

Auditors' Report



CCIF

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AUDITORS' REPORT TO THE SHAREHOLDERS
PEARL ORIENTAL ENTERPRISES LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

We have audited the financial statements on pages 23 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as explained below.

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With reference to the previous announcement dated 6 January 2005, Circular dated 14 March 2005 and the Extraordinary General Meeting dated 30 March 2005, the shareholders approved the Group to acquire 40% interests in an associate, Hotel Golden Dragon (Macao) Company Limited ("Hotel Golden Dragon"), from U Wa Hotel Management Limited, Trustmove Hotel Investment Company Limited and Hang Fok Holding Limited (collectively the "Vendors"). The Vendors had acquired Hotel Golden Dragon from its previous owner since 5 March 2004. The opening balances of Hotel Golden Dragon were not fully available. Notwithstanding that we understand the acquired associate has been in the property investment business for some years, no proper books and records in connection with the associate's activities prior to 5 March 2004 when the Vendors acquired the entire equity interest from its previous owner, other than in respect of the property, plant and equipment and other receivables as set out in note 17 to the financial statements, were available for our audit. Accordingly, we were unable to obtain sufficient appropriate audit evidence to assess or confirm the opening balances of the associate being acquired and determine how the consideration of HK\$514 million should be reflected in the underlying transaction.

As a result of this scope limitation, we were unable to perform the procedures we considered necessary to assess the transaction as a whole and, accordingly, the carrying value of the goodwill arising from the acquisition at 4 January 2005. Any adjustment to either the goodwill and/or the net assets acquired arising from the acquisition of the associate would have a consequential effect on the Group's net assets as at 31 March 2005 and its loss for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE ON THE OPENING BALANCES OF THE ASSOCIATE BEING ACQUIRED

Except for any adjustments or disclosures that might have been found to be necessary had we been able to satisfy ourselves regarding the opening balances of the associate being acquired, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 25 July 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712