

## MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2005 (the "Period"), Emperor International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of HK\$496.9 million, representing an increase of 19% as compared with HK\$417.9 million of the previous corresponding period. Profit attributable to shareholders amounted to HK\$446.6 million, up by 169% over last period's HK\$166.3 million.

The rise in profit was mainly due to gains from the revaluation of the Group's existing investment properties and developing projects in Hong Kong, and increased rental income amid a recovering property market. The increased return from the securities brokerage business also contributed to the profit surge.

The Group had announced during the Period to dispose non-core operations and refocus on its major and profitable businesses.

## OPERATION REVIEW

### Property Development and Investment

During the Period, the Group received no turnover from property development because of absence of sales. The turnover from leasing investment properties rose 42% to approximately HK\$62.6 million (2004: HK\$44.2 million) while profit soared 46% to approximately \$54.3 million (2004: HK\$37.2 million). The profit excluded revaluation gain of the Group's investment properties of HK\$353.3 million and HK\$104.0 million from its project under development.

As the Hong Kong market continued to improve in the first half of 2005, the Group's property operations have seen income growing steadily and significantly. The total income of these related segments amounted to HK\$62.8 million (2004: HK\$44.5 million) and profit reached HK\$511.2 million (2004: HK\$187.9 million).

The total carrying value of the Group's property portfolio in Hong Kong and the People's Republic of China (the "PRC") reached approximately HK\$4.5 billion. These properties include shops, offices, apartments, industrial buildings and a hotel. To tap Macau's growing retail property market, the Group has acquired two properties at prime locations in the city.

The Phase II development of Riverside Garden at Xiamen, the PRC, has been approved; building plans and documents for tender and construction are being prepared and to be completed in early 2006. Construction of Phase II is scheduled to be commenced in March 2006 and permit for pre-sale is expected to be issued later in 2006.

The Group had completed the basement excavation and foundation works of the commercial complex redevelopment at the Lido, Repulse Bay. A brand new Lido is expected to open in 2008. The Group intends to develop the property into a retail shopping arcade for generating rental income in the long run. However, it is also considering an option of including a hotel in the project. The management is currently exploring the possibility.

During the Period, the Group had acquired land with a total area of approximately 23,555 square feet adjacent to its development site in DD210 in Sai Kung. The Group plans to develop high-end residences at the site with a total floor area increasing to 32,670 square feet with the addition of the newly acquired land. The Group has submitted an application for the development with the Town Planning Board. Meanwhile, the Group will continue to replenish its land reserve.

### **Hotel**

The Emperor (Happy Valley) Hotel received a turnover of approximately HK\$28.6 million making up mainly of income from its 150 guest rooms, karaoke lounge and Chinese restaurant. Profit reached HK\$0.5 million subsequent to the completion of guestroom refurbishment, compared to a loss of HK\$4.0 million in the previous corresponding period. The hotel achieved an improvement in both occupancy and room rates compared with the previous period.

Revenue from the karaoke lounge "The Echoes" increased a significant 40% over the previous period and ahead of the budget by 15%.

### **Securities Brokerage and Consultancy Services**

During the Period, turnover from the Group's brokerage and financial services was up 25% to HK\$36.4 million (2004: HK\$29.1 million) bolstered by the growing stock markets in Hong Kong and the region. Profit rose by 72% to HK\$18.9 million (2004: HK\$11.0 million). Together with contribution from consultancy and advisory services, total income from the segment reached HK\$63.0 million (2004: HK\$55.8 million) and profit amounted at HK\$43.4 million (2004: HK\$35.5 million).

Among the Group's financial offerings, trading in Japan and US commodity futures reported the most remarkable performance. By controlling fixed overhead and expanding into new businesses that operate on commission-based systems, it also saw improved operating margins.

### **Non-core businesses to be disposed/discontinued**

The Group announced during the Period the disposal of non-core businesses to its major shareholder in its bid to focus on major and more profitable operations. The businesses to be disposed of included wholesaling and retailing of furniture, publishing and printing and restaurant. The Group would receive approximately HK\$82.4 million in cash upon completion of the disposal, which is scheduled to be completed before the current financial year end. The disposal will not have any material impact on the net asset position of the Group and there will not be any material gain or loss recognised by the Group.

The Group has discontinued the trading operation of marine products. The segment resulted in a profit of HK\$0.8 million during the Period. The discontinuance had realised financial resources of approximately HK\$15 million to the Group.

These non-core businesses resulted in a marginal profit of HK\$5.0 million during the Period. The disposal and discontinuance were expected to generate capital resources of approximately HK\$100 million to the Group.