

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, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries for the year comprise the development and operation of and investment in media, entertainment, music production and distribution, the provision of advertising agency services, satellite television operations and sale of cosmetic products.

RESULTS AND DIVIDENDS

Details of the profit of the Group for the year ended 31st December, 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 97.

No interim dividend was paid or declared in respect of the year ended 31st December, 2006 (2005: Nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2006 (2005: Nil) at the forthcoming Annual General Meeting.

SHARE CAPITAL

Details of movement in the Company’s share capital during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

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*) (resigned on 22nd January, 2007)

Lam Kin Ngok, Peter

Liu Ngai Wing

Cheung Wing Sum, Ambrose

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Alfred Donald Yap*

Low Chee Keong*

Tong Ka Wing, Carl*

* *Independent non-executive Directors*

In accordance with Bye-law 87 of the Company’s Bye-laws, Mr. Lam Kin Ming will retire by rotation at the forthcoming Annual General Meeting and, being eligible, he offers himself for re-election.

Report of the Directors

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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 5 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 note 5 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 Director of the Company is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

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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 board of the aforesaid company and the above Director of the Company does not 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 company.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Lien Jown Jing, Vincent, Chairman, aged 46, 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 51, was an executive Director and Chief Executive Officer of the Company until he resigned from his positions on 22nd January, 2007. Mr. Lee joined the Lai Sun Group in November 1987. He was 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 with over 25 years' financial and commercial experience.

Mr. Lam Kin Ngok, Peter, aged 49, 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 of Lai Sun Development Company Limited ("LSD") and Lai Fung Holdings Limited and an executive director of Crocodile Garments 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, a council member of the Anglo Hong Kong Trust and a non-official member of the Film Development Council. Mr. Lam is a son of Madam U Po Chu and the younger brother of Mr. Lam Kin Ming.

Mr. Liu Ngai Wing, aged 56, 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, New Smart Energy Group Limited 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. He is also 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. Cheung Wing Sum, Ambrose, aged 56, was appointed an executive Director of the Company in September 2005. Mr. Cheung is also an executive director of Lai Sun Development Company Limited ("LSD"), LSD is the controlling shareholder of the Company. Mr. Cheung is a business executive with a legal and banking background. Prior to joining the Company, he was a partner of Philip K H Wong, Kennedy Y H Wong & Co. He has over 24 years experience in mergers and acquisition, management and development of hotels, hospitality and property industries. He was previously a partner of Woo, Kwan, Lee, & Lo, a director of the Company and an executive director of Sino Land Company Limited. Mr. Cheung is a Justice of the Peace and over the last 24 years he served on a number of public bodies and committees, which included the Legislative Council, the Urban Council and the Hong Kong Stadium Board of Governors. He is currently an elected member of the Shamshuipo District Council, the Chairman of Insurance Agents Registration Board and a member of the Tourism Strategy Group, Tourism Commission, Advisory Committee, Securities and Futures Commission and Advisory Committee, School of Hotel and Tourism Management, The Chinese University of Hong Kong.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-Executive Directors

Mr. Lam Kin Ming, aged 69, was first appointed to the Board in October 1996. Mr. Lam is the chairman of Lai Sun Garment (International) Limited (“LSG”) and has been involved in day-to-day management of the garment business since 1958. He is also the chairman and chief executive officer of Crocodile Garments Limited, deputy chairman of Lai Fung Holdings Limited, and a non-executive 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 the elder brother of Mr. Lam Kin Ngok, Peter. Mr. Lam has not held any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lam does not have a service contract with the Company but he will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company in accordance with the provisions of the Bye-laws of the Company. Mr. Lam is entitled to such remuneration and 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. Lam is the elder brother of Mr. Lam Kin Ngok, Peter.

Miss Tam Wai Chu, Maria, G.B.S., C.B.E., J.P., aged 61, 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 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 82, was first appointed to the Board in October 1996. She is a non-executive director of Lai Sun Garment (International) Limited (“LSG”), Lai Sun Development Company Limited (“LSD”), 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 over 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 mother of Mr. Lam Kin Ngok, Peter.

Mr. Alfred Donald Yap, J.P., aged 68, 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 AND SENIOR MANAGEMENT (continued)

Non-Executive Directors (continued)

Mr. Low Chee Keong, aged 46, 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 11 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 56, 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 28 to the financial statements.

DIRECTORS' INTERESTS

As at 31st December, 2006, 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:

(1) The Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares		Capacity	Total	Percentage
			Corporate Interests	Other Interests			
Lien Jown Jing, Vincent	931,800	Nil	Nil	Nil	Beneficial owner	931,800	0.11%
Lee Po On	5,195,934	Nil	Nil	Nil	Beneficial owner	5,195,934	0.63%
Lam Kin Ngok, Peter	Nil	Nil	Nil	7,451,849 (Note)	Beneficial owner	7,451,849	0.91%
Cheung Wing Sum, Ambrose	Nil	Nil	Nil	7,451,849 (Note)	Beneficial owner	7,451,849	0.91%

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DIRECTORS' INTERESTS (continued)

(1) The Company (continued)

Note: An employee share option scheme was adopted by the Company on 23rd December, 2005 and will remain in force for a period of 10 years. Options granted to the above Directors of the Company are set out below:

Name	Date of Grant	Number of share options	Option Period	Subscription Price
Lam Kin Ngok, Peter	24/2/2006	1,862,962	01/01/2007-31/12/2007	HK\$4.00 per share
	24/2/2006	1,862,962	01/01/2008-31/12/2008	HK\$4.25 per share
	24/2/2006	1,862,962	01/01/2009-31/12/2009	HK\$4.50 per share
	24/2/2006	1,862,963	01/01/2010-31/12/2010	HK\$4.75 per share
Cheung Wing Sum, Ambrose	24/2/2006	1,862,962	01/01/2007-31/12/2007	HK\$4.00 per share
	24/2/2006	1,862,962	01/01/2008-31/12/2008	HK\$4.25 per share
	24/2/2006	1,862,962	01/01/2009-31/12/2009	HK\$4.50 per share
	24/2/2006	1,862,963	01/01/2010-31/12/2010	HK\$4.75 per share

(2) Associated Corporation

Lai Sun Development Company Limited ("LSD")

Long positions in the shares of LSD

Name of Director	Long positions in the shares of LSD			Capacity	Total	Percentage
	Personal Interests	Family Interests	Corporate Interests			
U Po Chu	633,400	Nil	Nil	Beneficial owner	633,400	0.004%
Lam Kin Ngok, Peter	10,099,585	Nil	1,582,869,192 (Note)	Beneficial owner	1,592,968,777	11.25%
Liu Ngai Wing	800	Nil	Nil	Beneficial owner	800	0.000006%

Note:

Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 11.18% of the issued ordinary share capital of LSD. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.

Save as disclosed above, as at 31st December, 2006, none of the Directors or 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 28 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, 2006, the following persons, other than a Director 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	Capacity	Long positions in the shares		
		Nature	Number of Shares	Percentage
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate	285,512,791	34.83%
Semler, Eric	Owner of controlled corporation	Corporate interest	75,031,000 (Note 1 & 2)	9.15%
TCS Capital GP, LLC	Investment manager	Corporate interest	74,161,000 (Note 1)	9.05%
OZ Management, L.L.C.	Investment manager	Corporate interest	50,842,000 (Note 1)	6.20%
Jarvis, David R.	Owner of controlled corporation	Corporate interest	49,622,000 (Note 1 & 3)	6.05%
Maclean, Malcolm F.	Owner of controlled corporation	Corporate interest	49,622,000 (Note 1 & 4)	6.05%
Mercury Real Estate Advisors, LLC	Investment manager	Corporate interest	49,622,000 (Note 1)	6.05%

Notes:

- Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.
- Semler, Eric was taken to be interested in 75,031,000 shares in the Company due to his beneficial interests in TCS Capital GP, LLC and another controlled corporation.
- Jarvis, David R. was taken to be interested in 49,622,000 shares in the Company due to his beneficial interests in Mercury Real Estate Advisors, LLC.
- Maclean, Malcolm F. was taken to be interested in 49,622,000 shares in the Company due to his beneficial interests in Mercury Real Estate Advisors, LLC.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Save as disclosed above, no other person was recorded in the register required to be kept under the provision of Division 2 and 3 of Part XV of the SFO as having an interest or short position in the shares and underlying shares of equity derivatives and debentures of the Company as at 31st December, 2006.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules during the year ended 31st December, 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 2006, 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.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 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 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2006, 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\$3,390,169,000, 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 32% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15%.

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.

Report of the Directors

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,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
TURNOVER	<u>150,239</u>	<u>140,984</u>	<u>152,781</u>	<u>97,804</u>	<u>176,278</u>
PROFIT/(LOSS) BEFORE TAX	1,149,689	211,185	(147,531)	(89,575)	(69,460)
Tax	<u>379</u>	<u>(717)</u>	<u>2,014</u>	<u>(3,129)</u>	<u>985</u>
PROFIT/(LOSS) FOR THE YEAR	<u>1,150,068</u>	<u>210,468</u>	<u>(145,517)</u>	<u>(92,704)</u>	<u>(68,475)</u>
Attributable to:					
Equity holders of the parent	1,150,068	210,468	(145,517)	(92,707)	(68,799)
Minority interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>	<u>324</u>
	<u>1,150,068</u>	<u>210,468</u>	<u>(145,517)</u>	<u>(92,704)</u>	<u>(68,475)</u>

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SUMMARY OF FINANCIAL INFORMATION (continued) ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st December,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Property, plant and equipment	77,310	207,713	166,029	144,251	154,000
Interests in jointly-controlled entities	654,534	223	1,125	1,463	779
Interests in associates	1,992,165	1,632,930	1,515,217	113,053	48,903
Due from Furama Hotel Enterprises Limited	—	—	—	1,500,040	1,500,040
Available-for-sale investments	34,704	—	—	—	—
Film rights	133,745	187,187	190,684	197,655	113,109
Deposits	10,048	—	—	—	—
Current assets	<u>1,110,809</u>	<u>258,757</u>	<u>85,231</u>	<u>64,193</u>	<u>87,128</u>
TOTAL ASSETS	<u>4,013,315</u>	<u>2,286,810</u>	<u>1,958,286</u>	<u>2,020,655</u>	<u>1,903,959</u>
Current liabilities	(252,925)	(115,953)	(292,303)	(236,571)	(81,670)
Long term bank loans and other borrowings	<u>(135,501)</u>	<u>(126,607)</u>	<u>(32,341)</u>	<u>(5,042)</u>	<u>(77)</u>
TOTAL LIABILITIES	<u>(388,426)</u>	<u>(242,560)</u>	<u>(324,644)</u>	<u>(241,613)</u>	<u>(81,747)</u>
MINORITY INTERESTS	<u>(196)</u>	<u>(196)</u>	<u>(196)</u>	<u>(196)</u>	<u>(206)</u>
	<u>3,624,693</u>	<u>2,044,054</u>	<u>1,633,446</u>	<u>1,778,846</u>	<u>1,822,006</u>

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 26 to 29 of the 2006 Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers all the independent non-executive directors to be independent.

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
23rd March, 2007