THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in eSun Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

eSun Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 571)

MAJOR TRANSACTION

CONDITIONAL SALE OF A STRATEGIC INTEREST IN CYBER ONE AGENTS LIMITED

JOINT VENTURE ARRANGEMENT FOR THE DEVELOPMENT OF THE COTAI SITE

A letter from the Board (as defined herein) is set out on pages 10 to 35 of this circular.

A notice convening the special general meeting of the Company to be held at The Harbour Room, 3/F., The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 June 2006 at 9:30 a.m. is set out on pages 115 to 116 of this circular. If you are not able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not less that 48 hours before the time appointed for holding the special general meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting should you so wish.

30 May 2006

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In this circular, the following expressions have the following meanings, unless the context otherwise requires:

"Acquisition Proposal"	any definitive agreement, letter of intent or other definitive arrangement with any third party regarding any sale or other disposition in respect, directly or indirectly, of the Sale Shares or the Cotai Site;
"Additional Cyber One Shares"	such number of Cyber One Shares held by East Asia as is equal to 10 per cent. of the issued share capital of Cyber One at the relevant time;
"Additional Premium"	the aggregate amount of land premium payable to the Macau government in respect of any Land Grant Modification (as determined by the Macau government at the time of granting such Land Grant Modification);
"Additional Sum"	the additional consideration payable to East Asia by the Purchaser in the event that the Macau government grants one or more Land Grant Modifications in respect of a Gross Floor Area for the Cotai Site of an amount greater than 3,659,760 square feet up to the Maximum GFA;
"Affiliated Transaction"	in relation to either East Asia or the Purchaser (for the purposes of this definition, each a "relevant shareholder"), any agreement, contract or commitment: (i) between Cyber One or any of its subsidiaries on the one hand, and the relevant shareholders, any of the relevant shareholders' affiliates or any of their respective officers, directors or equity holders on the other hand (other than transactions for the provision of working capital or project financing in accordance with the terms of the Joint Venture Agreement); or (ii) in which the relevant shareholder, any of the relevant shareholders' affiliates or any of their respective officers, directors or equity holders have a direct or pecuniary interest other than as a direct or indirect equity holder of Cyber One;
"Approved Proposal"	any resolution approved, or deemed under the Joint Venture Agreement to be approved, by the board of Cyber One;
"Board"	the board of the Directors;
"Business Day"	a day which is not a Saturday, a Sunday or a public holiday in Hong Kong;

"Closing"	the completion of the sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement;
"Closing Date"	the date on which Closing takes place;
"Competing Offer"	any bona fide, offer, proposal or agreement, whether or not binding or conditional, and includes a letter of intent, term sheet or other arrangement by or with any third party (not being an affiliate of the Purchaser) regarding any sale or other disposition in respect, directly or indirectly, of the Sale Shares or the Cotai Site;
"Competing Party Transaction"	a definitive or binding agreement or letter of intent with respect, directly or indirectly, to any transaction with a third party in respect of the Sale Shares or the Cotai Site, save for a Qualified Third Party Sale;
"Cotai Site"	all that piece or parcel of land with an area of approximately 140,789 square metres (or approximately 1.52 million square feet) known as Zona de Aterro entre Taipa e Coloane, Lotes G300, G310 e G400, Estrada Flôr de Lotus, Macau, as marked on the plan gazetted as page 5731 on No. 42-17-10-2001 "Boletim Oficial da Região Administrativa Especial de Macau — II Serie";
"Cyber Neighbour"	Cyber Neighbour Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of Cyber One;
"Cyber One"	Cyber One Agents Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of East Asia;
"Cyber One Shares"	ordinary shares of US$1.00 each in the issued share capital of the Cyber One;
"Deed of Tax Covenant"	the deed of covenant, to be entered into at or before Closing by the Company, East Asia and the Purchaser;
"Directors"	the directors of the Company;
"East Asia"	East Asia Satellite Television (Holdings) Limited, a company incorporated in the British Virgin Islands which is an indirect wholly-owned subsidiary of the Company;

"East Asia Deadlock Matters"	(i) the appointment of a qualified person as co-chairman, co-chief executive officer or chief financial officer of Cyber One and the replacement of any of them from such position; (ii) all matters relating to the discretionary exercise or waiver of rights, or the discretionary performance of any obligations under, the Entertainment Lease Option Deed or the Entertainment Lease Agreements; and (iii) all matters concerning the transfer of a television and broadcasting licence held by MacauCo;
"East Asia Group"	East Asia and any direct or indirect parent of East Asia existing or established from time to time;
"EntertainmentCo"	New Cotai Entertainment, LLC, a Delaware limited liability company;
"Entertainment Lease Agreements"	the First Entertainment Lease Agreement, the Second Entertainment Lease Agreement and the rental agreements associated therewith to be entered into between EntertainmentCo and MacauCo pursuant to which MacauCo will lease parts of the Cotai Site to EntertainmentCo; and "Entertainment Lease Agreement" shall be construed accordingly;
"Entertainment Lease Option Deed"	the deed relating to, among other things, an option or options granted to EntertainmentCo by MacauCo to enter into the Entertainment Lease Agreements, such deed to be entered into on Closing;
"Escrow Agreement"	the escrow agreement dated 8 April 2006 entered into between East Asia, the Purchaser and Citibank, N.A. (acting through its Hong Kong branch) relating to escrow arrangements in respect of the deposits to be paid by the Purchaser (as amended and re-stated on 12 April 2006 and further amended on 11 May 2006);
"eSun" or the "Company"	eSun Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Stock Exchange;
"First Entertainment Lease Agreement"	an entertainment lease agreement to be entered into between MacauCo, EntertainmentCo and HoldingsCo in respect of certain discrete areas of the Cotai Site;

"First Option"	the option to be granted to EntertainmentCo by MacauCo pursuant to the Entertainment Lease Option Deed, to enter into the First Entertainment Lease Agreement;
"GFA Increasing Land Grant Modification"	any Land Grant Modification (other than the Stage One Modification) published by the Macau government in the Macau government Gazette that results in or creates a Gross Floor Area Differential of greater than zero and after giving effect to which: (i) the Gross Floor Area is greater than 3,659,760 square feet; (ii) the Gross Floor Area is not more than the Maximum GFA; (iii) there are no restrictions on the alienation of MacauCo's leasehold interest in any lot designated on the Cotai Site, except that, prior to completion of construction of the buildings authorised to be constructed in respect of such Land Grant Modification, MacauCo may only assign such leasehold interest once in respect of each lot designated in the Land Grant without further Macau government approval; (iv) the construction period in respect of the Project ends no sooner than 17 April 2011; and (v) leasehold mortgages for the purpose of raising construction finance over the Cotai Site may be created in favour of a bank or banks that may include banks not having its head office or a branch office in Macau;
"GIGC"	Guangzhou International Golf Club Ltd.;
"Gross Floor Area"	the gross floor area in square feet of the buildings authorised to be constructed on the Cotai Site by the Macau government pursuant to the Land Grant or any Land Grant Modification, excluding the gross floor area in square feet of any portion of the Cotai Site designated as parking or outdoor areas;
"Gross Floor Area Differential"	with respect to any Land Grant Modification, the excess, if any, of: (i) the lesser of: (a) the Gross Floor Area after giving effect to such Land Grant Modification; and (b) the Maximum GFA, over (ii) the greater of: (x) the Gross Floor Area immediately prior to such Land Grant Modification and (y) 3,659,760 square feet;
"Group"	the Company and each subsidiary of the Company from time to time;
"Group Company"	Cyber One and each of its subsidiaries;
"HoldingsCo"	New Cotai Holdings, LLC, a Delaware limited liability company;

"Joint Venture Agreement"	the joint venture agreement (the terms of which are currently in agreed form) to be entered into on Closing between East Asia, the Purchaser and Cyber One which sets out the terms of their agreement in respect of the management and ownership and the governance of the business and affairs of Cyber One;
"Land Grant"	the contract under which the Cotai Site is granted to MacauCo by the Macau government by way of lease for a term of 25 years from 17 October 2001, renewable under the applicable laws of Macau until 19 December 2049 and all modifications, variations or supplements thereto from time to time made;
"Land Grant Modification"	any modification to the Land Grant;
"Latest Practicable Date"	26 May 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	31 December 2006, or such other date as may be agreed between the parties to the Share Purchase Agreement;
"LSD"	Lai Sun Development Company Limited, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange;
"Macau"	Macau Special Administrative Region of the People's Republic of China;
"MacauCo"	East Asia-Televisão Por Satélite, Limitada, incorporated under the laws of Macau (registered in the Macau Commercial and Moveable Properties Registry), whose registered address is Rua de Pequim, Macau Finance Centre, 14/E Macau;
"Master Plan"	the master layout plan for the Cotai Site, to be determined pursuant to the Joint Venture Agreement;
"Maximum GFA"	a Gross Floor Area of 5,573,830 square feet, or in certain circumstances, 6,000,000 square feet, or up to 6,600,000 square feet with the Purchaser's consent;

"Operation Date"	in respect of the First Entertainment Lease Agreement, the latest of the following to occur: (a) three years from the date of the First Entertainment Lease Agreement; (b) 24 months following the date on which MacauCo delivers to EntertainmentCo the relevant occupation permit and authorisation to open a casino to the public duly issued under Macau law with respect to premises subject to the First Entertainment Lease Agreement; or (c) the date on which the hotel in the complex in the Phase I Development is open for business; or in respect of the Second Entertainment Lease Agreement, the latest of the following to occur: (a) three years from the date of the Second Entertainment Lease Agreement; (b) 24 months following the date on which MacauCo delivers to EntertainmentCo the relevant occupation permit and authorisation to open a casino to the public duly issued under Macau law with respect to premises subject to the Second Entertainment Lease Agreement; or (c) the project architect has certified that the construction of the Phase II Development has been substantially completed;
"Phase I Development"	the design, construction, implementation and operation on the Cotai Site of facilities including, without limitation, hotels, hotel apartments, condohotels, timeshare, meeting centre, conference centre, retail facilities, entertainment facilities, production studios, concert halls, theatres, cinemas and other tourist and entertainment related facilities as may be agreed between East Asia and the Purchaser, in each case whether within a hotel or physically separate or legally separate therefrom, with a Gross Floor Area of not greater than 3,659,760 square feet;
"Phase II Development"	the design, construction, implementation and operation on the Cotai Site of facilities including, without limitation, hotels, hotel apartments, condohotels, timeshare, meeting centre, conference centre, retail facilities, entertainment facilities, production studios, concert halls, theatres, cinemas and other tourist and entertainment related facilities as may be agreed between East Asia and the Purchaser, in each case whether within a hotel or physically separate or legally separate therefrom, with a Gross Floor Area of not greater than 5,573,830 square feet, or in certain circumstances, 6,000,000 square feet, unless otherwise agreed to by the Purchaser;

"Project"	the project to be developed by Cyber One on the Cotai Site in accordance with the Master Plan, which the parties to the Share Purchase Agreement expect will include, without limitation, the development and building of hotels, hotel apartments, condohotels, timeshare, meeting centre, conference centre, retail facilities, entertainment facilities, production studios, concert halls, theatres, cinemas and other tourist and entertainment related facilities as may be agreed between East Asia and the Purchaser, in each case whether within a hotel or physically separate or legally separate therefrom;
"Purchaser"	New Cotai, LLC, a Delaware limited liability company;
"Purchaser Deadlock matters"	(i) the appointment of a qualified person as co-chairman, co-chief executive officer or chief operating officer of Cyber One and the replacement of any of them from such positions; or (ii) all matters relating to financing of the Project;
"Purchaser Group"	New Cotai and any direct or indirect parent of the Purchaser existing or established from time to time;
"Qualified Third Party Sale"	the sale by East Asia's immediate parent company within one month from Closing of shares representing one third of the ordinary share capital of East Asia, issued and outstanding at the time of such sale to a third party to which the Purchaser may consent in writing in its sole discretion;
"Sale Shares"	such number of Cyber One Shares representing 40 per cent. of the Cyber One Shares in issue as of the Closing Date;
"Second Entertainment Lease Agreement"	an entertainment lease agreement to be entered into between MacauCo, EntertainmentCo and HoldingsCo in respect of certain discrete areas of the Cotai Site;
"Second Option"	the option to be granted to EntertainmentCo by MacauCo, pursuant to the Entertainment Lease Option Deed, to enter into the Second Entertainment Lease Agreement;
"SGM"	the special general meeting of the Company convened to be held at The Harbour Room, 3/F., The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 June 2006 at 9:30 a.m.

"SGM Resolutions"	a resolution or resolutions approving: (i) the sale of the Sale Shares and the Additional Cyber One Shares; and (ii) the entry into and performance of any other transactions or agreements contemplated in the Share Purchase Agreement (including the Joint Venture Agreement, the Entertainment Lease Option Deed and the Entertainment Lease Agreements);
"Shareholders"	the shareholders of the Company;
"Share Purchase Agreement"	a conditional share purchase agreement entered into by the Company, East Asia and the Purchaser on 8 April 2006 in relation to the sale and purchase of a strategic interest in Cyber One (as amended and re-stated on 12 April 2006 and further amended, by way of a side agreement, on 24 May 2006);
"Stage One Modification"	a Land Grant Modification being sought by MacauCo, to be published by the Macau government in the Macau government Gazette, after giving effect to which: (i) the Gross Floor Area is not less than 3,659,760 square feet; (ii) there are no restrictions on the alienation of MacauCo's leasehold interest in any lot designated on the Cotai Site, except that, prior to completion of construction of the buildings authorised to be constructed in respect of the Stage One Modification, MacauCo may only assign such leasehold interest once in respect of each lot designated in the Land Grant without further Macau government approval; (iii) the construction period in respect of the Project ends no sooner than 17 April 2011; and (iv) leasehold mortgages for the purpose of raising construction finance over the Cotai Site may be created in favour of a bank or banks that may include banks not having its head office or a branch office in Macau;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Transaction"	the disposal by East Asia of the Sale Shares and, if applicable, the Additional Cyber One Shares, the execution of the Deed of Tax Covenant, the Joint Venture Agreement, the Entertainment Lease Option Deed and, upon exercise of the First Option and Second Option granted pursuant thereto, the Entertainment Lease Agreements and, in each case, the performance of the transactions contemplated therein or pursuant to the Share Purchase Agreement;

"Unanimous Consent Matter"	(i) any amendment to the constitutive documents of Cyber One or any of its subsidiaries, that would have a disproportionate adverse effect on the rights of one shareholder compared to the rights of the other shareholder; (ii) any change in any tax election made by Cyber One and each of its subsidiaries to be treated as a partnership for United States federal income tax purposes; (iii) any material change in the principal business of Cyber One or the commencement of any material business other than the principal business; (iv) save as otherwise permitted under the Joint Venture Agreement, any change in the share capital of Cyber One (or any of its subsidiaries) or the creation, allotment or issue of any equity securities or of any other security (including options or other convertible instruments) of Cyber One (or any of its subsidiaries); (v) any capital reduction or alteration of the rights attaching to any class of equity securities of Cyber One (or any of its subsidiaries); or (vi) the payment or declaration of any dividend or other distribution other than pro-rata to each shareholders' interest in the shares of Cyber One (or any of its subsidiaries);
"Unconnected Person"	a person who is, to the best of the knowledge and belief of the Board, having made all reasonable enquiries, an independent third party not connected with the directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates; and
"US$"	United States dollar, the legal currency of the United States of America.

This circular contains translations of certain US$ amounts into HK$ amounts at the rates of US$1.00 = HK$7.8 respectively. The translations have been provided solely for the convenience of the readers of this circular and no representation is made that any of the US$ amounts actually represent the HK$ amounts or could have been or could be converted into HK$ at the specified rates, at any particular rate or at all.

eSun Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 571)

Executive Directors:
Mr. Lien Jown Jing, Vincent *(Chairman)*
Mr. Lee Po On *(Chief Executive Officer)*
Mr. Lam Kin Ngok, Peter
Mr. Cheung Wing Sum, Ambrose
Mr. Liu Ngai Wing

Non-executive Directors:
Mr. Lam Kin Ming
Madam Tam Wai Chu, Maria
Madam U Po Chu

Independent Non-executive Directors:
Mr. Alfred Donald Yap
Mr. Low Chee Keong
Mr. Tong Ka Wing, Carl

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:
11/F Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

30 May 2006

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION

CONDITIONAL SALE OF A STRATEGIC INTEREST IN CYBER ONE AGENTS LIMITED

JOINT VENTURE ARRANGEMENT FOR THE DEVELOPMENT OF THE COTAI SITE

INTRODUCTION

Cyber One was granted land-use rights in respect of the Cotai Site by the Macau government in October 2001 pursuant to a contract having a term of 25 years commencing from 17 October 2001, such term being capable of renewal by MacauCo up to 19 December 2049 subject to terms to be negotiated with the Macau government at the time of renewal.

On 4 February 2005, MacauCo submitted to the Macau government revised development plans which proposed the construction of a television/film studio, concert hall, convention and exhibition centre and retail complex, two five-star hotels and an all-suite hotel covering a Gross Floor Area of approximately 340,000 square metres. On 30 May 2005, the Company announced that MacauCo had received notification in writing dated 19 May 2005 from the Macau government of the conditional approval of the proposed development plans for the Cotai Site. On 21 March 2006, MacauCo received a further letter from the Macau government dated 6 March 2006 confirming the proposed premium payable under the proposed development plans and enclosing a draft lease modification of the Land Grant. On 10 April 2006, a letter accepting the proposed premium and another formal application for a request for modification of the Land Grant itself (in the form of a request for the Stage One Modification) was submitted to the Macau government for its approval. In this regard, by way of a letter dated 17 May 2006, the Macau government has responded with further draft lease modifications, in a form consistent with the request for the Stage One Modification. Notwithstanding the foregoing, formal approval of the Stage One Modification remains subject to: (i) written acceptance by MacauCo of the terms set out in the draft lease modifications; (ii) payment of an initial portion of the premium to be paid in respect of the Stage One Modification; and finally (iii) publication of such modifications in the Macau government Gazette (which, in turn, will trigger additional premium payment obligations).

The Company has previously disclosed (in its announcements dated 17 November 2004, 30 May 2005, 4 July 2005 and 29 December 2005) that MacauCo had, on 15 November 2004, entered into a memorandum of cooperation with Lai Fung Holdings Limited, which has been supplemented by two supplemental memoranda of cooperation dated 29 June 2005 and 28 December 2005 respectively, in respect of the development of a proposed residential property project on a plot within the Cotai Site. As announced in the Company's announcement dated 31 March 2006, each of MacauCo and Lai Fung Holdings Limited agreed to terminate that arrangement by executing a termination agreement, terminating the operation of the memoranda of cooperation. The Company now envisages that the plot within the Cotai Site, the subject of the former arrangement with Lai Fung Holdings Limited, will now be used as part of the Project.

On 21 April 2006, the respective boards of LSD and the Company jointly announced that the Company (together with East Asia, an indirect subsidiary of the Company) entered into the Share Purchase Agreement on 8 April 2006, pursuant to which East Asia will dispose of the Sale Shares (which will represent, as of the Closing Date, 40 per cent. of the shares in issue of Cyber One, a wholly owned subsidiary of East Asia) to the Purchaser, an independent third party. Upon Closing, each of East Asia and the Purchaser, as the sole shareholders of Cyber One, will execute the Joint Venture Agreement with Cyber One, pursuant to which each such shareholder will, *inter alia*, direct MacauCo, an entity directly and indirectly owned and controlled by Cyber One, to develop the Project on the Cotai Site, subject at all times to Macau government approval.

SHARE PURCHASE AGREEMENT

Date: 8 April 2006

Parties: (1) East Asia

(2) the Purchaser

(3) the Company

Subject Matter of Disposal:

East Asia has agreed to sell to the Purchaser, and the Purchaser has agreed to purchase from East Asia, the Sale Shares.

Pursuant to the Share Purchase Agreement, East Asia's immediate parent company is entitled to effect a Qualified Third Party Sale within one month of Closing in respect of one third of the issued share capital of East Asia to a third party to which the Purchaser may (in its sole discretion) consent in writing. If a Qualified Third Party Sale does not complete within one month of Closing, East Asia must notify the Purchaser within five Business Days after the expiry of that one month period. Thereafter, the Purchaser may, by serving a notice on East Asia within three months from receipt of that notice from East Asia, elect to purchase from East Asia the Additional Cyber One Shares (being an additional 10 per cent. of the Cyber One Shares then in issue, determinable as at Closing).

If the Purchaser does not serve a notice on East Asia electing to purchase the Additional Cyber One Shares, or, upon serving such notice, the Purchaser fails to complete the acquisition of the Additional Cyber One Shares from East Asia, in each case in the manner contemplated as set out above, the immediate parent company of East Asia shall be free to dispose of one third of the ordinary share capital of East Asia issued and outstanding at such time to any third party nominated by it, subject to the prior consent of the Purchaser (such consent not to be unreasonably withheld or delayed) and provided such disposal is completed within a further 180 day period.

Simultaneously with Closing, each of East Asia, the Purchaser and Cyber One will enter into the Joint Venture Agreement which will determine the governance of the business and affairs of Cyber One and will also contain a number of restrictions on transfers, pertaining to both direct transfers of interests in Cyber One and also transfers of indirect or upstream interests in Cyber One. Further particulars of the Joint Venture Agreement (including the aforementioned restrictions on transfers) are set out below.

Consideration:

The consideration for the purchase of the Sale Shares is HK$1,317,513,600, which shall be payable by the Purchaser to East Asia in the following manner:

(i) an amount of HK$197,627,040 shall be payable in cash into an escrow account by way of a deposit (such amount has been deposited into the escrow account) and the amount standing to the credit of the escrow account from time to time (together with all accrued interest and other earnings thereon) will be released to East Asia at Closing; and

(ii) an amount equal to (a) HK$1,317,513,600 minus (b) the deposit referred to in (i) above (together with all accrued interest and other earnings thereon), shall be payable in cash on Closing, into an account nominated by East Asia.

The consideration of HK$1,317,513,600 was determined by reference to a 40 per cent. economic interest in the estimated value of the Cotai Site (assuming HK$900 per square foot) with an approved gross floor area of 3,659,760 square feet for the purposes of the Project. The price per square foot was negotiated and determined by the Purchaser and East Asia on an arm's length basis, on the assumption that East Asia bears the cost of any Additional Premium payable in respect of such Gross Floor Area to be used in connection with the Project. According to Savills Valuation and Professional Services Limited, an independent property valuer which is an Unconnected Person, the valuation of the Cotai Site based only on the current approved Gross Floor Area of 3,659,760 square feet amounted to approximately HK$3,370,000,000 (representing approximately HK$920.8 per square foot). Further details of the valuation report are set out in Appendix II to this circular. The Group's total investment cost in Cyber One immediately before Closing is estimated to be approximately HK$129.5 million (please refer to the section headed "Financial information of Cyber One and financial effects to the Company in respect of the disposal of interest in Cyber One" below for further information).

The Company intends to dispose one third of its interest in East Asia by way of a Qualified Third Party Sale. The Company will comply with the relevant requirements under the Listing Rules when proceeding with the Qualified Third Party Sale.

If a Qualified Third Party Sale does not complete within one month of Closing and the Purchaser elects to purchase the Additional Cyber One Shares from East Asia, the consideration for such purchase shall be HK$329,378,400 (determined on the same basis as the consideration payable in respect of the Sale Shares), which is payable in cash, into an account nominated by East Asia, on the date on which completion of the sale and purchase of the Additional Cyber One Shares takes place.

If, from time to time after Closing, but prior to the three year anniversary of the Closing Date, East Asia delivers to the Purchaser a copy of a GFA Increasing Land Grant Modification, the Purchaser shall pay to East Asia an additional amount equal to the excess of: (i) the product of: (a) the percentage of the Cyber One Shares then held by the Purchaser; (b) HK$900; and (c) the Gross Floor Area Differential with respect to such GFA Increasing Land Grant Modification; over (ii) the Additional Premium with respect to such GFA Increasing Land Grant Modification (each such amount, an "Additional Sum").

Pursuant to the Share Purchase Agreement, the Purchaser and East Asia each agrees that the value of the Sale Shares and the Additional Cyber One Shares shall be computed on the basis not only of the currently approved Gross Floor Area of the Cotai Site, but also for any subsequent increase of Gross Floor Area that may arise within three years of Closing as a result of a GFA Increasing Land Grant Modification, subject to there being a site density ratio of not more than 3.96 and subject also to a maximum total Gross Floor Area of 6,000,000 square feet (without the Purchaser's consent) or 6,600,000 square feet (with the Purchaser's consent). On the assumption that the Purchaser acquires the Sale Shares and the Additional Cyber One Shares, and there is an increase of the Gross Floor Area to 6,000,000 square feet (within the time limit and density parameter described above), the Purchaser will pay a further consideration equal to 50 per cent. of HK$900 per square foot of increased Gross Floor Area. The Purchaser will pay the additional consideration (otherwise due to East Asia) firstly to the Macau government as Additional Premium with respect to such GFA Increasing Land Grant Modification, and the balance (representing the Additional Sum) to East Asia. This means that, subject to the final approved Gross Floor Area, East Asia could receive a total consideration (including the Additional Premium paid by the Purchaser to the Macau government with respect to any GFA Increasing Land Grant Modification) of up to HK$2,700,000,000 (without the Purchaser's consent) or HK$2,970,000,000 (with the Purchaser's consent). Further details of the payment obligations in respect of Additional Premium liabilities are set out below.

In respect of each Additional Sum (if any) referred to in the paragraph above, one quarter shall be payable within each of: (i) one month; (ii) six months; (iii) 12 months; and (iv) 18 months, of the date on which the Purchaser receives the copy of the GFA Increasing Land Grant Modification from East Asia.

On 24 May 2006, the Purchaser, the Company and East Asia entered into a side agreement (to the Share Purchase Agreement) to clarify the commercial arrangements between the parties in respect of certain Additional Premium liabilities that have arisen and will continue to arise in connection with the Project.

In this regard, the Purchaser has agreed to pay or discharge any Additional Premium charged by the Macau government that is due and payable by MacauCo in respect of each GFA Increasing Land Grant Modification (but only to the extent that such Additional Premium has been deducted from and therefore reduces the size of any Additional Sum that may be payable by the Purchaser to East Asia — see the formula for calculating any Additional Sum set out above). Any other Additional Premium that is due and payable by MacauCo after Closing (including, for the avoidance of doubt, the Additional Premium payable in respect of the Stage One Modification) shall be paid or discharged by East Asia, subject to the following limitations:

(i) the aggregate Additional Premium (when taken together with any Additional Premium previously paid or payable) does not exceed the product of (x) HK$850; and (y) the Gross Floor Area after giving effect to such Land Grant Modification (up to the Maximum GFA);

(ii) the Additional Premium is payable only in respect of certain agreed uses;

(iii) the Additional Premium payment obligation does not arise after an amendment to the Master Plan has been published which gives effect to a Gross Floor Area of at least 6,000,000 square feet;

(iv) the Additional Premium is payable in respect of a Land Grant Modification approved by the Macau government within three years from Closing; or

(v) such Additional Premium does not relate to an increase in Gross Floor Area above the Maximum GFA.

Any Additional Premium not otherwise paid or discharged directly by East Asia or the Purchaser in the manner contemplated above shall, in each case, be payable and discharged directly by MacauCo.

Save for any Additional Premium to be paid or discharged directly by MacauCo and based on the formula for calculating any Additional Sum set out above, from an economic standpoint, East Asia (and indirectly the Company) shall bear the cost of any Additional Premium, with the actual payment mechanics to follow those set out above. As further disclosed above, this economic consequence (that East Asia (and indirectly the Company) shall bear the cost of any Additional Premium) was the assumption upon which the price per square foot, payable by the Purchaser to East Asia, was negotiated and agreed. Accordingly, the Directors consider these Additional Premium payment arrangements fair and reasonable in the context of the larger Transaction.

Any failure by either East Asia or the Purchaser to discharge any such Additional Premium payment obligations will provide the non-defaulting party with the right to elect to assume the defaulting party's Additional Premium payment obligations, by way of subscription for new Cyber One Shares, on the basis that Cyber One will on-lend to MacauCo the monies so subscribed so as to enable MacauCo to make the requisite payments. The number of new Cyber One Shares so subscribed shall be equal to the Additional Premium payment obligations so assumed divided by 80 per cent. of the then fair market value per Cyber One Share to be determined pursuant to the Share Purchase Agreement. This arrangement effectively affords the non-defaulting party the right to subscribe for new Cyber One Shares at a 20 per cent. discount to the then fair market value (as so determined). It is the intention of the parties to the Share Purchase Agreement that such discount acts as a disincentive to non-compliance of the Additional Premium payment obligations imposed on the parties thereto.

Pursuant to the before mentioned side agreement (to the Share Purchase Agreement) dated 24 May 2006, the Purchaser, the Company and East Asia have further confirmed that it is their intention to procure that MacauCo, as soon as practicable following Closing, prepares a Master Plan in support of an application to the Macau government for a GFA Increasing Land Grant Modification, the result of which will be to give effect to a Gross Floor Area of not less than 6,000,000 square feet.

The value of, and any actual or potential liability in connection with, the carrying on of any business under the television and broadcasting licence held by MacauCo has been excluded in the calculation of the consideration, since such licence does not form part of the Transaction and it will be transferred to the Group.

The consideration was arrived at on an arm's length basis between the parties.

Conditions:

The sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement is conditional upon the satisfaction (or waiver by the Purchaser in respect of condition (ii) below or waiver by the Purchaser and East Asia together (but not unilaterally) in respect of conditions (iii) and (iv) below) of the following conditions, or their satisfaction subject only to Closing:

(i) the Shareholders having passed the SGM Resolutions;

(ii) the Stage One Modification having been obtained and remaining in full force and effect;

(iii) no litigation, arbitration or other legal proceedings having been brought by a third party in which an unfavourable order, injunction, ruling, charge, decree or judgment has been issued the direct or indirect effect of which is to prohibit, restrict or prevent any of the parties from performing any of its respective material obligations under the Share Purchase Agreement; and

(iv) the constitutive documents of each Group Company having been amended or, if applicable, repealed and replaced in a form to be agreed between East Asia and the Purchaser (or as otherwise determined pursuant to the Share Purchase Agreement) and such constitutive documents being in full force and effect as so amended or replaced.

Closing:

Closing of the Share Purchase Agreement shall take place on the fifth Business Day following the date on which East Asia notifies the Purchaser that: (a) the conditions referred to in paragraphs (i) and (iv) under the heading “Conditions” above are satisfied (or, in respect of condition (iv), waived); and (b) the other conditions remain satisfied or waived (as the case may be), or such other date as may be agreed between the parties.

Enclosed under the cover of a letter dated 17 May 2006, the Macau government has sent MacauCo draft modifications to the Land Grant in a form consistent with the request for the Stage One Modification. However, save in respect of the actions required to be taken by MacauCo as set out under the section headed “Introduction” above, as at the Latest Practicable Date, the Macau government has not given any indication as to when it may grant formal approval (by way of publication in the Macau government Gazette) for the Stage One Modification (such formal approval being required to satisfy condition (ii) set out under the section headed “Conditions” above), although it is expected that the timing of such approval (if forthcoming) will be after the SGM.

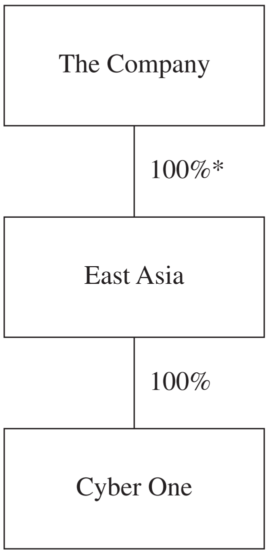
If a Qualified Third Party Sale does not complete within one month of Closing and the Purchaser elects to purchase the Additional Cyber One Shares, then closing of the sale and purchase of the Additional Cyber One Shares shall take place on the fifth Business Day following receipt by East Asia of notice of the election from the Purchaser, or such other date as may be agreed between the parties.

The Company will make a further announcement as and when appropriate to keep the Shareholders and the market informed at to whether or not the conditions have been satisfied or waived and whether or not the parties will proceed with: (i) Closing; and (ii) a Qualified Third Party Sale or, failing which, a disposal of the Additional Cyber One Shares to the Purchaser. In the event that neither a Qualified Third Party Sale nor the disposal of the Additional Cyber One Shares to the Purchaser completes and East Asia’s immediate parent entity disposes (or enters into an agreement to dispose) of one third of the issued share capital of East Asia within the prescribed 180 day period, the Company will make an announcement as and when appropriate to keep Shareholders and the market informed and will comply with any applicable requirements under the Listing Rules.

The Purchaser has the right to terminate the Share Purchase Agreement if the condition set out in paragraph (i) under the heading “Conditions” above has not been satisfied as of the earlier of: (a) the date of the SGM; and (b) the Long Stop Date. East Asia has the right to terminate the Share Purchase Agreement if the condition set out in paragraph (i) under the heading “Conditions” above has not been satisfied as of the Long Stop Date. Both the Purchaser and East Asia have the right to terminate the Share Purchase Agreement if any of the other conditions have not been or cease to be satisfied or waived on or before the Long Stop Date.

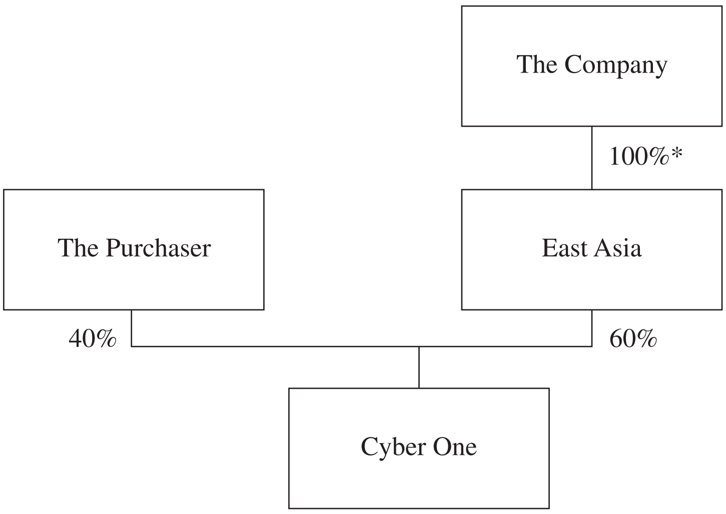
Shareholding Structure of Cyber One:

(i) Simplified shareholding structure of Cyber One before the disposal of the Sale Shares:



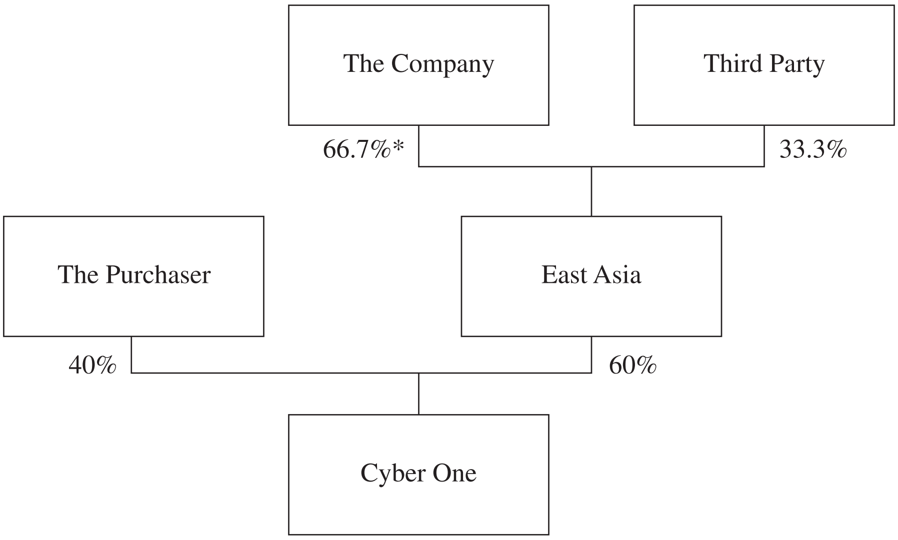
* *Indirect interest*

(ii) Simplified shareholding structure of Cyber One immediately following Closing (assuming the Qualified Third Party Sale and the sale of the Additional Cyber One Shares do not take place):



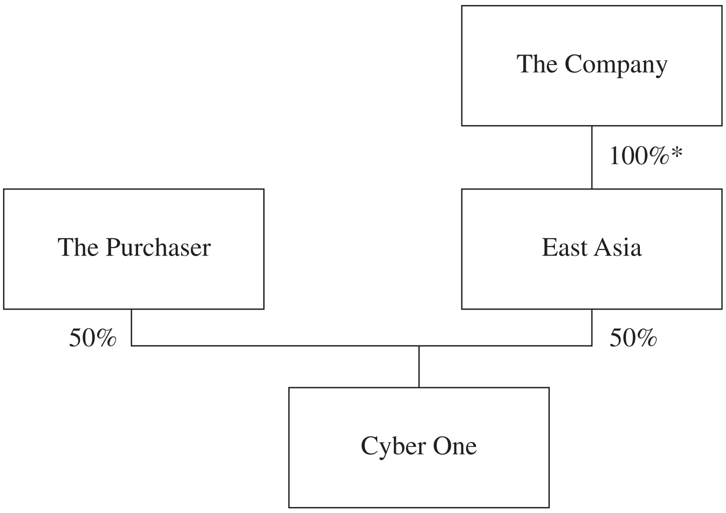
* *Indirect interest*

(iii) Simplified shareholding structure of Cyber One following Closing and completion of the Qualified Third Party Sale (assuming the sale of the Additional Cyber One Shares does not take place):



* *Indirect interest*

(iv) Simplified shareholding structure of Cyber One following Closing and completion of the sale of the Additional Cyber One Shares (assuming the Qualified Third Party Sale does not take place):



* *Indirect interest*

Termination and Liquidated Damages:

The Purchaser has the right to terminate the Share Purchase Agreement at any time prior to Closing, in which case East Asia shall be entitled to retain the amount then standing to the credit of the escrow account referred in paragraph (i) under the heading "Consideration" above, as liquidated damages, in lieu of all other remedies.

In certain circumstances, the Share Purchase Agreement provides for either East Asia or the Purchaser to have the right to terminate before Closing if there has been a material breach of certain warranties and obligations set out in the Share Purchase Agreement.

In the event that all the conditions are satisfied or waived on or before the Long Stop Date:

(i) East Asia shall be entitled to retain the amount then standing to the credit of the escrow account referred in paragraph (i) under the heading "Consideration" above, as liquidated damages, if East Asia terminates the Share Purchase Agreement as a result of a material breach of the Purchaser's Closing obligations (in circumstances where East Asia is otherwise ready, willing and able to comply with its Closing obligations); and

(ii) the Purchaser shall be entitled to have the amount then standing to the credit of the escrow account referred in paragraph (i) under the heading "Consideration" above, released to it and to recover from East Asia a further amount equal to the amount then standing to the credit of the escrow account referred in paragraph (i) under the heading "Consideration" above, as liquidated damages, if the Purchaser terminates the Share Purchase Agreement as a result of a material breach of East Asia's Closing obligations (in circumstances where the Purchaser is otherwise ready, willing and able to comply with its Closing obligations),

in each case, in lieu of all other remedies.

Break Fees; Termination Fee and Reimbursement Fee:

Under the terms of the Share Purchase Agreement, the Company and East Asia (jointly and severally) could be liable, upon the happening of certain events, to pay the Purchaser sums of money as three distinct alternative remedies (in lieu of all other remedies, save for breaches of the provisions summarised in the paragraphs under the heading "Exclusivity" below). In this regard, if the Purchaser terminates the Share Purchase Agreement for failure to satisfy the condition set out in paragraph (i) under the heading "Conditions" above and, as at the date of the SGM, each of the following conditions is satisfied: (a) the condition set out in paragraph (iii) under the heading "Conditions" above remains satisfied (or waived); and (b) there has not been a material breach of any of the warranties given by the Purchaser, East Asia and the Company, jointly and severally, shall pay to the Purchaser the following amounts on the happening of the following events:

(i) a break fee of US$20 million (equivalent to approximately HK$156,000,000) if either:

  (a) LSD abstained from voting (otherwise than in the circumstances specified in paragraph (iii) below) or voted against the SGM Resolutions; or

  (b) the Board did not formally recommend that the Shareholders should vote in favour of the SGM Resolutions (or, having so recommended, changed or withdrew its recommendation);

(ii) save where paragraph (iii) below applies, a termination fee of US$15 million (equivalent to approximately HK$117,000,000) if at any time:

(a) at or before the SGM, a Competing Offer has been generally communicated to the Shareholders, or is otherwise in the public domain (other than by way of mere market rumour or speculation, unless such rumour or speculation requires a Stock Exchange announcement by the Company confirming or indicating the existence of a Competing Offer); and

(b) during the period of nine months from the date of the SGM, East Asia or the Company or their respective affiliates enter into any Competing Party Transaction (save for a Qualified Third Party Sale); or

(iii) a reimbursement fee in an amount equal to the Purchaser's actual costs and expenses (up to a maximum of US$3 million (equivalent to approximately HK$23,400,000)) incurred in connection with the negotiation and documentation of the transactions contemplated in the Share Purchase Agreement, if LSD:

(a) is required to abstain from voting, or otherwise is not permitted to vote, in respect of the SGM Resolutions (whether by injunction, a regulatory order or otherwise); or

(b) votes in favour of the SGM Resolutions but such votes are disregarded in the determination of whether or not the SGM Resolutions are approved.

Exclusivity:

Save in respect of a Qualified Third Party Sale, each of the Company and East Asia have agreed and shall procure that each Group Company and its and their respective officers and directors and affiliates agree:

(i) not to discuss, negotiate or otherwise enter into any Acquisition Proposal;

(ii) not to provide any information to any third party, other than in the ordinary course of business and where there is no reason to believe that such information may be utilised to evaluate any such Acquisition Proposal;

(iii) to cease any and all contacts, discussions and negotiations with third parties regarding an Acquisition Proposal; and

(iv) to promptly notify the Purchaser if it is approached by any third party or becomes aware of any negotiations or discussions with any third party in respect of any serious or bona fide expression of interest, offer or proposal related to any Acquisition Proposal.

The obligations set out immediately above shall terminate on the earlier of: (i) Closing; or (ii) termination of the Share Purchase Agreement.

JOINT VENTURE AGREEMENT

Management of the Joint Venture:

Cyber One, directly and indirectly through its wholly-owned subsidiary, Cyber Neighbour, owns MacauCo, which in turn owns a leasehold interest in the Cotai Site under the Land Grant. On Closing, East Asia, the Purchaser and Cyber One will enter into the Joint Venture Agreement which will, inter alia, establish the governance of the business and affairs of Cyber One including, in particular, the development of the Project.

The business and affairs of Cyber One will be managed by Cyber One's board of directors, which will consist of ten directors. Each of East Asia and the Purchaser shall initially be entitled to appoint five directors, though the relative entitlements may be adjusted from time to time if either party's shareholding interest in Cyber One is diluted (further details of which are set out below). None of the directors of Cyber One will have a casting vote.

Any resolution submitted for approval at a meeting of the board of Cyber One may be approved by the affirmative vote of a majority of disinterested members of the board. All Approved Proposals of the board of Cyber One must then be submitted to the shareholders of Cyber One for ratification as follows:

(i) if the Approved Proposal solely or predominantly relates to a Unanimous Consent Matter, then such Approved Proposal shall require the affirmative vote of both East Asia and the Purchaser; and

(ii) in any other case, such Approved Proposal will require the affirmative vote of:

  (a) the shareholder entitled to appoint a majority of the directors; or

  (b) if neither shareholder is entitled to appoint a majority of the directors, then the affirmative vote of each of East Asia and the Purchaser.

Deadlock Matters:

For so long as neither East Asia nor the Purchaser is entitled to appoint a majority of the directors of Cyber One, then any resolution submitted for approval at a meeting of the board of Cyber One that is not approved by an affirmative vote of the majority of the disinterested members of the board may nonetheless be deemed approved by the board if:

(i) such resolution solely or predominantly relates to a Purchaser Deadlock Matter and such resolution is approved by the affirmative vote of a majority of the members of the board appointed by the Purchaser present (in person or by proxy) at such meeting; or

(ii) such resolution solely or predominantly relates to an East Asia Deadlock Matter and such resolution was approved by the affirmative vote of a majority of the members of the board appointed by East Asia present (in person or by proxy) at such meeting.

In the event that either:

(i) East Asia and the Purchaser cannot agree on whether or not the subject matter of any resolution submitted to the board of Cyber One solely or predominantly relates to: (a) a Unanimous Consent Matter; or (b) if neither East Asia nor the Purchaser is entitled to appoint a majority of the directors, a Purchaser Deadlock Matter or an East Asia Deadlock Matter; or

(ii) a deadlock matter arises in respect of a matter which is: (a) not a Unanimous Consent Matter; and (b) neither an East Asia Deadlock Matter nor a Purchaser Deadlock Matter,

then either shareholder may refer such matter for expert determination in accordance with the provisions of the Joint Venture Agreement.

Additional Funding:

Upon Closing (regardless of whether or not the disposal of the Additional Cyber One Shares to the Purchaser is completed), the Purchaser and East Asia, as sole shareholders of Cyber One, will each contribute (into an escrow account) or make available (by way of an irrevocable letter of credit) its respective pro rata share (calculated according to the percentage of Cyber One Shares held by such entity) of US$100 million (equivalent to approximately HK$780,000,000) as working capital for Cyber One. Cyber One shall be entitled to draw down a pro rata amount from the capital contributed by each of the Purchaser and East Asia. Such draw down will be structured in the form of a loan by each of the Purchaser and East Asia. Each such shareholder is subject to a future capital call of up to the same amount as may be required by Cyber One.

Transfer Restrictions:

The Joint Venture Agreement contains various restrictions on the transfer of securities, both in respect of the Cyber One Shares and also in respect of upstream interests of both East Asia and the Purchaser. These transfer restrictions include:

(i) **no direct transfers:** save for an approved pledge, a public offer of Cyber One, a right of first refusal, transfers in lieu of damages for breach of the Joint Venture Agreement or as otherwise allowed under the Share Purchase Agreement, neither East Asia nor the Purchaser is permitted to directly transfer any of its Cyber One Shares;

(ii) **transfers to competitors:** save as otherwise provided in the Joint Venture Agreement, a change of control in favour of a competitor (being someone who holds a concession or sub-concession to operate a casino in Macau), of either East Asia or the Purchaser, would allow the other shareholder to gain control of the board of Cyber One upon the payment of a control premium of US$60 million (equivalent to approximately HK$468,000,000);

(iii) **change of control within first year:** save as otherwise provided in the Joint Venture Agreement, a change of control of either East Asia or the Purchaser within the first year (post Closing) would allow the other shareholder to gain control of the board of Cyber One upon the payment of a control premium of US$60 million (equivalent to approximately HK$468,000,000);

(iv) **right of first offer in connection with a change of control of HoldingsCo:** save in the event of a public offering of HoldingsCo or any member of the Purchaser Group, if there is a change of control of HoldingsCo at any time after the first year (post Closing), then East Asia may elect to purchase (at a price, to be notified by the transferor to East Asia, equal to the price per equity security in the change of control transaction) such number of equity securities in HoldingsCo as is equal to the greater of:

(a) the number of equity securities that is the subject of the change of control transaction; and

(b) the number of equity securities that, after giving effect to such purchase, would result in East Asia acquiring control of the Purchaser; and

(v) **right of first refusal in connection with an intermediary transfer:** save as otherwise permitted under the provisions of the Joint Venture Agreement, prior to completing a transfer of any shares in either the East Asia Group or the Purchaser Group, the transferring shareholder must first offer to the other shareholder the option to buy such number of Cyber One Shares as is equal to the effective interest being transferred, at a price per Cyber One Share determined by reference to the price being offered in respect of the transfer. If the other shareholder does not exercise this option, the transferring shareholder has 180 days to complete a transfer of the relevant Cyber One Shares at a price and on terms no more favourable to the transferee than those offered to the other shareholder.

Profit Sharing and Distribution:

The payment or declaration of any dividend or other distribution will be pro-rata to each shareholder's interest in the shares of Cyber One. Unanimous consent is required if the payment or declaration of any dividend or other distribution is not on a pro-rata basis.

Public Offering of Cyber One:

If, pursuant to the Joint Venture Agreement, the board and shareholders of Cyber One approve a public offering of Cyber One or any of its subsidiaries, each of East Asia and the Purchaser shall use commercially reasonable efforts to assist Cyber One and/or such subsidiary in completing such public offering. Each such shareholder shall not be able to effect any public sale of any of its equity securities in the relevant entity during the seven days prior to and the 180-day period beginning on the effective date of any initial public offering of Cyber One or any of its subsidiaries (or such longer period as may be imposed by the relevant listing authority), except as part of a public offering. The Joint Venture Agreement shall terminate and be of no further force and effect upon the consummation of such public offering of Cyber One or any of its subsidiaries.

ENTERTAINMENT LEASE OPTION DEED

In respect of the Cotai Site, pursuant to the Share Purchase Agreement, MacauCo and EntertainmentCo (a wholly-owned subsidiary of the immediate parent company of the Purchaser) will, on Closing, be obliged to enter into the Entertainment Lease Option Deed, pursuant to which MacauCo will grant EntertainmentCo the First Option and the Second Option to enter into the First Entertainment Lease Agreement and the Second Entertainment Lease Agreement respectively, to lease certain areas of the Cotai Site from MacauCo for the purposes of developing the Project. Exercise of the First Option and the Second Option will be at the discretion of EntertainmentCo. The Entertainment Lease Option Deed and the Entertainment Lease Agreements (and in each case, the transactions contemplated therein) are an integral part of the Transaction.

First Option:

It is expected that the First Option will be exercised after the Master Plan in respect of the Phase I Development has been finalised between the parties. More particularly:

(i) if the Master Plan with respect to the Phase I Development is finalised in accordance with the terms and conditions of the Joint Venture Agreement within a period of six months from the Closing Date, the Purchaser shall have the right to exercise the First Option within six months from the date on which the Master Plan is finalised; or

(ii) if the Master Plan with respect to the Phase I Development is not finalised in accordance with the terms and conditions of the Joint Venture Agreement within a period of six months from the Closing Date, the Purchaser shall have the right to exercise the First Option within three months from the date on which the Master Plan is finalised.

Second Option:

It is expected that the Second Option will be exercised within 60 days of the latest of the following occurring:

(i) the date that MacauCo receives written notification from the Macau government of a formal Land Grant Modification permitting an increase in the authorised Gross Floor Area in respect of the Phase II Development;

(ii) the date that the Master Plan in respect of the Phase II Development is finalised in accordance with the terms of the Joint Venture Agreement; and

(iii) the date that the board of directors of Cyber One resolves to commence construction of the Phase II Development and such construction is expected to occur immediately,

provided that, in no event shall the Second Option become exercisable prior to the date that is 12 months after the Closing Date.

Estimation of Timing:

It is estimated that the Master Plan in respect of the Phase I Development would be revised and finalised by the end of 2006. Thereafter, the first operation rent payment under the First Entertainment Lease Agreement is expected to be made around the first quarter of 2009, and the first operation rent payment under the Second Entertainment Lease Agreement is expected to be made around the first quarter of 2011. The Shareholders are reminded that the aforementioned timing is an estimation only, which is subject to various factors outside the parties' control (including Macau government approval), and therefore, there is no assurance that those events would happen in accordance with such estimated timeframes (if at all).

ENTERTAINMENT LEASE AGREEMENTS

Terms and Renewal:

Each of the Entertainment Lease Agreements to be entered into, upon exercise of the First Option and the Second Option, respectively, between MacauCo, EntertainmentCo and HoldingsCo (as guarantor of EntertainmentCo's tenant obligations) are in respect of certain, discrete areas of the Cotai Site. Each of the Entertainment Agreements shall have a term expiring in 2028 provided that the Land Grant is successfully renewed. In the event that the Land Grant is not renewed successfully, the expiry of the terms of each of the Entertainment Lease Agreements shall coincide with that of the Land Grant, or shall be such earlier dates pursuant thereto. The precise expiry dates will depend on the dates of the respective Entertainment Lease Agreements. EntertainmentCo (as lessee) shall, subject to the Land Grant and certain terms and conditions, have an option to renew each such Entertainment Lease Agreement for a period of 15 years from the expiry date of the relevant Entertainment Lease Agreement. If the remaining term of the Land Grant is less than 15 years, the applicable renewal period shall be for the entire remaining term of the Land Grant. Save and except for the rent of the renewed lease (which will be the then fair market rent to be determined pursuant to the terms of the relevant Entertainment Lease Agreement), the renewed lease will be on the same terms and conditions as the relevant Entertainment Lease Agreement and rental revision agreements.

Location and Gross Floor Area:

The precise location and Gross Floor Area subject to the Entertainment Lease Agreements will be determined by MacauCo and EntertainmentCo by mutual agreement after the Master Plan has been approved by the Macau government. MacauCo and EntertainmentCo will make the decision within the confine of the approved Master Plan and the premises subject to the Entertainment Lease Agreements will be located within the Cotai Site.

Pursuant to the Entertainment Lease Option Deed, EntertainmentCo may elect to lease a total Gross Floor Area of not less than 200,000 square feet but no more than 500,000 square feet. Assuming that MacauCo receives a written notification from the Macau government of a formal Land Grant Modification permitting an increase in the authorised Gross Floor Area to 6,000,000 square feet, EntertainmentCo may elect to take up all the available Gross Floor Area (i.e. 500,000 square feet). Alternatively, if EntertainmentCo elects not to take up all the available Gross Floor Area, MacauCo shall have the right to lease additional Gross Floor Area to a third party for the purpose of developing the Project.

Rent:

Upon signing each of the Entertainment Lease Agreements and prior to the Operation Date, EntertainmentCo shall pay MacauCo nominal rent of US$1 per year as pre-operation rent. Upon the Operation Date, the operation rent payable by EntertainmentCo to MacauCo in respect of the operation of entertainment business in the premises subject to the Entertainment Lease Agreements shall be as follows:

(i) in respect of the First Entertainment Lease Agreement:

(a) the annual rent payable shall be:

1. for the first three years, an initial annual base rent of US$25 million (equivalent to approximately HK$195,000,000), on the basis that the Gross Floor Area leased by EntertainmentCo is equal to 200,000 square feet, subject to upwards adjustment at the same per square feet rental rate if the Gross Floor Area leased by EntertainmentCo increases to exceed 200,000 square feet; and thereafter

2. commencing on year four and subject to adjustment every three years thereafter, the annual base rent shall be the higher of: (x) an increase by increments of 10 per cent. of the initial annual base rent (as adjusted*); and (y) an annual rent referable to earnings (revenue derived from operation of the premises subject to the First Entertainment Lease Agreement less operating expenses and gaming tax payable to the Macau government); and

* for illustration purpose only, on the basis that the Gross Floor Area leased by EntertainmentCo is equal to 200,000 square feet:

(A) the adjusted annual base rent for year 4 will be the higher of: (x) US$27.5 million (which is 110 per cent. of the initial annual base rent of US$25 million); and (y) an annual rent referable to earnings (less expenses and taxes) derived from the Gross Floor Area leased by EntertainmentCo for year 3;

(B) the adjusted annual base rent for year 7 will be the higher of: (x) US$30.25 million (which is 110 per cent. of the annual base rent at year 6); and (y) an annual rent referable to earnings (less expenses and taxes) derived from the Gross Floor Area leased by EntertainmentCo for year 6; and

(C) the annual base rent for year 10, 13, 16, 19 will be determined likewise.

(b) the base monthly rent shall be equal to one-twelfth of the annual rent payable; and

(ii) in respect of the Second Entertainment Lease Agreement:

(a) the annual rent payable shall be:

1. for the first three years, an initial annual base rent referable to the initial annual base rent payable (as adjusted), in respect of the same period, under the First Entertainment Lease Agreement; and thereafter

2. commencing on year four and subject to adjustment every three years thereafter, the annual base rent shall be the higher of: (x) an increase by increments of 10 per cent. of the initial annual base rent (as adjusted**); and (y) an annual rent referable to earnings (revenue derived from operation of the premises subject to the Second Entertainment Lease Agreement less operating expenses and gaming tax payable to the Macau government); and

** for illustration purpose only:

(A) the adjusted annual base rent for year 4 will be the higher of: (x) 110 per cent. of the initial annual base rent under the Second Entertainment Lease Agreement at the Operation Date; and (y) an annual rent referable to earnings (less expenses and taxes) derived from the Gross Floor Area leased by EntertainmentCo for year 3;

(B) the adjusted annual base rent for year 7 will be the higher of: (x)110 per cent. of the annual base rent in year 6; and (y) an annual rent referable to earnings (less expenses and taxes) derived from the Gross Floor Area leased by EntertainmentCo for year 6; and

(C) the annual base rent for year 10, 13, 16, 19 will be determined likewise.

(b) the base monthly rent shall be equal to one-twelfth of the annual rent payable,

in each case to be calculated and payable in accordance with separate rental revision agreements to be entered into at the time of executing the Entertainment Lease Agreements. Please refer to the paragraph under the heading "Estimation of Timing" above for the estimation of timing.

Construction Obligation:

As provided for in the Entertainment Lease Agreements, EntertainmentCo shall be responsible for funding all the construction costs in respect of the bare shell of the area leased under the Entertainment Lease Agreements and all the costs of all the fixtures, fittings, furniture, facilities and equipment to be installed thereon. The Company shall be responsible for such construction in accordance with the Master Plan, relevant plans, specifications and work programme provided by EntertainmentCo and approved by the Macau government.

Early Termination:

If a party commits a material default under either Entertainment Lease Agreement (including failure to pay rent, being adjudicated bankrupt or insolvent by any competent court or failure to observe any of the covenants therein), the non-defaulting party shall have the right to terminate that Entertainment Lease Agreement.

INFORMATION ON CYBER ONE

Cyber One has, to date, been used only as a special purpose vehicle through which the Company holds its indirect interest in the Cotai Site. Upon Closing, Cyber One will become the joint venture vehicle through which the Purchaser and East Asia will direct the development of the Project.

INFORMATION ON THE COTAI SITE

In respect of the Project, the diagram below (which has been included for illustrative purposes only and has not been reproduced to scale) highlights the strategic importance of the location of the Cotai Site, in particular its close proximity to the Lotus Bridge border crossing between Macau and Zhuhai and to The Venetian Macao, a major integrated resort currently under development. The Directors believe that the geographical location of the Cotai Site make it visible and accessible to visitors/tourists entering Macau by land and capable of benefiting from any growth in the tourism industry in Macau. Subject to obtaining the agreement of the Purchaser and as part of the Project, it is the intention of the Directors to develop and construct entertainment/leisure facilities on the Cotai Site that complement the facilities expected to be offered on the adjacent pieces of land.


Immigration
Macau
Peninsula
St. Paul's ruins
Macau Ferry Terminal
A-Ma Temple
Macau Tower
Sai Van Bridge
Macau-Taipa Bridge
Friendship Bridge
New Ferry Terminal
University of Macau
Taipa
Macau International Airport
Race Course
Galaxy Cotai
Venetian
Four Seasons
Far East
Birds Nature Reserve Area
Macau Dome
Immigration
Lotus Bridge
Golf Course
Zhuhai
(Hengqin Island)
Macau Studio City
(the Cotai Site)
Coloane
Westin Resort

As set out in the above diagram, the Project has been tentatively named “Macau Studio City”. The Project name will be the subject of further discussion between the joint venture parties and consequently may be subject to change.

The current value of the Cotai Site’s Gross Floor Area of 3,659,760 square feet is HK$3,293,784,000. This is based on an agreed value of HK$900 per square foot and on the assumption that East Asia shall bear the cost of any Additional Premium payable in respect of such Gross Floor Area. However, as disclosed earlier, the Purchaser has agreed to make further payments to East Asia if the Macau government approves an increase of the Gross Floor Area, provided that the density of the Gross Floor Area to the site area is not greater than 3.96. According to Savills Valuation and Professional Services Limited, an independent property valuer which is an Unconnected Person, the valuation of the Cotai Site based only on the current approved Gross Floor Area of 3,659,760 square feet amounted to approximately HK$3,370,000,000 (representing approximately HK$920.8 per square foot). Further details of the valuation report are set out in Appendix II to this circular.

The Gross Floor Area the subject of the Land Grant (currently approved) and the Land Grant Modification(s) (for which MacauCo will apply in due course) is approximately 3,659,760 square feet and up to 5,573,830 square feet respectively. The Share Purchase Agreement also allows MacauCo to apply for additional Gross Floor Area above 5,573,830 square feet (to a maximum Gross Floor Area of 6,000,000 square feet, or 6,600,000 square feet with the Purchaser’s consent), provided that it also obtains additional site area above the original site area of 1,407,813 square feet.

On 30 May 2005, the Company announced that MacauCo had received notification in writing dated 19 May 2005 from the Macau government of the conditional approval of the proposed development plans for the Cotai Site, including the construction of a television/film studio, concert hall, convention and exhibition centre and retail complex, two five-star hotels and an all-suite hotel. It is envisaged that, if EntertainmentCo (as the lessee under the Entertainment Lease Agreements) elects to exercise the First Option, it will seek the necessary licence and approval from the Macau government for operating a gaming business on that part of the Cotai site to be leased by it, though no such application has been made at this stage. In such event, if any law or regulation related to gaming business is applicable to the Company, it will comply with the relevant requirement(s), including making any necessary disclosures.

From Closing, separate and distinct from the Entertainment Lease Agreements, it is envisaged that East Asia and the Purchaser will jointly develop the Cotai Site in accordance with the Joint Venture Agreement and the Master Plan. It is intended that, as soon as possible following Closing, East Asia and the Purchaser will work together to finalise the Master Plan.

Subject to obtaining any requisite approvals from the Macau government and subject further to agreeing or determining (as the case may be) the Master Plan with the Purchaser, the Company anticipates that the Master Plan will, inter alia, allocate Gross Floor Area in respect of: (a) those entertainment and other facilities contemplated by the Project; and (b) subject to Macau government approval, gaming. The precise allocation of Gross Floor Area for each such facility will be determined as and when the Master Plan is finalised.

Where possible, the Directors will endeavour to use the Company's existing media and entertainment expertise and resources (including, to the extent possible, enlisting the support of some of the better known performers and media personalities with whom the Company has existing relationships) to promote awareness of the Project to a targeted Asian audience.

In respect of sourcing project, development and day-to-day operational expertise, the Directors will endeavour to procure the assistance of the Lai Sun Group (of which the Company is a member). The Directors regard the experience that the Lai Sun Group has in controlling and/or managing commercial/retail properties as important and relevant in the context of the Project.

INFORMATION ON THE GROUP

The principal activities of the Group comprise the development and operation of and investment in film production and distribution, live entertainment and concert staging and promotion, artist management, music production and distribution, advertising agency services, satellite television operations and development of the Cotai Site into a multiuse complex.

The Company also currently owns an approximately 37.33 per cent. shareholding interest in Media Asia Entertainment Group Limited, a company incorporated in Bermuda which is engaged in films production and distribution and which is listed on Singapore Exchange Securities Trading Limited's Dealing and Automated Quotation System. The Company also holds an interest in LSD equal to approximately 40.80 per cent. as at the Latest Practicable Date. LSD has an interest in the Company equal to approximately 34.83 per cent. as at the Latest Practicable Date.

INFORMATION ON THE PURCHASER

The Purchaser is controlled by Silver Point Capital, L.P. (a US investment fund manager based in Greenwich, Connecticut and organised under the laws of the State of Delaware) with approximately US$5 billion in capital under management, and a majority of the Purchaser's equity securities are owned by funds managed by Silver Point Capital, L.P.. The Purchaser was established as a special purpose vehicle to hold the funds' interest in the Project. The funds are widely held by US domestic and international investors and invest in securities worldwide. These investments may include, but are not limited to, investments in the entertainment industry as the funds invest in a diversified range of industries.

A significant equity interest in the Purchaser is owned by Mr. David Friedman.

EntertainmentCo is a wholly-owned subsidiary of the immediate parent company of the Purchaser.

The Purchaser, EntertainmentCo and their respective ultimate parent entities are Unconnected Persons.

SENIOR EXECUTIVES

Mr. Cheung Wing Sum, Ambrose and Mr. David Friedman will be the Co-Chief Executive Officers of Cyber One and the Project generally.

Mr. Cheung, an executive Director and an executive director of LSD, has over 24 years of legal, corporate and management experience in the hotel, hospitality and property industries, including past responsibility for the acquisition, asset management and disposal (as appropriate) of such hotels as the Four Seasons (Milan), the Four Seasons (New York), the Regent Beverly Wilshire (Beverly Hills, California), the Ritz Carlton (Hong Kong), the Caravelle Hotel (Ho Chi Minh City) and the Fullerton Hotel (Singapore). Mr. Cheung was a partner at Philip KH Wong, Kennedy YH Wong & Co., where he remains a legal consultant. Earlier, Mr. Cheung was a partner at Woo Kwan Lee & Lo, where he specialised in capital raisings and mergers and acquisitions. Mr. Cheung is a Hong Kong Justice of the Peace and has served on numerous public bodies and committees, including as a member of the Tourism Strategy Group of the Hong Kong Tourism Commission, the Advisory Committee at the Hong Kong Securities and Futures Commission and the Advisory Committee of the School of Hotel and Tourism Management at The Chinese University of Hong Kong.

Mr. Friedman has more than 20 years of broad executive experience in the hotel and gaming industry, and is recognised as one of the leading experts on international gaming development. Mr. Friedman was the first employee of Venetian Casino Resort, LLC where he served as Assistant to the Chairman of the Board of Venetian Casino Resort, LLC, Las Vegas Sands, Inc., Interface Group-Nevada, Inc. and their related companies. Mr. Friedman subsequently co-founded and served as President of 3700 Associates, LLC, the developer of the Las Vegas, Nevada-based Cosmopolitan, a more than 5 million square foot mixed use hotel, casino, retail, condominium and entertainment project. Mr. Friedman has advised on the structuring and completion of more than US$5 billion in project financings, and has assisted with the opening of a variety of major casino, hotel and retail projects. During his tenure with Las Vegas Sands, Inc., Mr. Friedman led its successful efforts to obtain the right to develop and operate casinos in Macau, and to obtain financing of those projects. Mr. Friedman holds, and has held over the past two decades, gaming licenses in numerous gaming jurisdictions around the world, including Nevada and Macau.

The Directors believe that the different and complimentary experience and skills of both Mr. Cheung and Mr. Friedman make them suited to work together as Co-Chief Executive Officers and will benefit the development of the Project.

REASONS FOR AND BENEFITS OF THE TRANSACTION

As mentioned in the Company's interim report 2005, the Group received conditional approval in May 2005 in respect of its proposed development plans for the construction on the Cotai Site of various facilities with a total Gross Floor Area of approximately 340,000 square metres. To take the Project forward, the Company and East Asia have decided, subject to the conditions mentioned earlier, to sell a strategic stake in Cyber One to the Purchaser to form a joint venture with a strategic partner to explore and develop opportunities in Macau using the Cotai Site.

The Board intends to allocate resources responsibly to focus on the development of the Project as a priority. The Board considers the Purchaser to be a suitable strategic partner. In selecting the Purchaser as the Company's strategic partner, consideration was given to: (a) its existing financial resources, together with its ability to raise external funding; and (b) the Purchaser's management team's relevant knowledge and experience in the entertainment/hotel/retail industry, including in Macau and in developing and completing integrated projects, including planning, logistical and execution capability. The Board believes that the Purchaser meets these criteria. In addition, the Purchaser's affiliated entity, EnterainmentCo, shall, upon exercise of the First Option and the Second Option and upon the execution of the Entertainment Lease Agreements, become an anchor tenant of the Cotai Site on long-term leases (having terms expiring in 2028, subject to renewal), providing MacauCo with a regular/recurring rental income stream (subject to upwards adjustment based on the economic performance of the Project) in the manner described in the section headed "Entertainment Lease Agreements" under the sub-heading "Rent".

In this regard, at or before Closing, East Asia and Cyber One will enter into the Joint Venture Agreement with the Purchaser in respect of the Project. As a joint venture partner, the Purchaser will contribute capital, expertise (both financial and operational) and appropriate human resources to the Project. The main contributions of the Group to the Project are the Cotai Site and its experience in development, hospitality and entertainment business in Hong Kong, Macau and mainland China. The Directors believe that the Transaction represents a good opportunity for the Company to pursue the development of the Project.

FINANCIAL INFORMATION OF CYBER ONE AND FINANCIAL EFFECTS TO THE COMPANY IN RESPECT OF THE DISPOSAL OF INTEREST IN CYBER ONE

The audited consolidated net losses (both before tax and after tax) of Cyber One for the years ended 31 December 2005 and 31 December 2004 were approximately HK$1.3 million and approximately HK$0.9 million, respectively.

As at 31 December 2005, the audited consolidated net deficiency in assets of Cyber One was approximately HK$5.0 million. As at 31 December 2005, the Group had advanced shareholder loans to Cyber One and its subsidiaries in an aggregate amount of approximately HK$80.4 million. Included in the audited consolidated balance sheet of Cyber One as at 31 December 2005 were other creditors and accruals of approximately HK$54.1 million that will be discharged by the Group before Closing pursuant to the terms of the Share Purchase Agreement. The Group intends to provide further shareholder loans to Cyber One to discharge such liabilities and therefore the shareholder loans to Cyber One will be increased by approximately the same amount immediately before Closing. The shareholder loans immediately before the completion (taking into account the creditors and accruals as at 31 December 2005 to be discharged by the Group) is estimated to be approximately HK$134.5 million. After taking into account the audited consolidated net deficiency in assets of Cyber One as at 31 December 2005 of approximately HK$5.0 million, the Group's total investment cost in Cyber One immediately before Closing is estimated to be approximately HK$129.5 million.

The gain on the disposal of the Sale Shares before expenses, that is expected to accrue to the Company's consolidated accounts, is estimated to be HK$1,083.1 million. Since the Company owns an approximate 40.80 per cent. equity interest in LSD (which in turn owns an approximate 34.83 per cent. equity interest in the Company), an additional share of profit arising from this cross-holding effect of approximately HK$179.4 million is expected to accrue to the Company's consolidated accounts upon Closing. The total estimated gain expected to accrue to the Company's consolidated accounts upon Closing as a result of the disposal of 40 per cent. interest in Cyber One before expenses (after taking into account the cross-holding effect) is approximately HK$1,262.5 million. In the event that a Qualified Third Party Sale does not complete within one month of Closing and the Purchaser exercises its option to purchase an additional 10 per cent. interest in Cyber One, an additional estimated gain of approximately HK$315.6 million is expected to accrue to the Company's consolidated accounts as a result of the disposal (after taking into account the cross-holding effect between the Company and LSD). The amount of gain on disposal of a 40 per cent. interest (or 50 per cent. interest where applicable) in Cyber One will need to be recalculated based on the actual consolidated net asset value of Cyber One as at the date of Closing and is expected to be different from the amount disclosed above. The above estimated figures are prepared based on financial information available as at the Latest Practicable Date.

The Company intends to use the majority of the net proceeds of the disposal of the Sale Shares to finance the Project with the remaining balance being used towards the Group's general working capital requirements.

Under the Joint Venture Agreement to be entered into upon Closing, the Company will no longer have control over the composition of the board of directors of Cyber One and unanimous consent of both East Asia and the Purchaser will be required to ratify any Approved Proposal relating to any Unanimous Consent Matters and, for so long as neither shareholder of Cyber One is entitled to appoint a majority of the directors of Cyber One, an affirmative vote of each of East Asia and the Purchaser will be required to ratify any other Approved Proposals. Please refer to the section headed "Management of the Joint Venture" above for further information. Cyber One will cease to be a subsidiary of the Company for accounting purposes on Closing and will, thereafter, be accounted for as a jointly controlled entity of the Company. Save as disclosed herein, the Company has no current intentions to dispose its remaining interest in Cyber One.

In accordance with the Group's existing accounting policies used in the preparation of the Company's consolidated accounts as at 31 December 2005, the Group's interests in the net assets of the jointly-controlled entities are to be stated in the consolidated balance sheet of the Group using the equity method of accounting. The disposal of the Sale Shares and the execution of the Joint Venture Agreement on Closing will therefore result in the deconsolidation of the assets and liabilities of Cyber One from the Company's consolidated accounts. The remaining 60 per cent. interest or, where applicable, 50 per cent. interest in Cyber One will be equity accounted for as the Group's jointly-controlled entity. Such accounting treatment in respect of Cyber One has been reviewed by the Group's auditors.

LISTING RULES IMPLICATIONS AND THE SGM

The Transaction constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. To the best knowledge of the Directors, save as disclosed below, no Shareholder has a material interest in the Transaction and none of LSD or its associates has an interest in the Transaction which is different from the interests of the other Shareholders.

The Company has been informed that, as at the Latest Practicable Date, funds controlled by Silver Point Capital, L.P. (which also controls the Purchaser) hold approximately 1.78 per cent. of the Company's issued share capital (as at the Latest Practicable Date). As associates of the Purchaser, such funds will be required to abstain from voting on the resolution approving the transaction at the SGM.

In compliance with the Listing Rules, the vote of the Shareholders to be taken at the SGM to approve the Transaction will be taken on a poll and the results of which will be announced after the SGM. Except for the abovementioned associates of the Purchaser, all Shareholders will be entitled to vote by poll on the resolution approving the Transaction at the SGM.

Set out on pages 115 to 116 of this circular is a notice convening the SGM to be held at The Harbour Room, 3/F., The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 June 2006 at 9:30 a.m. at which an ordinary resolution will be proposed and, if thought fit, passed to approve the Transaction. Once such approval is obtained, no further approval will be required for execution of the Joint Venture Agreement, the Entertainment Lease Option Deed and, if applicable, the Entertainment lease Agreements (and, in each case, performance of the transactions and obligations contemplated therein).

A form of proxy for use by the Shareholders at the SGM is enclosed. If you do not intend to be present at the SGM, you are requested to complete and return the form of proxy to the Company's Hong Kong branch share registrar, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude the Shareholders from subsequently attending and voting in person at the SGM or any adjourned meeting should they so wish.

RECOMMENDATION

The Directors (including the non-executive Directors) believe that the terms of the Transaction are fair and reasonable and in the best interests of the Shareholders as a whole and therefore recommends the Shareholders to vote in favour of the resolution approving the Transaction to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
eSun Holdings Limited
Lien Jown Jing, Vincent
Chairman

1. AUDITORS' REPORT ON THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below is the auditors' report extracted from pages 27 to 28 of the annual report of the Company for the year ended 31 December 2005. All definitions, page numbers and note references referred to in this section of this Appendix are those of such annual report of the Company.

ERNST & YOUNG
安永會計師事務所

To the members
eSun Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 29 to 99 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

SCOPE LIMITATION ON THE CARRYING VALUE OF FILM RIGHTS

As further detailed in note 17 to the financial statements, the Group recorded film rights with an aggregate carrying value of HK$187,187,000 as at 31st December, 2005. The directors engaged an independent third party (the "Valuer") to perform a valuation of the Group's rights, titles and interests to 127 films (the "127 Film Rights") which had a carrying value of HK$187,073,000 as at 31st December, 2005 in order to provide them with a reference to assess if there is any impairment in value of the Group's total film rights as at that date. Having regard to the valuation performed by the Valuer and the current market conditions, the directors are of the opinion that there is no impairment in value of the Group's film rights as at 31st December, 2005. We have been unable to obtain sufficient reliable information to carry out the audit procedures required by the Hong Kong Standard on Auditing 620 "Using the Work of an Expert" ("HKSA 620") issued by the HKICPA, to satisfy ourselves as to (i) the competence and objectivity of the Valuer; and (ii) the adequacy of the scope of the Valuer's work on the 127 Film Rights. Accordingly, we have been unable to carry out adequate audit procedures to assess the carrying amount of the film rights as at 31st December, 2005. Included in the consolidated income statement for the year ended 31st December, 2005 is an amortisation charge on the Group's film rights of HK$3,497,000. We are also unable either to obtain sufficient reliable information, or to carry out alternative audit procedures to satisfy ourselves as to the appropriateness of the basis of computation of the amortisation charge.

Any adjustments that might have been found necessary in respect of the above would have a consequential impact on the net assets of the Group as at 31st December, 2005 and the net profit attributable to equity holders of the parent for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION ARISING FROM SCOPE LIMITATION

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence relating to the carrying value of the film rights as set out in the basis of opinion section, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the film rights above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Ernst & Young
Certified Public Accountants

Hong Kong
7th April, 2006

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

Set out below are the audited financial statements of the Group for the years ended 31 December 2005 and 2004 as extracted from pages 29 to 99 of the annual report of the Company for the year ended 31 December 2005. All definitions, page numbers and note references referred to in this section of this Appendix are those of such annual report of the Company.

Consolidated Income Statement
Year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
TURNOVER	6	140,984	152,781
Cost of sales	7	(123,353)	(139,432)
Gross profit		17,631	13,349
Other revenue	6	12,258	7,953
Marketing expenses		(21,937)	(17,017)
Administrative expenses		(88,212)	(67,154)
Other operating gains		13,874	17,616
Other operating expenses		(656)	(7,376)
Loss on deemed disposal of an associate	16(a)	—	(4,705)
LOSS FROM OPERATING ACTIVITIES		(67,042)	(57,334)
Finance costs	8	(12,593)	(13,884)
Loss on settlement of a debt	16(b)	—	(101,892)
Share of profits and losses of jointly-controlled entities		(2,304)	(1,971)
Provision for amounts due from jointly-controlled entities		(2,381)	(1,011)
Share of profits and losses of associates		295,505	30,683
Amortisation of goodwill on acquisition of an associate		—	(2,122)
PROFIT/(LOSS) BEFORE TAX	7	211,185	(147,531)
Tax	10	(717)	2,014
PROFIT/(LOSS) FOR THE YEAR		210,468	(145,517)
Attributable to:			
Equity holders of the parent	11, 30	210,468	(145,517)
Minority interests		—	—
		210,468	(145,517)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
— BASIC		HK29.35 cents	HK(21.68) cents
— DILUTED		N/A	N/A

Consolidated Balance Sheet

31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	207,713	166,029
Interests in jointly-controlled entities	15	223	1,125
Interests in associates	16	1,632,930	1,515,217
Film rights	17	187,187	190,684
Total non-current assets		2,028,053	1,873,055
CURRENT ASSETS			
Inventories	18	2,872	—
Equity investment at fair value through profit or loss/short term investment	19	22	22
Self-produced and purchased programmes		234	795
Properties held for sale	20	—	2,700
Debtors and deposits	21	78,549	63,242
Cash and cash equivalents	22	177,080	18,472
Total current assets		258,757	85,231
CURRENT LIABILITIES			
Creditors and accruals	23	108,603	108,714
Tax payable		3,321	2,919
Finance lease payables	24	29	40
Interest-bearing bank and other borrowings	25	4,000	170,971
Loan from a director	26	—	9,659
Total current liabilities		115,953	292,303
NET CURRENT ASSETS/(LIABILITIES)		142,804	(207,072)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,170,857	1,665,983
NON-CURRENT LIABILITIES			
Finance lease payables	24	(133)	(2)
Interest-bearing bank and other borrowings	25	(126,474)	(19,000)
Loan from a related company	27	—	(13,339)
Total non-current liabilities		(126,607)	(32,341)
Net assets		2,044,250	1,633,642
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	28	372,592	335,592
Reserves	30	1,671,462	1,297,854
		2,044,054	1,633,446
Minority interests		196	196
Total equity		2,044,250	1,633,642

Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* *(Restated)*
Total equity attributable to equity holders of the parent at 1st January			
As previously reported		1,831,332	1,778,846
Prior year adjustments	2.3	(197,886)	—
As restated		1,633,446	1,778,846
Net profit/(loss) for the year	30	210,468	(145,517)
Exchange realignment on translation of financial statements of foreign subsidiaries, net and total income and expense for the year recognised directly in equity	30	(65)	117
Total income and expense for the year attributable to equity holders of the parent		210,403	(145,400)
Issue of shares, including share premium	28	155,400	—
Share issue expenses	28	(4,734)	—
Share of reserve movements of associates	30	49,539	—
Total equity attributable to equity holders of the parent at 31st December		2,044,054	1,633,446
Minority interests as at 31st December		196	196
Total equity as at 31st December		2,044,250	1,633,642

Consolidated Cash Flow Statement

Year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		211,185	(147,531)
Adjustments for:			
Finance costs	8	12,593	13,884
Loss on settlement of a debt	16(b)	—	101,892
Share of profits and losses of jointly-controlled entities		2,304	1,971
Provision for amounts due from jointly-controlled entities		2,381	1,011
Share of profits and losses of associates		(295,505)	(30,683)
Amortisation of goodwill on acquisition of an associate		—	2,122
Loss on deemed disposal of an associate	16(a)	—	4,705
Interest income	6	(9,682)	(739)
Depreciation	7	5,175	4,929
Gain on disposal of a long term investment	7	—	(1,885)
Gain on disposal of properties held for sale	7	(894)	—
Gain on disposal of investment properties	7	—	(8,072)
Impairment loss on self-produced and purchased programmes	7	—	2,385
Amortisation of self-produced and purchased programmes	7	488	374
Amortisation of film rights	7	3,497	6,971
Unrealised holding loss on short term investments	7	—	12
Loss on disposal of short term investments	7	—	589
Provision for bad and doubtful debts	7	—	3,127
Loss on disposal of items of property, plant and equipment	7	69	54
Write-back of provision for bad and doubtful debts	7	(2,918)	(168)
Write-back of provision for inventories	7	(1,727)	—
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited	7	—	(7,300)
Operating loss before working capital changes		(73,034)	(52,352)
Decrease in self-produced and purchased programmes		73	40
Increase in inventories		(1,145)	—
Increase in debtors and deposits		(12,389)	(30,126)
Increase/(decrease) in creditors and accruals		(8,979)	37,190
Cash used in operations		(95,474)	(45,248)
Hong Kong taxes paid		(323)	—
Overseas taxes refunded		6	3,795
Net cash outflow from operating activities — page 34		(95,791)	(41,453)

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash flow from operating activities — page 33		(95,791)	(41,453)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(38,923)	(26,832)
Proceeds from disposal of items of property, plant and equipment		13	73
Proceeds from disposal of properties held for sale		3,594	—
Proceeds from disposal of investment properties		—	34,372
Repayment by/(advance to) associates		35	(160)
Repayment of loans from an associate	16	225,000	—
Advances to jointly-controlled entities		(3,780)	(2,644)
Dividends received from an associate		2,125	—
Proceeds from disposal of short term investments		—	1,695
Additions of short term investments		—	(2,235)
Proceeds from disposal of a long term investment		—	1,885
Partial settlement of a debt		—	20,000
Acquisition of a subsidiary	31(b)	—	216
Receipt of the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited		—	10,354
Interest received		9,682	46
Net cash inflow from investing activities		197,746	36,770
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	155,400	—
Share issue expenses	28	(4,734)	—
New bank borrowings		—	10,000
New other borrowings		—	59,188
Loans from a director and a related company		—	13,650
Repayment of loan from a director		(9,659)	—
Repayment of loan from a related company		(12,500)	—
Repayment of bank borrowings		(21,000)	(9,000)
Repayment of other borrowings		(45,650)	(65,250)
Capital element of finance lease rental payments		(40)	(35)
Interest paid		(5,164)	(7,848)
Net cash inflow from financing activities		56,653	705
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		158,608	(3,978)
Cash and cash equivalents at beginning of year		18,472	22,450
CASH AND CASH EQUIVALENTS AT END OF YEAR		177,080	18,472
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	22	177,080	18,472

Balance Sheet
31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	1,818,221	1,833,613
CURRENT ASSETS			
Self-produced and purchased programmes		227	715
Debtors and deposits		1,787	1,903
Cash and cash equivalents	22	52,544	6,903
Total current assets		54,558	9,521
CURRENT LIABILITIES			
Creditors and accruals		2,840	1,121
Tax payable		412	412
Interest-bearing bank and other borrowings	25	4,000	170,971
Loan from a director	26	—	9,659
Total current liabilities		7,252	182,163
NET CURRENT ASSETS/(LIABILITIES)		47,306	(172,642)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,865,527	1,660,971
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	(126,474)	(19,000)
Loan from a related company	27	—	(13,339)
Total non-current liabilities		(126,474)	(32,339)
Net assets		1,739,053	1,628,632
EQUITY			
Issued capital	28	372,592	335,592
Reserves	30	1,366,461	1,293,040
Total equity		1,739,053	1,628,632

Notes to Financial Statements

31st December, 2005

1. CORPORATE INFORMATION

eSun Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively, the "Group") were involved in the following principal activities:

- development and operation of, and investment in, media, entertainment, music production and distribution, Internet and technology-oriented businesses;
- provision of advertising agency services;
- satellite television operations; and
- sale of cosmetic products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets

The adoption of HKASs 2, 7, 8, 10, 12, 14, 18, 19, 21, 23, 27, 28, 31, 32, 33, 37, 38, 39 Amendment, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates and jointly-controlled entities was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(i) HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets

In prior years, goodwill arising on acquisitions of an associate on or after 1st January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation at 1st January, 2005 and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The effect of the change in accounting policy to these financial statements and details of the new accounting policy are set out in notes 2.3 and 2.5, respectively.

(ii) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the leasehold interest in land and buildings of the Group is separated into leasehold land and buildings. The leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Details of the new accounting policy are set out in note 2.5.

(iii) HKAS 16 — Property, Plant and Equipment and HK-Int 2 — The Appropriate Accounting Policies for Hotel Properties

In prior years, hotel properties held by the Group's associates were stated at cost less any impairment losses.

Upon the adoption of HKAS 16 and HK-Int 2, hotel properties are now stated at cost less accumulated depreciation and any impairment losses.

The retrospective application of this accounting policy by the Group's associates has resulted in the restatement of results and net assets of the associates being equity accounted for by the Group, further details of which are set out in notes 2.3 and 16(b) to these financial statements.

(iv) HKAS 39 — Financial Instruments

In prior years, equity securities and advances to investees of the Group's associates intended to be held for a continuing strategic or long term purpose were accounted for as long term investments. These long term investments were stated at cost less any impairment losses, on an individual investment basis. When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. Where the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Upon the adoption of HKAS 39 by the Group's associates, such long term investments or investments that are not classified in any of the other categories of financial assets as defined in HKAS 39 were redesignated as available-for-sale investments as at 1st January, 2005. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of or until the investments are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement of the Group's associates.

Upon initial application of this HKAS by the Group's associates, any change in fair value of the previous carrying amount of available-for-sale investments are recognised as an opening adjustment of the balance of the investment revaluation reserve against accumulated losses at 1st January, 2005. This change only results in a change in accounting policy of the Group's associates is set out in note 2.3 to these financial statements.

(v) HKAS 40 — Investment Property

In prior years, changes in the fair values of investments properties of the Group's associates were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement of the Group's associates to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of these investment properties are included in the income statement of the Group's associates in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The retrospective application of this accounting policy by the Group's associates has resulted in the restatement of results and net assets of the Group's associates being equity accounted for by the Group, further details of which are set out in notes 2.3 and 16(b) to these financial statements.

(vi) HK(SIC)-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties of the Group's associates was recognised based on the tax rates that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the investment properties of the Group's associates is determined on the basis that these properties will be recovered through use. Accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The retrospective application of this accounting policy by the Group's associates has resulted in the restatement of results and net assets of the Group's associates being equity accounted for by the Group, further details of which are set out in notes 2.3 and 16(b) to these financial statements.

2.3 SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES

Pursuant to HKAS 8, which outlines the disclosure requirements when a change in accounting policy has a material effect on the current year's and prior years' amounts presented, the amount of adjustment for each financial statement line item affected by the adoption of the new and revised HKFRSs and the impact to the basic earnings/(loss) per share to the Group's financial statements are summarised as follows:

	Impact of new and revised HKFRSs on consolidated balance sheet as at					Impact of new and revised HKFRSs on consolidated income statement for the year ended		
	Decrease in interests in associates/ net assets	Increase in investment revaluation reserve	Decrease in investment property revaluation reserve	Decrease/ (increase) in accumulated losses	Decrease in total equity	Decrease in amortisation of goodwill on acquisition of an associate	Increase in share of profits and losses of associates	Increase in loss on settlement of a debt
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31st December, 2005	(39,515)	53,453	(288,285)	195,317	(39,515)	1,661	197,570	—
31st December, 2004 — note 16	(197,886)	—	—	(197,886)	(197,886)	—	—	(197,886)
Increase in basic earnings per share for the year ended 31st December, 2005 — HK cents						0.23	27.55	—
Increase in basic loss per share for the year ended 31st December, 2004 — HK cents						—	—	(29.48)

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised HKFRSs applicable to the Group's financial statements, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January, 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the Group expects that the adoption of the pronouncements listed above not yet effective will not have any significant impact on the Group's financial statements in the period of initial application.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

As detailed in note 16(b), there is a crossholding between the Group and Lai Sun Development Company Limited ("LSD"), an associate of the Group. Therefore, the Group's share of the results of LSD for the year and subsequent accounting periods also includes the results of the Group which are shared by LSD while LSD is equity accounting for the Group's results. Appropriate elimination is made by the Group while the Group is accounting for the crossholding.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition of an associate is capitalised, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the year ended 31st December, 2004, previously recognised goodwill was amortised on the straight-line basis over its estimated useful life of ten years.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are lossed to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the unexpired lease terms
Buildings	2.5% — 5.0%
Leasehold improvements	Over the terms of the leases
Furniture, fixtures and equipment	20.0%
Broadcast operations and engineering equipment	10.0%
Motor vehicles	10.0% — 20.0%
Computers	10.0% — 20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investments and other financial assets

Applicable to the year ended 31st December, 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as short term investments.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31st December, 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets (applicable to the year ended 31st December, 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets (applicable to the year ended 31st December, 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvements takes the form of a written and/or purchased option (including a cash-settled option or similar provisions) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31st December, 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories comprise cosmetic products and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated cost to be incurred to completion and disposals.

Self-produced programmes

Self-produced programmes are stated at cost less any impairment losses. Cost comprises direct expenditure and an attributable portion of direct production overheads. The relevant portion of the cost of self-produced programmes is charged to the income statement in accordance with the number of episodes broadcast in the financial year.

Purchased programme rights

Purchased programme rights, which represent entitlements under contracts to receive and broadcast programmes, are stated at cost less any impairment losses. The cost of purchased programme rights is charged to the income statement upon the first broadcasting of the programmes and in accordance with the number of episodes broadcast in the financial year.

Film rights

Film rights are certain rights to completed films acquired from outsiders and are stated at cost less accumulated amortisation and any impairment losses.

Film rights are amortised proportionately to the estimated projected revenues over their economic beneficial period subject to a maximum period of 10 years. Estimated projected revenues are reviewed on a film-by-film basis at a regular interval. Additional amortisation or impairment will be charged if future estimated projected revenues adversely differ from the previous estimation.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is estimated by the directors based on the prevailing market conditions. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) advertising agency fee income, in the period in which such advertising services are rendered;

(b) programme distribution fee income, when the master audio and visual materials have been delivered to licensees for immediate exploitation of programmes;

(c) turnover from entertainment events organised by the Group, when the events are completed;

(d) net income from entertainment events organised by other co-investors, when the events are completed and are in proportion as agreed with co-investors;

(e) information technological service fee income, when the relevant services are rendered;

(f) television subscription fee income, when the relevant services are rendered;

(g) income from the sale of short term investments, on the transaction date when the relevant contract is entered into;

(h) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(i) artiste management fee income, when the relevant services are provided;

(j) turnover from the sale of goods, when significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(k) income from films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment is granted to the licensee which permits the licensee to exploit those film rights freely and where the Group has no remaining obligations to perform and when the film materials have been delivered to licensees. Revenue recognised is limited to the amount of consideration received and subject to due allowance for contingencies;

(l) income from films licensed, other than for a fixed fee or non-refundable guarantee under a noncancellable contract, to licensees, over the licence period and when the films are available for showing or telecast;

(m) income from the sale of albums, when the albums are delivered and the titles have been passed;

(n) album distribution commission income, when the albums have been delivered to the wholesalers and distributors;

(o) album license income, on an accrual basis in accordance with the terms of the relevant agreements;

(p) rental income, when the properties are let out and on a time proportion basis over the lease terms; and

(q) television airtime sales, when the relevant advertisements are broadcast.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the accumulated losses. On disposal of a foreign entity, the resulting exchange difference relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

— where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related parties

A party is considered to be related to the Group if:

(a) the party directly or indirectly through one or more intermediaries (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Income tax

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors is also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses carried forward, and the asset balance will be reduced and charged to the income statement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment test of assets and goodwill

The Group determines whether an asset or goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the media and entertainment segment engages in investment in, and the production of, entertainment events, the provision of artiste management services, the licensing of motion pictures and films, and album sales and distribution;

(b) the satellite television segment engages in the television broadcasting business, including the production of television programmes, the operation of a satellite television channel and the provision of other related services;

(c) the advertising agency segment engages in the provision of advertising agency services, primarily in respect of advertisements on television and in newspapers;

(d) the cosmetics segment engages in the sale of cosmetic products (note); and

(e) the corporate and others segment comprises interest in LSD (note 16(b)), together with corporate income and expense items (note).

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers during the year (2004: Nil).

Note: During the year, the cosmetic business of the Group constituted a reportable business segment in accordance with the requirements of HKAS 14 "Segment Reporting" ("HKAS 14"). Accordingly, the comparative figures for the cosmetic business segment for the year ended 31st December, 2004 which were previously included in the "Corporate and others" segment were separately disclosed as "Cosmetics" segment to conform to current year's presentation.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2005 and 2004.

	Media and entertainment		Satellite television		Advertising agency		Cosmetics		Corporate and others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)								*(Restated)*		*(Restated)*
Segment revenue:												
Sales to external customers	67,648	82,784	4,351	3,652	44,472	53,244	24,513	13,101	—	—	140,984	152,781
Other revenue	2,367	4,715	—	—	101	265	—	—	7,847	2,927	10,315	7,907
Total	70,015	87,499	4,351	3,652	44,573	53,509	24,513	13,101	7,847	2,927	151,299	160,688
Segment results	(8,208)	(10,076)	(28,748)	(31,296)	4,723	2,543	1,592	(4,703)	(39,238)	(18,499)	(69,879)	(62,031)
Unallocated interest and other gains											1,943	46
Gain/(loss) on disposal of short term investments	—	(597)	—	—	—	—	—	—	—	8	—	(589)
Unrealised holding loss on a short term investment	—	—	—	—	—	—	—	—	—	(12)	—	(12)
Gain on disposal of a long term investment	—	1,885	—	—	—	—	—	—	—	—	—	1,885
Gain on disposal of properties held for sale	—	—	—	—	—	—	—	—	894	—	894	—
Gain on disposal of investment properties	—	—	—	—	—	—	—	—	—	8,072	—	8,072
Loss on deemed disposal of an associate	—	(4,705)	—	—	—	—	—	—	—	—	—	(4,705)
Loss from operating activities											(67,042)	(57,334)
Finance costs											(12,593)	(13,884)
Loss on settlement of a debt	—	—	—	—	—	—	—	—	—	(101,892)	—	(101,892)
Share of profits and losses of jointly-controlled entities	(2,304)	(1,971)	—	—	—	—	—	—	—	—	(2,304)	(1,971)
Provision for amounts due from jointly-controlled entities	(2,381)	(1,011)	—	—	—	—	—	—	—	—	(2,381)	(1,011)
Share of profits and losses of associates	8,986	16,793	—	—	—	—	—	—	286,519	13,890	295,505	30,683
Amortisation of goodwill on acquisition of an associate	—	(2,122)	—	—	—	—	—	—	—	—	—	(2,122)
Profit/(loss) before tax											211,185	(147,531)
Tax											(717)	2,014
Profit/(loss) for the year											210,468	(145,517)

	Media and entertainment		Satellite television		Advertising agency		Cosmetics		Corporate and others		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)								*(Restated)*		*(Restated)*
Segment assets	265,542	235,580	207,525	166,516	9,850	19,117	13,320	2,224	157,388	18,485	653,625	441,922
Interests in associates	130,596	123,179	—	—	—	—	—	—	1,502,334	1,392,038	1,632,930	1,515,217
Interests in jointly-controlled entities	223	1,125	—	—	—	—	—	—	—	—	223	1,125
Unallocated assets											32	22
Total assets											2,286,810	1,958,286
Segment liabilities	15,821	11,564	71,368	63,238	7,667	21,213	8,320	5,444	3,680	6,575	106,856	108,034
Unallocated liabilities											135,704	216,610
Total liabilities											242,560	324,644
Other segment information:												
Depreciation	112	128	4,362	4,316	42	36	110	54	549	395	5,175	4,929
Amortisation of goodwill on acquisition of an associate	—	2,122	—	—	—	—	—	—	—	—	—	2,122
Amortisation of film rights	3,497	6,971	—	—	—	—	—	—	—	—	3,497	6,971
Amortisation of self-produced and purchased programmes	488	374	—	—	—	—	—	—	—	—	488	374
Provision for bad and doubtful debts	—	2,545	—	—	—	21	—	246	—	315	—	3,127
Write-back of provision for bad and doubtful debts	—	—	—	—	—	—	2,750	—	168	168	2,918	168
Impairment loss of self-produced and purchased programmes	—	2,385	—	—	—	—	—	—	—	—	—	2,385
Capital expenditure	256	121	44,572	25,444	147	35	245	325	1,708	907	46,928	26,832

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		PRC-Mainland (including Macau)		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)				*(Restated)*
Segment revenue:						
Sales to external customers	92,214	98,918	48,770	53,863	140,984	152,781
Other segment information:						
Segment assets	2,139,555	1,854,164	147,223	104,100	2,286,778	1,958,264
Unallocated assets					32	22
Total assets					2,286,810	1,958,286
Capital expenditure	2,388	1,210	44,540	25,622	46,928	26,832

5. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year.

(A) Transactions with related parties

		Group	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
Associates:			
Distribution and licence fee income	(i)	201	709
Distribution commissions	(ii)	939	1,236
Rental expense	(iii)	620	—
Jointly-controlled entity:			
Consultancy and production service fee	(iv)	1,220	970
Related companies:			
Interest income on an amount due from Furama Hotel Enterprises Limited ("FHEL") (note 16)		7,739	693
Advertising income (a)	(v)	19,452	12,980
Information technological service fee income (b)	(vi)	2,196	1,700

(a) The related companies are (i) an associate of LSD, a substantial shareholder holding a 38.31% equity interest in the Company as at 31st December, 2005, (ii) subsidiaries of Lai Fung Holdings Limited ("Lai Fung"), of which certain directors of the Company are also directors and key management personnel of Lai Fung, and (iii) a subsidiary of Media Asia Entertainment Group Limited ("MAEG") which the Group had a 37.33% equity interest as at the balance sheet date.

(b) The related companies are LSD, Lai Fung and Lai Sun Garment (International) Limited ("LSG"), of which certain directors of the Company are also directors and key management personnel of LSG.

Notes:

(i) The distribution and licence fee income was charged to an associate on contract terms.

(ii) The distribution commissions were charged at a rate of 5% or 15% on the gross licence fee income.

(iii) The rental expense was charged with reference to market rates.

(iv) The consultancy and production service fee was charged on a basis mutually agreed by the respective parties.

(v) The advertising income received from the related companies was charged with reference to market rates.

(vi) The information technological service fee income was charged to the related companies on a basis mutually agreed by the respective parties.

(B) Compensation of key management personnel of the Group:

	2005 *HK$'000*	2004 *HK$'000*
Short term employee benefits	15,003	5,100
Post-employment benefits	285	200
Total compensation paid to key management personnel	15,288	5,300

Further details of directors' emoluments are included in note 9 to the financial statements.

6. TURNOVER AND OTHER REVENUE

An analysis of the Group's turnover and other revenue are as follows:

	Group	
	2005 *HK$'000*	**2004** *HK$'000*
Turnover		
Advertising agency income	44,472	53,244
Entertainment event income	47,988	67,244
Sale of cosmetic products	24,513	13,101
Album sales, licence income and distribution commission income	10,074	605
Distribution and licence fee income	5,271	11,239
Artiste management fee income	4,315	3,696
Television airtime sales	1,024	665
Information technological service fee income	2,222	2,084
Television subscription income	1,105	903
	140,984	152,781
Other revenue		
Bank interest income	1,943	46
Interest income on an amount due from FHEL	7,739	693
Gross rental income	—	2,062
Others	2,576	5,152
	12,258	7,953
	153,242	160,734

7. PROFIT/(LOSS) BEFORE TAX

		Group	
		2005	**2004**
	Notes	*HK$'000*	*HK$'000*
The Group's profit/(loss) before tax is arrived at after charging/(crediting):			
Cost of film rights and licence rights		5,665	8,037
Cost of self-produced and purchased programmes		21,582	18,196
Cost of services provided		78,207	107,546
Cost of inventories sold		17,899	5,653
Total cost of sales		123,353	139,432
Employee benefits expense: (including directors' emoluments — see note 9):			
Wages and salaries***		62,989	49,055
Pension scheme contributions ###		1,616	1,425
		64,605	50,480
Amortisation of prepaid land lease payments	13	1,269	1,001
Capitalised in construction in progress		(1,269)	(1,001)
		—	—
Auditors' remuneration		1,280	880
Depreciation***	13	5,175	4,929
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events##		2,988	2,810
Others		3,066	3,179
Contingent rents incurred for entertainment events##		7,461	11,633
Total operating lease payments		13,515	17,622

	Notes	Group 2005 HK$'000	Group 2004 HK$'000
The Group's profit/(loss) before tax is arrived at after charging/(crediting):			
Direct operating expenses (including repairs and maintenance) arising from rental-earning properties		—	1,208
Gain on disposal of a long term investment*		—	(1,885)
Gain on disposal of properties held for sale*		(894)	—
Gain on disposal of investment properties*		—	(8,072)
Impairment loss of self-produced and purchased programmes**		—	2,385
Amortisation of self-produced and purchased programmes#		488	374
Amortisation of film rights#	17	3,497	6,971
Unrealised holding loss on a short term investment**		—	12
Loss on disposal of short term investments**		—	589
Provision for bad and doubtful debts**		—	3,127
Loss on disposal of items of property, plant and equipment**		69	54
Share of net income from entertainment events organised by other co-investors*		(5,626)	(1,806)
Write-back of provision for bad and doubtful debts*		(2,918)	(168)
Write-back of provision for inventories#		(1,727)	—
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited*		—	(7,300)
Foreign exchange differences, net		(118)	—

* These items are included in the "Other operating gains" on the face of the consolidated income statement.

** These items are included in the "Other operating expenses" on the face of the consolidated income statement.

*** Wages and salaries of HK$6,143,000 (2004: HK$5,667,000) and a depreciation charge of HK$2,272,000 (2004: HK$2,265,000) are included in "Cost of sales" on the face of the consolidated income statement.

These items are included in "Cost of sales" on the face of the consolidated income statement.

These items are included in "Cost of sales" on the face of the consolidated income statement. The contingent rents are charged based on certain percentages of the gross ticket proceeds collected in respect of the entertainment events.

At 31st December, 2005, the Group had no forfeited contributions from the pension scheme available to reduce its contributions to the pension scheme in future years (2004: Nil).

8. FINANCE COSTS

	Group 2005	Group 2004
	HK$'000	*HK$'000*
Interest on bank and other borrowings wholly repayable within five years	10,870	11,100
Interest on loans from a director and a related company	1,361	2,401
Interest on finance leases	7	8
Refinancing charges of bank borrowings	355	375
	12,593	13,884

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group 2005	Group 2004
	HK$'000	*HK$'000*
Fees	880	580
Other emoluments:		
Basic salaries, housing and other allowances, and benefits in kind	14,123	4,520
Pension scheme contributions	285	200
	15,288	5,300

(i) Independent non-executive directors

The fees paid to independent non-executive directors during the year ended 31st December, 2005 were as follows:

	2005
	HK$'000
Alfred Donald Yap	240
Low Chee Keong	240
Tong Ka Wing, Carl	400
	880

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(ii) Executive and non-executive directors

	Fees	Basic salaries, housing and other allowances, and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2005				
Executive directors:				
Lien Jown Jing, Vincent	—	600	12	612
Lee Po On	—	1,223	58	1,281
Lam Kin Ngok, Peter	—	8,000	—	8,000
Cheung Wing Sum, Ambrose	—	1,700	85	1,785
Liu Ngai Wing	—	2,000	100	2,100
	—	13,523	255	13,778
Non-executive directors:				
Lam Kin Ming	—	—	—	—
Tam Wai Chu, Maria	—	600	30	630
U Po Chu	—	—	—	—
Shiu Kai Wah	—	—	—	—
Chiu Wai	—	—	—	—
	—	600	30	630
	—	14,123	285	14,408

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

There were no share options granted by the Company to the directors after 7th November, 2002, and had not been vested by 1st January, 2005. Accordingly, the adoption of HKFRS 2 has had no effect on the emoluments as disclosed above.

(b) Employees' emoluments

The five highest paid employees during the year included three (2004: one) directors, the details of whose emoluments are set out above. Details of the remuneration of the remaining two (2004: four) non-director, highest paid employees for the year are as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	4,380	7,620
Pension scheme contributions	24	186
	4,404	7,806

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group Number of employees	
	2005	**2004**
HK$1,500,001 - HK$2,000,000	1	3
HK$2,000,001 - HK$2,500,000	1	1
	2	4

There were no share options granted by the Company to the non-director, highest-paid employees after 7th November, 2002 and had not been vested by 1st January, 2005. Accordingly, the adoption of HKFRS 2, has had no effect on the non-director, highest paid employees' emoluments as disclosed above.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004:17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Provision for tax for the year:		
Hong Kong	629	1,628
Elsewhere	70	137
	699	1,765
Prior years' under/(over) provisions:		
Hong Kong	18	—
Elsewhere	—	(3,779)
	18	(3,779)
Total tax charge/(credit) for the year	717	(2,014)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the location in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2005		2004	
	HK$'000	*%*	*HK$'000*	*%*
			(Restated)	
Profit/(loss) before tax	211,185		(147,531)	
Tax at the statutory tax rate	36,957	17.5	(25,818)	(17.5)
Adjustments in respect of current tax of previous periods	18	—	(3,779)	(2.6)
Profits and losses attributable to jointly-controlled entities and associates	(51,310)	(24.3)	(5,025)	(3.4)
Income not subject to tax	(1,142)	(0.5)	(2,219)	(1.5)
Expenses not deductible for tax	9,813	4.6	28,917	19.6
Estimated tax losses utilised from previous periods	(456)	(0.2)	(374)	(0.3)
Estimated tax losses not recognised	6,837	3.2	6,284	4.3
Tax charge/(credit) at the Group's effective rate	717	0.3	(2,014)	(1.4)

No deferred tax has been provided as the Group and the Company did not have any significant temporary differences which gave rise to a deferred tax liability at the balance sheet date for both years presented.

The Group has tax losses arising in Hong Kong of HK$690,637,000 (2004: HK$654,019,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31st December, 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

The share of tax attributable to associates and jointly-controlled entities that amounted to tax charge of HK$73,450,000 (2004: tax credit of HK$45,000) and tax charge of HK$69,000 (2004: HK$3,000), respectively, is included in "Share of profits and losses of associates and jointly-controlled entities" on the face of the consolidated income statement.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to ordinary equity holders of the parent for the year ended 31st December, 2005 dealt with in the financial statements of the Company was HK$40,245,000 (2004: HK$52,228,000) (note 30).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amount is based on the net profit for the year attributable to ordinary equity holders of the parent for the year of HK$210,468,000 (2004: net loss of HK$145,517,000 (restated)) and the weighted average of 717,206,847 (2004: 671,184,929) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31st December, 2005 and 2004 have not been shown as no diluting events existed during these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Construction in progress	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Broadcast operations and engineering equipment	Motor vehicles	Computers	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At 1st January, 2004	58,335	75,000	26,738	4,073	24,820	875	14,304	204,145
Additions	25,259	—	205	115	184	893	176	26,832
Disposals	—	—	(228)	—	(80)	(150)	—	(458)
Exchange realignment	—	—	—	3	—	3	5	11
At 31st December, 2004 and 1st January, 2005	83,594	75,000	26,715	4,191	24,924	1,621	14,485	230,530
Additions	43,382	—	1,096	941	301	449	759	46,928
Disposals	—	—	(1,118)	(235)	—	(153)	(45)	(1,551)
Exchange realignment	—	—	4	11	—	8	16	39
At 31st December, 2005	126,976	75,000	26,697	4,908	25,225	1,925	15,215	275,946
Accumulated depreciation and impairment:								
At 1st January, 2004	—	4,838	26,511	3,476	10,745	659	13,665	59,894
Provided during the year	—	1,935	117	225	2,263	159	230	4,929
Disposals	—	—	(117)	—	(80)	(134)	—	(331)
Exchange realignment	—	—	—	3	—	3	3	9
At 31st December, 2004 and 1st January, 2005	—	6,773	26,511	3,704	12,928	687	13,898	64,501
Provided during the year	—	1,935	195	244	2,272	271	258	5,175
Disposals	—	—	(1,096)	(224)	—	(137)	(12)	(1,469)
Exchange realignment	—	—	—	9	—	8	9	26
At 31st December, 2005	—	8,708	25,610	3,733	15,200	829	14,153	68,233
Net book value:								
At 31st December, 2005	126,976	66,292	1,087	1,175	10,025	1,096	1,062	207,713
At 31st December, 2004	83,594	68,227	204	487	11,996	934	587	166,029

Included in construction in progress are prepaid land lease payments, the movements of which during both years are as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Cost:		
At beginning of year	24,059	18,091
Additions	5,833	5,968
At end of year	29,892	24,059
Accumulated amortisation:		
At beginning of year	2,290	1,289
Amortisation during the year — note 7	1,269	1,001
At end of year	3,559	2,290
Net book value:		
At end of year	26,333	21,769

The Group's land and buildings are situated in Hong Kong, held under medium term leases and are pledged to secure general banking facilities granted to the Group (note 25).

The net book value of assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2005 amounted to HK$216,000 (2004: HK$31,000).

The cost of construction in progress comprises premium paid for land situated in Macau under a medium term lease and expenditure incurred for the development of a television city being constructed thereon, further details of which are set out in note 32(a) to the financial statements.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted shares, at cost	998,000	998,000
Amounts due from subsidiaries	2,690,814	2,680,631
	3,688,814	3,678,631
Impairment	(1,870,593)	(1,845,018)
	1,818,221	1,833,613

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In the prior year, the amounts due from subsidiaries were unsecured, interest-free and had no fixed terms of repayment, except for those as set out below:

(i) an amount of HK$225,000,000, which bore interest at a rate of 1% per annum; and

(ii) an amount of HK$1,450,000, which bore interest at a rate of 1% per month.

The carrying amounts of amounts due from subsidiaries approximate their fair values.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective percentage of capital held by Company	Effective percentage of capital held by Group	Principal activities
Active Light Limited*	Hong Kong	HK$2 Ordinary	100	100	Property investment
Bignews Associates Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Distribution and licence of albums
East Asia Entertainment Limited	Hong Kong	HK$2 Ordinary	—	100	Entertainment activity production
East Asia Music (Holdings) Limited	Hong Kong	HK$10,000 Ordinary	—	100	Music production and distribution
East Asia Satellite Television Limited	Hong Kong	HK$2 Ordinary	—	100	Programme production, distribution, broadcasting and other related services
East-Asia-Televisão Por Satélite, Limitada ("EAST")*	Macau	MOP6,000,000 Quota	—	100	Investment holding
Glynhill International Limited	Hong Kong	HK$912,623,351 Ordinary	100	100	Investment holding
Golden Pool Enterprise Limited	Hong Kong	HK$2 Ordinary	—	100	Investment holding
Guangzhou Beautifirm Cosmetic Limited * ##	Mainland China	US$1,260,000#	—	100	Sale of cosmetic products
Kaleidoscope International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Property holding

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective percentage of capital held by Company	Group	Principal activities
Rich & Famous Talent Management Group Limited	Hong Kong	HK$100 Ordinary	—	75	Provision of artiste management services
Skymaster International Inc.	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Investment holding
Vision Communications Limited	Hong Kong	HK$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited * ###	Mainland China	HK$3,000,000#	—	90	Provision of advertising agency services
Zimba International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Investment holding

\# The amount stated represents the paid-up capital.

\## This subsidiary is a wholly-foreign owned enterprise.

\### This subsidiary is a co-operative joint venture.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(a) As previously reported in the Company's circular dated 6th December, 2004 (the "Circular"), EAST entered into a memorandum of cooperation (the "MOU") with Lai Fung Holdings Limited ("Lai Fung") on 15th November, 2004. Pursuant to the MOU, EAST granted Lai Fung a right to participate in the development and profit distribution of a proposed residential property project (the "Project") in a piece of land with an area of approximately 20,000 square metres situated within the Cotai Site (the "Participating Rights"). Upon entering into the MOU by both parties, Lai Fung paid a total amount of HK$46,000,000 as an earnest money, which is unsecured and interest-free, for the Participating Rights (note 23).

Subject to the satisfaction of the granting of the relevant licence or approval for the design works of the Project no later than 30th June, 2005 by the relevant departments of the Macau government (the "Approval"), both parties will enter into a formal agreement within 14 days from the date of the Approval obtained by EAST. The first long stop date for the entering into the formal agreement was no later than July 2005 (or such later date as may be agreed between both parties).

On 29th June, 2005, both parties entered into a supplemental MOU to extend the long stop date to no later than December 2005. In the event that EAST fails to obtain the Approval, Lai Fung shall have the right to withdraw from this transaction during January 2006. On 28th December, 2005, both parties entered into a second supplemental MOU to further extend the long stop date to no later than 30th June, 2006 and Lai Fung shall have the right to withdraw from this transaction during July 2006 in the event that the Approval cannot be obtained by EAST. The rights and conditions attached to each party remain unchanged.

On 31st March, 2006, EAST and Lai Fung entered into an agreement to terminate the MOU (the "Termination Agreement"). EAST should refund the earnest money of HK$46,000,000 to Lai Fung within seven business days from 31st March, 2006. No further claim or matter was outstanding under the MOU upon the full refund of the earnest money.

(b) On 3rd January, 2004, the Company and Soundfield Holdings Limited ("SHL"), a third party, entered into an agreement (the "Agreement"). Pursuant to the Agreement, the Company agreed to purchase and SHL agreed to sell the entire issue share capital of Active Light Limited, which held certain industrial buildings (the "Properties") in Hong Kong together with a secured other borrowing of HK$28,700,000 for and at a consideration of HK$300,000. The transaction was completed in 2004.

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Share of net liabilities	(11,043)	(8,742)
Amounts due from jointly-controlled entities	22,238	18,458
	11,195	9,716
Provision for amounts due from jointly-controlled entities	(10,972)	(8,591)
	223	1,125

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$18,079,000 (2004: HK$15,679,000) which bears interest at 1% above the prime rate quoted by the Hongkong and Shanghai Banking Corporation Limited (the "HSBC prime rate") per annum. The carrying amounts of these amounts due from jointly-controlled entities approximate their fair values.

Particulars of jointly-controlled entities are as follows:

Name of company	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
The Artiste Campus International Limited	Hong Kong	50	50	50	Provision of agency services to artistes
Much Entertainment Limited*	Hong Kong	50	50	50	Provision of concert production services
East Asia Record Production Company Limited	Hong Kong	50	50	50	Music production and distribution

The interests in jointly-controlled entities are indirectly held by the Company.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2005	**2004**
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	3,773	1,727
Non-current assets	95	101
Current liabilities	(14,909)	(10,567)
Non-current liabilities	(2)	(3)
Net liabilities	(11,043)	(8,742)
Share of the jointly-controlled entities' results:		
Total revenue	9,359	6,236
Total expenses	(11,594)	(8,204)
Tax	(69)	(3)
Loss after tax	(2,304)	(1,971)

16. INTERESTS IN ASSOCIATES

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Share of net assets	1,618,673	1,275,925
Goodwill on acquisition	13,285	13,285
	1,631,958	1,289,210
Amounts due from associates	972	226,007
	1,632,930	1,515,217

The above goodwill on acquisition is relevant to the media and entertainment cash-generating units ("MECGU"), which is a reportable segment of the Group, for impairment testing purposes.

The recoverable amount of MECGU has been determined based on a value in use calculation using cash flow projections approved by management based on dividend income covering a period of ten years. The discount rate applied to cash flow projections is 6.59% (2004: 5.25%) and cash flows beyond the ten-year period are extrapolated using the historical financial information without an aggressive growth rate being taken into account by management.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of these amounts due from associates approximate their fair values.

In the prior year, the balances with associates were unsecured, interest-free and had no fixed terms of repayment except for an amount due from FHEL of HK$225,000,000 (the "Term Loan") which bore interest at a rate of 4.5% per annum and was repayable in five years from 7th December, 2004. During the year, the Term Loan was fully repaid by LSD.

The market value of the listed shares of certain associates at 31st December, 2005 and at the date of approval of these financial statements was approximately HK$897,735,000 (2004: HK$920,277,000) and HK$2,114,437,000 (2004: HK$704,124,000), respectively.

Details of the principal associates at 31st December, 2005 are as follows:

Name of company	Particulars of issued shares held	Place of incorporation/ operations	Percentage of ownership interest attributable to the Group	Principal activities
Media Asia Entertainment Group Limited	Ordinary shares of HK$0.10 each	Bermuda/Hong Kong	37.33	Film production and distribution
Lai Sun Development Company Limited	Ordinary shares of HK$0.50 each	Hong Kong	40.80	Property development

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The financial year ends of the above associates are coterminous with that of the Group, except for LSD and its subsidiaries (the "LSD Group") which has a financial year ending 31st July. The consolidated financial statements are adjusted for material transactions of this associate between its year end date and 31st December.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2005	2004
	HK$'000	*HK$'000*
Assets	8,022,967	7,233,961
Liabilities	(3,628,649)	(3,183,585)
Turnover	1,022,418	2,352,165
Profit/(loss)	(547,123)	457,695

The above financial information includes, among others, (a) assets and liabilities of the LSD Group as at 31st January, 2006 and 2005; (b) turnover and profit/(loss) of the LSD Group for the years ended 31st July, 2005 and 2004 as extracted from the published financial statements of the LSD Group.

At 31st January, 2006, the LSD Group has provided guarantees to banks and other financial creditors in connection with facilities granted to its associates which amounted to HK$237,340,000 (31st January, 2005: HK$298,190,000).

(a) Interest in MAEG

On 3rd November, 2004, MAEG's shares were listed on the Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System with a public offering of 60,000,000 new ordinary shares at an issue price of S$0.25 per share. The Group's interest in MAEG was then diluted from 49.77% to 37.33%. This resulted in a loss on deemed disposal of HK$4,705,000 which was charged to the consolidated income statement in the prior year.

(b) Interest in LSD

On 28th June, 2004, the Company and its wholly-owned subsidiary, Golden Pool Enterprises Limited, LSD and its wholly-owned subsidiary, FHEL entered into an agreement (the "Settlement Agreement") concerning the settlement of the amount due from FHEL of HK$1,500,040,000 (the"Debt"). The principal terms of the Settlement Agreement included (i) cash settlement of HK$20 million; (ii) the issue of 5,200 million ordinary shares in LSD at an issue price of HK$0.50 per share (the "LSD Shares"), which represented 40.8% of the enlarged issued capital of LSD; and (iii) the Term Loan. Further details of the Settlement Agreement are set out on the Company's circular dated 15th September, 2004. The Settlement Agreement was completed on 7th December, 2004 (the "Completion Date").

As reported in the prior year's financial statements, a premium on settlement of the Debt of HK$95,994,000 (the "Premium") was recorded on the Completion Date. As a result of the retrospective application of HKAS16, HKAS 40, HK-Int 2 and HK(SIC)-Int 21 by LSD as described in note 2.2 to the financial statements, the Group's share of consolidated net assets of LSD on the Completion Date was affected and was decreased by HK$197,886,000. The Premium was then restated and resulted in a loss on the settlement of the Debt of HK$101,892,000 (the "Loss") on the Completion Date. The Loss represented the difference between the restated recoverable amount of the settlement and the carrying amount of the Debt on the Completion Date.

As at 31st December, 2004, the Group's interest in LSD was 40.8%. On the same date, the LSD Group also held an aggregate of a 42.54% equity interest in the Company. This constituted a cross holding between the Group and LSD. Therefore, the Group's share of results in the LSD Group for 2004 and the subsequent accounting periods also includes the results of the Group which are shared by the LSD Group while LSD is equity accounting for the Group's results.

As at 31st December, 2005, the LSD Group's interest in eSun was diluted from 42.54% to 38.31% as a result of the Company's issuing of 74 million new shares to certain third parties during the year (note 28).

17. FILM RIGHTS

	Group
	HK$'000
Cost:	
At 1st January, 2004, 31st December, 2004 1st January, 2005 and 31st December, 2005	200,246
Accumulated amortisation:	
At 1st January, 2004	2,591
Provided during the year — note 7	6,971
At 31st December, 2004 and 1st January, 2005	9,562
Provided during the year — note 7	3,497
At 31st December, 2005	13,059
Net book value:	
At 31st December, 2005	187,187
At 31st December, 2004	190,684

At 31st December, 2005, the film rights of the Group represented all rights, titles and interests in 127 films (the "127 Film Rights") with an aggregate carrying value of HK$187,073,000 (2004: HK$190,570,000) and the television rights to another two films for a period of 10.5 years (the "2 TV Rights") with an aggregate carrying value of HK$114,000 (2004: HK$114,000). The directors engaged Astoria Films Distribution Limited, an independent film distributor, to perform a valuation (the "Valuation") on the 127 Film Rights as at 31st December, 2005. Having regard to the Valuation, which indicated that the fair value of the 127 Film Rights as at 31st December, 2005 was above their carrying value stated in the Group's financial statements and having regard to the current market conditions, the directors are of the opinion that there was no impairment in the Group's film rights as at 31st December, 2005.

18. INVENTORIES

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Raw materials	1,297	—
Work in progress	323	—
Finished goods	1,252	—
	2,872	—

19. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS/ SHORT TERM INVESTMENT

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Listed equity investment in Hong Kong, at market value	22	22

The above equity instrument as at 31st December, 2005 was classified as held for trading.

20. PROPERTIES HELD FOR SALE

At 31st December, 2004, properties held for sale were stated at cost and were pledged to secure against the Group's other borrowings of HK$1,450,000 (note 25).

21. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade debtors as at the respective balance sheet dates is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Trade debtors:		
Less than 30 days	10,122	6,141
31-60 days	4,134	2,367
61-90 days	1,560	1,299
Over 90 days	2,071	9,589
	17,887	19,396
Other receivables, prepayments and deposits	60,662	43,846
	78,549	63,242

The above aged analysis, stated net of provisions for doubtful debts, was prepared based on the dates when goods are delivered or the services are provided.

Included in trade debtors and other receivables are amounts due from the Group's associates of HK$480,000 (2004: HK$719,000) and due from related companies of HK$2,788,000 (2004: HK$831,000). These balances arose from the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable on similar credit terms to those offered to major customers of the Group.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	125,899	18,472	1,363	6,903
Time deposits	51,181	—	51,181	—
	177,080	18,472	52,544	6,903

At 31st December, 2005, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$4,286,000 (2004: HK$2,909,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values.

23. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at the respective balance sheet dates is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Trade creditors:		
Less than 30 days	5,564	3,256
31-60 days	2,891	2,448
61-90 days	1,029	2,237
Over 90 days	2,311	13,441
	11,795	21,382
Other creditors and accruals	96,808	87,332
	108,603	108,714

The above aged analysis was prepared based on the dates of receipt of the goods and services purchased.

Included in other creditors and accruals as at 31st December, 2005 is an amount of HK$46,000,000 (2004: HK$46,000,000) received from Lai Fung as an earnest money paid for the participation rights in the Group's proposed residential property development project in Macau (note 14(a)).

The trade creditors and other creditors and accruals are non-interest-bearing and have an average credit term of three months.

24. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment. These leases are classified as finance leases and have remaining lease terms of approximately five years.

At 31st December, 2005, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2005	Minimum lease payments 2004	Present value of minimum lease payments 2005	Present value of minimum lease payments 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	43	44	29	41
In the second year	42	1	31	1
In the third to fifth years, inclusive	115	—	102	—
Total minimum finance lease payments	200	45	162	42
Future finance charges	(38)	(3)		
Total net finance lease payables	162	42		
Portion classified as current liabilities	(29)	(40)		
Non-current portion	133	2		

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)		Maturity		Group and Company	
	2005	2004	2005	2004	2005	2004
					HK$'000	*HK$'000*
Current						
Bank borrowings — secured	9.1	2.6-6.9	2006	2005	4,000	21,000
Other borrowings — secured	—	12	—	2005	—	1,450
Other borrowings — unsecured	—	5-12	—	no fixed terms of repayment	—	148,521
					4,000	170,971
Non-current						
Bank borrowings — secured	—	6.9	—	2006	—	4,000
Other borrowings — unsecured	7.5	12	2007	2006	126,474	15,000
					126,474	19,000
					130,474	189,971
Analysed into:						
Bank borrowings repayable:						
Within one year					4,000	21,000
In the second year					—	4,000
					4,000	25,000
Other borrowings repayable:						
Within one year					—	149,971
In the second year					126,474	15,000
					126,474	164,971
					130,474	189,971

The Group's bank facilities are secured by fixed charges over the Group's land and buildings with an aggregate net book value at the balance sheet date of HK$66,292,000 (2004: HK$68,227,000) (note 13).

Secured other borrowings as at 31st December, 2004 bore interest at a rate of 1% per month, were repayable within one year and were secured by the Group's properties held for sale (note 20).

Included in unsecured other borrowings as at 31st December, 2005 were amounts due to Mr. Lim Por Yen which is interest-free except for an amount of HK$112,938,000 bearing interest at the HSBC prime rate per annum. On 18th February, 2005, Mr. Lim Por Yen passed away. At the request of the Group, the executor of Mr. Lim Por Yen's estate, confirmed to the Group on 31st December, 2005 that no demand for the repayment of the outstanding other borrowings or the related interest would be made within one year from the balance sheet date.

In the prior year, unsecured other borrowings bore interest at a rate of 1% per month and were repayable within one year, except for those set out below:

(i) an amount of HK$15,000,000 which was not repayable within one year;

(ii) an amount of HK$120,938,000 which bore interest at the HSBC prime rate per annum and had no fixed terms of repayment;

(iii) an amount of HK$6,383,000 which was interest-free and had no fixed terms of repayment.

Other interest rate information:

	Group and Company			
	2005		**2004**	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings — secured	—	4,000	—	25,000
Other borrowings — secured	—	—	1,450	—
Other borrowings — unsecured	—	126,474	36,200	127,321
	—	130,474	37,650	152,321

The carrying amounts of the Group's bank and other borrowings approximate their fair values.

26. LOAN FROM A DIRECTOR

At 31st December, 2004, the balance was unsecured, interest-free and had no fixed terms of repayment. During the year, a total amount of HK$26,800,000 bore interest at HSBC prime rate per annum. The loan was fully repaid by the Group during the year.

27. LOAN FROM A RELATED COMPANY

The loan in the prior year was unsecured and interest-free and was repayable by 31st December, 2006, except for an amount of HK$12,500,000 which bore interest at the HSBC prime rate per annum. The amount was repaid during the year. A director of the Company was also a director of the related company.

28. SHARE CAPITAL

Shares

	2005		2004	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each	2,000,000	1,000,000	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	745,185	372,592	671,185	335,592

Movements in the Company's issued share capital are summarised as follows:

	Note	**Number of ordinary shares** *'000*	**Issued share capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1st January, 2004, 31st December, 2004 and 1st January, 2005		671,185	335,592	2,888,269	3,223,861
Issue of shares	(a)	74,000	37,000	118,400	155,400
Share issue expenses	(a)	—	—	(4,734)	(4,734)
At 31st December, 2005		745,185	372,592	3,001,935	3,374,527

Notes:

(a) On 28th April, 2005, the Company entered into a subscription agreement with Asset Managers (China) Fund Co., Ltd. (the "Subscriber") pursuant to which the Company agreed to issue and allot 74 million new ordinary shares of the Company at a subscription price of HK$2.10 per share. The subscription was completed on 19th May, 2005. Proceeds of approximately HK$150 million, after deduction of share issue expenses of HK$4.7 million, were brought in to the Group as its general working capital.

(b) In March, 2006, the Company entered into a placing agreement and issued and allotted a total number of 74,518,000 ordinary shares of the Company at a price of HK$5.80 per share, and further details of which are set out in note 35(b) to the financial statements.

Share options

Details of the Company's share option schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

(i) Existing Option Scheme

The Company operates an employee share option scheme (the "Existing Share Option Scheme") for the purpose of providing incentives and rewards to eligible employees who contribute to the success of the Group's operations. Eligible employees of the Existing Share Option Scheme include executive directors and other employees of the Company or any subsidiary. The Existing Share Option Scheme was adopted by the Company on 25th November, 1996 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years.

No share options were outstanding under the Existing Share Option Scheme as at 1st January, 2005 and 31st December, 2005. Subsequent to the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no further options may be granted under the Existing Share Option Scheme unless such grant is made in compliance with the amended rules. On 23rd December, 2005, the Existing Share Option Scheme was terminated and replaced by a new option scheme, as detailed below under the heading "New Option Scheme". Upon the termination of the Existing Share Option Scheme, no further options would be offered pursuant to the Existing Share Option Scheme. The principal terms of the Existing Share Option Scheme before amendment were:

(a) The maximum number of shares of the Company (the "Shares") in respect of which options would be granted (together with options exercised and options then outstanding) under the Existing Share Option Scheme would not, when aggregated with any Shares subject to any other schemes, exceed such number of shares as would represent 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the Existing Share Option Scheme.

(b) No employee would be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and issuable under all the options previously granted to him which are for the time being subsisting and unexercised and would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

(c) An offer of the grant of an option would remain open for acceptance by the employee concerned for a period of 28 days from the date upon which it is made. An option would be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising the acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK$10 by way of consideration for the grant thereof, is received by the Company. An option granted under the Existing Share Option Scheme would be exercised in accordance with the terms of the Existing Share Option Scheme and the conditions of the grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.

(d) The subscription price would be a price notified by the board of the Company to an employee being (i) not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date; or (ii) the nominal value of the shares, whichever is the higher.

(ii) New Option Scheme

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. The purposes of adopting the New Share Option Scheme are to give any eligible employee, agent or consultant of any member of the Group, and employee of the shareholder or any member of the Group or any holder of any securities issued by any member of the Group (the "Participants") an opportunity to have a personal stake in the Company and to help (i) motivate the Participants to optimise their performance and efficiency; and (ii) attract and retain the Participants whose contributions are important to the long term growth and profitability of the Company. No share option was granted during the year and outstanding as at 31st December, 2005 under the New Share Option Scheme. The principal terms of the New Share Option Scheme are:

(a) The maximum number of unexercised share options currently permitted to be granted under the New Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(b) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

(c) The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the New Share Option Scheme, if earlier.

(d) The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Subsequent to the balance sheet date, a total of 29,807,396 share options were granted to certain directors and employees of the Company. Out of the total share options granted, 7,451,849 share options were granted on 14th February, 2006 and 22,355,547 share options were granted on 24th February, 2006. These share options will be vested separately in four tranches during the exercise period of four calendar years commencing from 1st January, 2007 and ending on 31st December, 2010, at an exercise price from HK$4 to HK$5.5 per share. The closing prices of the Company's shares at the dates of grant were HK$3.2 per share on 14th February, 2006 and HK$3.6 per share on 24th February, 2006. The fair values of these share options as at 14th February, 2006 and 24th February, 2006 were estimated to be approximately HK$4,363,620 and HK$19,485,542, respectively.

At the date of approval of these financial statements, the Company had 29,807,396 share options outstanding under the New Option Scheme, which represented approximately 3.6% of the Company's shares in issue at that date.

30. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2004		2,888,269	891,289	—	(2,336,304)	1,443,254
Exchange realignment		—	—	—	117	117
Total income and expense recognised directly in equity		—	—	—	117	117
Net loss for the year (restated)		—	—	—	(145,517)	(145,517)
At 31st December, 2004		2,888,269	891,289	—	(2,481,704)	1,297,854
At 31st December, 2004 and 1st January, 2005						
As previously reported		2,888,269	891,289	—	(2,283,818)	1,495,740
Prior year adjustments	2.3	—	—	—	(197,886)	(197,886)
As restated, before opening adjustment		2,888,269	891,289	—	(2,481,704)	1,297,854
Opening adjustment	2.3	—	—	3,914	(3,914)	—
As restated, after opening adjustment		2,888,269	891,289	3,914	(2,485,618)	1,297,854
Exchange realignment		—	—	—	(65)	(65)
Total income and expense recognised directly in equity		—	—	—	(65)	(65)
Net profit for the year		—	—	—	210,468	210,468
Issue of shares	28	118,400	—	—	—	118,400
Share issue expenses	28	(4,734)	—	—	—	(4,734)
Share of reserve movements of associates		—	—	49,539	—	49,539
At 31st December, 2005		3,001,935	891,289	53,453	(2,275,215)	1,671,462

Group

	Share premium account	Contributed surplus	Investment revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Retained by:					
Company and subsidiaries	3,001,935	891,289	—	(2,538,570)	1,354,654
Jointly-controlled entities	—	—	—	(11,046)	(11,046)
Associates	—	—	53,453	274,401	327,854
At 31st December, 2005	3,001,935	891,289	53,453	(2,275,215)	1,671,462
Company and subsidiaries (restated)	2,888,269	891,289	—	(2,456,663)	1,322,895
Jointly-controlled entities	—	—	—	(8,742)	(8,742)
Associates (restated)	—	—	3,914	(20,213)	(16,299)
At 31st December, 2004	2,888,269	891,289	3,914	(2,485,618)	1,297,854

Included in the debit balance of accumulated losses as at 31st December, 2005 are accumulated credit balances in respect of exchange realignment of HK$19,969,000 (2004: HK$20,034,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.

Company

	Note	Share premium account	Contributed surplus	Accumulated losses	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004		2,888,269	845,455	(2,388,456)	1,345,268
Net loss for the year		—	—	(52,228)	(52,228)
At 31st December, 2004 and 1st January, 2005		2,888,269	845,455	(2,440,684)	1,293,040
Issue of shares	28	118,400	—	—	118,400
Share issue expenses	28	(4,734)	—	—	(4,734)
Net loss for the year		—	—	(40,245)	(40,245)
At 31st December, 2005		3,001,935	845,455	(2,480,929)	1,366,461

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation in November 1996, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

As detailed in note 16(b) to the financial statements, part of the Debt of HK$1,500,040,000 was satisfied by the Term loan and the LSD Shares during the prior year.

(b) Acquisition of a subsidiary

	2005	2004
	HK$'000	*HK$'000*
Net assets acquired:		
Cash and bank balances	—	516
Investment properties	—	29,000
Debtors and deposits	—	370
Creditors and accruals	—	(886)
Secured other borrowings	—	(28,700)
	—	300
Satisfied by:		
Cash	—	300

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	—	(300)
Cash and bank balances acquired	—	516
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	—	216

The subsidiary acquired during the prior year contributed HK$5,046,000 to the Group's consolidated loss after tax for the year ended 31st December, 2004. No turnover was contributed by that subsidiary during the prior year.

32. COMMITMENTS

(a) The Group had the following capital commitments at the balance sheet dates:

	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for	155	36,633

Prior to 2004, the Group committed to invest in the development of a television city with a programme production centre on a piece of land in Macau. During the year ended 31st December, 2004, the Group changed its original plan of the project and proposed to develop a television studio, concert hall, convention and exhibition centre, retail complex and hotels. A conditional approval, subject to the agreement of terms and conditions and payment of a lease modification premium on the proposed change in the use of land was granted by the Macau government during the year. It is estimated that the completion of the entire project will be delayed to beyond 2010.

At 31st December, 2005, the Group was still negotiating with the Macau government on a formal agreement for the proposed change in land use. The authorised, but not contracted for, commitment in respect of the project as at 31st December, 2005 amounted to HK$187,595,000 (2004: HK$189,859,000).

(b) The Group leases certain of its office premises and a Macau production centre under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. The lease term of the land in Cotai site is for twenty five years commencing from 2001.

At the balance sheet dates, the Group had total future minimum lease payments under noncancellable operating leases falling due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	3,299	2,689
In the second to fifth years, inclusive	5,520	4,163
After five years	12,951	13,771
	21,770	20,623

(c) The Group has entered into an agreement to lease a satellite channel at an annual licence fee of US$800,000 for a term of twelve years. At 31st December, 2005, the total future minimum lease payments were as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	6,199	6,234
In the second to fifth years, inclusive	24,796	24,938
After five years	12,152	18,456
	43,147	49,628

At the balance sheet date, the Company did not have any significant commitments.

33. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements at the balance sheet dates were as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantee given to LSD in connection with the disposal of an associate to LSD (Note)	25,000	25,000	25,000	25,000
Guarantee given to a supplier in connection with credit facilities given to a subsidiary	—	—	2,000	2,000
	25,000	25,000	27,000	27,000

Note:

In connection with a reorganisation agreement between LSD and the Company in June 2000, 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. As at the date of this report, the land use rights referred to above had not been obtained by GIGC.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and bank balances. The main purpose of these financial instruments is to raise fund for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to fair value and cash flow interest rate risks is minimal as the Group does not have any long term financial assets and liabilities.

(ii) Foreign currency risk

Certain subsidiaries of the Company have transactions denominated in RMB. As the exchange rate of RMB against Hong Kong dollar was relatively stable during the year, the Group's exposure to fluctuations in exchange rate is considered minimal and no financial instruments have been used to hedge against such risk.

(iii) Credit risk

The Group maintains various credit policies for different business operations as described in note 21. In addition, receivable balances are closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant. As a result, there is no requirement for collateral.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and equity investments at fair value through profit or loss, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

(iv) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

35. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

(a) In February 2006, a total number of 29,807,396 share options was granted to certain directors and employees of the Company, further details of which are set out in note 29 to the financial statements.

(b) Pursuant to a placing agreement entered into between the Company and the placing agents dated 15th March, 2006, a total of 74,518,000 ordinary shares of the Company were issued and allotted to not less than six institutional investors for cash at a subscription price of HK$5.80 per share on 29th March, 2006 (the "Placement"). The net proceeds of the Placement of approximately HK$425 million are intended to be used primarily to finance the Macau project and as general working capital of the Group.

(c) On 31st March, 2006, EAST and Lai Fung entered into the Termination Agreement, further details of which are set out in note 14 to the financial statements.

36. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.3 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening adjustments have been made and certain comparative amounts have been restated and reclassified to conform to the current year's presentation and accounting treatment.

As further explained in note 4 to the financial statements, the cosmetics segment, and the corporate and others segment are reclassified as two separate business segments. Accordingly, the comparative amounts for the "Corporate and others" segment were separately reclassified to conform to the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7th April, 2006.

3. INDEBTEDNESS

As at 30 April 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding indebtedness, including accrued interest, of approximately HK$131 million, comprising secured bank loans of HK$2 million which were secured by fixed charges over the Group's land and buildings with aggregate net book value of approximately HK$66 million as at 30 April 2006 and unsecured other borrowings of approximately HK$129 million.

As at 30 April 2006, the Group had contingent liabilities of HK$25 million in respect of a guarantee given by the Group to LSD in connection with the disposal by the Group to LSD in July 2000 of Bright Jewel Investments Limited and Kingswood Shine Limited (both of them were direct wholly-owned subsidiaries of the Group which, in aggregate, beneficially owned an approximately 45 per cent. interest in GIGC). An agreement was entered into between LSD and the Group on 1 June 2000, pursuant to which the Group disposed of its 45 per cent. interest in GIGC to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China. GIGC had 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 would show 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 30 June 2000 whereby 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 right 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 was limited to a maximum amount of HK$25 million. Details of the transaction was disclosed in an announcement dated 1 June 2000 and a circular "Connected and Discloseable Transaction — Group Reorganisation Involving Asset Transfers, Cancellation of Development Agreement and Reduction of Intra — Group Indebtedness" issued by the Company (formerly known as Lai Sun Hotels International Limited) on 13 June 2000.

Save as aforesaid and apart from intra-group liabilities, the Group did not, as at 30 April 2006, have any material outstanding: (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Company or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgages or charges; or (iv) guarantees or other contingent liabilities.

The Directors have confirmed that there has not been any material adverse change in the indebtedness of the Group since 30 April 2006.

4. WORKING CAPITAL

The Directors are of the opinion that the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular after taking into account the internal resources of, and available banking facilities to, the Group and in the absence of unforeseen circumstances.

5. FINANCIAL AND TRADING PROSPECTS

Turnover of the Group for the year ended 31 December 2005 amounted to HK$141 million. The Group's loss from operating activities amounted to HK$67 million for the year ended 31 December 2005. The Group's operating loss has been offset by its share of profits and losses of associates, amounting to HK$295.5 million for the year ended 31 December 2005. The Group's profits attributable to equity holders of the parent for the year ended 31 December 2005 amounted to HK$210.5 million. The Group expects the operating environment for its core businesses to remain challenging for the 2006 financial year, with investment returns to be of a longer term nature.

Cotai Site

The Transaction represents a signification step for the development of the Cotai Site. Please refer to the letter from the Board set out in this circular for further information on the Transaction and the Cotai Site.

Media and Entertainment

As disclosed in the annual report of the Company for the year ended 31 December 2005 (the "2005 Annual Report"), the Group has already scheduled a total of 17 events comprising 106 live entertainment shows, with additional events currently under discussion in 2006. The Group has also planned international concert tours for various artists.

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 explore other exclusive distribution arrangements with singers and music groups.

Through Media Asia Entertainment Group Limited, the Group has recently entered into an arrangement with CapitaLand and MGM Mirage to assist them in their bid to be awarded the right to develop an integrated resort at Marina Bay, in Singapore. The Group has entered into a memorandum of understanding whereby, should the CapitaLand/MGM Mirage bid prove successful, Media Asia Entertainment Group Limited will be appointed their entertainment partner in respect of Asian content.

Satellite Television

As disclosed in the 2005 Annual Report, the Group received approval in February 2006 from the State Administration of Radio, Film and Television in China for downlink rights to mainland China. In Hong Kong, the Group plans to strengthen its position, 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 discussions to provide content to IPTV and pay television operators in the Asia Pacific region.

Associates

As disclosed in the 2005 Annual Report, Media Asia Entertainment Group Limited has five films scheduled for release in 2006 including, in the autumn, a film titled *The Banquet*, starring Zhang Ziyi, Daniel Wu and directed by Feng Xiaogang. Media Asia Entertainment Group Limited has the distribution rights to the remake of *Infernal Affairs* by Warner Brothers (tentatively titled *The Departed*, directed by Oscar-nominatee Martin Scorsese, 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 to grow. To improve the return on its Hong Kong property investment portfolio and its hotel assets, LSD 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, Hong Kong.

The following is the text of a letter and valuation certificate from Savills Valuation and Professional Services Limited, an independent valuer, in connection with its valuation as at 20 April 2006 of the property of the Group, prepared for the purpose of incorporation in this circular:

T: (852) 2801 6100
F: (852) 2530 0756

23/F Two Exchange Square
Central, Hong Kong

EA Licence: C-023750
savills.com

30 May 2006

The Directors
eSun Holdings Limited
11th Floor Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Dear Sirs,

Re: Lotes G300, G310 e G400, Estrada Flor de Lotus, Zona de Aterro entre Taipa e Coloane, Macao

In accordance with your instruction for us to prepare a report on the market value of the above property, we confirm that we have carried out external inspection to the property concerned, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the Market Value of the property as at 20 April 2006 (referred to as the "Valuation Date").

Basis of Valuation

The subject of our valuation is the **Market Value** of the captioned property in its existing state and physical condition having taken into account the development potential (if any) assuming sale with the benefit of immediate vacant possession.

Our valuation is our opinion of the Market Value of the property concerned which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The Market Value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The Market Value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

Our valuation is prepared in accordance with The HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

We have caused title searches to be made at Conservatória do Registo Predial of Macao. However, we have not searched the original documents to verify ownerships or to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference only and all dimensions, measurements and areas are approximations.

In the course of our valuation, we have relied to a very considerable extent on the information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposal, estimated premium, site and floor areas and other relevant matters. Dimension, measurements and areas included in the valuation certificate attached is based on information provided to us and are therefore only approximations. We have not verified the information provided to us by the instructing party and have assumed that they are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the instructing party which is material to the valuation. We were advised by the instructing party that no material facts have been omitted from the information provided and we were not aware of any matters which might materially affect the value of the property.

No site survey has been made and we are therefore unable to report whether the property is free from any site difficulties for the proposed development. No tests were carried out on any of the services. In our valuation, we have assumed that these aspects are satisfactory.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Other special assumptions for the property, if any, have been stated in the footnotes of the valuation certificate for the property.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C. K. Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

* Mr Charles C. K. Chan, chartered estate surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has been a qualified valuer since June 1987 and has about 21 years expenience in the valuation of properties in Hong Kong and has about 16 years experience in the valuation of properties in Macau.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value in its existing state as at 20 April 2006
Lotes G300, G310 e G400, Estrada Flor de Lotus, Zona de Aterro entre Taipa e Coloane, Macao	The property comprises a piece of land in a newly reclaimed area in Cotai, Macao. It has a registered site area of 140,789 sq.m. (1,515,454 sq.ft.). According to the information provided to us, the property is planned to be developed into a comprehensive entertainment development comprising 3 lots. Upon completion, the site area and gross floor area of the respective lots are listed as follows:	The property is currently vacant.	HK$3,370,000,000

Portion	Site Area		Gross Floor Area	
	(sq.m.)	*(sq.ft.)*	*(sq.m.)*	*(sq.ft.)*
Lot A	41,985	451,927	140,000	1,506,960
Lot B	64,404	693,245	120,000	1,291,680
Lot C	34,400	370,282	80,000	861,120
Total	**140,789**	**1,515,454**	**340,000**	**3,659,760**

The property is held under a Concessão Por Arrendamento (租賃批地) for a term of 25 years commencing from 17 October 2001 and is renewable for further terms until 19 December 2049.

Notes:

1. The current registered owner of the property is East Asia — Televisão por Satélite, Limitada.

2. At the time of our recent title search, we noted that there is no material encumbrance registered against the property.

3. In accordance with the Government Gazette No. 100/01 dated 17 October 2001, the property can be developed into a studio city with tourist and entertainment facilities. It has a total gross floor area of about 144,650 sq.m. (1,557,013 sq.ft.).

4. According to the letter dated 6 March 2006 from DSSOPT of the Macao Government offering basic terms in respect of the lease modification for the property, the proposed development is permitted by the said lease modification subject to payment of premium to Macao Government. The development and uses of the property stated therein, inter alia, the followings:

Uses	:	A complex comprising a block of studio city, a block of 5-star hotel, 3 blocks of apartment-like hotels and tourist entertainment ancillary facilities.	
Gross Floor Area	:	Lote A	
		5-star hotel	80,000 sq.m.
		3-star apartment-like hotel	40,000 sq.m.
		Studio city	20,000 sq.m.
		Car parking (5-star hotel)	6,821 sq.m.
		Car parking (3-star apartment-like hotel)	3,291 sq.m.
		Car parking (studio city)	9,710 sq.m.
		Open area (5-star hotel)	12,085 sq.m.
		Open area (3-star apartment-like hotel)	3,844 sq.m.
		Open area (studio city)	5,662 sq.m.
		Lote B	
		3-star apartment-like hotel	60,000 sq.m.
		Studio city	60,000 sq.m.
		Car parking (3-star apartment-like hotel	4,051 sq.m.
		Car parking (studio city)	20,046 sq.m.
		Open area (3-star apartment-like hotel)	7,165 sq.m.
		Open area (studio city)	21,111 sq.m.
		Lote C	
		3-star apartment-like hotel	80,000 sq.m.
		Car parking (3-star apartment-like hotel)	5,472 sq.m.
		Open Area (3-star apartment-like hotel)	5,085 sq.m.

5. In the course of our valuation, we have assumed that the premium for the proposed development has been duly paid to Macao Government.

6. A development proposal has been provided to us. Lot A of the proposed development will comprise a 5-star hotel, a 3-star apartment-like hotel, a convention and exhibition centre, a retail complex, multi-function area/conference room and a concert hall. Lot B will comprise a studio city, a 3-star apartment-like hotel and a retail complex. Lot C will comprise a 3-star apartment-like hotel and hotel facilities. The total gross floor area of the proposed development is approximately 340,000 sq.m. (3,659,760 sq.ft.) and the breakdown of the total gross floor area is as follows:

	Gross Floor Area	
Lot A		
Studio city	20,000 sq.m.	215,280 sq.ft.
3-star apartment-like hotel	40,000 sq.m.	430,560 sq.ft.
5-star hotel	80,000 sq.m.	861,120 sq.ft.
Sub-total	***140,000 sq.m.***	***1,506,960 sq.ft.***
Lot B		
Studio city	60,000 sq.m.	645,840 sq.ft.
3-star apartment-like hotel	60,000 sq.m.	645,840 sq.ft.
Sub-total	***120,000 sq.m.***	***1,291,680 sq.ft.***
Lot C		
3-star apartment-like hotel	80,000 sq.m.	861,120 sq.ft.
Sub-total	***80,000 sq.m.***	***861,120 sq.ft.***
TOTAL	**340,000 sq.m.**	**3,659,760 sq.ft.**

7. Pursuant to the proposed construction programme, the proposed development is expected to be completed in early 2011.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, 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 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

	Long positions in the Shares						
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Capacity**	**Total**	**Percentage**
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%
Liu Ngai Wing	121,215	Nil	Nil	Nil	Beneficial owner	121,215	0.01%
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%

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 as at the Latest Practicable Date are set out below:

Name	Date of Grant	Number of Shares Option	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	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lam Kin Ngok, Peter	10,099,585	Nil	1,582,869,192 *(Note)*	Beneficial owner	1,592,968,777	12.50%
Liu Ngai Wing	800	Nil	Nil	Beneficial owner	800	0.000006%
U Po Chu	633,400	Nil	Nil	Beneficial owner	633,400	0.005%

Note:

Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 12.42 per cent. 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 personal and deemed interest in approximately 37.69 per cent. of the issued share capital of LSG.

Save as disclosed above, as at the Latest Practicable Date, 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.

(b) **Directors' interests in competing businesses**

As at the Latest Practicable Date, the following Director is considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules:

Mr. Lam Kin Ming is a director and the controlling shareholder of Big Honor Investment Ltd. ("Big Honor"), a private company incorporated in Hong Kong. The principal activities of Big Honor 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 cannot 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.

Save as disclosed above, none of the Directors or his associates has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

(c) **Directors' interests in assets of the Group**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(d) **Directors' interests in contracts of the Group**

Philip K H Wong, Kennedy Y H Wong & Co. has provided on-going legal services to the Group in the ordinary course of the Group's business and has also provided legal advice on discrete aspects of the Transaction including, in particular, advice in respect of the Entertainment Lease Option Deed and Entertainment Lease Agreements. Mr. Cheung Wing Sum, Ambrose was a partner and remains a consultant with Philip K H Wong, Kennedy Y H Wong & Co.

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company as follows which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Long positions in the Shares

Name	**Capacity**	**Nature**	**Number of Shares**	**Percentage**
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate	285,512,791	34.83%
Luxor Capital Group, LP	Investment manager	Corporate	91,572,000	11.17%
Luxor Management, LLC	Investment manager	Corporate	91,572,000 *(Note 1)*	11.17%
Christian Alexander Leone	Investment manager	Corporate	91,572,000 *(Note 2)*	11.17%

Notes:

1. Luxor Management, LLC was taken to be interested in 91,572,000 shares in the Company due to its corporate interest in Luxor Capital Group, LP.

2. Christian Alexander Leone was taken to be interested in 91,572,000 shares in the Company due to his corporate interest in Luxor Management, LLC.

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following parties (other than Directors or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of members of the Group	**Name of the Shareholders**	**Approximate percentage**
Mountain Ententainment Limited	Ko Shang Min	10%
	Wang Hui Chung	10%
	Chang Po Yu	10%
	Jen Hsien Chi	19%
Rich & Famous Film & TV Production Limited	Wong Yat Cheung	25%
Rich & Famous Talent Management Group Limited	Wong Yat Cheung	25%
Vision Communications (GZ) Limited	廣州市廣告公司 ("Guangzhou City Advertising Company")	10%

Save as disclosed above, as at the Latest Practicable Date, 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 derivaties and debentures of the Company, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group).

4. QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice, which are contained or referred to in this circular ("Experts"):

Name	Qualification
Ernst & Young	Certified Public Accountants
Savills Valuation and Professional Services Limited	Independent Property Valuer

5. EXPERTS' INTERESTS IN ASSETS

Each of the Experts has confirmed that as at the Latest Practicable Date it does not have any holding in shares, options, warrants, derivatives and convertible securities in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares, options, warrants, derivatives and convertible securities in any member of the Group.

Each of the Experts has further confirmed that as at the Latest Practicable Date it does not have any direct or indirect interests in any assets which have since 31 December 2005 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

6. CONSENTS OF EXPERTS

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears.

7. SERVICE CONTRACTS

Save for the unexpired contract entered into with Mr. Cheung Wing Sum, Ambrose, for a fixed term of two years commencing from September 2005, none of the Directors 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 as at the Latest Practicable Date.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) a settlement agreement dated 28 June 2004 between LSD, the Company, Furama Hotel Enterprises Limited and Golden Pool Enterprise Limited ("Golden Pool") relating to the settlement of the outstanding principal indebtedness of approximately HK$1,500 million owed by Furama Hotel Enterprises Limited, and guaranteed by LSD, to Golden Pool (as amended and supplemented by a supplemental agreement dated 31 August 2004 which provides that the latest date for fulfilment of all the conditions may be such other date as the parties may agree in writing);

(b) a binding memorandum of cooperation dated 15 November 2004 between MacauCo and Lai Fung Holdings Limited (the "Proposed Partner") in respect of the granting of the rights to be granted by MacauCo to the Proposed Partner no later than July 2005 or such later date as may be agreed between the parties (subject to the completion of the respective obligations of the parties under the memorandum allowing the Proposed Partner to contribute to and share 40 per cent. of the development costs and profit of a proposed property development project on a piece of land with an area of approximately 20,000 sq m situated within Zona de Aterro entre Taipa e Coloane Lotes G300, G310 e G400, Estrada Flor de Lotus, Macau to construct around 30 residential detached houses with a total site area of approximately 20,000 sq m. pursuant to the terms as the parties may agree under a formal agreement (the "Memorandum") (as revised by two supplemental memoranda respectively dated 29 June 2005 and 28 December 2005);

(c) a subscription agreement dated 28 April 2005 between the Company and a subscriber in relation to subscription of 74,000,000 new shares of the Company by the subscriber at HK$2.10 per share;

(d) a placing agreement dated 15 March 2006 between the Company, CLSA Limited and 3V Capital Limited in relation to the placing of 74,518,000 shares of the Company by CLSA Limited and 3V Capital Limited, on a fully underwritten basis, at HK$5.80 per share;

(e) a termination agreement dated 31 March 2006 between MacauCo and the Proposed Partner to terminate the Memorandum and the two supplemental memoranda (as referred in paragraph (b) above) respectively;

(f) the Share Purchase Agreement; and

(g) the Escrow Agreement.

Save as disclosed herein, no member of the Group has entered into any contracts, not being contracts entered into in the ordinary course of business, which are or may be material within the two years immediately preceding the Latest Practicable Date.

10. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of the meeting; or

(ii) by at least three members of the Company present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by a member or members of the Company present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(iv) by a member or members of the Company present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which the aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

11. GENERAL

(a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

(c) The company secretary of the Company is Mr. Yeung Kam Hoi, who is an Associate Member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries and a member of Hong Kong Securities Institute.

(d) The qualified accountant of the Company is Miss Hui Mei Yin. Miss Hui is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

(e) The branch share registrar and the transfer office of the Company is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(f) The English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the normal business hours at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong on any weekday, except public holidays, from the date of this circular until the day of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the letter and valuation certificate prepared by Savills Valuation and Professional Services Limited dated 30 May 2006 in respect of the Cotai Site, the text of which is set out in Appendix II to this circular;

(c) the material contracts referred to in the section headed "Material Contracts" in this Appendix III;

(d) the written consents from the Experts referred to in the section "Consents of Experts" in this Appendix III;

(e) the annual report of the Company for the year ended 31 December 2005; and

(f) this circular.

eSun Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 571)

NOTICE IS HEREBY GIVEN that a Special General Meeting of eSun Holdings Limited ("the Company") will be held at The Harbour Room, 3/F., The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 June 2006 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as an ordinary resolution of the Company:

Ordinary Resolution

"**THAT:**

(i) the Transaction (as defined in the circular to the shareholders of the Company dated 30 May 2006 of which this notice forms part (the "Circular")), and the transactions and agreements contemplated under or incidental to the Transaction (including the Share Purchase Agreement (copies of which marked "A" are produced at the meeting and signed by the Chairman of the meeting for the purpose of identification), the Deed of Tax Covenant, the Joint Venture Agreement, the Entertainment Lease Option Deed and, upon exercise of the First Option and Second Option granted pursuant thereto, the Entertainment Lease Agreements (aforementioned capitalised terms shall have the same meaning as defined in the Circular, and the aforementioned documents collectively defined as the "Transaction Documents")), and the execution, performance and implementation of the Transaction Documents and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified; and

(ii) any director of the Company be and is hereby authorised on behalf of the Company to exercise, perfect and deliver all such documents and do all such acts and things and any two directors or any director and the company secretary of the Company be and are hereby authorised to affix the company's seal to all such documents and deliver the same as deeds of the Company, in any such case as may be necessary or desirable to implement or give effect to the terms of the Transaction Documents and the transactions and ancillary agreements or documents contemplated thereunder (including without limitation, the execution of any deeds and/or documents in connection with the Transaction and the exercise or enforcement of any right thereunder) and to make and agree such variations to the terms of the Transaction Documents and ancillary agreements or documents contemplated thereunder as he, in his absolute discretion, may consider to be desirable, appropriate or necessary and in the interests of the Company."

By Order of the Board
eSun Holdings Limited
Yeung Kam Hoi
Company Secretary

Hong Kong, 30 May 2006

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:
11/F Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Notes:

(a) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead in accordance with the Company's Bye-laws. A proxy need not be a member of the Company.

(b) A form of proxy for use at the meeting is enclosed herewith.

(c) The form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with the Company's Registrars in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the special general meeting or adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the meeting or at any adjourned meeting should they so wish.

(d) Where there are joint holders of any share in the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

eSun Holdings Limited

(Incorporated in Bermuda with limited liability)

Form of proxy for use at the Special General Meeting to be held on Friday, 16 June 2006

I/We[1] ______________________________

of ______________________________

being the registered holder(s) of ______________________________ shares[2] of HK$0.50 each in the share capital of eSun Holdings Limited (the ''Company''), **HEREBY APPOINT THE CHAIRMAN OF THE MEETING** or[3] ______________________________

of ______________________________

as my/our proxy to attend, vote and act for me/us and on my/our behalf at the Special General Meeting (and at any adjournment thereof) of the holders of shares of HK$0.50 each in the capital of the Company to be held at The Harbour Room, 3/F., The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 June 2006 at 9:30 a.m. for the purposes of considering and, if thought fit, passing the Ordinary Resolution as set out in the notice convening the Special General Meeting and at such meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Ordinary Resolution as indicated below and if no such indication is given, as my/our proxy thinks fit.

	FOR[4]	**AGAINST[4]**
Ordinary Resolution		

Dated this __________ day of __________________ , 2006 Signature(s)[5] ____________________

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares of HK$0.50 each in the capital of the Company registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. If any proxy other than the Chairman of the Meeting is preferred, please strike out the words "**THE CHAIRMAN OF THE MEETING** or" and insert the full name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT**.
4. **IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, PLEASE TICK THE APPROPRIATE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, PLEASE TICK THE APPROPRIATE BOX MARKED "AGAINST"**. Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting other than the Ordinary Resolution referred to in the notice convening the Meeting or abstain.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either executed under its common seal or under the hand of an officer, attorney or other person duly authorised.
6. In the case of joint registered holders of any shares, any one of such joint holders may attend and vote at the Meeting, either in person or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons whose name stands first on the register of members in respect of the relevant shares shall alone be entitled to vote in respect thereof.
7. To be valid, this form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Hong Kong branch share registrar, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
8. The proxy need not be a member of the Company, but must attend the Meeting in person to represent you.
9. Completion and return of this form of proxy will not preclude you from attending and voting in person at the Meeting (and at any adjournment thereof) if you so wish.