

Chairman's Statement



Chairman LIEN Jown Jing, Vincent

BUSINESS REVIEW

Overview of Results

Turnover for the year fell by 8% to HK\$141 million from HK\$152.8 million in 2004. The decrease is attributable mainly to the decline in revenue from entertainment event production and a reduction in advertising agency income; the reduction in these two major categories of income was partially offset by an increase in music production and distribution activities and an increase in sale of personal care products. While turnover fell, marketing and administrative expenses, including expenses related to the Cotai project, rose with the result that the loss from operating activities widened to HK\$67 million in 2005 from HK\$57 million in 2004.

The operating loss has been offset by a dramatically improved share of profits and losses of associates, amounting to HK\$295.5 million (2004: HK\$30.7 million). This dramatic improvement was due to a full year contribution from Lai Sun Development Company Limited ("LSD") which became an associate on 7th December, 2004. The contribution from our other major associate, Media Asia Entertainment Group Limited ("MAEG") fell due to the dilution of the Group's interest in MAEG on its issue of new shares in connection with its listing in Singapore and the 17% drop in MAEG's earnings in 2004.

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BUSINESS REVIEW (continued)

Overview of Results (continued)

The Group's profits attributable to equity holders of the parent in 2005 amounted to HK\$210.5 million which represents a sharp reversal of the loss (restated) of HK\$145.5 million recorded for 2004. We believe this reversal is a harbinger of the dramatic improvement that we expect in the longer term prospects of the Group.

Cotai Project

The Group has long been evaluating various possible development plans for its Cotai site and has held lengthy discussions with relevant interested parties, including international hotel groups, shopping mall developers, entertainment and related companies, and venue and arena management companies, as well as relevant parties from the financial and investment communities, at times seeking research and advice from consultants.

The current master development plan for our Cotai site, which will be subject to approval from the Macau authorities, encompasses the following elements: 2 hotels with a total of around 1,150 rooms, hotel apartments with a total gross floor area around 145,000 square metres, retail space of approximately 90,000 square metres and entertainment facilities of around 125,000 square metres in total, including a theatre with a seating capacity of around 2,500, an event centre/arena, television studio facilities and other entertainment facilities. Phase I involves the construction of some 340,000 square metres of gross floor area and Phase II approximately 215,000 square metres of gross floor area.

Media and Entertainment

During the year, the Group produced 6 events and participated and co-invested in 15 other events with various partners in Hong Kong. These 21 events involved a total of 138 shows. By comparison in 2004, the Group produced and co-invested in 13 events involving 109 shows in Hong Kong. In addition, we arranged 20 live entertainment events for various artists in Malaysia, the USA and the PRC in 2005 including Kelly Chen China Tour and Andy Lau Vision Tour.

Since the establishment of our music production and distribution business in July, 2004, the Group has produced and distributed 37 versions of albums for various artists, movie soundtracks, concerts and compilations as at 31st December 2005. These albums have been distributed across the region in Hong Kong, Malaysia, Taiwan, Singapore and the PRC. 32 albums were released in 2005, comparing to 5 titles in 2004.

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BUSINESS REVIEW (continued)

Satellite Television

In 2005, the Group produced over 660 hours of local production, plus 100 hours of syndication programs which were broadcast through NOW Broadband TV and Hong Kong Broadband Network Digital TV with aggregate homepass of over 600,000 residential subscribers by year-end 2005. EAST-TV has captured 9.4% and 8.8% of viewers on these two platforms respectively.

Film Production and Distribution

During 2005 MAEG released six films, and a TV series. *Initial D* and *Wait 'Til You're Older* were the two top grossing Chinese language films in Hong Kong in 2005 and were the only two Chinese language films to rank among the top ten films at the Hong Kong box office last year. *Initial D* actually was the top revenue generator at the Hong Kong box office in 2005 outperforming the several hyped Hollywood blockbusters released during the year. The strong performance of these two films, enabled us to maintain our top position in the Chinese language film market in Hong Kong where we gained market share in a contracting market.

Prospects

Cotai

Given the substantial development potential of our Cotai site, the Group has been carefully assessing alternative development plans so as to maximize its value. Given the value of the site, we intend to sell an interest in the entire site so as to provide capital for funding the equity portion of our share of the construction cost of the master development plan and also to provide capital for the development of other Group's businesses. We expect the project company will be able to raise debt and other financing for development against the security represented by the intrinsic value of the raw undeveloped land. Our site has increased exponentially in value since it was acquired in 2001 and we look for a further substantial increase in value after completion of the project.

As previously announced, we have been in negotiations with potential joint venture partners for the development of our site and we will make an announcement as soon as practicable after agreement is concluded.

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BUSINESS REVIEW (continued)

Media and Entertainment

The Group has scheduled in 2006 a total of 17 events with 106 live entertainment shows, with additional events currently under discussion. In addition, the Group has also planned 5 major international tours for various artists including Kelly Chen and Sammi Cheng in 7 countries.

The Group's music production and distribution arm currently represents artists including Leon Lai, Denise Ho, Michael Wong, Janice, and Charles Ying. In late 2005, the Group also entered into record production management agreements with Sammi Cheng and Andy Hui. The Group will continuously explore other exclusive distribution arrangements with singers and music groups.

Through MAEG, we have recently entered into an arrangement with CapitaLand and MGM Mirage under which we are assisting in their bid for Singapore's planned Integrated Resort at Marina Bay and we have also signed a memorandum of understanding, whereby, should they be awarded the right to develop this Integrated Resort, we shall be their entertainment partner for Asian content.

Satellite Television

The Group received approval in February 2006 from the State Administration of Radio, Film and Television in China for downlink rights to the Mainland. This approval represents an important new chapter for the satellite television business and an expansion targeting PRC audiences will be planned in close co-ordination with the Group's other media and entertainment operations.

In Hong Kong, the Group plans to strengthen its positioning both as a television channel service and a multimedia content provider. In March 2006 the Group and Sina.com (Hong Kong) Limited have jointly presented a new EAST TV portal on Sina TV at sina.com.hk and the Group is in discussion to provide content to IPTV and pay television operators in the Asia Pacific region.

Chairman's Statement

BUSINESS REVIEW (continued)

Associates

MAEG has five films scheduled for released in 2006 including, in the autumn, a film titled *The Banquet*, starring Zhang Ziyi, Daniel Wu and directed by Feng Xiaogang. MAEG is very excited by the prospects for this film which is its biggest co-production to date. MAEG has the distribution rights to the remake of its highly successful blockbuster *Infernal Affairs* by Warner Brothers, tentatively titled *The Departed*, and directed by Oscar-nominated Martin Scorsese, and starring Leonardo DiCaprio, Matt Damon and Jack Nicholson, for the Greater China markets of the PRC, Hong Kong and Taiwan. *The Departed* is likely to be released late in 2006 or early in 2007.

LSD's property investment income and income from hotel operations are expected to continue growing steadily. It aims to improve the return on its Hong Kong property investment portfolio and its hotel assets. In particular, it is assessing the redevelopment potential of the Ritz-Carlton Hong Kong site in the light of the strong demand for and limited new supply of prime office accommodation in Central.

POST BALANCE SHEET EVENTS

Details of post balance sheet events of the Group subsequent to the balance sheet date are set out in note 35 to the financial statements.

Chairman's Statement

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

As at 31st December, 2005, the Group had cash equivalents of HK\$177,080,000, of which about 97% were denominated in Hong Kong dollar currency.

As at 31st December, 2005, the bank borrowings of HK\$4,000,000 which fall due within one year, are secured by fixed charges over the Group's land and buildings with an aggregate net book value of HK\$66,292,000. The Group also has unsecured other borrowings from an ex-shareholder of the Company with principal amount of HK\$112,938,000 which bears interest at the HSBC prime rate per annum and is not repayable within one year. The Group recorded an interest accruals of HK\$13,536,000 for the other borrowings as at 31st December, 2005. In addition, the finance lease payables of HK\$162,000 fall due within a period of five years with HK\$29,000 fall due within one year, HK\$31,000 fall due within the second year and HK\$102,000 fall due within the third to fifth years, as at 31st December, 2005.

The Group's gearing remained at low level. The debt to equity ratio was only 6%, expressed as a percentage of total borrowings to total net assets as at 31st December, 2005. All of the Group's borrowings are denominated in Hong Kong dollars and the majority of which are floating rate debts. As at 31st December, 2005, the Group did not employ financial instruments for hedging purpose.

Future capital expenditures will mainly consist of the land premium and construction cost for the EAST-TV City in COTAI City in Macau. As at 31st December, 2005, the capital commitments contracted for in respect of this project amounted to HK\$155,000 (2004: HK\$36,633,000).

The Group believes that its cash holdings, together with the net proceeds from the recent placing of shares and available banking facilities will be sufficient to fund its working capital requirements.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 33 to the financial statements.

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EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 220 employees as at 31st December, 2005. The total staff costs including pension contributions for the year ended 31st December, 2005 were approximately HK\$49,317,000 (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 ("Existing Share Option Scheme") for its directors and employees on 25th November, 1996. Pursuant to an ordinary resolution passed at a special general meeting held on 23rd December, 2005, a new share option scheme was adopted in accordance with Chapter 17 of the Listing Rules (the "New Share Option Scheme"), and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. On the same date, the Existing Share Option Scheme was terminated.

MANAGEMENT AND STAFF

My colleagues on the Board and I would like to record our appreciation of the dedication and hard work of Management and all staff members during the year, and of the continued support of our shareholders and business associates.

Lien Jown Jing, Vincent
Chairman

Hong Kong
7th April, 2006