

Chairman's Statement



Chairman LIEN Jown Jing, Vincent

BUSINESS REVIEW

Overview of Results

The Group recorded an audited consolidated net loss attributable to shareholders of HK\$92.71 million, which was a deterioration of 34.8% from the net loss of HK\$68.80 million reported for the previous year.

Turnover fell during the year to HK\$97.80 million from HK\$176.28 million reported for the previous year, a decrease of 44.5%. This decline was attributable mainly to the decrease in entertainment event income and distribution and licence fee income, but partially offset by increases in advertising income and sale of cosmetic products. The significant decrease in other revenue for the year represented mainly the loss in interest income from Furama Hotel Enterprises Limited ("FHEL") on the debt of approximately HK\$1,500 million due from FHEL.

After including the profit of HK\$13.35 million generated by the discontinued operations of the Group's hotel management service operations, the loss before tax and minority interests of HK\$89.58 million for the year, compared with the loss of HK\$69.46 million for the previous year, can be attributed mainly to the loss recorded for the satellite television operation and the loss of interest income from FHEL.

Chairman's Statement

BUSINESS REVIEW (continued)

Overview of Results (continued)

As reported in the interim report of the Company for the year under review, on 29th January, 2003, Lai Sun Development Company Limited ("LSD"), the controlling shareholder of the Company, requested the Directors of the Company to put forward a proposal to the shareholders of the Company other than members of the LSD group regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK\$0.28 per share of the Company (the "Scheme"). At a meeting of the Scheme Shareholders convened at the direction of the Supreme Court of Bermuda and held on 30th April, 2003, the resolution for approving the Scheme was not approved in accordance with the relevant requirements under the Companies Act of Bermuda and The Hong Kong Code on Takeovers and Mergers. The Scheme could not be put into effect and hence had lapsed.

Sale of the Group's entire interest in HKATV.com Limited to LSD at a reduced consideration of HK\$33.58 million was completed on 25th July, 2003. A gain of HK\$30.29 million on this disposal was recorded by the Group.

In October 2003, the Group disposed of its entire interest in the hotel management contract for the Caravelle Hotel in Ho Chi Minh City, Vietnam, to LSD. Following this disposal, the Group no longer has any interest in hotel management contracts.

Satellite Television Operation

The momentum of stringent cost control measures had been maintained during the year and predetermined targets had been achieved. The operating results for the year had, however, been adversely affected by a provision for impairment of fixed assets amounting to HK\$21.01 million. As a result, this operation reported a loss of HK\$67.07 million for the year, compared with the loss of HK\$60.66 million in the previous year.

Since the last quarter of 2003, programmes produced by East Asia Satellite Television Limited ("EAST") have been offered to subscribers of NOW Broadband TV of PCCW Limited in Hong Kong for a monthly fee. The response so far has been encouraging.

Progress in the construction work of the EAST Television City in Macau Special Administrative Region was slower than previously anticipated due to new refinements to the overall design to accommodate perceived changes in market trends. It is expected that completion of the project may be slightly delayed.

Chairman's Statement

BUSINESS REVIEW (continued)

Film Production and Distribution

Following on the success of "Infernal Affairs", Media Asia Holdings Ltd. ("MAH"), the 49.77%-owned associate of the Group, launched two sequels to the film towards the end of 2003. Although box-office takings of both films were less prominent than the first film, gross takings were still above local industry average.

Apart from the MAH operation, the Group had also actively pursued the distribution of rights to films in the library of the Group to generate income. In August 2003, the Company acquired the perpetual rights, titles and interests to 31 films from MAH for a total consideration of HK\$124 million, payable in cash by instalments. The Group now owns a library of 127 films with worldwide and perpetual rights.

Entertainment

Despite the adverse impact of SARS during the first half of 2003, the entertainment industry recovered relatively quickly in the second half of the year. The level of activities of East Asia Entertainment Limited ("EAE") was, however, lower in 2003 than in 2002, having produced three shows and participated in twelve other shows in joint-ventures with other parties. With the exception of two events in which minor losses had been incurred, positive results had been recorded for all remaining events.

Distribution and licence fee income decreased to HK\$13.78 million from HK\$18.32 million last year but a gross profit of HK\$921,000 had nonetheless been achieved, compared with the loss incurred last year.

Overall, the media and entertainment segment of the Group recorded a profit of HK\$1.56 million for the year, which was an improvement on the loss of HK\$25.55 million in the previous year.

Chairman's Statement

PROSPECTS

EAST will press on with its business development plans while it awaits approval for a satellite television downlink licence from the relevant Mainland authorities. The two-pronged policy of further improving the quality of programmes produced by EAST and raising the cost-effectiveness rating in every procedure will be rigorously enforced. If the trend of subscription for programmes of EAST on the NOW Broadband TV network persists, it is anticipated that the audience base of EAST will reach the requisite critical mass earlier than expected.

MAH has drawn up a tight production schedule of eight to ten films for the year 2004 to capitalise on a revival in popularity of local films. The signing of the Closer Economic Partnership Arrangement between the Mainland and Hong Kong in 2003 and further relaxation of travel restrictions for residents of specific provinces and cities in the Mainland to visit Hong Kong should benefit the operations of MAH.

EAE will continue to participate actively in the production of pop concerts and entertainment shows in 2004. It is expected that the projected increase in inbound tourists from the Mainland and improvement in local consumer sentiment are two factors that will impact favourably on the operating results of EAE in the forthcoming year.

The debt of approximately HK\$1,500 million owed to the Group by FHEL (the "Debt"), originally due for repayment on 31st December, 2002, remains outstanding to date. LSD, which defaulted on both its convertible bonds and exchangeable bonds after 31st March, 2003, entered into a period of informal standstill since 1st April, 2003. During this period, the aforesaid bondholders and LSD's other creditors, including the Company, whilst reserving all of their rights, will resist taking action to enforce their respective security pending the outcome of the debt restructuring exercise involving LSD and all of its creditors. LSD has yet to reach an agreement with all of its creditors on the terms of such a debt restructuring. The Directors of the Company will continue to pursue the recovery of the Debt.

Chairman's Statement

LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS

As at 31st December, 2003, the Group had cash and cash equivalents of HK\$22,450,000, of which over 60% were denominated in Hong Kong dollar currency.

As at 31st December, 2003, bank borrowings of HK\$19,000,000 and HK\$5,000,000 which fall due within one year and the second year, respectively, are secured by the Group's land and buildings with an aggregate net book value of HK\$70,162,000 and are interest-bearing at 2.25% above HIBOR per annum. The Group also has other borrowings of HK\$45,200,000 which are unsecured, and will fall due within one year and bear interest at 1% per month. The loan from a related company of HK\$12,712,000 is unsecured, bears interest at HSBC prime rate per annum and has no fixed terms of repayment except for an amount of HK\$212,000 which is interest-free. The loans from directors of HK\$88,108,000 are unsecured, bear interest at HSBC prime rate per annum and have no fixed terms of repayment except for an amount of HK\$7,358,000 which is interest-free. In addition, the Group has finance lease payables of HK\$35,000 and HK\$42,000 which fall due within one year and over one year to five years, respectively, as at 31st December, 2003.

The Group's gearing is considered low, as the debt to equity ratio was only 10%, expressed as a percentage of total borrowings to total net assets. As at 31st December, 2003, the Group did not have any financial instruments for hedging purpose, or foreign currency net investment hedged by currency borrowings or other hedging instruments.

Future capital expenditures will mainly consist of the land and construction cost for the EAST-TV City in COTAI City in Macau. As at 31st December, 2003, the capital commitments contracted for in respect of this project amounted to HK\$21,979,000 (2002: HK\$42,441,000).

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities and other borrowings will be sufficient to fund its capital expenditure and working capital requirements.

Chairman's Statement

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 156 (as at 31st December, 2002: 137) employees as at 31st December, 2003. The increase in headcount is mainly due to the acquisition of Guangzhou Beautifirm Cosmetic Limited. The total staff costs including net pension contributions for the year was approximately HK\$47,157,000 (excluding directors' remuneration). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 25th November, 1996.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 37 to the financial statements.

MANAGEMENT AND STAFF

The year under review had witnessed some of the most dramatic volatilities in the local economy in recent years. My colleagues on the Board and I would like to offer our appreciation to the management and staff for their persevering spirit through such difficult times, and to our shareholders and business associates for their understanding and support.

Lien Jown Jing, Vincent

Chairman

Hong Kong

16th April, 2004