

Notes to Financial Statements

31st December, 2006

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, and music production and distribution;
- 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, 2006. 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 not held by the Group in the results and net assets of the Company’s subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year’s financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment

HKAS 39 & HKFRS 4 Amendments

HKAS 39 Amendment

HK(IFRIC)-Int 4

Net Investment in a Foreign Operation

Financial Guarantee Contracts

The Fair Value Option

Determining whether an Arrangement contains a Lease

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The principal changes in accounting policies are as follows:

(a) HKAS 21 — The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December, 2006 or 31st December, 2005.

(b) HKAS 39 — Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(c) HK(IFRIC) — Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

The Group has not applied the following new and revised HKFRSs, applicable to these financial statements, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 objectives, 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 shall be applied for annual periods beginning on or after 1st January, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1st May, 2006, 1st November, 2006 and 1st March, 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture 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's registered 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. Goodwill arising from the acquisition of jointly-controlled entities, is included as part of the Group's interests in jointly-controlled entities.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of associates and jointly-controlled entities represents the excess of the cost of the acquisition 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 and a jointly-controlled entity is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet, 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 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 non-financial assets other than goodwill

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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 discounted 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 in those expense categories consistent with the function of the impaired assets.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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 at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale 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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

Notes to Financial Statements

31st December, 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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.

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Impairment of financial assets

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 the income statement.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

In relation to debtors and a loan receivable, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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 them 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including creditors and accruals, and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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 between the respective carrying amounts is recognised in the income statement.

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 being broadcasted 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 being broadcasted in the financial year.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

With effect from 1st January, 2006, the cost of film rights, less residual value, is amortised proportionately to the estimated projected revenues over their economic beneficial period subject to a maximum period of 10 years. In prior years, the cost of film rights was 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.

As at 31st December, 2006, the directors of the Company have reassessed carrying values of the film rights owned by the Group, taking into account of the projected revenues and estimated residual values, current business environment and conditions, the expected pattern of inflow of economic benefits and with reference to a professional valuation. As a result of the above changes, a decrease in the carrying amount of film rights by HK\$39,000,000 was recognised as the impairment loss of film rights in the consolidated income statement for the year ended 31st December, 2006.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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) 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;
- (h) artiste management fee income, when the relevant services are provided;
- (i) 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;
- (j) 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;
- (k) income from films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, over the licence period and when the films are available for showing or telecast;
- (l) income from the sale of albums, when the albums are delivered and the titles have been passed;
- (m) album distribution commission income, when the albums have been delivered to the wholesalers and distributors;
- (n) album license income, on an accrual basis in accordance with the terms of the relevant agreements; and
- (o) television airtime sales, when the relevant advertisements are broadcast.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme 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. The fair value is determined by using a Black-Scholes model, further details of which are given in note 28 to the financial statements. 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 the income statement. 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.

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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.

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31st December, 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or its parent;
- (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.

Notes to Financial Statements

31st December, 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 goodwill

The Group determines whether 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. The carrying amount of goodwill at 31st December, 2006 was HK\$16,785,000 (2005: HK\$13,285,000). More details are given in notes 15 and 16 to the financial statements.

Estimation of fair values of available-for-sale investments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for unlisted equity instruments, direct market prices are not available. The fair value estimate of such instruments is the estimated amount that the Group would receive or pay on the derecognition of the instruments at the balance sheet date, taking into account the current market conditions and the current credit worthiness of the counterparties. In particular, the fair value estimate is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of value realisable in future sales. Changes in assumptions used or market conditions could significantly affect these estimates and the resulting fair values. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the investments shall be measured at cost.

Accounting for film rights

The cost of film rights, less residual value, is amortised in proportion to the estimated projected revenues over the economic beneficial period subject to a maximum of 10 years. Additional amortisation is made if estimated projected revenues are materially different from the previous estimation.

Management bases its estimates of total projected revenues for each film on the historical performance of similar films, incorporating factors such as the past box office record of the leading actors and actresses, the genre of the film, anticipated performance in the home entertainment, television and other ancillary markets, and agreements for future sales.

These estimated projected revenues can change significantly due to a variety of factors. Based on information available on the actual results of films, management reviews and revises, when necessary, the estimated projected revenues on a film-by-film basis at regular intervals. Such change in revenue projections or estimations may result in a change in the rate of amortisation and/or a write-down of the carrying values of the assets to fair value. This could have an impact on the Group's results of operations. The carrying amount of film rights at 31st December, 2006 was HK\$133,745,000 (2005: HK\$187,187,000).

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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; and
- (e) the corporate and others segment comprises interest in Cyber One Agents Limited ("Cyber One") (Note 14(a)) (Note)) and LSD (note 16), together with corporate income and expense items.

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 (2005: Nil).

Note: In prior years, the principal activity of Cyber One consisted of development of a television city with a programme production centre, which was classified under the "satellite television" segment. During the year, the project was changed to develop a television studio, concert hall, convention and exhibition centre, retail complex and hotels upon approval by the Macau government. Accordingly, Cyber One was grouped in the "corporate and others" segment for the year ended 31st December, 2006.

Notes to Financial Statements

31st December, 2006

4. SEGMENT INFORMATION (continued)

(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, 2006 and 2005.

	Media and entertainment		Satellite television		Advertising agency		Cosmetics		Corporate and others		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:												
Sales to external customers	97,157	67,648	1,301	4,351	31,017	44,472	20,764	24,513	—	—	150,239	140,984
Other revenue	2,920	2,367	—	—	1,645	101	4	—	19	7,847	4,588	10,315
Total	100,077	70,015	1,301	4,351	32,662	44,573	20,768	24,513	19	7,847	154,827	151,299
Segment results	(48,786)	(8,208)	(30,924)	(28,748)	982	4,723	(5,389)	1,592	(101,247)	(39,238)	(185,364)	(69,879)
Unallocated interest and other gains											14,040	1,943
Gain on disposal of subsidiaries	—	—	—	—	—	—	—	—	974,556	—	974,556	—
Gain on the sale of equity investments at fair value through profit or loss	—	—	—	—	—	—	—	—	1,927	—	1,927	—
Gain on deemed disposal of an associate	—	—	—	—	—	—	—	—	20,985	—	20,985	—
Gain on disposal of properties held for sale	—	—	—	—	—	—	—	—	—	894	—	894
Fair value losses on an equity investment at fair value through profit or loss	—	—	—	—	—	—	—	—	(2)	—	(2)	—
Profit/(loss) from operating activities											826,142	(67,042)
Finance costs											(9,337)	(12,593)
Share of profits and losses of jointly-controlled entities	(5,529)	(2,304)	—	—	—	—	—	—	(2,834)	—	(8,363)	(2,304)
Provision for amounts due from jointly-controlled entities	(2,113)	(2,381)	—	—	—	—	—	—	—	—	(2,113)	(2,381)
Share of profits and losses of associates	2,816	8,986	—	—	—	—	—	—	340,544	286,519	343,360	295,505
Profit before tax											1,149,689	211,185
Tax											379	(717)
Profit for the year											1,150,068	210,468
Segment assets	246,361	265,542	76,014	207,525	12,398	9,850	13,665	13,320	984,545	157,388	1,332,983	653,625
Interests in associates	127,077	130,596	—	—	—	—	—	—	1,865,088	1,502,334	1,992,165	1,632,930
Interests in jointly-controlled entities	711	223	—	—	—	—	—	—	653,823	—	654,534	223
Unallocated assets											33,633	32
Total assets											4,013,315	2,286,810
Segment liabilities	21,884	15,821	2,098	71,368	9,977	7,667	9,816	8,320	204,785	3,680	248,560	106,856
Unallocated liabilities											139,866	135,704
Total liabilities											388,426	242,560
Other segment information:												
Depreciation	202	112	4,602	4,362	231	42	155	110	953	549	6,143	5,175
Impairment of film rights	39,000	—	—	—	—	—	—	—	—	—	39,000	—
Amortisation of self-produced and purchased programmes	—	488	—	—	—	—	—	—	—	—	—	488
Amortisation of film rights	14,442	3,497	—	—	—	—	—	—	—	—	14,442	3,497
Write-off of bad debts	—	—	3	—	425	—	2	—	—	—	430	—
Provision for doubtful debts	—	—	—	—	—	—	88	—	—	—	88	—
Write-back of provision for doubtful debts	—	—	—	—	—	—	—	2,750	168	168	—	2,918
Capital expenditure	1,072	256	579	44,572	358	147	273	245	186,182	1,708	188,464	46,928

Notes to Financial Statements

31st December, 2006

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st December, 2006 and 2005.

	Hong Kong		Mainland China (including Macau)		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:						
Sales to external customers	<u>107,547</u>	<u>92,214</u>	<u>42,692</u>	<u>48,770</u>	<u>150,239</u>	<u>140,984</u>
Other segment information:						
Segment assets	3,300,490	2,139,555	679,192	147,223	3,979,682	2,286,778
Unallocated assets					<u>33,633</u>	<u>32</u>
Total assets					<u>4,013,315</u>	<u>2,286,810</u>
Capital expenditure	<u>2,917</u>	<u>2,388</u>	<u>185,547</u>	<u>44,540</u>	<u>188,464</u>	<u>46,928</u>

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

	Notes	Group	
		2006 HK\$'000	2005 HK\$'000
Associates:			
Distribution and licence fee income	(i)	209	201
Distribution commission expense	(ii)	3,030	939
Rental expense	(iii)	1,665	620
Jointly-controlled entity:			
Consultancy and production service fee expense	(iv)	2,200	1,220
Related companies:			
Interest income on an amount due from Furama Hotel Enterprises Limited ("FHEL") (a)	(v)	—	7,739
Advertising income (b)	(vi)	10,142	19,452
Information technological service fee income (c)	(vii)	—	2,196

Notes to Financial Statements

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5. RELATED PARTY TRANSACTIONS (continued)**(A) Transactions with related parties (continued)**

- (a) FHEL is a wholly-owned subsidiary of LSD, a substantial shareholder holding a 34.83% (2005: 38.31%) equity interest in the Company as at 31st December, 2006.
- (b) The related companies are (I) an associate of LSD, (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 (“Media Asia”) which the Group had a 37.33% equity interest as at the balance sheet date.
- (c) The related companies were LSD, Lai Fung and Lai Sun Garment (International) Limited (“LSG”), of which certain directors of the Company were 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 commission expense was 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 expense was charged on a basis mutually agreed by the respective parties.
- (v) The interest income was charged at a rate of 4.5% per annum.
- (vi) The advertising income received from the related companies was charged with reference to market rates.
- (vii) 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:

	2006 HK\$'000	2005 HK\$'000
Short term employee benefits	25,554	15,003
Post-employment benefits	365	285
Share-based payments	5,402	—
Total compensation paid to key management personnel	<u>31,321</u>	<u>15,288</u>

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

Notes to Financial Statements

31st December, 2006

6. TURNOVER AND OTHER REVENUE

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Advertising agency income	31,017	44,472
Entertainment event income	64,365	47,988
Sale of cosmetic products	20,764	24,513
Album sales, licence income and distribution commission income	20,446	10,074
Distribution and licence fee income	7,293	5,271
Artiste management fee income	5,053	4,315
Television airtime sales	36	1,024
Information technological service fee income	—	2,222
Television subscription fee income	1,265	1,105
	<u>150,239</u>	<u>140,984</u>
Other revenue		
Bank interest income	13,889	1,943
Interest income on an amount due from FHEL	—	7,739
Interest income on a loan receivable	151	—
Others	4,588	2,576
	<u>18,628</u>	<u>12,258</u>
	<u>168,867</u>	<u>153,242</u>

Notes to Financial Statements

31st December, 2006

7. PROFIT BEFORE TAX

	Notes	Group	
		2006 HK\$'000	2005 HK\$'000
The Group's profit before tax is arrived at after charging/(crediting):			
Cost of film rights and licence rights		16,497	5,665
Cost of self-produced and purchased programmes		19,443	21,582
Cost of services provided		89,294	78,207
Cost of inventories sold		10,086	17,899
Total cost of sales		<u>135,320</u>	<u>123,353</u>
Employee benefits expense: (including directors' emoluments — see note 9):			
Wages and salaries ***		87,520	62,989
Equity-settled share option expense		9,929	—
Pension scheme contributions ###		1,911	1,616
		<u>99,360</u>	<u>64,605</u>
Amortisation of prepaid land lease payments	13	2,250	1,269
Capitalised in construction in progress		(2,250)	(1,269)
		<u>—</u>	<u>—</u>
Auditors' remuneration		1,490	1,280
Depreciation ***	13	6,143	5,175
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events ##		3,996	2,988
Others		7,060	3,066
Contingent rents incurred for entertainment events ##		10,961	7,461
Total operating lease payments		<u>22,017</u>	<u>13,515</u>

Notes to Financial Statements

31st December, 2006

7. PROFIT BEFORE TAX (continued)

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
	Notes	2006 HK\$'000	2005 HK\$'000
Gain on deemed disposal of an associate *	16	(20,985)	—
Impairment of film rights **	18	39,000	—
Gain on the sale of equity investments at fair value through profit or loss *		(1,927)	—
Gain on disposal of properties held for sale *		—	(894)
Amortisation of self-produced and purchased programmes #		—	488
Amortisation of film rights #	18	14,442	3,497
Fair value losses on an equity investment at fair value through profit or loss **		2	—
Loss on disposal of items of property, plant and equipment**		25	69
Share of net income from entertainment events organised by other co-investors *		(1,102)	(5,626)
Write-off of bad debts **		430	—
Provision for doubtful debts**		88	—
Write-back of provision for doubtful debts *		(168)	(2,918)
Provision for/(write-back of provision for) inventories #		423	(1,727)
Foreign exchange differences, net		<u>4</u>	<u>(118)</u>

* 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\$7,202,000 (2005: HK\$6,143,000) and a depreciation charge of HK\$2,317,000 (2005: HK\$2,272,000) 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, 2006, the Group had no forfeited contributions from the pension scheme available to reduce its contributions to the pension scheme in future years. (2005: Nil)

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8. FINANCE COSTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Interest on bank and other borrowings		
wholly repayable within five years	9,022	10,870
Interest on loans from a director and a related company	—	1,361
Interest on finance leases	14	7
Refinancing charges of bank borrowings	301	355
	<u>9,337</u>	<u>12,593</u>

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Fees	<u>880</u>	<u>880</u>
Other emoluments:		
Basic salaries, housing and other allowances, and benefits in kind	24,674	14,123
Employee share option benefits	5,402	—
Pension scheme contributions	365	285
	<u>30,441</u>	<u>14,408</u>
	<u>31,321</u>	<u>15,288</u>

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options which has been recognised to the income statement over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

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31st December, 2006

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

(i) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2006 HK\$'000	2005 HK\$'000
Alfred Donald Yap	240	240
Low Chee Keong	240	240
Tong Ka Wing, Carl	400	400
	<u>880</u>	<u>880</u>

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(ii) Executive and non-executive directors

	Fees HK\$'000	Basic salaries, housing and other allowances, and benefits in kind HK\$'000	Employee share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2006					
Executive directors:					
Lien Jown Jing, Vincent	—	600	—	12	612
Lee Po On	—	1,344	—	58	1,402
Lam Kin Ngok, Peter	—	16,664	2,701	—	19,365
Cheung Wing Sum, Ambrose	—	3,300	2,701	165	6,166
Liu Ngai Wing	—	2,166	—	100	2,266
	<u>—</u>	<u>24,074</u>	<u>5,402</u>	<u>335</u>	<u>29,811</u>
Non-executive directors:					
Lam Kin Ming	—	—	—	—	—
Tam Wai Chu, Maria	—	600	—	30	630
U Po Chu	—	—	—	—	—
	<u>—</u>	<u>600</u>	<u>—</u>	<u>30</u>	<u>630</u>
	<u>—</u>	<u>24,674</u>	<u>5,402</u>	<u>365</u>	<u>30,441</u>

Notes to Financial Statements

31st December, 2006

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

(ii) Executive and non-executive directors (continued)

	Fees HK\$'000	Basic salaries, housing and other allowances, and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration 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 (2005: Nil).

Notes to Financial Statements

31st December, 2006

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid employees during the year included three (2005: three) directors, the details of whose emoluments are set out above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,161	4,380
Employee share option benefits	1,828	—
Pension scheme contributions	24	24
	<u>7,013</u>	<u>4,404</u>

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

	Group	
	Number of employees	
	2006	2005
HK\$1,500,001 — HK\$2,000,000	—	1
HK\$2,000,001 — HK\$2,500,000	—	1
HK\$2,500,001 — HK\$3,000,000	1	—
HK\$4,000,001 — HK\$4,500,000	1	—
	<u>2</u>	<u>2</u>

During the year, share options were granted to one non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

Notes to Financial Statements

31st December, 2006

10. TAX

No provision for Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong during the year. Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong in the prior 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	
	2006 HK\$'000	2005 HK\$'000
Provision for tax for the year:		
Hong Kong	—	629
Elsewhere	—	70
	<u>—</u>	<u>699</u>
Prior years' under/(over) provision		
Hong Kong	(379)	18
Elsewhere	—	—
	<u>(379)</u>	<u>18</u>
Total tax charge /(credit) for the year	<u>(379)</u>	<u>717</u>

A reconciliation of the tax expense/(credit) applicable to profit 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:

	2006		2005	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>1,149,689</u>		<u>211,185</u>	
Tax at the statutory tax rate	201,196	17.5	36,957	17.5
Adjustments in respect of current tax of previous periods	(379)	—	18	—
Profits and losses attributable to jointly-controlled entities and associates	(62,297)	(5.4)	(51,310)	(24.3)
Income not subject to tax	(174,473)	(15.2)	(1,142)	(0.5)
Expenses not deductible for tax	25,804	2.2	9,813	4.6
Estimated tax losses utilised from previous periods	—	—	(456)	(0.2)
Estimated tax losses not recognised	<u>9,770</u>	<u>0.9</u>	<u>6,837</u>	<u>3.2</u>
Tax charge/(credit) at the Group's effective rate	<u>(379)</u>	<u>—</u>	<u>717</u>	<u>0.3</u>

Notes to Financial Statements

31st December, 2006

10. TAX (continued)

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\$746,466,000 (2005: HK\$690,637,000) 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, 2006, there was no significant unrecognised deferred tax liability (2005: 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.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December, 2006 includes a profit of HK\$717,161,000 (2005: a loss of HK\$40,245,000) which has been dealt with in the financial statements of the Company (note 29).

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK\$1,150,068,000 (2005: HK\$210,468,000) and the weighted average of 801,941,105 (2005: 717,206,847) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31st December, 2006 is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$1,150,068,000 and the weighted average number of 810,212,300 ordinary shares in issue during the year, adjusted for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 801,941,105 ordinary shares in issue during the year plus the weighted average of 8,271,195 ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been considered.

Diluted earnings per share amount for the year ended 31st December, 2005 has not been shown as no diluting events existed during the prior year.

Notes to Financial Statements

31st December, 2006

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Construction in progress HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Broadcast operations and engineering equipment HK\$'000	Motor vehicles HK\$'000	Computers HK\$'000	Total HK\$'000
Cost:									
At 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 and 1st January, 2006		126,976	75,000	26,697	4,908	25,225	1,925	15,215	275,946
Additions		185,228	—	1,332	1,231	381	—	292	188,464
Disposals		—	—	(30)	(4)	—	—	(4)	(38)
Disposal of subsidiaries	30	(312,204)	—	(445)	(462)	—	(330)	(83)	(313,524)
Exchange realignment		—	—	7	21	—	12	41	81
At 31st December, 2006		—	75,000	27,561	5,694	25,606	1,607	15,461	150,929
Accumulated depreciation and impairment:									
At 1st January, 2005		—	6,773	26,511	3,704	12,928	687	13,898	64,501
Provided during the year	7	—	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 and 1st January, 2006		—	8,708	25,610	3,733	15,200	829	14,153	68,233
Provided during the year	7	—	1,935	873	432	2,272	309	322	6,143
Disposals		—	—	(7)	(3)	—	—	(3)	(13)
Disposal of subsidiaries	30	—	—	(263)	(318)	—	(150)	(66)	(797)
Exchange realignment		—	—	2	17	—	10	24	53
At 31st December, 2006		—	10,643	26,215	3,861	17,472	998	14,430	73,619
Net book value:									
At 31st December, 2006		—	64,357	1,346	1,833	8,134	609	1,031	77,310
At 31st December, 2005		126,976	66,292	1,087	1,175	10,025	1,096	1,062	207,713

Notes to Financial Statements

31st December, 2006

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
<hr/>		
Cost:		
At beginning of year	29,892	24,059
Additions	184,053	5,833
Disposal of subsidiaries	(213,945)	—
	<hr/>	<hr/>
At end of year	—	29,892
	<hr/>	<hr/>
Accumulated amortisation:		
At beginning of year	3,559	2,290
Amortisation during the year — note 7	2,250	1,269
Disposal of subsidiaries	(5,809)	—
	<hr/>	<hr/>
At end of year	—	3,559
	<hr/>	<hr/>
Net book value:		
At end of year	—	26,333
	<hr/>	<hr/>

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 26).

The net book value of the Group's assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2006 amounted to HK\$172,000 (2005: HK\$216,000).

As at 31st December, 2005, the cost of construction in progress comprised premium paid for land situated in Macau under a medium term lease (the "Land") and expenditure incurred for the development of a television city being constructed thereon. Further details on the commitments of the construction in progress are set out in note 31(a) to the financial statements.

Notes to Financial Statements

31st December, 2006

14. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	998,000	998,000
Amounts due from subsidiaries	3,901,625	2,690,814
Amounts due to subsidiaries	(457,524)	—
	4,442,101	3,688,814
Impairment	(2,065,577)	(1,870,593)
	<u>2,376,524</u>	<u>1,818,221</u>

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

The carrying amounts of these amounts due from/(to) subsidiaries approximate their fair values.

Details of the principal subsidiaries as at 31st December, 2006 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	Group	Principal activities
Accuremark Limited	British Virgin Islands/Hong Kong	US\$1 Ordinary	—	100	Trading of securities
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 Films Distribution Limited	British Virgin Islands/Hong Kong	US\$1 Ordinary	—	100	Investment and licensing of film rights
East Asia Music (Holdings) Limited	Hong Kong	HK\$10,000 Ordinary	—	100	Music production and distribution

Notes to Financial Statements

31st December, 2006

14. INTERESTS IN SUBSIDIARIES (continued)

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		Principal activities
			Company	Group	
East Asia Satellite Television Limited	Hong Kong	HK\$2 Ordinary	—	100	Programme production, distribution, broadcasting and other related services
eSun.com Limited	Hong Kong	HK\$2 Ordinary	—	100	Investment and licensing of film rights
eSun High-Tech Limited	Hong Kong	HK\$2 Ordinary	—	100	Investment and licensing of film rights
Glynhill International Limited	Hong Kong	HK\$912,623,351 Ordinary	100	100	Investment holding
Guangzhou Beautifirm Cosmetic Limited ***	People's Republic of China/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
Rich & Famous Talent Management Group Limited	Hong Kong	HK\$100 Ordinary	—	75	Provision of artiste management services
Silver Source Limited	Hong Kong	HK\$1 Ordinary	—	100	Investment holding
Skymaster International Inc.	British Virgin Islands/Hong Kong	US\$1 Ordinary	100	100	Investment holding

Notes to Financial Statements

31st December, 2006

14. INTERESTS IN SUBSIDIARIES (continued)

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
Vision Communications Limited	Hong Kong	HK\$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited ****	People's Republic of China/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 amounts stated represent the paid-up capital.

This subsidiary is registered as a wholly foreign-owned enterprise under the law of People's Republic of China.

This subsidiary is registered as a co-operative joint venture under the law of People's Republic of China.

* 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.

Note:

- (a) On 8th April, 2006, the Company, East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)"), a wholly-owned subsidiary of the Group, and New Cotai, LLC ("New Cotai"), an independent third party, entered into a conditional share purchase agreement (the "Agreement"). Pursuant to the Agreement, EAST (Holdings) agreed to sell and New Cotai agreed to purchase 40 ordinary shares of US\$1 each in the capital of Cyber One, which represented a 40% equity interest in Cyber One, for a cash consideration of HK\$1,317,514,000 (the "Disposal"). The principal assets held by Cyber One is its direct and indirect interests in East Asia-Televisão Por Satélite, Limitada ("EAST"), which holds the Land.

The Disposal constituted a major transaction for the Company under the Listing Rules and was subject to the approval of the Company's shareholders. Such approval was obtained pursuant to a resolution passed at a special general meeting of the Company held on 16th June, 2006, and the Disposal was completed on 8th December, 2006 (the "Completion Date").

On the Completion Date, the Group recognised a gain on disposal of subsidiaries of HK\$974,556,000 (note 30). The gain has been credited to the consolidated income statement for the current year. Upon the completion of the Disposal, the Group's remaining 60% equity interest in Cyber One was equity accounted for as a jointly-controlled entity of the Group. Further details of the Disposal are set out in note 30 to the financial statements and the Company's circular dated 30th May, 2006.

Notes to Financial Statements

31st December, 2006

14. INTERESTS IN SUBSIDIARIES (continued)

Note: (continued)

- (a) Pursuant to the Agreement, EAST and New Cotai Entertainment LLC (“Cotai Entertainment”), a wholly-owned subsidiary of New Cotai, entered into an entertainment lease option deed on the Completion Date, in which EAST granted Cotai Entertainment options to enter into lease agreements to lease certain parts of phase I premise (the “First Option”) and phase II premise (the “Second Option”) on the Land from EAST. The lease period will be from the exercise date of options with a term expiring in 2028 provided that the Land is renewed from its original term expiring in 2026. Cotai Entertainment shall have the option to extend the lease term for each consecutive period of 15 years for the entire remaining term of the Land. If the Land is not renewed successfully, the expiry of the terms of each lease agreement shall be 2026.

The First Option will be exercised in the period (i) if the master plan of phase I development on the Land (the “Phase I Development”) is finalised within 6 months from the Completion Date; or (ii) three months from the finalisation of the master plan of the Phase I Development if it is not finalised within 6 months from the Completion Date.

The Second Option will be exercised within 60 days of the latest of (i) the date that EAST receives written notification from the Macau government for a formal grant of land modification of phase II development of the Land (the “Phase II Development”); or (ii) the date that the master plan of the Phase II Development is finalised in accordance with the terms of the joint venture agreement between EAST (Holdings) and New Cotai; and (iii) the date that the board of directors of Cyber One resolves to commence construction of the Phase II Development. The Second Option cannot be exercised within 12 months from the Completion Date in any events.

A deed of tax covenant was entered into on 6th December, 2006 between EAST (Holdings), the Company and New Cotai pursuant to which EAST (Holdings) and the Company have jointly and severally covenanted with New Cotai to discharge certain pre-completion tax liabilities (if any) of Cyber One and its subsidiaries.

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Share of net assets/(liabilities)	173,966	(11,043)
Goodwill on acquisition @	<u>3,500</u>	<u>—</u>
	177,466	(11,043)
Amounts due from jointly-controlled entities	492,153	22,238
Amount due to a jointly-controlled entity	<u>(2,000)</u>	<u>—</u>
	667,619	11,195
Provision for amounts due from jointly-controlled entities	<u>(13,085)</u>	<u>(10,972)</u>
	<u>654,534</u>	<u>223</u>

@ The amount represents goodwill arose from acquisition of a 50% equity interest in a jointly-controlled entity during the year.

Notes to Financial Statements

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15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$20,479,000 (2005: HK\$18,079,000) 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 and due to jointly-controlled entities approximate their fair values.

Particulars of the jointly-controlled entities as at 31st December, 2006 are as follows:

Name of company	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Bestwood Enterprises Limited	Ordinary share of HK\$1 each	Hong Kong	60	50	60	Provision of management services
Clot Media Division Limited *	Ordinary shares of HK\$1 each	Hong Kong	50	50	50	Music production and distribution and provision of artiste management services
Cyber Neighbour Limited #	Ordinary share of US\$1 each	British Virgin Islands	60	50	60	Investment holding
Cyber One Agents Limited #	Ordinary share of US\$1 each	British Virgin Islands	60	50	60	Investment holding
East Asia Record Production Company Limited *	Ordinary share of HK\$1 each	Hong Kong	50	50	50	Music production and distribution
East Asia-Televisão Por Satélite, Limitada **	Registered capital of MOP6,000,000 Quota	Macau	60	50	60	Development and investment in a piece of land in Macau
Much Entertainment Limited *	Ordinary share of HK\$1 each	Hong Kong	50	50	50	Provision of concert production services
The Artiste Campus International Limited	Ordinary share of HK\$1 each	Hong Kong	50	50	50	Provision of agency services to artistes

Notes to Financial Statements

31st December, 2006

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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.

These companies were wholly-owned subsidiaries of the Group as at 31st December, 2005. During the year, the Group disposed of 40% equity interests in these companies as detailed in note 14(a).

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

	2006 HK\$'000	2005 HK\$'000
<hr/>		
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	461,924	3,773
Non-current assets	213,174	95
Current liabilities	(501,130)	(14,909)
Non-current liabilities	(2)	(2)
	<hr/>	<hr/>
Net assets/(liabilities)	173,966	(11,043)
<hr/>		
Share of the jointly-controlled entities' results:		
Total revenue	14,741	9,359
Total expenses	(23,104)	(11,594)
Tax	—	(69)
	<hr/>	<hr/>
Loss after tax	(8,363)	(2,304)
	<hr/>	<hr/>

Notes to Financial Statements

31st December, 2006

16. INTERESTS IN ASSOCIATES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets	1,977,282	1,618,673
Goodwill on acquisition	<u>13,285</u>	<u>13,285</u>
	1,990,567	1,631,958
Amounts due from associates	<u>1,598</u>	<u>972</u>
	<u>1,992,165</u>	<u>1,632,930</u>

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

The recoverable amount of the 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. Cash flow projections of ten years is used based on the Group's long term interest in this associate. The discount rate applied to cash flow projections is 7.75% (2005: 6.59%) 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.

The market values of the listed shares of certain associates at 31st December, 2006 and at the date of approval of these financial statements were approximately HK\$1,533,217,000 (2005: HK\$897,735,000) and HK\$1,518,511,000 (2005: HK\$2,114,437,000), respectively.

Details of the principal associates as at 31st December, 2006 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\$0.01 each	Hong Kong	36.72	Property development

Notes to Financial Statements

31st December, 2006

16. INTERESTS IN ASSOCIATES (continued)

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 management accounts/financial statements:

	2006 HK\$'000	2005 HK\$'000
Assets	8,138,372	8,022,967
Liabilities	(3,512,620)	(3,628,649)
Turnover	980,255	1,022,418
Profit/(loss)	<u>555,613</u>	<u>(547,123)</u>

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

At 31st July, 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\$232,300,000 (31st January, 2006: HK\$237,340,000).

Interest in LSD

On 17th November, 2006, LSD entered into a placing agreement pursuant to which a total of 1,416,000,000 ordinary shares of LSD were to be issued and allotted to not less than six independent institutional investors for cash at a subscription of HK\$0.36 per share (the "LSD Placement"). The LSD Placement was completed on 28th November, 2006. The Group's interest in LSD was then diluted from 40.8% to 36.72%. This resulted in a gain on the deemed disposal of HK\$20,985,000 (note 7), which was credited to the consolidated income statement for the year ended 31st December, 2006.

Notes to Financial Statements

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17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Unlisted equity investments, at fair value	33,033	—
Unlisted equity investment, at cost	<u>1,671</u>	<u>—</u>
	<u>34,704</u>	<u>—</u>

During the year, the gross loss of the Group's available-for-sale investments recognised directly in equity amounted to HK\$1,727,000 (2005: Nil).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair value of unlisted available-for-sale investments is the estimated amount that the Group would receive or pay on the derecognition of investments at the balance sheet date, taking into account the current market conditions and the current credit worthiness of the counterparties. The directors believe that the estimated fair values resulting from this valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

As at 31 December 2006, an unlisted equity investment of the Group with a carrying amount of HK\$1,671,000 (2005: Nil) was stated at cost because the variability in the range of reasonable fair value estimate is so significant that the directors are of the opinion that the probabilities of the various estimates required to arrive at the fair value cannot be measured reliably.

Notes to Financial Statements

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18. FILM RIGHTS

	Group HK\$'000
<hr/>	
Cost:	
At 1st January, 2005, 31st December, 2005, 1st January, 2006 and 31st December, 2006	200,246
Accumulated amortisation and impairment:	
At 1st January, 2005	9,562
Provided during the year — note 7	<u>3,497</u>
At 31st December, 2005 and 1st January, 2006	13,059
Provided during the year — note 7	14,442
Impairment during the year — note 7	<u>39,000</u>
At 31st December, 2006	<u>66,501</u>
Net book value:	
At 31st December, 2006	<u>133,745</u>
At 31st December, 2005	<u>187,187</u>

At 31st December, 2006, 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\$133,631,000 (2005: HK\$187,073,000) 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 (2005: HK\$114,000).

The directors reassessed the recoverable amount of the film rights as at 31st December, 2006 by reference to the valuation on the 127 Film Rights as at 31st December, 2006 (the “Valuation”) performed by Grant Sherman Appraisal Limited (the “Valuer”), an independent firm of professional valuers. An impairment loss of HK\$39,000,000 was recognised in the consolidated income statement during the year.

The Valuer has adopted the Income and/or Market Approach for the valuation methodology. The Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. The Market Approach is based on prices recently paid on or before the appraisal date, for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. The Valuation was based on the present value of the expected future revenue arising from the distribution and sub-licensing of the 127 Film Rights and their residual values, which was derived from discounting the projected cash flows by a discount rate of 12.3%.

Notes to Financial Statements

31st December, 2006

19. INVENTORIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Raw materials	1,630	1,297
Work in progress	550	323
Finished goods	1,158	1,252
	<u>3,338</u>	<u>2,872</u>

20. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Listed equity investment in Hong Kong, at market value	<u>20</u>	<u>22</u>

The above equity instrument as at 31st December, 2006 and 2005 was classified as held for trading.

21. LOAN RECEIVABLE

Loan receivable as at 31st December, 2006 represented a loan of HK\$128 million granted by the Group to an independent third party (the "Borrower") on 28th December, 2006 and the related accrued interest. The loan receivable is secured by, inter alia, (i) personal guarantees provided by two independent third parties; and (ii) a corporate guarantee provided by an independent corporation, and is repayable on 28th January, 2007. As at 31st December, 2006, the balance was interest-free except for an amount of HK\$128,000,000 bearing interest at 3% over the HSBC prime rate per annum and subject to a default interest at a rate of 6% over the HSBC prime rate per annum.

Subsequent to the balance sheet date, the Borrower has requested for an extension of the loan repayment date which is subject to approval by the Group at its discretion. In consideration for the loan extension request, the Borrower has procured additional security arrangements as back-up for the outstanding balance including (i) an additional personal guarantee from an independent third party and (ii) an equity charge over a 15% interest in a corporation owned by the Borrower with a carrying value being assessed by the directors to be in excess of the outstanding balance. In the opinion of the directors, no provision for the recoverability of the loan receivable is considered necessary at the moment.

The carrying amount of the loan receivable approximates its fair value.

Notes to Financial Statements

31st December, 2006

22. 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	
	2006	2005
	HK\$'000	HK\$'000
<hr/>		
Trade debtors:		
Less than 30 days	13,787	10,122
31 — 60 days	7,022	4,134
61 — 90 days	2,806	1,560
Over 90 days	<u>3,367</u>	<u>2,071</u>
	26,982	17,887
Other receivables, prepayments and deposits	<u>100,643</u>	<u>60,662</u>
	127,625	78,549
Portion classified as current portion	<u>(117,577)</u>	<u>(78,549)</u>
Non-current portion	<u>10,048</u>	<u>—</u>

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\$3,631,000 (2005: HK\$480,000) and due from related companies of HK\$929,000 (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.

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31st December, 2006

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	45,469	125,899	10,082	1,363
Time deposits	815,985	51,181	631,375	51,181
	<u>861,454</u>	<u>177,080</u>	<u>641,457</u>	<u>52,544</u>

At 31st December, 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$6,362,000 (2005: HK\$4,286,000). 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 approximate their fair values.

24. CREDITORS AND ACCRUALS

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Trade creditors:		
Less than 30 days	4,753	5,564
31 — 60 days	2,005	2,891
61 — 90 days	1,584	1,029
Over 90 days	<u>2,620</u>	<u>2,311</u>
	10,962	11,795
Other creditors and accruals	<u>239,290</u>	<u>96,808</u>
	<u>250,252</u>	<u>108,603</u>

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

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

Notes to Financial Statements

31st December, 2006

24. CREDITORS AND ACCRUALS (continued)

Included in other creditors and accruals as at 31st December, 2005 was an amount of HK\$46,000,000 received from Lai Fung as an earnest money paid for a right to participate in the development and profit distribution of a proposed residential property project on a piece of land with an area of approximately 20,000 square metres situated within the Cotai Site, pursuant to a memorandum of cooperation entered between EAST and Lai Fung dated on 15th November, 2004 (the "MOU").

On 31st March, 2006, EAST and Lai Fung entered into an agreement to terminate the MOU (the "Termination Agreement"). EAST refunded the earnest money of HK\$46,000,000 to Lai Fung during the year in accordance with the Termination Agreement. No further claim or matter was outstanding under the MOU upon the full refund of the earnest money.

25. 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 four years.

At 31st December, 2006, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2006 HK\$'000	Minimum lease payments 2005 HK\$'000	Present value of minimum lease payments 2006 HK\$'000	Present value of minimum lease payments 2005 HK\$'000
Amounts payable:				
Within one year	42	43	31	29
In the second year	42	42	34	31
In the third to fifth years, inclusive	<u>73</u>	<u>115</u>	<u>68</u>	<u>102</u>
Total minimum finance lease payments	157	200	<u>133</u>	<u>162</u>
Future finance charges	<u>(24)</u>	<u>(38)</u>		
Total net finance lease payables	133	162		
Portion classified as current liabilities	<u>(31)</u>	<u>(29)</u>		
Non-current portion	<u>102</u>	<u>133</u>		

Notes to Financial Statements

31st December, 2006

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)		Maturity		Group and Company	
	2006	2005	2006	2005	2006 HK\$'000	2005 HK\$'000
Current						
Bank borrowings — secured	—	9.1	—	2006	—	4,000
Non-current						
Other borrowings — unsecured	7.75	7.5	Not repayable within one year	2007	<u>135,399</u>	<u>126,474</u>
					<u>135,399</u>	<u>130,474</u>
Analysed into:						
Bank borrowings repayable:						
Within one year					—	4,000
Other borrowings repayable:						
In the second year					<u>135,399</u>	<u>126,474</u>
					<u>135,399</u>	<u>130,474</u>

The Group's banking 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\$64,357,000 (2005: HK\$66,292,000) (note 13).

Included in unsecured other borrowings as at 31st December, 2006 and 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, 2006 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.

Notes to Financial Statements

31st December, 2006

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Other interest rate information:

	Group and Company	
	Floating rate	
	2006	2005
	HK\$'000	HK\$'000
Bank borrowings — secured	—	4,000
Other borrowings — unsecured	135,399	126,474
	<u>135,399</u>	<u>130,474</u>

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

27. SHARE CAPITAL

Shares

	2006		2005	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	<u>2,000,000</u>	<u>1,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	<u>819,703</u>	<u>409,851</u>	<u>745,185</u>	<u>372,592</u>

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

	Notes	Number of ordinary shares '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 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 and 1st January, 2006		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)
At 31st December, 2006		<u>819,703</u>	<u>409,851</u>	<u>3,390,169</u>	<u>3,800,020</u>

Notes to Financial Statements

31st December, 2006

27. SHARE CAPITAL (continued)

Notes:

- (a) On 28th April, 2005, the Company entered into a subscription agreement with Asset Managers (China) Fund Co., Ltd. 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 into the Group as its general working capital.
- (b) On 15th March, 2006, the Company entered into a placing agreement with placing agents pursuant to which a total of 74,518,000 new 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 (the "Placement"). The Placement was completed on 29th March, 2006. Proceeds of approximately HK\$425 million, after deduction of share issue expenses of HK\$6.7 million, were used to finance the development project in Macau and as general working capital of the Group.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of giving any eligible employee, director of the Company or any of its subsidiaries, 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. The Share Option Scheme was adopted by the Company on 23rd December, 2005 (the "Adoption Date") and became effective on 5th January, 2006 and unless otherwise cancelled or amended, will remain in force for 10 years from the latter date. The principal terms of the Share Option Scheme are:

- (a) The total number of Shares in respect of which Options may be granted under the Scheme and any other share option schemes of the Company shall not exceed 10 per cent. 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 issuable under share options granted to each Participant in the Share Option Scheme within any 12-month period must not exceed to 1% of the shares of the Company in issue. 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 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 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, to be accompanied by payment of a consideration of HK\$1 in total by the grantee. The exercise period of the share options granted (the "Option Period") is determinable by the board of directors in its absolute discretion.

Notes to Financial Statements

31st December, 2006

28. SHARE OPTION SCHEME (continued)

(d) The subscription (or exercise) price of any share option is determinable by the directors, but shall not be less 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; and (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.

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

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options					At 31st December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share	Closing share price at date of grant HK\$ per share
	At 1st January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					
Directors										
Lam Kin Ngok, Peter	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2007 to 31/12/2007	4.00	3.60
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2008 to 31/12/2008	4.25	3.60
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2009 to 31/12/2009	4.50	3.60
	—	1,862,963	—	—	—	1,862,963	24/2/2006	1/1/2010 to 31/12/2010	4.75	3.60
	<u>—</u>	<u>7,451,849</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,451,849</u>				
Cheung Wing Sum, Ambrose	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2007 to 31/12/2007	4.00	3.60
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2008 to 31/12/2008	4.25	3.60
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2009 to 31/12/2009	4.50	3.60
	—	1,862,963	—	—	—	1,862,963	24/2/2006	1/1/2010 to 31/12/2010	4.75	3.60
	<u>—</u>	<u>7,451,849</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,451,849</u>				
Other employees										
In aggregate	—	1,862,962	—	—	—	1,862,962	14/2/2006	1/1/2007 to 31/12/2007	4.00	3.20
	—	1,862,962	—	—	—	1,862,962	14/2/2006	1/1/2008 to 31/12/2008	4.50	3.20
	—	1,862,962	—	—	—	1,862,962	14/2/2006	1/1/2009 to 31/12/2009	5.00	3.20
	—	1,862,963	—	—	—	1,862,963	14/2/2006	1/1/2010 to 31/12/2010	5.50	3.20
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2007 to 31/12/2007	4.00	3.60
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2008 to 31/12/2008	4.25	3.60
	—	1,862,962	—	—	—	1,862,962	24/2/2006	1/1/2009 to 31/12/2009	4.50	3.60
	—	1,862,963	—	—	—	1,862,963	24/2/2006	1/1/2010 to 31/12/2010	4.75	3.60
	<u>—</u>	<u>14,903,698</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,903,698</u>				
	<u>—</u>	<u>29,807,396</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>29,807,396</u>				

Notes to Financial Statements

31st December, 2006

28. SHARE OPTION SCHEME (continued)

Notes to the reconciliation of share options outstanding during the year:

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK\$23,849,000 of which the Group recognised a share option expense of HK\$9,929,000 during the year ended 31st December, 2006.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31st December, 2006:

Date of grant	14th February, 2006	24th February, 2006
Dividend yield (%)	—	—
Expected volatility (%)	47.65%	47.81%
Historical volatility (%)	47.65%	47.81%
Risk-free interest rate (%)	4.09% - 4.22%	3.97% - 4.08%
Expected life of option (year)	2.38	2.35
Closing share price (HK\$)	3.2	3.6

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date and the date of approval of these financial statements, the Company had 29,807,396 share options outstanding under the Share Option Scheme which represented approximately 3.6% of the Company's shares in issue as at that dates. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 29,807,396 additional ordinary shares of the Company and additional share capital of HK\$14,903,698 and share premium of HK\$118,298,105 (before issue expenses).

Notes to Financial Statements

31st December, 2006

29. RESERVES

Group

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2005		2,888,269	891,289	—	3,914	(2,485,618)	1,297,854
Exchange realignment		—	—	—	—	(65)	(65)
Total income and expense for the year recognised directly in equity		—	—	—	—	(65)	(65)
Profit for the year		—	—	—	—	210,468	210,468
Total income and expense for the year		—	—	—	—	210,403	210,403
Issue of shares	27	118,400	—	—	—	—	118,400
Share issue expenses	27	(4,734)	—	—	—	—	(4,734)
Share of reserve movements of associates		—	—	—	49,539	—	49,539
At 31st December, 2005 and 1st January, 2006		3,001,935	891,289	—	53,453	(2,275,215)	1,671,462
Exchange realignment		—	—	—	—	817	817
Changes in fair value of available-for-sale investments		—	—	—	(1,727)	—	(1,727)
Total income and expense for the year recognised directly in equity		—	—	—	(1,727)	817	(910)
Profit for the year		—	—	—	—	1,150,068	1,150,068
Total income and expense for the year		—	—	—	(1,727)	1,150,885	1,149,158
Issue of shares	27	394,945	—	—	—	—	394,945
Share issue expenses	27	(6,711)	—	—	—	—	(6,711)
Equity-settled share option arrangements	28	—	—	9,929	—	—	9,929
Share of reserve movements of associates		—	—	1,644	(622)	—	1,022
Release upon deemed disposal of an associate		—	—	(78)	(4,963)	78	(4,963)
At 31st December, 2006		3,390,169	891,289	11,495	46,141	(1,124,252)	3,214,842

Notes to Financial Statements

31st December, 2006

29. RESERVES (continued)

Group (continued)

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Retained by:						
Company and subsidiaries	3,390,169	891,289	9,929	(1,727)	(1,747,673)	2,541,987
Jointly-controlled entities	—	—	—	—	(19,409)	(19,409)
Associates	—	—	1,566	47,868	642,830	692,264
At 31st December, 2006	<u>3,390,169</u>	<u>891,289</u>	<u>11,495</u>	<u>46,141</u>	<u>(1,124,252)</u>	<u>3,214,842</u>
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	<u>3,001,935</u>	<u>891,289</u>	<u>—</u>	<u>53,453</u>	<u>(2,275,215)</u>	<u>1,671,462</u>

Included in the debit balance of accumulated losses as at 31st December, 2006 are accumulated credit balances in respect of exchange realignment of HK\$20,786,000 (2005: HK\$19,969,000).

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

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2005		2,888,269	845,455	—	(2,440,684)	1,293,040
Issue of shares	27	118,400	—	—	—	118,400
Share issue expenses	27	(4,734)	—	—	—	(4,734)
Loss for the year	11	—	—	—	(40,245)	(40,245)
At 31st December, 2005 and 1st January, 2006		<u>3,001,935</u>	<u>845,455</u>	<u>—</u>	<u>(2,480,929)</u>	<u>1,366,461</u>
Issue of shares	27	394,945	—	—	—	394,945
Share issue expenses	27	(6,711)	—	—	—	(6,711)
Equity-settled share option arrangements	28	—	—	9,929	—	9,929
Profit for the year	11	—	—	—	717,161	717,161
At 31st December, 2006		<u>3,390,169</u>	<u>845,455</u>	<u>9,929</u>	<u>(1,763,768)</u>	<u>2,481,785</u>

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.

Notes to Financial Statements

31st December, 2006

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

Details of the disposal of subsidiaries are included in note 14(a) to the financial statements.

	Notes	2006 HK\$'000	2005 HK\$'000
Net assets disposed of:			
Property, plant and equipment	13	312,727	—
Cash and bank balances		345	—
Debtors and deposits		3,548	—
Creditors and accruals		(43)	—
		<u>316,577</u>	—
Expenses incurred for the disposal and accrued liabilities		216,327	—
Gain on disposal of subsidiaries	14(a)	<u>974,556</u>	—
		<u>1,507,460</u>	—
Satisfied by:			
Cash		1,317,514	—
Interest in a jointly-controlled entity		<u>189,946</u>	—
		<u>1,507,460</u>	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK\$'000	2005 HK\$'000
Cash consideration	1,317,514	—
Cash and bank balances disposed of	<u>(345)</u>	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>1,317,169</u>	—

Notes to Financial Statements

31st December, 2006

31. COMMITMENTS

- (a) The Group had the following capital commitments, contracted, but not provided for, at the balance sheet dates:

	2006 HK\$'000	2005 HK\$'000
Commitments in respect of:		
Acquisition of land and buildings	12,159	—
Acquisition of leasehold improvements and equipment	3,084	—
Construction in progress	—	155
	<u>15,243</u>	<u>155</u>
Commitments in respect of capital contributions payable to a jointly-controlled entity		
	<u>466,338</u>	<u>—</u>
	<u>481,581</u>	<u>155</u>

Prior to 2004, the Group committed to invest in the development of a television city with a programme production centre on the Land. 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. An approval on the proposed change in the use of the Land was granted by the Macau government during the year ended 31st December, 2006. As at 31st December, 2005, the authorised, but not contracted for, commitment in respect of the project amounted to HK\$187,595,000.

During the year, the Group disposed of a 40% interest in the project (as detailed in note 14(a) to the financial statements). Upon completion of the Disposal, the Group and New Cotai will jointly develop the project, and the Group accounted for its 60% interest in the project as interests in jointly-controlled entities.

The Group's share of the jointly-controlled entities' own capital commitments, which is not included in the above, is as follows:

	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for	<u>397,433</u>	<u>—</u>

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31. COMMITMENTS (continued)

- (b) As at 31st December, 2006, the Group leased certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

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

	2006 HK\$'000	2005 HK\$'000
Within one year	2,847	3,299
In the second to fifth years, inclusive	877	5,520
After five years	—	12,951
	<u>3,724</u>	<u>21,770</u>

- (c) In prior years, the Group entered into an agreement to lease a satellite channel at an annual license fee of US\$800,000 for a term of twelve years. On 5th May, 2006, the Group entered into a supplemental agreement pursuant to which the annual license fee of leasing satellite channel will be fixed before the commencement of next calendar year. The Group may terminate the agreement with three months' notice. At 31st December, 2006, the total future minimum lease payments were as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	—	6,199
In the second to fifth years, inclusive	—	24,796
After five years	—	12,152
	<u>—</u>	<u>43,147</u>

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

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32. CONTINGENT LIABILITIES

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

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD (Note (a))	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
Guarantee given to a bank in respect of bank facilities granted to a subsidiary (Note (b))	—	—	150,000	—
	<u>25,000</u>	<u>25,000</u>	<u>177,000</u>	<u>27,000</u>

Notes:

- (a) 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 "Golf Club Land") on which the golf club is situated, which showed unencumbered ownership over such Golf Club 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 Golf Club Land on which the golf club is situated or not showing unencumbered ownership over the Golf Club 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.

- (b) As at 31st December, 2006, the banking facilities granted to a subsidiary was not utilised.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing other borrowings, finance leases, and cash and cash equivalents. The main purpose of these financial instruments is to raise fund for the Group's operations. The Group has various other financial assets and liabilities such as debtors, creditors and accruals, which arise directly from its operations.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

As the Group has some interest-bearing assets, the Group's income and operating cash flows will be affected by the changes of market interest rates. The Group's interest-rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

(ii) Foreign currency risk

Certain subsidiaries of the Company have transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of HKD against RMB, respectively.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile and will consider appropriate hedging measures in future as may be necessary.

(iii) Credit risk

The Group maintains various credit policies for different business operations. 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, available-for-sale investments, loan receivable 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.

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34. POST BALANCE SHEET EVENTS

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

- (a) Upon completion of the Disposal as detailed in note 14(a) to the financial statements, the immediate parent company of EAST (Holdings) (the “Seller”) is entitled to effect a sale of one-third of the issued ordinary share capital of EAST (Holdings), subject to consent of New Cotai at its sole discretion, before 30th April, 2007.

On 9th January, 2007, the Seller entered into a share purchase agreement with CapitaLand Integrated Resorts Pte. Ltd (“CapitaLand”), an independent third party, with the consent from New Cotai. Pursuant to the share purchase agreement, the Seller agreed to sell one-third of the equity interest in EAST (Holdings) to CapitaLand for a cash consideration of HK\$658,756,800 (the “Transaction”). The Transaction constitutes a discloseable transaction under the Listing Rules and was completed on 12th March, 2007. Further details are set out in the Company’s circular dated 1st February, 2007.

- (b) On 26th February, 2007, Skymaster International Inc. (the “Offeror”), a wholly-owned subsidiary of the Company, made (i) a voluntary conditional offer to acquire all of the issued ordinary shares of Media Asia not already owned by the Offeror at a price of S\$0.265 (equivalent to approximately HK\$1.35) for each share (the “Offer”); and (ii) the privatisation of Media Asia upon completion of the Offer (the “Privatisation”). The Offeror currently holds a 37.33% equity interest of Media Asia which are listed on the Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System. The Offer and Privatisation constitute very substantial acquisitions and a connected transaction under the Listing Rules in view of possible acquisition of Media Asia’s ordinary shares from one of the Company’s directors, Mr. Lam Kin Ngok, Peter, who currently holds 0.96% of issued shares of Media Asia. Accordingly, approval from shareholders of the Company in an extraordinary general meeting to be held is required. Further details of the transactions are set out in the Company’s announcement dated 27th February, 2007.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23rd March, 2007.