

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2004 ("Period"), Emperor International Holdings Limited ("Company") and its subsidiaries (collectively referred to as the "Group") recorded a profit attributable to shareholders of HK\$195 million as compared with a profit of HK\$42 million in the last corresponding period. Such increase in profit was mainly attributable to an upward revaluation of properties amounting to HK\$151 million. The turnover of the Group, however, dropped from HK\$714 million in the previous corresponding period to HK\$418 million, owing to the drop in the sales proceeds of properties.

OPERATION REVIEW

Hong Kong Property Development and Investment

Investment Properties

Property development and investment remained the core business from which the Group derived significant and steady income. During the Period, the rate of rental income had improved. In view of the gradual recovery of the property market in Hong Kong, the Group had taken steps to enlarge its investment property portfolio through acquisition of high quality assets at prime locations such as the commercial podium (ie. G/F to 3/F) of 8 Russell Street in Causeway Bay. The management expected the Russell Street property to form one of the key rental earners of the Group in addition to Emperor Group Centre in Wanchai and Emperor Plaza in Tsuen Wan.

Development Properties

The Group has a redevelopment site in Repulse Bay, one of the most famous scenic spots in Hong Kong. The basement excavation and foundation works of the redevelopment site had commenced and the redevelopment was expected to be completed by 2006.

During the Period, the Group acquired a site in Sai Kung near Marina Cove. The Group intended to develop the site into a deluxe garden estate with 13 detached and semi-detached houses of a total floor area of around 21,640 sq. ft. (excluding flat roofs and garden area) and in addition 26 car parking spaces. The project was expected to be completed by mid 2007.

PRC Property Development and Investment

Riverside Garden, Xiamen

Phase I of the development was completed in 1999 and was almost sold out. Phase II of the development comprised three residential blocks of a total floor area of 391,637 sq. ft. with a commercial podium of a lettable area of about 43,056 sq. ft., excluding car parks. The development was expected to be completed in early 2006.

Tienmapien, Xinhui, Guangdong

The Group had exchanged its land in Tienmapien of 33,463 square metres for a bigger piece of land of 37,628 square metres in its vicinity without any additional payment. No concrete plan for this development had been formulated yet.

Securities and Financial Services

During the Period, the securities and futures brokerage and advisory business continued to make satisfactory contribution to the Group's profit. Owing to the better market sentiment and the comparatively stronger economic rebound, the stock market had improved since the end of the Period. The management anticipated that the performance of this business sector would continue to improve. To cope with the fast moving equity and futures market, the Group had planned to introduce new products to its customers such as Japanese futures and stock options.

Hotel, Restaurant and Furniture

During the Period, the hotel and restaurant operations of the Group benefited from the individual visit scheme for mainland visitors and recorded significant improvement as compared with previous corresponding period. The Emperor (Happy Valley) Hotel had been undergoing renovation and almost two third of the refurbishment work of the hotel rooms had been completed. The management expected the refurbishment to bring about positive results in the coming periods.

The performance of Ulferts, a high class furniture line, improved a lot during the Period as compared with the last corresponding period. The revival of high-class residential properties had positive impact on Ulferts. Project launching of Ulferts in Macau had shown satisfactory results which served as a drive for other project sales business. A second furniture line, @Home, had opened 4 outlets which tailored for the taste of general public. Rental increase might lead to a setback to the retail market and the management would be cautious while developing this second line of business.

Publishing and Printing

New Media Group

Weekend Weekly, New Monday, Oriental Sunday, Economic Digest, Fashion and Beauty, Free Walker Monthly and Much More Quarterly were published and managed by the New Media Group ("New Media"), offering a wide range of magazines for diversified readers. The performance of New Media for the Period was promising. Advertising revenue had grown by 38% as compared with the last corresponding period. New publications such as Fashion & Beauty, Free Walker Monthly and the premium Much More Quarterly had matured and enabled New Media to expand in market circulation and develop new environment for advertisers. The management expected continued positive performance of the magazines and would explore possibility of opening up new income streams.

Hong Kong Daily News

Competition was keen amongst the newspaper industry. Proactive steps had been taken to enrich and revamp the newspaper's editorials such as the entertainment and the lifestyle sections. Marketing strategy was at the same time carried out to enhance brand exposure. The management was also exploring the possibility of expanding into overseas markets to broaden its income stream.

Hong Kong Daily Offset Printing

Hong Kong Daily Offset Printing, the printing arm of the Group, continued to generate steady profit for the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September, 2004, the total external borrowings (excluding payables) amounted to approximately HK\$1,242 million and the Group maintained a debt to equity ratio of 49% (measured by total external borrowings as a percentage to the net asset value of the Group). In addition to its share capital and reserves, the Group made use of cash flow generated from operations, bank borrowings and unsecured loans from a shareholder and related companies to finance its operations. The Group's bank borrowings were mainly denominated in Hong Kong Dollars and their interest rates followed market rates. The Group's bank balances and cash were mostly denominated in Hong Kong dollars, with 20% denominated in Renminbi. The Group had no material exposure to fluctuations in exchange rates as Renminbi was relatively stable. Besides, the Group had contingent liabilities in respect of (i) guarantees given to a bank in connection with mortgage loans granted to third parties totaling approximately HK\$4 million and (ii) loss and damages due to defects claimed by purchasers of some of the Group's properties.

Post Balance Sheet Event

As disclosed in the announcement of the Company dated 29th November, 2004, the directors of the Company (the "Board" or the "Directors") proposed to effect a share subdivision under which the par value of each issued and unissued shares of the Company would be adjusted from HK\$0.10 each to HK\$0.01 each by subdividing each share of the Company into ten shares ("Share Subdivision"). Upon approval at shareholders' meeting of the Company to be held on 3rd January, 2005, the Share Subdivision will become effective on 4th January, 2005.

STAFF COSTS

The total cost incurred for staff including Directors' emoluments amounted to HK\$133 million during the Period as compared with HK\$114 million in the last corresponding period. The increase was due to the expansion of the printing and publishing business and hotel and restaurant business. The number of staff was approximately 1,200 as at the end of the Period (2003: 1,000).

ASSETS PLEDGED

Assets with carrying value of HK\$3,102 million were pledged as security for banking facilities.

PROSPECTS

The overall economy had shown significant improvement. Falling unemployment rate and resurgence in retail sector suggested that the momentum on growth of economy of Hong Kong went at a good pace. The business performance of the Group on the whole during the Period was encouraging. Looking ahead for a long term growth, the management would be looking for new investment opportunities and suitable properties to replenish the Group's land bank and strengthen its investment property portfolio.