



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2002 (the "Period"), Emperor (China Concept) Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately HK\$19.0 million, representing an increase of 8.3% as compared with that of the previous corresponding period. During the Period, the loss attributable to shareholders was approximately HK\$624.9 million as compared to a loss of approximately HK\$8.8 million of the last corresponding period. The loss was mainly due to the writing off of the Group's investment in Beijing Peony Garden project in the People's Republic of China (other than Hong Kong) (the "PRC").

OPERATION REVIEW

The property development projects and investment of the Group in the PRC are as follows:

Riverside Garden, Xiamen

Up to 30th September, 2002, 215 residential units of Tower 1 and Tower 2, Phase I of Riverside Garden, Xiamen had been sold, representing about 77.6% of the total residential units of Phase I development. A profit was recorded for this project during the Period. Turnover arising from the sale of properties, however, decreased by 8.1% to approximately HK\$12.0 million, as compared to approximately HK\$13.1 million of the last corresponding period. The management planned to postpone the construction work of Phase II to mid 2003. The Group expected the project to continue to make positive contributions to the results of the Group in the coming periods.

Yuhu Recreation Village, Xinhui

Yuhu Recreation Village is a well-known holiday resort in Xinhui. Turnover during the Period was approximately HK\$6.9 million, representing an increase of 56.9% as compared to that of the last corresponding period. Such increase in turnover was mainly due to the opening of the resort's new entertainment facilities such as sauna and karaoke. Although a loss was recorded for the operation, the management saw an overall improvement in the business with its losses being cut by about 45.2% as compared with the last corresponding period. The management planned to further expand its room capacity and strengthen its marketing network by establishing advance booking service with travel agents in Hong Kong.

Emperor Star City, Shanghai

Emperor Star City, Shanghai is located in the famous tourist area of Yuyuan, Shanghai. In view of the recent improvement in the property market in Shanghai, the management would re-examine the project and consider if changes to the previously approved development scheme were necessary. Barring any unforeseeable adverse changes to the property market, the management planned to commence the construction works in the year 2003. In the meantime, the Group had licensed the site to maximize the income of the Group.



OPERATION REVIEW (Continued)

Peony Garden, Beijing

The Group acquired 80% interest in Peony Garden, the hotel and service apartment development in Beijing, through its acquisition of 80% equity interest in Canlibol Holdings Limited ("Canlibol"), the holding company of Beijing Peony Garden Apartment House Co., Ltd. ("Beijing Peony"), the registered owner of Peony Garden in November 1997. Pursuant to an agreement with the vendor of the project, the vendor guaranteed a minimum return of approximately HK\$92.6 million per annum to the Group for five years as from June 1998. The Group had been receiving such guaranteed return by way of set-off against the accrued interest and the principal of the loan notes ("Loan Notes") issued by the Company in satisfaction of part of the purchase price for the Group's acquisition of the project. Shortly after the Period, all Loan Notes had been set off and cancelled, and the liability of the vendor to pay the guaranteed minimum return became unsecured.

The local management of Beijing Peony had not been cooperative with the Company. The Company had retained PRC lawyers with a view to exerting management control over Beijing Peony. The Company had recently been informed by the PRC lawyers that according to the records of 工商行政管理局, the interest of Canlibol in Beijing Peony was transferred to a third party in August 2001 without the knowledge of the Company. The Company was taking legal opinion with a view to recovering the Group's interest in Beijing Peony. In view of the unauthorised transfer of interest in Beijing Peony, the Group had re-assessed the carrying amount of the project and made an allowance of approximately HK\$627.2 million during the Period.

New Century Plaza, Chongqing

In view of the slack property market in Chongqing in the past years, construction work of the development had been suspended pending improvement in the market condition. In April 2002, the Company decided to resume the project by entering into a joint venture agreement pursuant to which the responsibility of developing the project was passed to a joint venture partner. However, the joint venture partner failed to develop the site and the Group had decided to take action to terminate the joint venture and re-exert its control over the project. As a result of the delay in developing the site, 重慶市國土資源和房屋管理局 and 重慶市規劃局 gave notice to the Group to repossess the site and cancel the relevant land use certificates in August 2002. Subsequent to the Period and shortly before the date of this report, the Group entered into an agreement with 重慶市城市建設綜合開發管理辦公室 whereunder the local government allowed the Group to continue to develop the site subject to a new construction schedule. Construction work had now been resumed and Phase I of the project was currently scheduled to be completed by the end of the year 2004.

Hongfu Villas, Dongguan

In June 2001, the Group entered into an agreement with a PRC party to dispose of its entire interest in the project in Zhangmutou, Dongguan and expected to receive sale proceeds equivalent to approximately HK\$36.5 million. The disposal had been completed and the land use certificates of the project were transferred to the PRC party in September 2002. As a result, the Group recorded a net gain of approximately HK\$27.7 million during the Period. Up to the date of this report, the Group had duly received HK\$31.9 million of the sale proceeds with the balance equivalent to approximately HK\$4.6 million to be received by March 2003.



OPERATION REVIEW *(Continued)*

Tienmapien, Xinhui

Construction of the project in Tienmapien, Xinhui, a mixed commercial/recreational group of buildings built on a site of 360,000 sq. ft. was yet to commence pending improvement in the sentiment of the property market of Xinhui and completion of the infrastructure facilities of the area by the local authority.

Hong Tai Building, Chongqing

The Group also held interest in certain units and car parking spaces at Chongqing Hong Tai Building, the construction works of which had been suspended. In view of the prolonged suspension of the development and the impending restructuring scheme of the developer, the Group had already made full provision for the paid deposit of approximately HK\$18.7 million in the previous financial year. The management is exploring the possibility of disposing of its interest in the building to recover some of its investment cost.

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