

# Report of the Auditors



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

We have audited the financial statements on pages 26 to 76 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants, 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:

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## SCOPE LIMITATIONS

### (a) Due from Furama Hotel Enterprises Limited

As further detailed in note 20 to the financial statements, included in the consolidated balance sheet of the Group as at 31st December, 2003 is an amount of HK\$1,500,040,000 (the “Debt”) owed to Golden Pool Enterprise Limited (“GPEL”), an indirect wholly-owned subsidiary of the Company, by Furama Hotel Enterprises Limited, a wholly-owned subsidiary of Lai Sun Development Company Limited (“LSD”), which is a substantial shareholder of the Company. The repayment of the Debt is guaranteed by LSD. For the reasons detailed in note 20 to the financial statements, the directors of the Company consider that the recoverable amount of such Debt, together with the related interest thereon, is currently uncertain and, in the absence of any reliable information, they are unable to estimate the amount of any specific provision against the Debt at the current time. We have been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the recoverability of the Debt as included in the consolidated balance sheet of the Group. Included in the Company’s balance sheet as at 31st December, 2003 is an amount of HK\$1,500,040,000 due from Glynhill International Limited, a wholly-owned subsidiary of the Company, which in turn advanced the same amount to GPEL and we have also been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the recoverability of such amount due from the subsidiary as included in the Company’s balance sheet.

### (b) Film rights

As further detailed in note 21 to the financial statements, included in the consolidated balance sheet of the Group as at 31st December, 2003 are film rights with aggregate carrying amounts of HK\$197,655,000. The directors engaged an independent third party (the “Valuer”) to perform a valuation of the Group’s all rights, titles and interests to 127 films (the “127 Film Rights”) with carrying value of HK\$197,541,000 as at 31st December, 2003 in order to provide them with a reference to assess if there is any impairment in value of the Group’s 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 the value of the Group’s film rights as at 31st December, 2003. We have been unable to obtain sufficient reliable information to carry out the auditing procedures required by the Statement of Auditing Standards 520 “Using the Work of an Expert”, issued by the Hong Kong Society of Accountants, 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 as to the 127 Film Rights. Accordingly, we have been unable to carry out adequate auditing procedures to assess the carrying amount of the Group’s film rights as at 31st December, 2003. Included in the consolidated profit and loss account for the year ended 31st December, 2003 is an amortisation charge of the Group’s film rights of HK\$2,591,000. We are also unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the appropriateness of the basis of computation of the amount of the amortisation charge.

Any adjustments that might have been found necessary in respect of each of (a) and (b) above would have a consequential impact on the net assets of the Company and the Group as at 31st December, 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

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity positions including obtaining funding from the bankers and financial creditors, and the tightening of cost controls. The financial statements have been prepared on a going concern basis, the validity of which depends upon the recovery of the Debt, the ongoing support of the Group's bankers and other financial creditors, the success of other measures being undertaken, and attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made, but because of the significant uncertainty relating to the success of the measures currently undertaken by the Group as set out in note 2 to the financial statements, we are not able to determine whether the going concern basis adopted in the financial statements is appropriate.

## DISCLAIMER OF OPINION

Because of the significance of each of (i) the possible effects of the scope limitations in the evidence available to us as set out under (a) of the basis of opinion section of this report; and (ii) 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 December, 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 disclosure requirements of the Hong Kong Companies Ordinance.

Had we not disclaimed our opinion in respect of the matters described above, we would otherwise have qualified our opinion in respect of the limitation in evidence relating to the film rights set out in paragraph (b) above in the basis of opinion section of this report.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, 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  
16th April, 2004