

Report of the Auditors



安永會計師事務所

To the members

Lai Sun Development Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 33 to 100 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 statements and to report our opinion to you.

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 and performed 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. 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.

FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

As further explained in note 2 to the financial statements, the Group has initiated discussions with the holders of the US\$115 million Exchangeable Bonds due on 28th February, 2004, the holders of the US\$150 million Convertible Guaranteed Bonds due on 31st December, 2002 (collectively the "Bondholders") and eSun Holdings Limited ("eSun") to explore the terms of a new debt restructuring plan (the "New Restructuring Plan"). The Group has also initiated negotiations with its principal banks with a view to arranging a rescheduling and/or refinancing of its bank borrowings due for repayment within the next 12 months from the balance sheet date (the "Refinancing Arrangements"). 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

Report of the Auditors

depends on the success in securing the agreement of the Bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements together with the continued success of the orderly disposal of certain Group assets to generate additional positive cash flow. The financial statements do not include any adjustments that would result from the failure to secure the New Restructuring Plan and the Refinancing Arrangements or complete the assets disposal programme. We consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the New Restructuring Plan and Refinancing Arrangements or the successful completion of the assets disposal programme will be forthcoming, we are not able to determine whether the going concern basis used in preparing the financial statements is appropriate. Accordingly, we have disclaimed our opinion.

DISCLAIMER OF OPINION

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, 2002 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
8th November, 2002