

Report of the Auditors



To the members

Lai Sun Development Company Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 37 to 101 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare 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 141 of the Companies Ordinance, 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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:

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BASIS OF OPINION (continued)

Scope limitations — Interest in an associate, eSun Holdings Limited (“eSun”) and its subsidiaries (collectively the “eSun Group”)

Included in the Group’s interests in associates as at 31st July, 2003 is the Group’s share of net assets of the eSun Group of HK\$805,452,000. As further detailed in note 19 to the financial statements, the auditors of eSun issued a disclaimer opinion on the financial statements of the eSun Group for the year ended 31st December, 2002 because of the possible effects of scope limitations in respect of (i) the recoverability of the amount of HK\$1,500,040,000 due by the Group to the eSun Group (the “Debt”) and (ii) the impairment of film rights owned by the eSun Group with a carrying amount of HK\$113,109,000. We have been unable either to obtain sufficient reliable information or to carry out any alternative auditing procedures to satisfy ourselves as to the value of the Group’s share of net assets of the eSun Group included in the consolidated balance sheet as at 31st July, 2003. Included in the Company’s balance sheet as at 31st July, 2003 is its 37.86% interest in eSun of HK\$896,971,000 and the Company’s interests in subsidiaries, which in turn held a 4.68% interest in eSun, with an aggregate carrying value of HK\$130,599,000. We have also been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the carrying value of the Company’s interests in eSun and in these subsidiaries as at 31st July, 2003.

Any adjustments that might have been found necessary in respect of the above scope limitations would have a consequential impact on the deficiency in assets of the Group and the Company as at 31st July, 2003 and the net loss attributable to the shareholders 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.

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FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

As detailed in note 2 to the financial statements, the Group defaulted in the repayment of the Debt due to the eSun Group on 31st December, 2002 and redemption of its exchangeable bonds (the “Exchangeable Bonds”) and convertible bonds (the “Convertible Bonds”) on 31st March, 2003. Such defaults, in turn, constituted a technical event of default under all of the Group’s other borrowing facilities. As at the date of our report, the Group has yet to reach an agreement with the holders of the Exchangeable Bonds, the holders of the Convertible Bonds, eSun and its other financial creditors (collectively “All Financial Creditors”) on the terms of a comprehensive restructuring of the Group’s indebtedness (the “Debt Restructuring Plan”). The Group is currently operating under a period of informal standstill. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the circumstances giving rise to concerns regarding the fundamental uncertainties relating to the adoption of the going concern basis of presentation. The financial statements have been prepared on a going concern basis, the validity of which depends on the Group’s success in securing the agreement of All Financial Creditors to the Debt Restructuring Plan (including the continuance of the informal standstill in the meantime), the Group’s success in carrying out an orderly disposal of certain of the Group’s assets and the Group’s success in obtaining financing or refinancing arrangements to generate additional positive cash flows for the Group’s ongoing operations. The financial statements do not include any adjustments that would result from the failure to secure the Debt Restructuring Plan with All Financial Creditors, complete the assets disposal programme and obtain financing or refinancing arrangements. We consider that appropriate disclosures have been made but, because of the significant uncertainty relating to whether the securing of the agreement of All Financial Creditors to the Debt Restructuring Plan, the successful orderly disposal of the Group’s assets and the successful financing or refinancing arrangements of the bank and other borrowings will be forthcoming, we are not able to determine whether the going concern basis adopted in the financial statements is appropriate.

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DISCLAIMER OF OPINION

Because of the significance of the possible effects of the scope limitations in evidence available to us as mentioned in the “Basis of opinion” above and because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st July, 2003 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
7th November, 2003