

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2006 (the "Period"), Emperor International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded turnover of approximately HK\$200.4 million, compared with HK\$496.9 million for the same period in the previous year. This is mainly attributable to the disposal of non-core operations immediately before commencement of the Period. Turnover from continuing operations on the other hand increased by 29% from HK\$154.8 million in the previous period to approximately HK\$200.4 million, which is in line with the Group's strategy to concentrate on these areas.

Profit attributable to shareholders was approximately HK\$203.6 million, compared with HK\$446.6 million in the previous corresponding period. The difference is mainly due to the substantial revaluation gain of properties held by the Group during the previous corresponding period.

The Group also enjoyed contributions from its associate company, Emperor Entertainment Hotel Limited ("EEH"), whose flagship entertainment and leisure project in the Macau Special Administrative Region, the Grand Emperor Hotel, commenced business in January 2006. The associate company contributed approximately HK\$38.0 million during the Period, up from HK\$6.5 million in 2005.

OPERATION REVIEW

Property Development and Investment

Property development and investment is the Group's core business, with rental income from investment properties being one of the Group's main income contributors during the Period. Turnover from investment property leases rose 30% to approximately HK\$81.6 million, compared with HK\$62.6 million in 2005. The Group's property portfolio consists of shops, offices, apartments, industrial buildings and a hotel. Thanks to the robust growth in tourist spending and domestic consumption, the Group saw a satisfactory increment in its rental rates and values. The Group maintained a high overall occupancy rate for its retail properties, most of which are located in prime location.

As a result of the improving property market in Hong Kong, the Group recorded a revaluation gain of HK\$96.4 million (2005: HK\$353.3 million) from investment properties and HK\$48.0 million from its Repulse Bay development site (2005: HK\$104.0 million). Profit from operation excluding the revaluation gain was HK\$74.3 million, compared with HK\$54.3 million previously.

The Group made positive and significant progress in its property development projects in Hong Kong as well as in mainland China. In April 2006, the Group announced the acquisition of a 88,420 square feet site along Chang'an Avenue in Beijing. The Group plans to develop the site into a comprehensive commercial complex, comprising a retail podium with high-end entertainment hot spots and a Grade-A office tower. The investment marks the Group's expansion into the Beijing property market. Development planning and preliminary work are in progress.

The Group has a commercial residential composite development project underway in Xiamen. The Phase II development of Riverside Garden at Xiamen is expected to be completed in 2008, with pre-sale of residential units commencing in 2007. The Group is optimistic toward the sales of the residential units, as Xiamen has recorded one of the highest price increases in the mainland market.

In Hong Kong, the Group has completed the basement excavation and foundation work for the redevelopment of its Repulse Bay project. Sub-structure works are in progress. The Group intends to erect a 151,000 square feet multi-functional recreation complex which is expected to generate long-term rental income for the Group upon its completion in 2008.

There is an increasing demand for new flats in Hong Kong. However, land supply is limited and land acquisition costs are high. With the management's property expertise, the Group has been able to identify and acquire controlling shares in several urban sites, and thus expanding its land bank. The sites range from approximately 4,000 to 10,000 square feet in size and are planned to be redeveloped into mid- to high-end residential or composite complexes, which are in growing demand and provide developers with lucrative returns. After the Period, the Group had entered into agreements to sell two adjacent sites at Queen's Road West which comprised a site acquired by the Group during the last financial year and an investment property held by the Group and which would record a profit of around HK\$63.0 million on completion.

Hotel

The Group's Emperor (Happy Valley) Hotel performed a remarkable turnaround of its operations during the Period. Turnover for the hotel increased 12% to approximately HK\$32.1 million from HK\$28.6 million in 2005. Revenue mainly came from the hotel's 150 guest rooms, karaoke lounge and coffee shop. Profits climbed to HK\$2.9 million, from HK\$501,000 in 2005, following the conversion of a lounge into karaoke rooms.

The hotel has been a hit with both local and overseas consumers. Mainland China continues to be the major source of visitors and guests, with arrivals increasing steadily. In the long-haul and short-haul markets such as America, Europe, Australia and Southeast Asia, growth has picked up strongly.

During the Period, the hotel achieved improved room and occupancy rates, with the occupancy rate reaching approximately 90% on average.

Securities Brokerage and Consultancy Services

The segment performed steadily during the Period, with turnover rising to HK\$86.5 million from HK\$63.0 million in 2005, and profit climbing to HK\$59.4 million from HK\$43.4 million in 2005.

In addition to providing consultancy and advisory services on mergers and acquisitions and other corporate advisory services, the Group runs a securities and futures brokerage operation which provides retail investors with brokerage services on securities, futures and options trading on exchanges in Hong Kong, Japan and the United States. This operation also provides margin financing for initial public offerings and stock purchases, as well as other types of loans and advances to its clients.

As part of the Group's plan to redefine itself as a property player, the Group is planning a spin-off of the securities and brokerage operation for it to be listed separately on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

PROSPECTS

The disposal and discontinuation of non-core businesses at the end of the last financial year marked the first of the Group's series of steps to reposition itself as a pure property player. The Group has since acquired controlling shares of several urban sites to redevelop them into high-quality commercial/residential projects. These sites were bought at the lower range of average market prices, and have since appreciated in value. The Group expected to receive a capital gain should these sites be sold in the market.

Management will continue to explore opportunities to expand its land bank and development portfolio in Hong Kong, the mainland China and Macau.

In order to achieve higher yields from rental income, the Group will also continue to improve the asset quality of its investment properties, by replacing non-core premises with properties that have a higher prospect for capital or rental gain, upgrading the quality of tenants as well as implementing value-added improvement schemes on various properties within its portfolio.

With regard to its hotel operation, the Group expects the market to become increasingly competitive this year, with the launch of new hotels in Hong Kong and the resultant increase in room supply. The Group will continue to improve and refine its operations and marketing strategies in order to remain competitive. With karaoke and the food and beverage businesses serving as major contributors to the hotel's revenue, the Group plans to refurbish its karaoke rooms located on the basement floors to enhance its service quality.

To further its pure property play strategy, the Group has announced a proposed spin-off and separate listing for its securities and futures brokerage operation.

Looking ahead, the Group expects to enjoy ongoing profit contributions from its partially-owned entertainment and leisure operation under EEH, as well as strong cash-flows through dividends distribution from EEH. The Group will also closely monitor the performance of all its business segments to maximise returns for its shareholders and investors.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September, 2006, the total external borrowings (excluding payables) amounted to approximately HK\$3,967.1 million and the Group maintained a debt to equity ratio of 44% (measured by total external borrowings as a percentage to the total 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 denominated in Hong Kong Dollars and their interest rates followed market rates. The Group's bank balances and cash were denominated in Hong Kong dollars and Renminbi. Since Renminbi is relatively stable, the Group had no material exposure to fluctuations in exchange rates.

STAFF COSTS

The total cost incurred for staff including directors' emoluments amounted to HK\$58.8 million during the Period as compared with HK\$151.3 million in the last corresponding period. The decrease was due to the disposal of non-core businesses on 31st March, 2006. The number of staff was approximately 300 as at the end of the Period.

ASSETS PLEDGED

Assets with carrying value of HK\$4,905.20 million were pledged as security for banking facilities.