



**eSun Holdings Limited**

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Interim Report 2006  
(Stock code: 571)

## **PLACE OF INCORPORATION**

Bermuda

## **BOARD OF DIRECTORS**

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Liu Ngai Wing

Cheung Wing Sum, Ambrose

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Alfred Donald Yap\*

Low Chee Keong\*

Tong Ka Wing, Carl\*

\* *Independent non-executive Directors*

## **COMPANY SECRETARY**

Yeung Kam Hoi

### **eSun Holdings Limited**

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*Stock code on Hong Kong Stock Exchange: 571*

## RESULTS

The Directors of eSun Holdings Limited (the "Company") announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

	Notes	Six months ended	
		30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
TURNOVER	3	63,668	60,325
Cost of sales		(58,976)	(53,352)
Gross profit		4,692	6,973
Other revenue	4	8,728	6,824
Marketing expenses		(10,206)	(7,967)
Administrative expenses		(63,142)	(40,147)
Other operating gains		6,045	7,648
Other operating expenses		(1,896)	(21)
LOSS FROM OPERATING ACTIVITIES	5	(55,779)	(26,690)
Finance costs	6	(4,518)	(6,330)
Share of profits and losses of jointly-controlled entities		(1,369)	(1,385)
Provision for amounts due from jointly-controlled entities		—	(1,133)
Share of profits and losses of associates		115,680	239,285
PROFIT BEFORE TAX		54,014	203,747
Tax	7	—	(786)
PROFIT FOR THE PERIOD		54,014	202,961
Attributable to:			
Equity holders of the parent		54,014	202,961
Minority interests		—	—
		54,014	202,961
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		HK6.89 cents	HK29.47 cents
Diluted		N/A	N/A
INTERIM DIVIDEND PER SHARE	9	Nil	Nil

## CONDENSED CONSOLIDATED BALANCE SHEET

30th June, 2006

		30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		209,054	207,713
Interests in jointly-controlled entities		299	223
Interests in associates	11	1,730,539	1,632,930
Film rights		179,039	187,187
Available-for-sale investment		32,041	—
<b>Total non-current assets</b>		<b>2,150,972</b>	<b>2,028,053</b>
<b>CURRENT ASSETS</b>			
Inventories		4,746	2,872
Equity investment at fair value through profit or loss		22	22
Self-produced and purchased programmes		426	234
Debtors and deposits	12	92,059	78,549
Cash and cash equivalents		436,007	177,080
<b>Total current assets</b>		<b>533,260</b>	<b>258,757</b>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	13	40,356	108,603
Tax payable		3,257	3,321
Finance lease payables		29	29
Interest-bearing bank and other borrowings		—	4,000
<b>Total current liabilities</b>		<b>43,642</b>	<b>115,953</b>
<b>NET CURRENT ASSETS</b>		<b>489,618</b>	<b>142,804</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,640,590</b>	<b>2,170,857</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payables		(118)	(133)
Interest-bearing bank and other borrowings		(130,887)	(126,474)
<b>Total non-current liabilities</b>		<b>(131,005)</b>	<b>(126,607)</b>
<b>Net assets</b>		<b>2,509,585</b>	<b>2,044,250</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	14	409,851	372,592
Reserves		2,099,538	1,671,462
		<b>2,509,389</b>	<b>2,044,054</b>
<b>Minority interests</b>		<b>196</b>	<b>196</b>
<b>Total equity</b>		<b>2,509,585</b>	<b>2,044,250</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT							MINORITY	TOTAL
	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	INTERESTS HK\$'000	EQUITY HK\$'000
At 1st January, 2006 (Audited)	372,592	3,001,935	891,289	53,453	—	(2,275,215)	2,044,054	196	2,044,250
Share of reserve movements									
of associates	—	—	—	(16,818)	677	—	(16,141)	—	(16,141)
Exchange realignment	—	—	—	—	—	600	600	—	600
Changes in fair values of available-for-sale investment	—	—	—	(2,720)	—	—	(2,720)	—	(2,720)
Net gains and losses directly recognised in equity	—	—	—	(19,538)	677	600	(18,261)	—	(18,261)
Issue of shares	37,259	394,945	—	—	—	—	432,204	—	432,204
Share issue expenses	—	(6,711)	—	—	—	—	(6,711)	—	(6,711)
Recognition of equity-settled share-based payments	—	—	—	—	4,089	—	4,089	—	4,089
Profit for the period	—	—	—	—	—	54,014	54,014	—	54,014
At 30th June, 2006 (Unaudited)	409,851	3,390,169	891,289	33,915	4,766	(2,220,601)	2,509,389	196	2,509,585
At 1st January, 2005 (Restated)	335,592	2,888,269	891,289	3,914	—	(2,485,618)	1,633,446	196	1,633,642
Share of reserve movements									
of associates	—	—	—	44,633	—	—	44,633	—	44,633
Exchange realignment	—	—	—	—	—	(226)	(226)	—	(226)
Net gains and losses directly recognised in equity	—	—	—	44,633	—	(226)	44,407	—	44,407
Issue of shares	37,000	118,400	—	—	—	—	155,400	—	155,400
Share issue expenses	—	(4,734)	—	—	—	—	(4,734)	—	(4,734)
Profit for the period	—	—	—	—	—	202,961	202,961	—	202,961
At 30th June, 2005 (Unaudited)	372,592	3,001,935	891,289	48,547	—	(2,282,883)	2,031,480	196	2,031,676

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	Six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(132,208)	(50,479)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(30,230)	(11,267)
NET CASH INFLOW FROM FINANCING ACTIVITIES	421,365	133,356
NET INCREASE IN CASH AND CASH EQUIVALENTS	258,927	71,610
Cash and cash equivalents at beginning of period	177,080	18,472
CASH AND CASH EQUIVALENTS AT END OF PERIOD	436,007	90,082

### ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	16,009	30,071
Time deposits	419,998	60,011
	436,007	90,082

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30th June, 2006

### 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

### 2. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements for the period under review are the same as those used in the annual financial statements for the year ended 31st December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which affect the Group and are adopted for the first time for the current period's unaudited condensed consolidated interim financial statements:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease

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The adoption of HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS4 (Amendment) and HK(IFRIC) — Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's financial statements.

### 3. SEGMENT INFORMATION

#### (a) Business segments:

The following table presents the revenue and profit/loss for the Group's business segments.

	Media and entertainment		Satellite television		Advertising agency		Cosmetics		Corporate and others		Consolidated	
	Six months ended 30th June, 2006 (Unaudited) HK\$'000	Six months ended 30th June, 2005 (Unaudited) HK\$'000	Six months ended 30th June, 2006 (Unaudited) HK\$'000	Six months ended 30th June, 2005 (Unaudited) HK\$'000	Six months ended 30th June, 2006 (Unaudited) HK\$'000	Six months ended 30th June, 2005 (Unaudited) HK\$'000	Six months ended 30th June, 2006 (Unaudited) HK\$'000	Six months ended 30th June, 2005 (Unaudited) HK\$'000	Six months ended 30th June, 2006 (Unaudited) HK\$'000	Six months ended 30th June, 2005 (Unaudited) HK\$'000	Six months ended 30th June, 2006 (Unaudited) HK\$'000	
Segment revenue:												
Sales to external customers	40,600	30,225	586	2,781	15,527	19,628	6,955	7,691	—	—	63,668	60,325
Other revenue	1,262	1,568	—	—	675	—	2	—	1,006	5,072	2,945	6,640
<b>Total</b>	<b>41,862</b>	<b>31,793</b>	<b>586</b>	<b>2,781</b>	<b>16,202</b>	<b>19,628</b>	<b>6,957</b>	<b>7,691</b>	<b>1,006</b>	<b>5,072</b>	<b>66,613</b>	<b>66,965</b>
Segment results	(1,042)	(4,779)	(15,997)	(15,685)	1,315	5,874	(3,225)	2,083	(42,613)	(15,651)	(61,562)	(28,158)
Unallocated interest and other gains											5,783	184
Gain on disposal of properties held for sale										1,284	—	1,284
Loss from operating activities											(55,779)	(26,690)
Finance costs											(4,518)	(6,330)
Share of profits and losses of jointly-controlled entities	(1,369)	(1,385)									(1,369)	(1,385)
Provision for amounts due from jointly-controlled entities	—	(1,133)									—	(1,133)
Share of profits and losses of associates	6,174	5,679							109,506	233,606	115,680	239,285
Profit before tax											54,014	203,747
Tax											—	(786)
<b>Profit for the period</b>											<b>54,014</b>	<b>202,961</b>



(b) **Geographical segments:**

The following table presents the revenue for the Group's geographical segments.

	PRC-Hong Kong		PRC-Mainland (including Macau)		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	47,171	44,719	16,497	15,606	63,668	60,325

4. **OTHER REVENUE**

	Six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Interest income	5,783	5,204
Realised gains on equity investment at fair value through profit or loss	997	—
Others	1,948	1,620
	8,728	6,824

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5. **LOSS FROM OPERATING ACTIVITIES**

	Six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Cost of film rights and license rights	9,410	3,497
Cost of self-produced and purchased programmes	11,611	9,396
Cost of services provided	32,326	35,135
Cost of inventories sold	5,629	5,324
Total cost of sales	58,976	53,352
Gain on disposal of properties held for sale	—	(1,284)
Write-back of provision for bad and doubtful debts	—	(2,608)
Provision for bad and doubtful debts	417	—
Depreciation	3,065	2,487
Amortisation of prepaid land lease payment*	644	510
Amortisation of film rights**	8,148	2,431
Foreign exchange gains	(51)	(108)

\* This item is capitalised and included in property, plant and equipment.

\*\* This item is included in the cost of film rights and license rights.

## 6. FINANCE COSTS

	Six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Interest on bank and other borrowings wholly repayable within five years	4,510	5,617
Interest on loans from a director and a related company	—	711
Interest on finance leases	8	2
	<b>4,518</b>	<b>6,330</b>

## 7. TAX

No provision for Hong Kong profits tax has been made during the current period as there are no assessable profits generated during the current period. Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the period ended 30th June, 2005. Taxes 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.

	Six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Provision for tax for the period:		
Hong Kong	—	780
Elsewhere	—	6
Total tax charge for the period	—	786

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## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30th June, 2006 is based on the net profit for the period attributable to ordinary equity holders of the parent of HK\$54,014,000 (six months ended 30th June, 2005: HK\$202,961,000), and the weighted average number of 783,884,885 (six months ended 30th June, 2005: 688,765,040) ordinary shares in issue throughout the period.

Diluted earnings per share amounts for the six months ended 30th June, 2006 and 2005 have not been shown as no diluting events existed during these periods.

## 9. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: Nil)

## 10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period.

	Notes	Six months ended	
		30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Interest income on an amount due from Furama			
Hotel Enterprises Limited (a)	(i)	—	5,021
Rental expense paid to an associate	(ii)	782	—
Advertising income from related companies (a)	(iii)	527	6,608
Advertising income from related companies (b)	(iii)	6,845	3,899
Television airtime sales from related companies (b)	(iii)	—	1,000
Distribution commissions for film rights licensing paid to an associate	(iv)	1,697	523
Concert production costs, consultancy fee for concert production/operation paid to jointly-controlled entities	(v)	1,440	580
IT service fee income from related companies (c)	(vi)	—	1,275

(a) The related companies are subsidiaries/associates of Lai Sun Development Company Limited ("LSD"), an associate of the Group.

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(b) The related companies are associates of a substantial shareholder of LSD.

(c) The related companies are LSD, a substantial shareholder of LSD and its associates.

### Notes:

(i) The interest income was charged at a rate of 4.5% per annum on the principal balance of HK\$225,000,000.

(ii) The rental expense is charged with reference to market rates.

(iii) The advertising income/television airtime sales is charged to the related companies with reference to the market rates.

(iv) The distribution commissions are charged by an associate at 5% or 15% on the gross licence fee income.

(v) The concert production costs, consultancy fee for concert production/operation paid to jointly-controlled entities was charged on a basis mutually agreed by respective parties.

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

## 11. INTERESTS IN ASSOCIATES

The balance mainly includes the Group's interests in LSD and Media Asia Entertainment Group Limited.

### Interest in LSD

A cross holding position has been existing between LSD and the Company since 7th December, 2004. As at 30th June, 2006, the Group's interest in LSD was 40.8% and the LSD Group held in aggregate 34.83% in the issued share capital of the Company.

The Group's share of net assets of the LSD Group is included in the Group's interests in associates. The Group's share of profits and losses of the LSD Group included in the Group's share of profits and losses of associates, after taking into account the cross-holding effect between the Group and the LSD Group, for the six months ended 30th June, 2006 was HK\$109,506,000 (six months ended 30th June, 2005: HK\$233,606,000).

## 12. 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 30th June, 2006 and 31st December, 2005 is as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
Trade debtors:		
Less than 30 days	<b>6,913</b>	10,122
31-60 days	<b>3,858</b>	4,134
61-90 days	<b>1,534</b>	1,560
Over 90 days	<b>2,905</b>	2,071
	<b>15,210</b>	17,887
Other receivables, prepayments and deposits	<b>76,849</b>	60,662
	<b>92,059</b>	78,549

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\$3,549,000 (31st December, 2005: HK\$480,000) and due from related companies of HK\$1,535,000 (31st December, 2005: HK\$2,788,000). 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.

### 13. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at 30th June, 2006 and 31st December, 2005 is as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
Trade creditors:		
Less than 30 days	<b>4,144</b>	5,564
31-60 days	<b>1,591</b>	2,891
61-90 days	<b>1,797</b>	1,029
Over 90 days	<b>3,010</b>	2,311
	<b>10,542</b>	11,795
Other creditors and accruals	<b>29,814</b>	96,808
	<b>40,356</b>	108,603

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

At 31st December, 2005, included in other creditors and accruals was an amount of HK\$46,000,000 received from Lai Fung Holdings Limited ("LFH") as an earnest money paid for the participation rights in the Group's proposed residential property development project in Macau. Further details of the arrangements are set out in the Company's circular dated 6th December, 2004.

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On 31st March, 2006, the Group and LFH entered into an agreement to terminate the memorandum of cooperation. The Group had refunded the earnest money of HK\$46,000,000 to LFH within seven business days from 31st March, 2006. No further claim or matter was outstanding under the memorandum of cooperation upon the full refund of the earnest money. Further details are set out in the Company's announcement dated 31st March, 2006.

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

### 14. SHARE CAPITAL

	<b>30th June, 2006</b>		31st December, 2005	
	<b>Number of shares (Unaudited) '000</b>	<b>Nominal value (Unaudited) HK\$'000</b>	Number of shares (Audited) '000	Nominal value (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	<b>2,000,000</b>	<b>1,000,000</b>	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	<b>819,703</b>	<b>409,851</b>	745,185	372,592

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

	Number of ordinary shares '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st January, 2005 (Audited)	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)
<hr/>				
At 31st December, 2005 and 1st January, 2006 (Audited)	745,185	372,592	3,001,935	3,374,527
Issue of shares (b)	74,518	37,259	394,945	432,204
Share issue expenses (b)	—	—	(6,711)	(6,711)
<hr/>				
At 30th June, 2006 (Unaudited)	819,703	409,851	3,390,169	3,800,020

- (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) 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 were used primarily to finance the Macau project and as general working capital of the Group.

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## 15. COMMITMENTS

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

	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
Contracted, but not provided for	—	155

In prior years, the Group committed to invest in the development of a television city with a programme production centre on a piece of land in the Cotai Site in the Macau Special Administrative Region ("SAR") (the "Project").

During 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 in 2005.

On 8th April, 2006, the Group agreed to sell a 40% interest of the Project to New Cotai LLC ("New Cotai"). Upon completion of the sale, the Group and New Cotai will jointly develop the Project. In accordance with the terms of the sale and purchase agreement and the related joint venture agreement, the Group will receive HK\$1,317,513,600 by way of initial consideration, pay all land premium in relation to the Project. The joint venture partners have each agreed to provide their respective pro rata share of USD100,000,000 in working capital/project financing. Each joint venture partner is subject to a future capital call of up to the same amount as may be required by Cyber One Agents Limited. Under the agreement, eSun will receive additional consideration from New Cotai if the Macau government approves an increase in gross floor area of the Project. eSun is liable to pay all land premium assessed in connection with the increase of gross floor area. Particulars of the transaction were further described in the eSun shareholder circular dated 30th May, 2006. At a Special General Meeting held on 16th June, 2006, the shareholders of eSun approved the transaction. As of the date of this Interim Report, the agreement has not been completed, and is conditional upon formal approval of a land grant modification by the Macau government.

- (b) The Group leases certain of its office premises and the lease of land in Cotai Site in the Macau SAR 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 non-cancellable operating leases falling due as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
Within one year	<b>4,186</b>	3,299
In the second to fifth years, inclusive	<b>5,481</b>	5,520
After five years	<b>12,541</b>	12,951
	<b>22,208</b>	21,770

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- (c) In year 2000, the Group entered into an agreement for leasing of a satellite channel for a term of twelve years from the date of the agreement. On 5th May, 2006, the Group entered into a supplementary agreement for leasing of the satellite channel pursuant to which as from 1st January, 2007, the annual licence fee will be charged with reference to the market rates and will be fixed before the start of the next calendar year. Further, the Group can terminate the agreement in three months notice, without paying any compensation. At 30th June, 2006, the total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
Within one year	—	6,199
In the second to fifth years, inclusive	—	24,796
After five years	—	12,152
	—	43,147

## 16. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the unaudited condensed consolidated interim financial statements at the balance sheet date were as follows:

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	31st December, 2005 (Audited) HK\$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD	<b>25,000</b>	25,000

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period under review (six months ended 30th June, 2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### Overview

The Group's unaudited consolidated net profit attributable to equity holders for the half-year ended 30th June, 2006 amounted to HK\$54,014,000 as compared to HK\$202,961,000 for the corresponding period in 2005.

Turnover for the half-year increased to HK\$63,668,000, representing an increase of approximately 6% when compared with turnover in the corresponding period of 2005. The main portion of this total turnover was derived from our media and entertainment businesses where revenues totalled HK\$41,862,000, up approximately 32% from HK\$31,793,000 in the corresponding period of 2005 with the increase largely due to higher film library license fee income.

The loss from operating activities for the period amounted to HK\$55,779,000 as compared to the loss of HK\$26,690,000 in the previous corresponding period. The increased loss was in line with expectations and was due principally to a sharp rise in administrative expenses mainly associated with the preliminary development of our project in Macau. The share of profits from associates, arising mainly from Lai Sun Development Company Limited ("LSD") and Media Asia Entertainment Group Limited ("MAEG"), at HK\$115,680,000 was lower than the HK\$239,285,000 recorded in the first half of 2005 due to much reduced gain from change in fair value of investment properties and absence of reversal of impairments at LSD.

On 15th March, 2006, the Company entered into a share placing agreement pursuant to which the Company issued 74,518,000 new shares of the Company at a placing price of HK\$5.80 per share. Following the issue of the new shares, the total number of issued shares in the capital of the Company increased to 819,702,929 shares. As a result, LSD, which held a 38.31% interest in the Company prior to the issue of new shares, had its interest in the Company diluted to 34.83%.



### *Macau Studio City (Cotai Project)*

Through its wholly-owned subsidiary Cyber One Agents Limited (“Cyber One”), the Group owns the land-use rights of a site in Cotai, Macau. In April 2006, the Group entered into an agreement whereby the Group will initially dispose of 40% of the shares in issue of Cyber One to New Cotai LLC (“New Cotai”). Upon completion of this transaction, the Group and New Cotai will execute a joint venture agreement to develop the Macau Studio City project on the Cotai site. Details of this major transaction were sent to shareholders in a circular dated 30th May, 2006 and the transaction was subsequently approved by shareholders at a Special General Meeting held on 16th June, 2006. Completion of this transaction is expected shortly and planning for the development of the site is in progress.

### *Entertainment*

During the period under review, the Group produced four concerts by popular local artistes and participated in eleven other concerts and entertainment events in joint-venture with other parties, which involved a total of 61 shows.

The music production and distribution arm of the entertainment division of the Group released eight albums during the period, including titles for Denise Ho, Jill, Michael Wong, concerts of Leon Lai, Cheung Brothers and the soundtrack of MAEG’s award winning film *Isabella*.

### *Satellite Television*

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For its EAST-TV satellite television business, the Group maintained its focus on cost control and improving programme quality during the period under review.

The State Administration of Radio, Film and Television in China has granted a downlink license to EAST-TV. The Group plans to distribute its programmes to hotels, expatriate residential areas and other permitted audiences in China via satellite.

In Hong Kong, the homepass of NOW Broadband TV and HKBN Digital TV total approximately 700,000 as at June 2006. EAST-TV has captured approximately 11% and 9% of viewers on these two platforms respectively. There was steady growth of residential subscribers of EAST-TV on NOW Broadband TV throughout the first half of 2006. The number of subscribers of EAST-TV at the end of June 2006 was approximately 56% higher than at the end of June 2005.

The Group has focused on local production to create a library of original content for programme sales. The content mix in the first half of 2006 was 52% lifestyle content, 23% music programmes, 13% cooking programmes, and 12% topical feature programmes. In the first half of 2006, EAST completed over 500 hours of local production, plus 390 hours of syndication programmes.

### *Film Production and Distribution*

MAEG, in which the Group holds a 37.3% interest, reported a turnover of HK\$61,362,000 for the half-year ended 30th June, 2006 and a net profit attributable to equity holders of HK\$15,945,000.

During the first six months of 2006, MAEG released two small budget films, being *Two Become One* in March 2006 and *Isabella* in April 2006. Due to the limited number of film releases and with all three of its bigger budget productions namely, *The Banquet*, *Confession of Pain* and *Exiled*, scheduled for release in the second half of 2006, total revenue from film production and distribution fell by 57% as compared to the corresponding period of 2005 when substantial revenue resulting from the major success of its big budget film *Initial D* was recorded.

The decrease in revenue resulted in a 70% decrease in gross profit. However there was a gain of HK\$29 million on disposal of available-for-sale investment so net profits rose by approximately 4%.

#### *Lai Sun Development Company Limited*

LSD continues to benefit from reversionary rental income and from the strength of the hotel sector in Hong Kong but much reduced investment property revaluation surplus and the absence of write-back of impairments has meant that the Company's share of profits and losses of associates, of which LSD is the most significant, was substantially lower in the period under review. Under current accounting standards, LSD's hotel properties are not revalued and depreciation is charged on the hotel properties.

### **Prospects**

#### *Macau Studio City (Cotai Project)*

Our Macau Studio City joint venture with New Cotai will dramatically transform the Group's business, considering the financial scale of the project.

New Cotai brings to the project the financial expertise of Silver Point Capital L.P. and the experience of Mr. David Friedman, a pioneer of the gaming industry in Las Vegas and Macau. Their strengths complement the entertainment and media expertise of the Group. The project company itself is financially strong because the site represents a very substantial equity base and in addition, the joint venture partners have each agreed to provide their respective pro rata share of US\$100,000,000 as working capital/project financing. Each joint venture partner is subject to a future capital call of up to the same amount as may be required by Cyber One. The Group's financial commitment to the joint venture will be funded from internal resources which will be substantially boosted by the HK\$1,317,513,600 cash that it will receive as initial consideration for the sale of the Group's Cyber One shares, and any additional consideration it stands to receive under the agreement.

Our Macau Studio City project will contribute to and benefit from the development of Macau. Historically, Macau's casinos catered primarily to visitors mainly from Hong Kong and the Mainland. Recent developments support the Macau SAR's push to become a full-fledged international resort destination with pan-Asian flavour; indeed, we expect Macau will appeal to visitors from all over the world, and become a new integrated retail, convention, entertainment and gaming centre. We expect Cotai will be the heart of the new Macau, and within Cotai, our Macau Studio City project will stand as one of its icons.

#### *Entertainment*

For the second half of 2006, the Group will be producing eight concerts by popular local artistes and will also participate in the production of six other concerts and entertainment events, which will involve around 90 shows in total. The music production and distribution operation of the Group plans to release around ten albums by local singers in the second half of this year.

### *Satellite Television*

With the downlink license of EAST-TV in the Mainland, the Group will focus on the distribution of its channel service in the Mainland and is exploring business opportunities there. EAST-TV is both a television channel service and a multimedia content provider. EAST-TV is negotiating to make its content available on a major U.S. IP video service network.

### *Film Production and Distribution*

As mentioned above, MAEG has three bigger budget films currently scheduled for release in the second half of this year. In addition, it will also be distributing in October 2006 *The Departed*, an English-language remake by Warner Brothers of its highly-successful *Infernal Affairs*. MAEG currently has three film projects in the pipeline for development in the first half of 2007. It hopes to increase its yearly total investments in film production, subject to the availability of suitable scripts.

### **Liquidity, Financial Resources, Charge on Assets, Gearing and Capital Commitments**

As at 30th June, 2006, cash and cash equivalents held by the Group amounted to HK\$436,007,000 of which over 90% were denominated in Hong Kong dollar currency.

As at 30th June, 2006, the unsecured other borrowings from a former shareholder of the Company with the principal amount of HK\$112,938,000 is interest-bearing at the HSBC prime rate per annum, and is not repayable within one year. The Group recorded interest accruals of HK\$17,949,000 for the other borrowings as at 30th June, 2006. In addition, certain land and buildings of the Group with a carrying amount of HK\$65,324,000 were pledged to a bank to secure general banking facilities granted to the Group. As at 30th June, 2006, the general banking facilities were not utilized by the Group. Also, the Group has finance lease payables of HK\$29,000 falling due within one year, HK\$32,000 falling due within the second year and HK\$86,000 falling due within the third to fifth years, as at 30th June, 2006.

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The Group's debt to equity ratio, expressed as a percentage of total borrowings to total net assets, remained low at approximately 5%. All of the Group's borrowings are denominated in Hong Kong dollars and the majority of which are floating rate debts. No financial instruments for hedging purposes were employed by the Group during the period under review.

Future capital expenditures comprise mainly further land premium and construction costs payments for the Macau Studio City project at the Cotai site in Macau. As at 30th June, 2006, there is no capital commitment contracted for in respect of this project.

The Group believes that its cash holdings, together with the available banking facilities will be sufficient to fund its working capital requirements.

### **Contingent Liabilities**

Details of contingent liabilities of the Group at the balance sheet date are set out in note 16 to the unaudited condensed consolidated interim financial statements.

## Employees and Remuneration Policies

The Group employed a total of approximately 230 employees as at 30th June, 2006. The total staff costs including share-based payment and pension contributions for the six months ended 30th June, 2006 were approximately HK\$30,383,000 (excluding directors' remuneration). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 23rd December, 2005.

### SHARE OPTION SCHEME

The Company adopted a new share option scheme (the "Share Option Scheme") at a special general meeting held on 23rd December, 2005 (the "Adoption Date"). The purpose of the Share Option Scheme is to give the Participants (which term includes any eligible employee, any director of the Company or any of its subsidiaries, any agent or consultant of any member of the Group, and any employee of the shareholder or any member of the Group or any holder of any securities issued by the member of the Group) an opportunity to have a personal stake in the Company and will help (a) motivate the Participants to optimize their performance and efficiency; and (b) attract and retain the Participants whose contributions are important to the long-term growth and profitability of the Company. The principal terms of the Share Option Scheme are summarised below:

- (a) The Share Option Scheme shall be valid and effective for a period of ten years commencing on 5th January, 2006, being the date when all stipulated conditions were satisfied. The period within which the shares must be taken up under share options granted to Participants shall be determined by the Board of Directors in its absolute discretion, but such period must not exceed 10 years from the date of grant of the relevant share options.
- (b) The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue on the Adoption Date unless the 10% limit has been refreshed on shareholders' approval.

The maximum number of shares issued and to be issued under share options granted to each Participant in the Share Option Scheme within any 12-month period must not exceed 1% of the total number of shares in issue. Any further grant of share options to a Participant in excess of this limit must be approved by the shareholders in general meeting.

- (c) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval 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 closing 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 a general meeting.
- (d) The offer of a grant of share options may be accepted within 28 days from the date of offer, to be accompanied by payment of a consideration of HK\$1 in total by the grantee. The subscription period of the share options granted is determinable by the Board of Directors in its absolute discretion.

- (e) The subscription price of any share option is determinable by the directors, but shall not be lower than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

The following share options were outstanding under the Share Option Scheme as at 30th June, 2006:

Name	Date of grant	No. of Options			Option Period	Subscription Price per share
		At 1st January, 2006	Granted during the Period	At 30th June, 2006		
<b>Directors</b>						
Lam Kin Ngok, Peter	24/02/2006	—	1,862,962	1,862,962	01/01/2007- 31/12/2007	HK\$4.00
	24/02/2006	—	1,862,962	1,862,962	01/01/2008- 31/12/2008	HK\$4.25
	24/02/2006	—	1,862,962	1,862,962	01/01/2009- 31/12/2009	HK\$4.50
	24/02/2006	—	1,862,963	1,862,963	01/01/2010- 31/12/2010	HK\$4.75
Cheung Wing Sum, Ambrose	24/02/2006	—	1,862,962	1,862,962	01/01/2007- 31/12/2007	HK\$4.00
	24/02/2006	—	1,862,962	1,862,962	01/01/2008- 31/12/2008	HK\$4.25
	24/02/2006	—	1,862,962	1,862,962	01/01/2009- 31/12/2009	HK\$4.50
	24/02/2006	—	1,862,963	1,862,963	01/01/2010- 31/12/2010	HK\$4.75
		—	14,903,698	14,903,698		
<b>Other employees</b> (In aggregate)						
	14/02/2006	—	1,862,962	1,862,962	01/01/2007- 31/12/2007	HK\$4.00
	14/02/2006	—	1,862,962	1,862,962	01/01/2008- 31/12/2008	HK\$4.50
	14/02/2006	—	1,862,962	1,862,962	01/01/2009- 31/12/2009	HK\$5.00
	14/02/2006	—	1,862,963	1,862,963	01/01/2010- 31/12/2010	HK\$5.50
	24/02/2006	—	1,862,962	1,862,962	01/01/2007- 31/12/2007	HK\$4.00
	24/02/2006	—	1,862,962	1,862,962	01/01/2008- 31/12/2008	HK\$4.25
	24/02/2006	—	1,862,962	1,862,962	01/01/2009- 31/12/2009	HK\$4.50
	24/02/2006	—	1,862,963	1,862,963	01/01/2010- 31/12/2010	HK\$4.75
		—	14,903,698	14,903,698		
		—	29,807,396	29,807,396		

During the period, 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 subscription prices ranging from HK\$4 to HK\$5.5 per share. The closing prices of the Company's share 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 respectively. The fair value 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.

The fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Date of grant	14th February, 2006	24th February, 2006
Closing share price at date of grant	HK\$3.20	HK\$3.60
Exercise price	HK\$4.00 — HK\$5.50	HK\$4.00 — HK\$4.75
Risk-free rate	4.09% — 4.22%	3.97% — 4.08%
Dividend yield	0%	0%
Standard deviation	47.65%	47.81%

The model is only one of the commonly used models to estimate fair value of the share options. The value of an option varies with different assumptions. Any changes in the assumptions may affect the estimation.

During the period under review, no options were exercised, cancelled or lapsed in accordance with the terms of the Share Option Scheme. At 30th June, 2006 the total number of 29,807,396 share options outstanding under the Share Option Scheme represented approximately 3.6% of the Company's shares in issue at that date.

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## **DIRECTORS' INTERESTS**

As at 30th June, 2006, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company, to be notified to the Company and the Stock Exchange:

(1) **The Company**

Name of Director	Long positions in the shares				Capacity	Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Other Interests			
Lien Jown Jing, Vincent	931,800	Nil	Nil	Nil	Beneficial owner	931,800	0.11%
Lee Po On	5,195,934	Nil	Nil	Nil	Beneficial owner	5,195,934	0.63%
Liu Ngai Wing	121,215	Nil	Nil	Nil	Beneficial owner	121,215	0.01%
Lam Kin Ngok, Peter	Nil	Nil	Nil	7,451,849 (under share options)	Beneficial owner	7,451,849	0.91%
Cheung Wing Sum, Ambrose	Nil	Nil	Nil	7,451,849 (under share options)	Beneficial owner	7,451,849	0.91%

(2) **Associated Corporation**

**Lai Sun Development Company Limited ("LSD")**

Name of Director	Long positions in the shares of LSD				Capacity	Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Other Interests			
Lam Kin Ngok, Peter	10,099,585	Nil	1,582,869,192 (Note)	Nil	Beneficial owner	1,592,968,777	12.50%
Liu Ngai Wing	800	Nil	Nil	Nil	Beneficial owner	800	0.000006%
U Po Chu	633,400	Nil	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% 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% of the issued share capital of LSG.

Save as disclosed above, as at 30th June, 2006, none of the Directors and 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30th June, 2006, the following persons had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO:

<b>Long positions in the shares</b>				
<b>Name</b>	<b>Capacity</b>	<b>Nature</b>	<b>Number of Shares</b>	<b>Percentage</b>
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate interest	285,512,791	34.83%
Jarvis David R.	Owner of controlled corporation	Corporate interest	41,394,000 <i>(Note 1 &amp; 2)</i>	5.05%
Maclean Malcolm F.	Owner of controlled corporation	Corporate interest	41,394,000 <i>(Note 1 &amp; 3)</i>	5.05%
Mercury Real Estate Advisors, LLC	Investment Manager	Corporate interest	41,394,000 <i>(Note 1)</i>	5.05%
Christian Alexander Leone	Owner of controlled corporation	Corporate interest	73,346,000 <i>(Note 1 &amp; 4)</i>	8.95%
Luxor Management, LLC	Owner of controlled corporation	Corporate interest	73,346,000 <i>(Note 1 &amp; 5)</i>	8.95%
Luxor Capital Group, LP	Investment Manager	Corporate interest	73,346,000 <i>(Note 1)</i>	8.95%

### Notes:

1. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.
2. Jarvis David R. was taken to be interested in 41,394,000 shares in the Company due to his beneficial interests in Mercury Real Estate Advisors, LLC.
3. Maclean Malcolm F. was taken to be interested in 41,394,000 shares in the Company due to his beneficial interests in Mercury Real Estate Advisors, LLC.
4. Christian Alexander Leone was taken to be interested in 73,346,000 shares in the Company due to his beneficial interests in Luxor Management, LLC.
5. Luxor Management, LLC was taken to be interested in 73,346,000 shares in the Company due to its corporate interests in Luxor Capital Group, LP.

Save as disclosed above, 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 derivatives and debentures of the Company as at 30th June, 2006.



## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30th June, 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period covered by the Interim Report save for a deviation from code provision A.4.1.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive directors of the Company is appointed for a specific term. However, all directors of the Company are subject to the retirement provisions under the bye-laws of the Company which provides that the directors for the time being shall retire from office by rotation once every three years since their last election at each annual general meeting and a retiring director shall be eligible for re-election.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code") on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules of the Stock Exchange. The Company has made specific enquiry of all the Directors who have confirmed their compliance with the required standard set out in the Code during the accounting period covered by the Interim Report.

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## **REVIEW OF INTERIM REPORT**

The Interim Report of the Company for the six months ended 30th June, 2006 has been reviewed by the audit committee which comprises the three independent non-executive directors of the Company, namely Messrs. Alfred Donald Yap, Low Chee Keong and Tong Ka Wing, Carl.

By Order of the Board  
**Lien Jown Jing, Vincent**  
*Chairman*

Hong Kong, 22nd September, 2006