

Chairman's Statement



Chairman LIEN Jown Jing, Vincent

BUSINESS REVIEW

Overview of Results

For the year ended 31st December, 2006, the Group recorded a turnover of HK\$150,239,000 (2005: HK\$140,984,000), representing an increase of approximately 6.6% from the previous year. The increase was largely due to higher entertainment event income and distribution fee income from the film library.

For the year under review, the Group recorded a profit from operating activities of HK\$826,142,000, versus a loss from operating activities of HK\$67,042,000 in the previous year. The substantial turnaround in profit from operating activities was mainly due to a gain on sale of a 40% effective interest in the Macao Studio City project to our US joint venture partner, New Cotai, LLC ("New Cotai") and a gain on deemed disposal of interest due to placing of new shares by Lai Sun Development Company Limited ("LSD"). Administrative expenses were up by approximately 52.4% to HK\$134,396,000. Such sharp increase was mainly associated with the preliminary expenses of the Macao Studio City project and recognition of share-based payments.

Chairman's Statement

BUSINESS REVIEW (continued)

Overview of Results (continued)

For the year ended 31st December, 2006, the Group achieved a consolidated profit attributable to equity holders of HK\$1,150,068,000 (2005: HK\$210,468,000). Apart from the substantial turnaround in profit from operating activities, net profit was also boosted by the increase in the share of profits from associates. Share of profits and losses of associates was HK\$343,360,000 (2005: HK\$295,505,000), up approximately 16.2%. This is mainly contributed by LSD which has continued to benefit from reversionary rental income and from the strength of the hotel sector in Hong Kong, the investment property revaluation surplus and its share of the overwhelming results of the Group as a result of the cross-holdings between LSD and the Company.

Shareholders' equity as at 31st December, 2006 amounted to HK\$3,624,693,000, up from HK\$2,044,054,000 as at 31st December, 2005. Net asset value per share as at 31st December, 2006 was HK\$4.42, as compared to HK\$2.74 as at 31st December, 2005.

Corporate Developments

On 15th March, 2006, the Company entered into a share placing agreement pursuant to which the Company issued 74,518,000 new shares at a placing price of HK\$5.8 per share and raised net proceeds of approximately HK\$425,000,000. Following the issue of the new shares by the Company, the total number of issued shares of the Company increased to 819,702,929 shares. As a result, LSD, which held a 38.31% interest in the Company prior to the issue of such new shares, had its interest in the Company diluted to 34.83%.

On 17th November, 2006, LSD entered into a share placing agreement pursuant to which LSD issued 1,416,000,000 new shares at a placing price of HK\$0.36 per share and raised net proceeds of approximately HK\$504,000,000. Following the issue of the new shares by LSD, the total number of issued shares of LSD increased to 14,162,042,320 shares. As a result, the Company, which held a 40.80% interest in LSD prior to the issue of such new shares, had its interest in LSD diluted to 36.72%.

Macao Studio City

The Group has made remarkable progress in the development of the Macao Studio City project. Since early 2006, the Group successfully negotiated and lined up "best of breed" world-class partners for development of this mega-sized project in Cotai, Macau.

Chairman's Statement

BUSINESS REVIEW (continued)

Macao Studio City (continued)

Macao Studio City will be Asia's first leisure resort property combining working TV/film studios, theatre/concert venues, Studio Retail™ (a destination retail complex), Las Vegas style gaming facilities and world-class hotels. The project will be developed on an approximately 35-acre site strategically located "Where Cotai Begins™", next to the new Lotus Bridge immigration checkpoint, linking the complex directly to Zhuhai's Hengqin Island. The architectural plan of Macao Studio City is designed by visionary Las Vegas-based design expert Mr. Paul Steelman.

Cyber One was granted land-use rights in respect of the site of Macao Studio City in October 2001 with land leasehold term renewable to 2049. In December 2006, Cyber One received approval from the Macao government in respect of the modification of the intended land usage of gross floor area of 3,659,760 square feet ("Phase I Land Modification").

In April 2006, the Group announced the sale of a 40% interest in Cyber One, the investment holding company of Macao Studio City, to our US joint venture partner, New Cotai. New Cotai is a consortium of US-based investors including Mr. David Friedman (a veteran resort and gaming developer), Silver Point Capital, L.P., and Oaktree Capital Management, LLC. Such sale to New Cotai was completed in December 2006.

In January 2007, the Group announced the sale of 33.3% of East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)"), the holding company of a 60% interest in Cyber One, to CapitaLand Integrated Resorts Pte. Ltd. ("CapitaLand Integrated Resorts"). CapitaLand Integrated Resorts is a wholly-owned subsidiary of CapitaLand Limited ("CapitaLand Group"), one of the largest listed real estate companies in Asia. Such sale to CapitaLand Group was completed in March 2007.



Macao Studio City
(artist impression)



Macao Studio City
Ground Breaking Ceremony in Cotai, Macau SAR on 10th January, 2007



Macao Studio City at night
(artist impression)



Chairman's Statement

BUSINESS REVIEW (continued)

Macao Studio City (continued)

Both the consideration of the sale of interests in Macao Studio City to New Cotai and CapitaLand Group was based on HK\$900 per square feet of GFA approved. In December 2006, the Group received from New Cotai the first sale consideration of HK\$1,317,513,600 based on the currently approved GFA under Phase I Land Modification. In March 2007, the Group received from the CapitaLand Group the first sale consideration of HK\$658,756,800 based on the current approved GFA under Phase I Land Modification. The Group will receive further sale considerations from New Cotai and the CapitaLand Group once additional GFAs are approved by the Macao government. Following completion of the sale to New Cotai and the CapitaLand Group, the Group retains a 40% effective interest in the Macao Studio City project.

In January 2007, the Group also announced the entering into of various memoranda of understanding ("MOUs") regarding the Studio Retail™ and hotel components of Macao Studio City. Under the retail MOU, Taubman Asia Management Limited ("Taubman Asia") will be the retail component partner of Macao Studio City. Taubman Asia is a subsidiary of Taubman Centers, Inc., a global leader of the shopping centre industry. Under the hotel MOUs, Macao Studio City will build a luxury Ritz-Carlton hotel, a first-class Marriot hotel and a new super-luxury boutique hotel under the brand "The Tang Hotel", which will be designed by Mr. David Tang, founder of the China Clubs and Shanghai Tang. All these retail and hotel MOUs are subject to definitive legally binding agreements.

The Group believes that with the track record and international experience of the joint venture partners and component partners, Macao Studio City will provide visitors with a new and unique experience on its world-class leisure resort facilities.

Media and Entertainment

Film Production and Distribution — Media Asia Entertainment Group Limited ("MAEG")

For the year ended 31st December, 2006, MAEG, in which the Group currently holds a 37.33% interest, reported a turnover of HK\$186,251,000 (2005: HK\$233,607,000) and a net profit attributable to equity holders of HK\$6,865,000.

Chairman's Statement

BUSINESS REVIEW (continued)

Media and Entertainment (continued)

Film Production and Distribution — Media Asia Entertainment Group Limited (“MAEG”) (continued)

In 2006, MAEG released a total of five films, being *Two Become One*, *Isabella*, *The Banquet*, *Exiled* and *Confession of Pain*, compared to a total of six films and a TV series in 2005. In October 2006, MAEG also distributed *The Departed*, an English-language remake by Warner Brothers of its highly-successful *Infernal Affairs*. *Isabella* won the Silver Bear award for Best Film Music at the 56th Berlin International Film Festival in 2006. *The Departed* won four top Oscar awards including best picture, best director, best editing and best adapted screenplay in the 79th annual Academy Awards in 2007.

As the mega-budget productions generated mixed results in different markets in 2006, total revenue and gross profit fell by 20.3% and 51.6% respectively as compared to 2005 when substantial revenue resulting from the major success of its big budget film *Initial D* was recorded.

Film Library

At 31st December, 2006, the film rights of the Group represented mainly all rights, titles and interests in 127 films (the “127 Film Rights”) with an aggregate carrying value of approximately HK\$134 million (2005: HK\$187 million).

The Directors of the Company have reassessed the projected revenues and estimated residual value of the film rights owned by the Group, taking into account current business environment and conditions, the expected pattern of inflow of economic benefits and with reference to a professional valuation. This reassessment has resulted in a decrease in the carrying value of film rights by HK\$39,000,000 which was recognised as the impairment loss of film rights in the consolidated income statement for the year ended 31st December, 2006

Live Entertainment

In 2006, the Group's live entertainment division produced 13 concerts and entertainment events by popular local and Asian artistes including Sun Yanzi, F4, Michael Wong, Jim Shui Man, Leehom Wang, Jolin Tsai, Emil Chau, Chang Hsin Che, Richie Jen, Huang Pin Yuen, Paul Wong, Denise Ho, At 17 and Soler. The Group also participated in 21 other concerts and entertainment events in joint venture with other producers. In total, these concerts and events involved 156 shows.

Chairman's Statement

BUSINESS REVIEW (continued)

Media and Entertainment (continued)

Music Production and Distribution

In 2006, the Group's music production and distribution divisions released 37 albums, including titles for *Our Time has Come* by Denise Ho, *Do u know* by Janice, *Diamond Love and Hit me* by Jill, *約定* by Michael Wong, *Looking* by Leon Lai, *In the name of* by Andy Hui, *Honey* by Stephanie Cheng.

Satellite Television

In 2006, the Group's EAST-TV satellite television division maintained its focus on cost control and improving programme quality. EAST-TV focused on local production to create a library of original content for programme sales. The content mix in 2006 was 52% lifestyle content, 23% music programmes, 13% cooking programmes and 12% topical feature programmes. In 2006, EAST-TV completed over 900 hours of local production.

In China, the State Administration of Radio, Film and Television granted a downlink license to EAST-TV in early 2006. The Group plans to distribute its programmes to hotels, expatriate residences and other permitted audiences in China via satellite.

Lai Sun Development Company Limited

In 2006, LSD continued to benefit from reversionary rental income and from the strength of the hotel sector in Hong Kong, the investment properties revaluation surplus and its share of the overwhelming results of the Group as a result of the cross-holdings shareholdings between LSD and the Company.

PROSPECTS

Overall

Our Macao Studio City project will dramatically transform the Group's businesses. Given its mega-scale and its unique positioning in Macau — a new integrated leisure, convention and retail centre in Asia, we expect Macao Studio City will stand as the major entertainment destination for visitors from Greater China and other parts of the world. It will become an important platform for the Group to expand and monetarize its entertainment and media expertise. Upon its completion, the Group will become an operator of integrated leisure and entertainment venues as well as a provider of media and entertainment contents and services.

Chairman's Statement

PROSPECTS (continued)

Macao Studio City

The joint venture shareholders and component partners provide the project with world-class expertise in different areas. New Cotai brings the experience of Mr. David Friedman, a pioneer of the gaming industry in Las Vegas and Macau, and the financial expertise of Silver Point Capital L.P. and Oaktree Capital Management, LLC. CapitaLand Group brings to the project its world-wide real estate, hospitality and real estate financial services expertise. Their strength complements the Group's strong position in the media and entertainment sector.

The Macao Studio City joint venture is financially strong because the land title represents a very substantial equity base and in addition, the joint venture partners have agreed to provide their respective pro rata share of an initial working capital of US\$100 million. The joint venture intends to tap the international capital markets in the middle of 2007 to raise debt financings to fund its construction and development costs.

Further to the already approved GFA of 3,659,760 square feet under the Phase I Land Modification, the joint venture intends to submit an application to the Macao government later this year to further increase the GFA to 6,000,000 square feet.

According to the current plan, foundation work will start in the second quarter of 2007 and construction of the superstructure is expected to commence in the fourth quarter of 2007. Phase I of the project is scheduled to open in 2009.

Media and Entertainment

In the coming year, the Group will seek to consolidate its position in the media and entertainment industry.

Film Production and Distribution

On 26 February, 2007, the Group proposed a voluntary cash offer to purchase further shares in and the privatisation of MAEG. Subject to the completion of the privatisation, the Group would be able to enjoy greater autonomy over MAEG's business direction and better control over deployment and utilization of resources. The increase in the Group's interest in MAEG will enhance the Group's media and entertainment business portfolio and promote synergies with other business units of the Group including the artiste management and the upcoming Macao Studio City development.

Chairman's Statement

PROSPECTS (continued)

Film Production and Distribution (continued)

On the business front, MAEG has a number of big-budget films scheduled for release in the coming years and it also hopes to increase its yearly total investments in film production, subject to the availability of suitable scripts.

Entertainment and Music Production

With a view to enhancing its market position in the local music industry, the Group signed new ventures and artiste management deals with Miriam Yeung and Edison Chen.

In the coming year, the live entertainment division of the Group has already scheduled its own production of 7 concerts and entertainment events by popular local artistes and participation in other parties' production of 8 other concerts, already involving around 65 shows in total.

In the coming year, the music production and distribution division of the Group plans to release albums which are comparable to the year 2006 by local singers, including those from Denise Ho, Janice, Jill, Leon Lai, Andy Hui, Miriam Yeung and Edison Chen.

Lai Sun Development Company Limited

The major project in 2007 for LSD is the preparation for the possible re-development of The Ritz-Carlton Hong Kong site into prime office premises. In January and February 2007, LSD announced its acquisition of an additional 7.44% effective interest in The Ritz-Carlton Hong Kong, increasing its effective ownership to 72.44%. Such increase in ownership provides an opportunity for LSD to capture the future potential of the possible redevelopment of The Ritz-Carlton Hong Kong. The potential redevelopment is expected to enhance asset value as well as rental yield on such prime property.

The Group believes that LSD's continual drive to improve return from its property and hotel portfolio will yield fruitful results in future.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group subsequent to the balance sheet date are set out in note 34 to the financial statements.

Chairman's Statement

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

As at 31st December, 2006, cash and cash equivalents held by the Group amounted to HK\$861,454,000 of which over 99% were denominated in Hong Kong dollar currency.

As at 31st December, 2006, the unsecured other borrowings from a former shareholder of the Company with the principal amount of HK\$112,938,000 is interest-bearing at the HSBC prime rate per annum, and is not repayable within one year. The Group recorded interest accruals of HK\$22,461,000 for the other borrowings as at 31st December, 2006. In addition, certain land and buildings of the Group with a carrying amount of HK\$64,357,000 were pledged to a bank to secure general banking facilities granted to the Group. As at 31st December, 2006, the general banking facilities were not utilised by the Group. Also, the Group has finance lease payables of HK\$31,000 falling due within one year, HK\$34,000 fall due within the second year and HK\$68,000 fall due within the third to fifth years, as at 31st December, 2006.

The Group's debt to equity ratio, expressed as a percentage of total borrowings to total net assets, remained low at approximately 4% as at 31st December, 2006. All of the Group's borrowings are denominated in Hong Kong dollars and the majority of which are floating rate debts. No financial instruments for hedging purposes were employed by the Group during the year under review.

The Group believes that its cash holdings and the 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 32 to the financial statements.

Chairman's Statement

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 250 employees as at 31st December, 2006. The total staff costs including share-based payment and pension contributions for the year ended 31st December, 2006 were approximately HK\$68,039,000 (excluding director's 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 23rd December, 2005.

MANAGEMENT AND STAFF

On behalf of the Board, I wish to thank all staff members and Management for their determined effort in achieving the encouraging results for the year. The Board would also like to record a vote of thanks to Mr. Lee Po On, who resigned from the Board on 22nd January, 2007, for his valuable contributions to the growth and development of the Company during his tenure of office. The support of our shareholders and business associates during the year is also deeply appreciated.

Lien Jown Jing, Vincent
Chairman

Hong Kong
23rd March, 2007