

## MANAGEMENT DISCUSSION AND ANALYSIS

The period under review which ended 30th September, 2006 (the "Period") is the first six-month financial period during which Emperor Entertainment Hotel Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") have operated as a full-scale entertainment and leisure conglomerate.

Revenue soared by more than 7 times to approximately HK\$593.3 million during the Period, up from HK\$67.6 million in 2005. Profit attributable to shareholders rose 485% to approximately HK\$109.2 million, up from HK\$18.7 million previously. The surge in revenue and profit is mainly attributable to contributions from the Group's flagship project, Grand Emperor Hotel in the Macau Special Administrative Region and an appreciation of investment properties.

### OPERATION REVIEW

#### Hotel and gaming operations

Grand Emperor Hotel in Macau is the Group's flagship project. The hotel officially commenced business in January 2006 and was the first new hotel for Macau in the year 2006, in line with the Group's strategy to get in early in the fast growing and lucrative market. The Period marks the first period which recorded a full six-month operation of the hotel with its full-scale entertainment facilities. The results showed positive contributions from all segments.

The Grand Emperor Hotel is located at the heart of Macau's city centre, a short distance from the main ferry terminal and the casino landmark Hotel Lisboa. Targeting medium to high rollers, the Grand Emperor Hotel has 136,660 square feet of gaming space spreading over seven floors. It offers 348 slot machine seats and a total of approximately 90 gaming tables in the gaming concourse and VIP rooms, featuring mainly baccarat – the most popular table game in Macau.

The luxuriously designed hotel also provides comprehensive entertainment and dining facilities with a European-themed decor and 291 hotel rooms, including the fabulously appointed The Emperor Suite, which is more than 7,000 square feet in size.

## OPERATION REVIEW (Continued)

### Hotel and gaming operations (Continued)

The Group owns 45% of the project. With management control vesting in the Group and other stakeholders remaining passive investors, the project's financials are consolidated into the Group's balance sheet to provide transparency for the market and investors.

Since the commencement of business in January 2006, the hotel has quickly established its brand name in Macau, the world's second largest gaming market. Despite intensifying industry competition with the arrival of several new players in the market, the project recorded revenue of approximately HK\$532.1 million (2005: Nil), and profit reached approximately HK\$210.1 million, out of which approximately HK\$123.1 million was attributable to the appreciation of investment properties and HK\$87.0 million represented the segment's operating profit during the Period, as compared with a loss of HK\$10.6 million previously.

#### *Gaming Revenue*

Despite keen market competition, the Group's casino operations, run by licence holder Sociedele de Jogos de Macau, S.A., performed in line with management expectations. All segments had picked up quickly since the project launched in January 2006. Management expects continual improvement in its results when the hotel reaches its full capacity of 64 gaming tables in its gaming concourse and eight VIP halls.

#### Gaming Concourse

During the Period, the Group had 48 tables in operation in the mass market-targeted concourse, up from 44 tables as reported in the latest annual report. These tables had a gross win of approximately HK\$235.9 million, with an average win of approximately HK\$28,000 per table per day, up from approximately HK\$23,000 as reported in the latest annual report. Income for the Period was approximately HK\$94.3 million.

## OPERATION REVIEW (Continued)

### Hotel and gaming operations (Continued)

#### Slots

Slot machines recorded a gross win of approximately HK\$58.6 million from the operation of 348 slot seats, up from 333 seats as reported in the latest annual report. The slot machines returned an average win of approximately HK\$900 per seat per day, compared with approximately HK\$700 as reported in the latest annual report. Income for the Period was approximately HK\$18.2 million

#### VIP – Self-managed

The Group manages one of the eight VIP halls within the hotel. Supported by a decade-long operating experience in Macau, the six gaming tables of the Group in its VIP hall, all of which offer baccarat, recorded a rolling of approximately HK\$28.9 billion and an income of approximately HK\$288.1 million. Average win per table per day was approximately HK\$676,000, compared with approximately HK\$579,000 as reported in the latest annual report.

Win percentage (calculated before discounts and commissions) was 2.6%, compared with 2.7% as reported in the latest annual report. The win percentage is subject to short-term fluctuation but is rather steady in the long run based on historical industry averages.

#### Income from other VIP halls

The Group received rental contributions from the leasing of five VIP halls operated within the hotel. Revenue was approximately HK\$16.9 million during the Period.

## OPERATION REVIEW (Continued)

### Hotel and gaming operations (Continued)

#### *Non-gaming Revenue*

The Grand Emperor Hotel recorded HK\$71.7 million in non-gaming revenue, compared with HK\$26.8 million as reported in the latest annual report. This comprised mainly of contributions from hotel rooms, food and beverage, as well as rental income from sauna, night club and retail space operations on the ground floor of the hotel. All together, this segment reported earnings of approximately HK\$5.9 million during the Period, compared with a loss of HK\$2.4 million as of 31st March, 2006.

The 291 hotel rooms returned an average daily rate of approximately HK\$700 during the Period. Occupancy rate of the available guestrooms was 81%, compared with 64% reported in the latest annual report.

According to Macau Government Documentation and Information Centre, there were 12,411 hotel rooms in Macau as of 30th September, 2006, a 16.2% increase from the previous year, with an average occupancy rate of approximately 70%. Amid growing competition and increase in room supply, the Group managed to attract and retain hotel guests with its top-class attentive service and high-end entertainment and lodging facilities.

Revenue from food and beverage was approximately HK\$29.6 million, and rental income from sauna, night club and retail space operations was approximately HK\$7.3 million.

## OPERATION REVIEW (Continued)

### Cruise and cruise-related operations

Revenue from this segment came from the leasing and operation of cruise-related activities of Golden Princess, the Group's wholly-owned 12,704-ton cruise liner which provides entertainment, gaming and accommodation facilities.

From its cruise-related operations, the Group received revenue of approximately HK\$61.2 million during the Period, compared with HK\$67.6 million in 2005, and a profit of approximately HK\$15.2 million, compared with HK\$21.4 million previously. This segment continues to provide stable revenue and cash flow to the Group, despite a slight drop in earnings as the Group had been focusing its marketing and promotion efforts on its recently-launched Macau casino project.

### Property sales and development

This segment recorded no revenue during the Period, as its investment property project in Shanghai remains under development. The project recorded a loss of approximately HK\$1.8 million.

Located on a 22,870 square metre prime site in Yu Yuan, Shanghai, the project will be developed into a shopping arcade and service apartment complex. The main body of the complex will be a multi-storey shopping arcade, and the entire project is expected to have an area of more than 110,000 square metres.

The Group completed the foundation and basement excavation work for the development in October 2006. Basement construction is in progress. Construction has proceeded in line with management expectations.

## OPERATION REVIEW (Continued)

### Property sales and development (Continued)

The new M10 subway route – to be launched in 2009 – will be adjacent to the subject site and there will be entrances and exits connecting to and from our commercial complex. This is expected to boost pedestrian flow to our property and enhance the future commercial value of the development. The development project is scheduled to be completed in 2008.

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There is no change in the capital structure of the Company for the Period.

During the Period, the Group mainly funded its operations and capital expenditure through its internally generated cash flow from operations. As at 30th September, 2006, the bank borrowings which were denominated in Hong Kong dollar, secured, interest bearing and had fixed repayment term amounted to approximately HK\$270.4 million. The advances from related companies totaled approximately HK\$90.8 million, which were denominated in Hong Kong dollars, unsecured, non-interest bearing and repayable on demand. The advances from minority shareholders which were denominated in Hong Kong dollars, unsecured, non-interest bearing and repayable only when the subsidiaries have surplus fund were approximately HK\$491.4 million.

The Group's current assets and current liabilities as at the end of the Period were approximately HK\$545.2 million and HK\$385.1 million respectively. The gearing ratio of the Group (expressed as a percentage of total borrowings over total assets) decreased from 34% in the preceding financial year to 30%, which was mainly due to repayment of bank borrowings and advances from related companies during the Period.

## **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES** (Continued)

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, 2006 totaled approximately HK\$192.7 million, which were mainly denominated in Hong Kong dollars and Macau Pataca. With the borrowings and bank balances and cash on hand 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, 2006, the Group had total commitments of approximately HK\$43.6 million, of which approximately HK\$40.8 million was for a property development project in Shanghai and approximately HK\$2.8 million for purchase of property, plant and equipment. The Group also had a contingent liability of approximately HK\$438.5 million in respect of construction contracts entered into by the Group on behalf of a joint venture partner of a property development project in Shanghai.

## **PLEDGE OF ASSETS**

As at the end of the Period, assets with carrying values of approximately HK\$1.5 billion were pledged to a bank as security for a banking facility granted to the Group.

## NUMBER AND REMUNERATION OF EMPLOYEES

As at 30th September, 2006, the Group's number of employee was 1,093 (2005: 616). Total staff costs, including directors' remuneration, for the Period were approximately HK\$82.7 million (2005: HK\$22.4 million). All employees are under remuneration policy of fixed monthly salary with discretionary bonus.

To provide incentives or rewards to the staff, the Company adopted a share option scheme on 2nd September, 2002. During the Period, the Company did not grant any option under the share option scheme and the outstanding share options as at the end of the Period was a total of 10,000,000 share options granted to certain directors of the Company in preceding financial year.

## PROSPECTS

With the opening of Grand Emperor Hotel in Macau in January 2006, the Group has repositioned itself as a full-scale entertainment and leisure conglomerate, enjoying significant contributions from the new operation.

Benefited from the Group's experience and well-received brand name – especially in the important mainland China market – Grand Emperor Hotel has managed to quickly establish a significant presence in Macau. However, according to Macau Gaming Inspection and Coordination Bureau, there were 1,388 gaming tables in Macau as at the end of 2005 and 2,440 gaming tables as of 30th September, 2006. With the entry of new players and projects in Macau, market competition is expected to intensify. To strengthen the Group's foothold in the feverish market, management will remain dedicated to enhancing its entertainment facilities and providing attentive and differentiated services, to enlarge its pool of loyal customers, especially from the lucrative mid- to high-rollers.

The Group also anticipates increasing contributions when the mass market-targeted gaming concourse reaches its full capacity of 64 gaming tables, following an increased supply of dealers.



## PROSPECTS (Continued)

The Group has appointed reputable international consultants for the Shanghai property development to handle leasing management and revise the design of the shopping arcade, with a view to improving pedestrian flow within the complex and thus maximising the investment value of the project. The project is set to become a commercial landmark in Shanghai.

Looking ahead, the Group will continue to look for expansion possibilities with further utilisation of the Group's execution strength and rich assets in the entertainment and retail industries.

## NOTICE OF PAYMENT OF INTERIM DIVIDEND

### Interim Dividend

The board of directors (the "Board") declared the payment of an interim dividend of HK\$0.04 per share ("Dividend") for the Period (2005:HK\$0.01), amounting to approximately HK\$37.2 million. The Dividend will be paid on 26th January, 2007 (Friday) to shareholders whose names appear on Register of Members of the Company on 12th January, 2007 (Friday).

### Closure of Register of Members

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the Dividend, from 11th January, 2007 (Thursday) to 12th January, 2007 (Friday) (both days inclusive), during which period no share transfer will be effected.

In order to qualify for the Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 10th January, 2007 (Wednesday).