

Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the development and operation of and investment in media, entertainment, music production and distribution, Internet and technology-oriented businesses, the provision of advertising agency services, satellite television operations and sale of cosmetic products. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

Details of the profit of the Group for the year ended 31st December, 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 83.

No interim dividend was paid or declared in respect of the year ended 31st December, 2004 (2003: Nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2004 (2003: Nil).

DIRECTORS

The Directors of the Company who were in office during the year and those as at the date of this report are as follows:

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Lim Por Yen (retired at Annual General Meeting held on 25th May, 2004)

Liu Ngai Wing

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Shiu Kai Wah

Chiu Wai

Alfred Donald Yap*

Low Chee Keong*

Tong Ka Wing, Carl* (appointed on 30th September, 2004)

* *Independent non-executive Directors*

In accordance with Bye-law 87 of the Company’s Bye-laws, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Liu Ngai Wing will retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election.

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DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company, or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

CONNECTED TRANSACTION

On 28th June, 2004, the Company, Golden Pool Enterprise Limited, a wholly-owned subsidiary of the Company, Lai Sun Development Company Limited ("LSD") and Furama Hotel Enterprises Limited, a wholly-owned subsidiary of LSD entered into an agreement concerning the settlement of an amount due from Furama Hotel Enterprises Limited of HK\$1,500,040,000.

Since LSD is a substantial shareholder of the Company, the above transaction constituted a connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further details of the transaction are set out in note 19 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Disclosure pursuant to Chapter 13 of the Listing Rules ("Chapter 13")" on pages 14 to 17, and in the notes to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in notes 6 and 19 to the financial statements, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed below, during the year and up to the date of this report, the following Directors of the Company are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Mr. Lim Por Yen who was a director before he retired at the Annual General Meeting on 25th May, 2004, held personal interest in Media Asia Entertainment Group Limited ("MAEG"), a company incorporated in Bermuda. MAEG is based in Hong Kong and its principal activities are the production and distribution of films. Mr. Lim Por Yen disposed of his interest in MAEG on the listing of MAEG in Singapore in November 2004.

Mr. Lam Kin Ngok, Peter and Mr. Lee Po On were directors of MAEG during the year but ceased to be directors of MAEG in September 2004.

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DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

Mr. Lam Kin Ming is a director and the controlling shareholder of Big Honour Investment Ltd. ("Big Honour") (a private company incorporated in Hong Kong). The principal activities of Big Honour are the production of pop concerts and management of artistes.

As the Board is independent from the boards of the aforesaid companies and none of the above Directors of the Company can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from the businesses of, the aforesaid companies.

DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13")

(A) Financial assistance and guarantees to affiliated companies (Rule 13.16 of Chapter 13)

At 31st December, 2004, there were 671,184,929 shares of the Company (the "Shares") in issue. Based on the average closing price of the Shares of HK\$1.376 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31st December, 2004, the total market capitalisation (the "Total Market Capitalisation") of the Company was HK\$923,550,462.

In compliance with Rule 13.16 of Chapter 13, details of the financial assistance and guarantees given to the following affiliated companies of the Group at 31st December, 2004 which in aggregate has exceeded 8% of the Total Market Capitalisation are set out below:

Name of affiliated companies	Percentage of Group's attributable interests	Financial assistance HK\$'000	Guarantee HK\$'000	Total HK\$'000	Notes
East Asia Record Production Company Limited	50	1,500	—	1,500	(a)
Lai Sun Development Company Limited ("LSD")	40.8	225,000	25,000	250,000	(b), (c)
Much Entertainment Limited	50	460	—	460	(a)
The Artiste Campus International Limited	50	15,679	—	15,679	(d)
		242,639	25,000	267,639	

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DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES (“CHAPTER 13”) (continued)

(A) Financial assistance and guarantees to affiliated companies (Rule 13.16 of Chapter 13) (continued)

Notes (continued):

- (a) All balances due are unsecured, interest-free and have no fixed terms of repayment.
- (b) The loan was provided to Furama Hotel Enterprises Limited, a wholly-owned subsidiary of LSD. The loan bears interest at a rate of 4.5% per annum, payable semi-annually and is repayable in five years from 7th December, 2004. The loan was guaranteed by LSD and secured by the following:
- (i) a second charge over LSD's 65% indirect equity interest in Diamond String Limited (“Diamond String”), which wholly owns the Ritz-Carlton, Hong Kong. The charge is shared with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (collectively referred to as the “Bondholders”) on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the first charge over the shares of Surearn Profits Limited (“Surearn”) as mentioned below); and
- (ii) a first charge over LSD's 100% indirect interest in Surearn, which owns a 65% equity interest of Diamond String, and, by way of security, an assignment of all shareholders' loans owed by Surearn to the LSD group. The charge and assignment are shared with the Bondholders on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the second charge over the shares of Diamond String as detailed above).
- (c) In connection with the Reorganisation Agreement as described in note 19 to the financial statements, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. (“GIGC”) to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.
- GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the “Land”) on which the golf club is situated, which showed unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.
- The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use rights certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK\$25,000,000. The Group also disclosed details of this indemnity in note 36 to the financial statements.
- (d) The advance is unsecured, bears interest at a rate of 1% above the prime rate quoted by Hongkong and Shanghai Banking Corporation Limited per annum and has no fixed terms of repayment.

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DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13") (continued)

(B) Financial assistance and guarantees to affiliated companies (Rule 13.22 of Chapter 13)

In compliance with Rule 13.22 of Chapter 13, the proforma combined balance sheet of these affiliated companies at 31st December, 2004 is disclosed as follows:

	HK\$'000
Fixed assets	1,342,751
Investment properties	3,425,400
Interests in associates	1,007,417
Long term investments	359,542
Pledged bank balances	41,202
Other non-current assets	8,882
Net current assets	<u>15,001</u>
Total assets less current liabilities	<u>6,200,195</u>
Interest-bearing bank and other borrowings	(2,365,072)
Provision for premium on loan repayment	(22,344)
Deferred tax	(40,856)
Long term rental deposits received	<u>(34,248)</u>
Total non-current liabilities	<u>(2,462,520)</u>
Minority interests	<u>(409,853)</u>
	<u>3,327,822</u>
CAPITAL AND RESERVES	
Issued capital	6,373,025
Share premium account	5,858,164
Other reserves	3,202,889
Accumulated losses	<u>(12,106,256)</u>
	<u>3,327,822</u>

As at 31st December, 2004, the Group's consolidated attributable interest in these affiliated companies amounted to HK\$1,356 million.

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DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES (“CHAPTER 13”) (continued)

(C) Advance to an entity (Rule 13.13 of Chapter 13)

In compliance with Rule 13.13 of Chapter 13, details of the advance made to the following entity by the Company as at 31st December, 2004 which individually has exceeded 8% of the Total Market Capitalisation is set out below:

Name of entity	Percentage of Group's attributable interest	Financial assistance HK\$'000	Note
Furama Hotel Enterprises Limited (“FHEL”)	40.8	225,000	(a)

Note:

- (a) In June, 2000, the Company and LSD entered into a reorganisation agreement (the “Reorganisation Agreement”) whereby certain assets of the respective parties were exchanged, which also resulted in the Development Agreement (as defined in note 19 to the financial statements) being cancelled. Accordingly, the prepaid consideration of HK\$1,900,000,000 became immediately due from FHEL, a wholly-owned subsidiary of LSD, to Golden Pool Enterprise Limited (“GPEL”), a wholly-owned subsidiary of the Company. This amount was reduced by approximately HK\$400 million, being the net settlement by the Group in accordance with the Reorganisation Agreement. The net amount due from FHEL was therefore reduced to HK\$1,500,040,000 (the “Debt”).

On 28th June, 2004, the Company, GPEL, FHEL and LSD entered into an agreement (the “Settlement Agreement”) concerning the settlement of the Debt. One of the principal terms of the Settlement Agreement included the extension of a five year interest-bearing term loan of HK\$225,000,000 by the Group to FHEL. The loan bears interest at a rate of 4.5% per annum, payable semi-annually and is repayable in five years from 7th December, 2004. The loan was guaranteed by LSD and secured by the following:

- (i) a second charge over LSD's 65% indirect equity interest in Diamond String Limited (“Diamond String”), which wholly owns the Ritz-Carlton, Hong Kong. The charge is shared with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (collectively referred to as the “Bondholders”) on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the first charge over the shares of Surearn Profits Limited (“Surearn”) as mentioned below); and
- (ii) a first charge over LSD's 100% indirect interest in Surearn, which owns a 65% equity interest of Diamond String, and, by way of security, an assignment of all shareholders' loans owed by Surearn to the LSD group. The charge and assignment are shared with the Bondholders on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the second charge over the shares of Diamond String as detailed above).

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BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Lien Jown Jing, Vincent, Chairman, aged 44, first joined the Board as an independent non-executive Director in August 1998 and was later appointed an executive Director and elected the Chairman of the Company in December 1999. He has over 10 years' experience in banking and corporate finance in Hong Kong, China, Singapore and South-east Asia, having held various senior positions at different major multinational banking institutions.

Mr. Lee Po On, Chief Executive Officer, aged 49, was appointed an executive Director and Chief Executive Officer of the Company in March 2000. Mr. Lee joined the Lai Sun Group in November 1987. He is a director of Lai Sun Garment (International) Limited and Lai Fung Holdings Limited. Mr. Lee is a Fellow of the Association of Chartered Certified Accountants.

Mr. Lam Kin Ngok, Peter, aged 47, was appointed an executive Director of the Company in October 1996. He is also a deputy chairman of Lai Sun Garment (International) Limited ("LSG"), the chairman and president of Lai Sun Development Company Limited ("LSD"), a director of Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of the late Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming. Mr. Lam does not have a service contract with the Company and will receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Liu Ngai Wing, aged 54, was appointed an executive Director of the Company in November 1998. He is also an independent non-executive director of Hang Fung Gold Technology Limited, Climax International Company Limited, Jackley Holdings Ltd. and Daiwa Associate Holdings Limited, all being listed companies in Hong Kong. Mr. Liu holds a Master Degree in Business Administration, a Master of Science Degree in Hotel and Tourism Management and a Master of Science Degree in Global Business, and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Liu has a service contract with the Company and he is currently entitled to annual emoluments of HK\$2,100,000 and a discretionary bonus, to be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions. Mr. Liu does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Non-Executive Directors

Mr. Lam Kin Ming, aged 67, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Lam is also a deputy chairman of Lai Sun Garment (International) Limited ("LSG") and has been involved in the day-to-day management of the garment business since 1958. He is also the deputy chairman of Crocodile Garments Limited and Lai Fung Holdings Limited and a director of Lai Sun Development Company Limited ("LSD"). LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Lam is a son of the late Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

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BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Non-Executive Directors (continued)

Miss Tam Wai Chu, Maria, G.B.S., C.B.E., J.P., aged 59, was appointed to the Board in October 2000. Miss Tam is a member of the Hong Kong Bar Association having been called to the Bar at Gray's Inn in England in 1972 and admitted into practice in Hong Kong in 1973. She has been closely involved in community and public administration services in Hong Kong since 1979 and has served on an extensive number of public and government bodies. Miss Tam is a member of the Basic Law Committee of Hong Kong Special Administrative Region, and a deputy to the National People's Congress. In addition to her other current community duties, she is also a board member of the Airport Authority of Hong Kong and a board member of the Urban Renewal Authority, and the president of Hong Kong Police Force Junior Police Officers' Association. Miss Tam sits on the boards of a number of publicly listed and private companies in Hong Kong.

Madam U Po Chu, aged 80, is a non-executive Director of the Company and was first appointed to the Board in October 1996. She is also a non-executive director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD") and Crocodile Garments Limited, and an executive director of Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Madam U has about 60 years' experience in the garment manufacturing business and has been involved in the printing business since the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and also became involved in property development and investment in the late 1980's. She is the widow of the late Mr. Lim Por Yen. Madam U does not have a service contract with the Company and will receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Shiu Kai Wah, aged 72, is a non-executive Director of the Company and was first appointed to the Board in October 1996. He is also a director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD"), Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Shiu has over 30 years' experience in the management of the garment business.

Mr. Chiu Wai, aged 74, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Chiu is also a director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD"), Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Chiu has close to 50 years' experience in production management, having worked for the Lai Sun Group's garment business since 1955.

Mr. Alfred Donald Yap, J.P., aged 66, is an independent non-executive Director of the Company and was first appointed to the Board in December 1996. Mr. Yap is presently a consultant of K. C. Ho & Fong, Solicitors and Notaries. Mr. Yap is a former president of The Law Society of Hong Kong and past president of The Law Association for Asia and the Pacific (LAWASIA). Mr. Yap is also a former Hong Kong Affairs Adviser appointed by the Chinese Government.

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BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Non-Executive Directors (continued)

Mr. Low Chee Keong, aged 44, was appointed an independent non-executive Director of the Company in August 1999. Mr. Low has been a member of the Chartered Institute of Marketing of the United Kingdom since 1986. He has over 10 years' experience in the property development and maintenance industry in Singapore, and is currently the managing director of Hong Siong Holding Pte Ltd..

Mr. Tong Ka Wing, Carl, aged 54, was appointed an independent non-executive Director of the Company in September, 2004. Mr. Tong is currently the managing director and chief executive officer of Creative Master Bermuda Limited, a company listed on the main board of the Singapore Exchange Securities Trading Limited. Mr. Tong is a member of the Hong Kong Institute of Certified Public Accountants and he qualified as a Chartered Accountant of England and Wales in 1981. He has over 20 years' experience in corporate management.

SHARE OPTION SCHEME

Details of the Company's share option scheme are included in note 31 to the financial statements.

In compliance with the provisions of Chapter 17 of the Listing Rules, appropriate amendments will be made to items (b) and (d) in note 31 to the financial statements and other terms and conditions of the share option scheme should the Company continue to grant options under the existing scheme.

DIRECTORS' INTERESTS

As at 31st December, 2004, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

The Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares		Total	Percentage
			Corporate Interests	Capacity		
Lien Jown Jing, Vincent	931,800	Nil	Nil	Beneficial owner	931,800	0.14%
Lee Po On	5,195,934	Nil	Nil	Beneficial owner	5,195,934	0.77%
Lam Kin Ngok, Peter	Nil	Nil	285,512,791 (Note)	Beneficial owner	285,512,791	42.54%
Liu Ngai Wing	3,321,215	Nil	Nil	Beneficial owner	3,321,215	0.49%

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DIRECTORS' INTERESTS (continued)

Note: Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in the Company. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 12.42% in the issued ordinary share capital of LSD. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his deemed interest in approximately 33.73% of the issued share capital of LSG. In addition, Mr. Lam Kin Ngok, Peter was taken to be interested in approximately 29.81% of the issued ordinary share capital of LSD as he granted the Bondholders (as defined in LSD's circular to its shareholders dated 15th September, 2004) of LSD on 7th December, 2004, a non-assignable right to put to him 3,800,040,000 shares in LSD in two tranches (first tranche: 1,000,600,000 shares exercisable during the period from 8th February to 7th March, 2005; second tranche: 2,799,440,000 shares exercisable during the period from 1st November to 30th November, 2005). Mr. Lam Kin Ngok, Peter was therefore deemed to be interested in the interest of LSD in the Company.

Save as disclosed above, as at 31st December, 2004, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme disclosed above and in note 31 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st December, 2004, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Long positions in the shares			Percentage
	Capacity	Nature (Note 1)	Number of Shares	
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate	285,512,791 (Note 2)	42.54%
Lam Kin Ngok, Peter	Beneficial owner	Corporate	285,512,791 (Note 3)	42.54%
Silver Ace Limited	Beneficial owner	Corporate	36,879,000 (Note 4)	5.49%
Lagonda Resources Limited	Beneficial owner	Corporate	36,879,000 (Notes 4 and 5)	5.49%
Li Chi Keung	Beneficial owner	Corporate & Family	36,879,000 (Notes 4 and 6)	5.49%
Wong Hoi Ping	Beneficial owner	Corporate & Family	36,879,000 (Notes 4 and 7)	5.49%
Lovendale International Inc.	Person having a security interest in shares	Corporate	285,512,791 (Note 4)	42.54%
Onshine Finance Limited	Person having a security interest in shares	Corporate	100,000,002 (Note 4)	14.90%

Notes:

1. Family and corporate denote family interest and corporate interest respectively.
2. This interest has been pledged to a non-qualified lender by way of security.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

(continued)

Notes (continued):

3. Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in the Company. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 12.42% in the issued ordinary share capital of LSD. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his deemed interest in approximately 33.73% of the issued share capital of LSG. In addition, Mr. Lam Kin Ngok, Peter was taken to be interested in approximately 29.81% of the issued ordinary share capital of LSD as he granted the Bondholders (as defined in LSD's circular to its shareholders dated 15th September, 2004) of LSD on 7th December, 2004, a non-assignable right to put to him 3,800,040,000 shares in LSD in two tranches (first tranche: 1,000,600,000 shares exercisable during the period from 8th February to 7th March, 2005; second tranche: 2,799,440,000 shares exercisable during the period from 1st November to 30th November, 2005). Mr. Lam Kin Ngok, Peter was therefore deemed to be interested in the interest of LSD in the Company.
4. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.
5. Lagonda Resources Limited was taken to be interested in 36,879,000 shares in the Company beneficially owned by Silver Ace Limited due to its corporate interests therein.
6. Mr. Li Chi Keung was taken to be interested in 36,879,000 shares in the Company by virtue of his corporate and family interests in Silver Ace Limited.
7. Ms. Wong Hoi Ping was taken to be interested in 36,879,000 shares in the Company by virtue of her corporate and family interests in Silver Ace Limited.

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of equity derivatives of the Company as at 31st December, 2004.

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PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors at the date of this report, the Company is in compliance with the sufficiency of public float requirements under the Listing Rules during the year ended 31st December, 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 2004, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31st December, 2004, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK\$2,888,269,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 55% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19%.

Other than Mr. Lim Por Yen who was a director before he retired at the Annual General Meeting on 25th May, 2004, and who owned an approximate 1.96% equity interest in a listed company which is one of the major customers of the Group, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

Results

	Year ended 31st December,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<u>152,781</u>	<u>97,804</u>	<u>176,278</u>	<u>84,376</u>	<u>206,948</u>
PROFIT/(LOSS) BEFORE TAX	<u>50,313</u>	<u>(89,575)</u>	<u>(69,460)</u>	<u>(179,423)</u>	<u>(1,114,292)</u>
Tax	<u>2,056</u>	<u>(3,129)</u>	<u>985</u>	<u>(2,130)</u>	<u>(14,875)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>52,369</u>	<u>(92,704)</u>	<u>(68,475)</u>	<u>(181,553)</u>	<u>(1,129,167)</u>
Minority interests	<u>—</u>	<u>(3)</u>	<u>(324)</u>	<u>(135)</u>	<u>462</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>52,369</u>	<u>(92,707)</u>	<u>(68,799)</u>	<u>(181,688)</u>	<u>(1,128,705)</u>

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, Liabilities and Minority Interests

	As at 31st December,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Fixed assets	166,029	144,251	154,000	141,975	95,089
Long term investments	—	—	—	9,682	34,553
Interests in jointly-controlled entities	1,125	1,463	779	6,006	—
Interests in associates	1,713,103	113,053	48,903	85,983	52,537
Due from Furama Hotel Enterprises Limited	—	1,500,040	1,500,040	1,500,040	1,500,040
Deferred tax assets	—	—	—	661	1,360
Film rights	190,684	197,655	113,109	—	—
Current assets	<u>85,231</u>	<u>64,193</u>	<u>87,128</u>	<u>219,791</u>	<u>284,912</u>
TOTAL ASSETS	<u>2,156,172</u>	<u>2,020,655</u>	<u>1,903,959</u>	<u>1,964,138</u>	<u>1,968,491</u>
Current liabilities	(292,303)	(236,571)	(81,670)	(72,385)	(57,016)
Long term bank loans and other borrowings	<u>(32,341)</u>	<u>(5,042)</u>	<u>(77)</u>	<u>(107)</u>	<u>(103)</u>
TOTAL LIABILITIES	<u>(324,644)</u>	<u>(241,613)</u>	<u>(81,747)</u>	<u>(72,492)</u>	<u>(57,119)</u>
MINORITY INTERESTS	<u>(196)</u>	<u>(196)</u>	<u>(206)</u>	<u>(319)</u>	<u>(221)</u>
	<u>1,831,332</u>	<u>1,778,846</u>	<u>1,822,006</u>	<u>1,891,327</u>	<u>1,911,151</u>

COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1st January, 2005 throughout the year ended 31st December, 2004. All non-executive Directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive Directors, namely Mr. Alfred Donald Yap, Mr. Low Chee Keong and Mr. Tong Ka Wing, Carl as at the report date.

Report of the Directors

AUDITORS

Ernst & Young retire at the conclusion of the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Lien Jown Jing, Vincent

Chairman

Hong Kong

15th April, 2005