



Chairman's Statement



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RESULTS FOR THE YEAR

The Group's turnover and net loss in the year ended 31 March 2005 amounted to approximately HK\$207.1 million and HK\$108.3 million, respectively. The widening in net loss was principally due to the disposal of 50% interest in the leather business which led to a book loss of HK\$26.96 million and a goodwill impairment to the amount of HK\$71.14 million charged in advance to the book value of healthcare business by the Board under prudent financial policy, resulting in a book loss of HK\$98.1 million. However, the Group's cash flow was not affected. The Group's actual operational loss was only approximately HK\$10.21 million.

FINANCIAL POLICY

As at 31 March 2005, the Group had cash reserve amounted to HK \$12.8 million, plus the net proceeds of approximately HK\$25.5 million obtained from the issues of new shares and warrants after the reviewed period, bringing the total net cash reserve to HK\$38.3 million. The Board believes that, as Pearl Oriental Enterprises Limited, the holding company of the Group, does not need to provide guarantees in respect of bank facilities, it can avoid any financial risk and stick to its cautious financial management approach which is favourable to the Group's future development.

BUSINESS REVIEW

Hotel and gaming business

Under the leadership of the Board and the management, during the year under review, the Group grasped the market opportunity and successfully expanded its business realm into hotel and gaming business in Macau. The expansion was made through an acquisition of the 40% interest of Hotel Golden Dragon by placing and issue of new shares. After this, the Group's net assets jumped from last year's HK\$99 million to HK\$544 million, representing an increase of 5.5 times. As the continue growth of Macau's economy and its travel and gaming businesses, the income of the casino located at Hotel Golden Dragon was increased 28.5% in the second quarter of 2005 when comparing with the first quarter, while the hotel's overall income increased 23.6% from that of the corresponding period. The Board anticipates the operation income from Hotel Golden Dragon for the year ended 31 March 2006 will be remarkable. It is expected that the profit contributed by the Hotel Golden Dragon will exceed HK\$200 million as guaranteed under the S&P agreement and bring ideal return to the Group's investment.

Leatherware retail business

The Group has successfully developed its retail business of leatherware under renowned brand names from Europe. Mocca retail stores successively opened two outlets in Causeway Bay and Tsimshatsui during the past three months. The sales condition and operations are found satisfactory. The management intends to establish more stores in Hong Kong and Macau in order to further expand its market share. The Board expects the retail business will generate stable revenue for the Group

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Healthcare Business

Due to the constant fluctuation of the market, the original development strategies designed and planned by the management for minimizing market risks, including the collection of fixed monthly system leasing fees with the profits sharing mode encountered difficulties, the target turnover and profits is then unable to be achieved. As such, the Board had adopted a relatively prudent financial policy. Apart from the considerable goodwill impairment in book value early provided for China Hifu and Kenitic, it, in the near future, will review the investment and operation environment to study and formulate a new operating strategy and policy.

I would like to take this opportunity to act on behalf of the Board and the Company to express our gratitude to our staff for their dedication and valuable contributions during the past year. In particular, we extend our gratitude to the former chairman Mr. Wong Kwan, who has just resigned, and wish him every success in the future.

Pedro Chiang

Chairman

Hong Kong, 25th July 2005

Prospects

The Board feels excited to have invited a group of successful entrepreneurs to join the Company as executive directors who have rich experience in real estate, hotel, travel and entertainment operations in Macau. The strengthened management team can therefore efficiently develop all fronts of business, particularly through the new directors' relations in Macau, the Group will be able to capture more new investment projects of high profit potential in Macau. The board is confident about the Group's diversified development in the future and has decided that future dividend payment ratio should not be lower than 50% of profit in the relevant year, so as to share the fruitful results with all shareholders who have shown unrelenting support to the Group over the years.