

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30th September, 2005 (the "Period"), Emperor Entertainment Hotel Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") repositioned itself as an entertainment platform. The Group's recently-acquired cruise vessel the "Golden Princess" contributed to its earnings for the full six-month period, boosting its turnover to approximately HK\$67.6 million, compared with no turnover contributed to the Group in the previous period. Profit amounted to approximately HK\$18.7 million, compared with approximately HK\$15.7 million in the previous corresponding period, due to an increase in carrying value of investment property of approximately HK\$20.4 million.

During the Period, the Group was in full gear preparing for the launch of its hotel in Macau, namely the Grand Emperor Hotel, its flagship project which is expected to generate major revenue for the Group in the future. It has also started the construction works of its property development project, a shopping arcade and service apartments complex, in Shanghai.

OPERATION REVIEW

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

Cruise-related activities

The Group received a turnover of approximately HK\$67.6 million and profit of approximately HK\$21.4 million, from its cruise-related operations. This followed its purchase on 15th February, 2005 of the Golden Princess from the Company's substantial shareholder.

The turnover from this segment was derived from rental and operations of cruise-related activities. This segment constitutes a stable revenue stream generating cash-flow.

OPERATION REVIEW (Continued)

Hotel and entertainment operations

This segment was still in its development stage and recorded a loss of approximately HK\$10.6 million during the Period.

In November 2004, the Group announced to acquire an effective interest of 45% of a property in Macau which was completed on 3rd May, 2005 and would be renovated into a hotel named as Grand Emperor Hotel.

The hotel, in renovation stage during the Period, is expected to commence business in January 2006.

Property sales and development

This segment recorded a profit of approximately HK\$20.0 million because of the rise in fair value of its investment property in Shanghai, the People's Republic of China (the "PRC").

The property development project – to be developed into a retail development in Yu Yuan, Shanghai – was in investment stage during the Period. The Group planned to build on the 22,870 square meter site a commercial complex named Emperor Star City in 50:50 share with a local partner. The Group envisages to enjoy lucrative returns from the project, in which it only contributed the land, with construction being undertaken by its local partner and potential market risk covered by a put option. The main body of the project will be a six-storey shopping arcade, and the entire project is expected to have a gross area over 120,000 square metres. A ground breaking ceremony was held in June 2005. It is scheduled to complete in 2008.

CAPITAL STRUCTURE

There was no change in the capital structure of the Company during the Period.

Post Balance Sheet Event

Cancellation of Share Premium

On 20th September, 2005, the board of directors (the "Board") announced that a capital reorganisation was proposed 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 to be 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 approximately HK\$711.6 million in full and the remaining balance of the credit in the amount of approximately HK\$543.4 million being credited to the contributed surplus account of the Company. The Share Premium Cancellation was approved by the shareholders of the Company in a special general meeting held on 2nd November, 2005 and took effect on the same date.

USE OF PROCEEDS

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 prior year amounted to approximately HK\$371.7 million. During the Period, 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 approximately HK\$38.7 million for the Group's general working capital.

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group mainly funded its operations and capital expenditure through bank borrowing, advances from a related company and minority shareholders of a subsidiary. As at 30th September, 2005, the bank borrowing which was denominated in Hong Kong dollar, secured, interest bearing and had fixed repayment term amounted to approximately HK\$95.7 million. The advances from a related company and the minority shareholders were approximately HK\$47.8 million and HK\$477.5 million respectively, all of which were denominated in Hong Kong dollars, unsecured, non-interest bearing and had no fixed repayment term.

The Group's current assets and current liabilities as at the end of the Period were approximately HK\$318.3 million and HK\$47.9 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 55%, which was mainly due to additional advances from a related company and minority shareholders of a subsidiary as well as the new bank loan raised for the Period.

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 30th September, 2005 totaled approximately HK\$300.7 million, which were mainly denominated in Hong Kong dollars and Macau Pataca. With the borrowings and bank balances and cash on hand mainly denominated in Hong Kong dollars and Macau Pataca, the Group experienced no significant exposure to foreign exchange rate fluctuation for the Period.

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

COMMITMENTS AND CONTINGENCY

As at 30th September, 2005, the Group had total commitments of approximately HK\$431.8 million, of which approximately HK\$330.4 million was for property and hotel development projects in Shanghai and in Macau and approximately HK\$101.4 million for purchase of property, plant and equipment. The Group also had a contingent liability of approximately HK\$448.6 million in respect of capital commitments entered into by the Group for a joint venture partner of the property development project in Shanghai.

PLEDGE OF ASSET

At the end of the Period, an asset with carrying value of HK\$645.0 million was pledged to a bank as security for a banking facility granted to the Group.

NUMBER AND REMUNERATION OF EMPLOYEES

With the new hotel project in Macau in progress and the Group diversifying its business through the acquisition of the Golden Princess, the Group employed 616 staff as at 30th September, 2005 (2004: 2). Total staff costs, including directors' remuneration, for the Period were approximately HK\$22.4 million (2004: HK\$0.5 million). The management would continue to monitor the progress of the projects and recruit new staff when appropriate.

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

PROSPECTS

The Group had been in full gear to prepare for the launch of the Grand Emperor Hotel in Macau during the Period. The hotel comprises about 300 rooms, retail outlets, restaurants, as well as six floors of entertainment facilities. Aiming to provide premium accommodation and entertainment services, the Grand Emperor Hotel will commence business in January 2006.

To take advantage of the booming commercial property market in China, the Group reactivated its property project in Shanghai. Located at Yu Yuan, Shanghai, the project is adjacent to the new M10 route of the Shanghai Metro, which is being built to match the opening of Shanghai Expo in 2008. The project includes a six-storey shopping arcade for generating long-term rental revenue. The Group has settled the plans with the local government and the Shanghai Metro to build an exit of the Yu Yuan station that leads into the shopping mall of the subject joint venture development. The project is expected to be completed in 2008.

Meanwhile, the Group continues to explore potential business opportunities worldwide.