of approximately HK\$700 per day. Income was HK\$6.1 million during the period under review.

VIP Room – Self-operated

The Group has been running one of the six VIP rooms inside the hotel since the hotel opened in January 2006. The six tables – all offer baccarat – recorded a rolling of HK\$11.1 billion and an income of HK\$117.5 million. Win percentage (calculated before discounts and commissions) was 2.7%. Average win per table per day was approximately HK\$579,000.

Other VIP Rooms

The Group received contribution from five of the six VIP rooms operating within the hotel. Revenue was HK\$7.8 million during the period under review.

Non-gaming

The Grand Emperor Hotel recorded non-gaming revenue of HK\$24.7 million, comprising mainly contributions from hotel rooms, food and beverage, as well as rentals from sauna, night club and retail outlets on the ground floor of the hotel.

The hotel rooms had an average daily rate of approximately HK\$800 during the year. Occupancy of the available guestrooms was 64%. As a result of active marketing and promotions, occupancy experienced a fast upward trend, reaching an average of above 80% in the months after the reporting period.

Income from food & beverage was HK\$8.6 million. Rental from sauna, night club and retail space was HK\$3.0 million.

PROPERTY SALES AND DEVELOPMENT

This segment recorded a loss of approximately HK\$2.6 million.

The property development project – to develop a retail and entertainment complex on the 22,870 square meter site close to Yu Yuan, Shanghai – was in the investment stage during the reporting period. The Group envisages lucrative returns from the project, in which it contributed only the land, with construction being undertaken by its local partner which shared a 50:50 split. Potential market risk was covered by a put option.

The main body of the project will be a multi-storey shopping arcade, and the entire project is expected to have area of more than 110,000 square metres. During the year, the project completed piling foundation work and basement excavation commenced in June 2006.

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OPERATIONAL REVIEW (continued)

PROPERTY SALES AND DEVELOPMENT (continued)

The Group has been fine-tuning construction plans and designs in order to maximise the future returns of the project, which should contribute significant rental income to the Group. Construction proceeded in line with management expectations and the plans of the local government, which will later this year start building an extension route for the Shanghai Metro.

The new M10 route will be adjacent to the Group's site and there will be entrances and exits connecting to and from the shopping mall. These plans should contribute large volumes of passenger flow to the Group's retail property and hence support and boost the future commercial value of the development. The M10 route is expected to launch in 2009, while the Group's project will complete construction in 2008.

CAPITAL STRUCTURE

There is no change in the share capital of the Company during the year.

On 2nd November, 2005, the shareholders of the Company in a special general meeting approved a capital reorganisation by way of cancellation of the share premium ("Share Premium Cancellation"). Pursuant to the Share Premium Cancellation, the entire amount standing to the credit of the share premium account of the Company was cancelled, with part of the credit arising therefrom being applied to eliminate the accumulated losses of the Company as at 31st March, 2005 in the sum of HK\$711.6 million in full and the remaining balance of the credit in the amount of HK\$543.4 million being credited to the contributed surplus account of the Company. The Share Premium Cancellation was completed on 9th November, 2005.

USE OF PROCEEDS

As at the end of the preceding financial year, the unused proceeds arising from the placing, the rights issue and the subscription of new shares in the prior year amounted to HK\$371.7 million. During the year, the Company fully utilised the proceeds, with HK\$333.0 million being applied to the hotel development project in Macau and the remaining balance of HK\$38.7 million for the Group's general working capital.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group mainly funded its operations and capital expenditure through bank borrowings, advances from related companies and minority shareholders of a subsidiary. As at 31st March, 2006, the bank borrowings which were denominated in Hong Kong dollar, secured, interest bearing and had fixed repayment term amounted to HK\$288.6 million. The advances from related companies were HK\$144.9 million, which were denominated in Hong Kong dollars, unsecured, non-interest bearing and repayable on demand. The advances from the minority shareholders which were denominated in Hong Kong dollars, unsecured and non-interest bearing totalled HK\$479.3 million.

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LIQUIDITY AND FINANCIAL RESOURCES (continued)

The Group's current assets and current liabilities as at the end of the year were HK\$509.8 million and HK\$410.2 million respectively. The gearing ratio of the Group (expressed as a percentage of total borrowings over net asset value) increased from 19% in the preceding financial year to 74%, which was mainly due to additional advances from related companies and minority shareholders of a subsidiary as well as the new bank borrowings raised during the year.

Save as disclosed above and trade and other payables and accrued charges, the Group had no other external borrowings. Bank balances and cash on hand of the Group as at 31st March, 2006 totalling HK\$163.9 million were denominated in Hong Kong dollars, Macau Pataca and Renminbi. With the borrowings and bank balances and cash on hand denominated in Hong Kong dollars, Macau Pataca and Renminbi, the Group experienced no significant exposure to foreign exchange rate fluctuation for the year.

With its sufficient bank balances and cash on hand as well as its existing loan facility, the directors of the Company considered the Group has sufficient working capital for the operations and the future development of the Group.

PLEDGE OF ASSETS

As at the end of the year, assets with carrying values of HK\$1.3 billion were pledged to a bank as security for a banking facility granted to the Group.

COMMITMENTS AND CONTINGENCIES

As at 31st March, 2006, the Group had total commitments of HK\$54.3 million, of which HK\$51.6 million was for a property development project in Shanghai and HK\$2.7 million for purchase of property, plant and equipment. The Group also had a contingent liability of a maximum amount of HK\$431.5 million in respect of construction contracts entered into by the Group on behalf of a joint venture partner of a property development project in Shanghai.

NUMBER AND REMUNERATION OF EMPLOYEES

With the commencement of new hotel and gaming businesses in Macau, as at 31st March, 2006, the number of employees of the Group increased to 1,022 (2005: 320). Total staff costs, including directors' remuneration, for the year were HK\$77.6 million (2005: HK\$5.8 million). All employees are under remuneration policy of fixed monthly salary with discretionary bonus.

To provide incentives or rewards to the staff, the Company adopted a share option scheme on 2nd September, 2002. During the year, the Company granted a total of 10,000,000 options to certain directors of the Company.

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PROSPECTS

With the opening of the Grand Emperor Hotel in Macau in January this year, the Group has repositioned itself as a full-scale gaming operation enjoying significant contributions from gaming.

To provide the best returns for shareholders and stakeholders, the Group has chosen not to pursue a concept strategy, but instead making best use of its investment resources in a managed capacity, securing market share ahead of the entry of other sizable casinos in Macau to achieve early results. Despite an already crowded market, the Grand Emperor Hotel has managed to establish a significant presence in Macau and gain gaming expertise and experience in a short period of time.

The Group saw both gaming and hotel operations improving after the reporting period and expects further advancement in future. It also anticipates increasing contributions from the gaming arm, with the inclusion of additional slot machines and when the hotel operates at a full capacity of 64 gaming tables in the mass market-targeted concourse, following the increased supply of dealers from Sociedade de Jogos de Macau, S.A., the gaming concessionaire and a passive investor in the hotel project.

Looking ahead, the Group will not settle for a single project in the lucrative Macau market. Instead, it is actively looking for expansion possibilities with further utilisation of the Group's execution strength and rich assets in the entertainment industry.

Meanwhile, the Group will continue to explore potential business opportunities elsewhere to maximise shareholders' return.

By Order of the Board

Luk Siu Man, Semon

Chairperson

Hong Kong

19th July, 2006