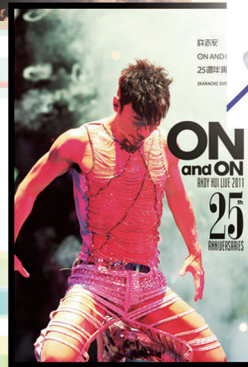




eSun Holdings Limited

豐德麗控股有限公司



# LEADING A NEW ENTERTAINMENT ERA 帶領娛樂新紀元

Annual Report 2011 年報

# AWARDS 獎項



## Film Awards 電影獎項

### Bruce Lee, My Brother 李小龍

**Best New Performer 最佳新演員**  
Hanjin Tan 陳奐仁  
30th Hong Kong Film Awards  
榮獲第30屆香港電影金像獎



### Reign of Assassins 劍雨

**Best Director 最佳導演**  
Su Chao-Bin 蘇照彬  
17th Hong Kong Film Critics Society Awards  
榮獲第17屆香港電影評論學會大獎

**Film of Merit 年度推薦電影**  
17th Hong Kong Film Critics Society Awards  
榮獲第17屆香港電影評論學會大獎



Shanghai Hong Kong Plaza  
(Investment property of Lai Fung)



Guangzhou Eastern Place Phase V Office Tower  
(Property under development of Lai Fung)



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## CORPORATE INFORMATION

### Place of Incorporation

Bermuda

### Board of Directors

#### Executive Directors

Lam Kin Ngok, Peter  
Lui Siu Tsuen, Richard (*Chief Executive Officer*)  
Cheung Wing Sum, Ambrose  
Cheung Sum, Sam

#### Non-executive Directors

U Po Chu  
Albert Thomas da Rosa, Junior  
Andrew Y. Yan

#### Independent Non-executive Directors

Low Chee Keong (*Chairman*)  
Alfred Donald Yap  
Ng Lai Man, Carmen  
Lo Kwok Kwei, David

### Audit Committee

Ng Lai Man, Carmen (*Chairwoman*)  
Alfred Donald Yap  
Low Chee Keong

### Remuneration Committee

Low Chee Keong (*Chairman*)  
Ng Lai Man, Carmen  
Alfred Donald Yap  
Lui Siu Tsuen, Richard

### Company Secretary

Kwok Siu Man

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Principal Office

11th Floor, Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong  
Tel: (852) 2741 0391  
Fax: (852) 2785 2775

### Website

www.esun.com

### Authorised Representatives

Lui Siu Tsuen, Richard  
Kwok Siu Man

### Branch Share Registrars and Transfer Office in Hong Kong

Tricor Tengis Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

### Share Registrars and Transfer Office in Bermuda

Butterfield Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM08  
Bermuda

### Independent Auditors

Ernst & Young  
Certified Public Accountants

### Solicitors

*As to Hong Kong Laws:*  
Baker & McKenzie  
Reed Smith Richards Butler  
Vincent T. K. Cheung, Yap & Co.

*As to the Bermuda Laws:*  
Conyers Dill & Pearman

### Principal Bankers

DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### Shares Listing

**Place:** The Main Board of The Stock Exchange  
of Hong Kong Limited

**Stock Code:** 571

**Board Lot:** 2,000 shares

### Investor Relations

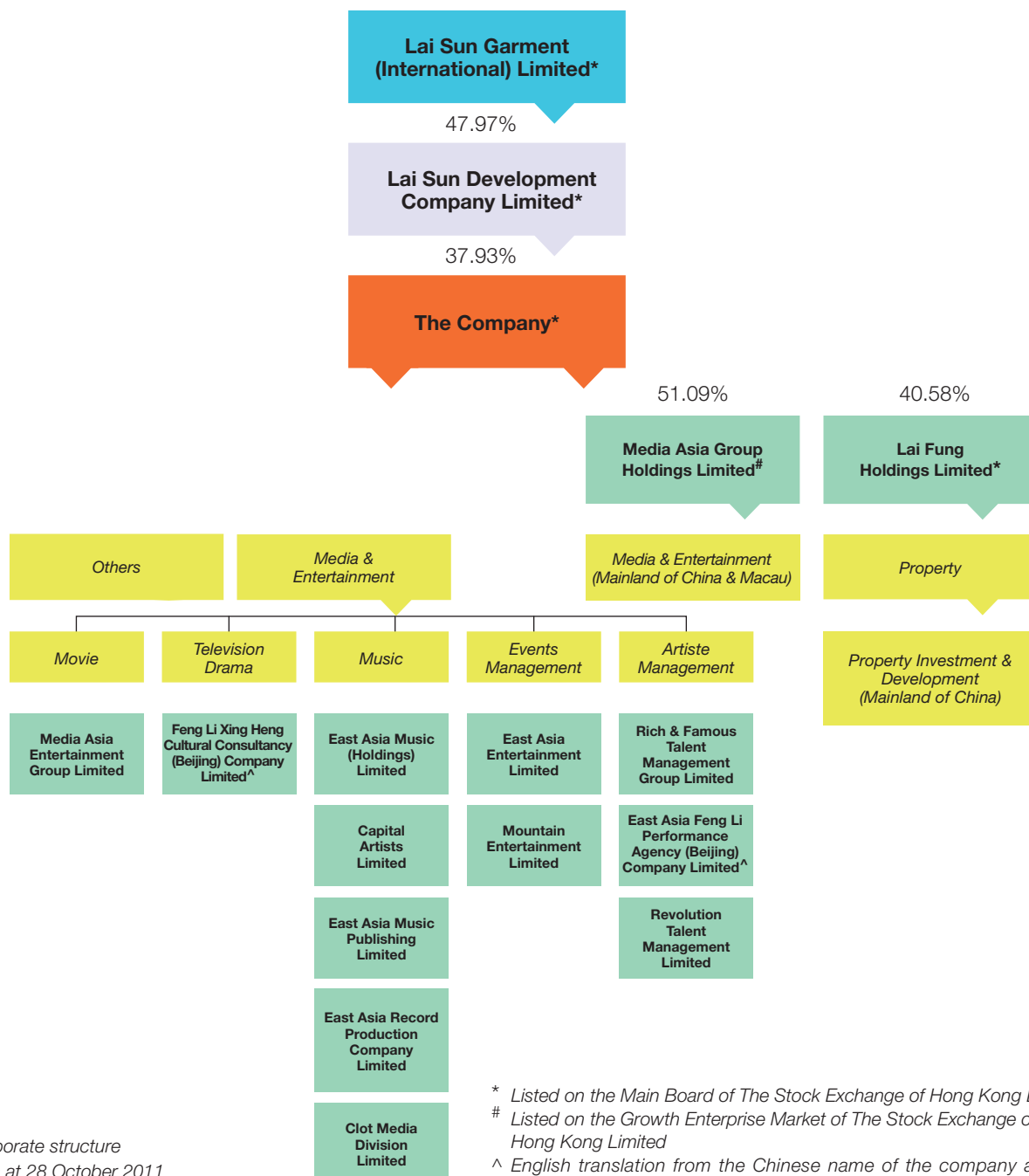
ir@esun.com

## CORPORATE PROFILE

eSun Holdings Limited (the “Company”) is a member of the Lai Sun Group which has been established in Hong Kong since 1947. The principal activities of the eSun Group include the development and operation of, and investment in, media and entertainment, production and distribution of music and film and video format products, and the provision of advertising agency services.

Since 9 June 2011, Media Asia Group Holdings Limited (“MAGHL”, formerly known as “Rojam Entertainment Holdings Limited”) has become a subsidiary of the Company. MAGHL is a GEM Board listed company in Hong Kong (Stock Code: 8075). The Company currently holds about 51.09% of the issued shares in MAGHL which is being diversified to engage in entertainment businesses including music, film, artiste management, television drama and entertainment consultancy services, and which primarily focuses on the Mainland of China and Macau markets.

In addition, the Company holds about 40.58% of the issued shares in Lai Fung Holdings Limited, a Main Board listed company in Hong Kong (Stock Code: 1125), which engages in property development and investment in the Mainland of China.



## FINANCIAL SUMMARY

### SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial accounting periods, as extracted from the published audited financial statements of the Group and restated/reclassified as appropriate, is set out below:

#### Results

|   | Period from<br>1 January 2011<br>to 31 July<br>2011<br>HK\$'000 | Year ended 31 December |                  |                  |                  |
|---|---|------------------------|------------------|------------------|------------------|
|   |   | 2010<br>HK\$'000       | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| <b>CONTINUING OPERATIONS</b>                                    |   |                        |                  |                  |                  |
| TURNOVER  | 316,285   | 459,020                | 359,455          | 270,131          | 289,780          |
| PROFIT/(LOSS) BEFORE TAX  | 518,327   | 844,044                | 49,192           | (404,321)        | 924,369          |
| Income tax  | (112)   | (1,267)                | (154)            | 560              | (18)             |
| PROFIT/(LOSS) FOR THE PERIOD/YEAR<br>FROM CONTINUING OPERATIONS | 518,215   | 842,777                | 49,038           | (403,761)        | 924,351          |
| <b>DISCONTINUED OPERATION</b>                                   |   |                        |                  |                  |                  |
| Loss for the period/year from<br>a discontinued operation       | —   | —                      | —                | (1,068)          | (35,827)         |
| PROFIT/(LOSS) FOR THE PERIOD/YEAR                               | 518,215   | 842,777                | 49,038           | (404,829)        | 888,524          |
| Attributable to:  |   |                        |                  |                  |                  |
| Owners of the Company   | 524,538   | 853,278                | 68,553           | (385,476)        | 895,710          |
| Non-controlling interests                                       | (6,323)   | (10,501)               | (19,515)         | (19,353)         | (7,186)          |
|   | 518,215   | 842,777                | 49,038           | (404,829)        | 888,524          |

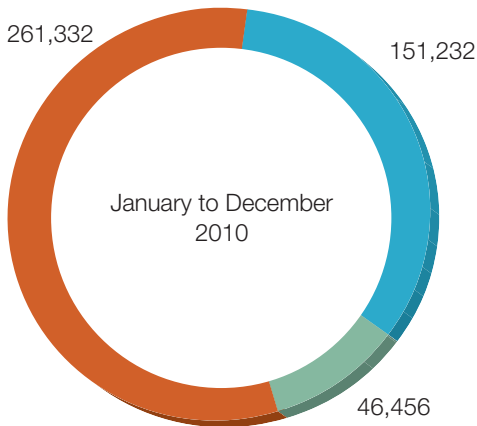
#### Assets, Liabilities and Non-controlling Interests

|  | 31 July<br>2011<br>HK\$'000 | 31 December      |                  |                  |                  |
|--|-----------------------------|------------------|------------------|------------------|------------------|
|  |                             | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Property, plant and equipment  | 77,639                      | 80,032           | 84,761           | 77,206           | 80,180           |
| Goodwill   | —                           | —                | —                | 35,202           | 35,202           |
| Film rights  | 54,614                      | 60,624           | 72,568           | 110,934          | 139,059          |
| Film products  | 77,277                      | 86,765           | 68,538           | 60,430           | 59,545           |
| Music catalogs   | 48,287                      | 92,530           | 115,249          | 108,556          | 61,645           |
| Investments in jointly-controlled entities   | 74,303                      | 1,037,169        | 1,044,869        | 1,076,802        | 972,146          |
| Investments in associates  | 4,467,382                   | 4,345,306        | 3,152,538        | 2,557,469        | 2,620,179        |
| Available-for-sale investments   | 78,969                      | 77,946           | 90,338           | 65,006           | 51,631           |
| Long term loan receivables   | —                           | —                | —                | 63,445           | —                |
| Long term deposits, prepayments and<br>other receivables   | 88,764                      | 99,747           | 102,362          | 110,369          | 83,408           |
| Deferred tax assets  | —                           | 329              | 423              | 753              | 434              |
| Current assets   | 2,678,531                   | 1,497,134        | 1,817,388        | 2,004,480        | 1,538,724        |
| <b>TOTAL ASSETS</b>  | <b>7,645,766</b>            | <b>7,377,582</b> | <b>6,549,034</b> | <b>6,270,652</b> | <b>5,642,153</b> |
| Current liabilities  | (349,704)                   | (700,188)        | (613,619)        | (422,125)        | (452,404)        |
| Long term convertible notes, promissory<br>notes, put option, finance lease payables,<br>bank and other borrowings | (320,270)                   | (161,635)        | (118,524)        | (181,514)        | (194,352)        |
| Deferred tax liabilities   | (61)                        | —                | —                | —                | (44)             |
| <b>TOTAL LIABILITIES</b>   | <b>(670,035)</b>            | <b>(861,823)</b> | <b>(732,143)</b> | <b>(603,639)</b> | <b>(646,800)</b> |
| <b>NON-CONTROLLING INTERESTS</b>   | <b>(138,245)</b>            | <b>(317,000)</b> | <b>(326,229)</b> | <b>(345,782)</b> | <b>(326,135)</b> |
|  | <b>6,837,486</b>            | <b>6,198,759</b> | <b>5,490,662</b> | <b>5,321,231</b> | <b>4,669,218</b> |

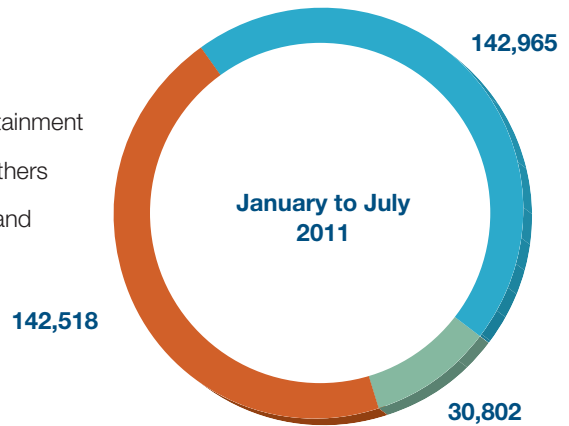
## FINANCIAL SUMMARY

### Segment Sales

HK\$'000

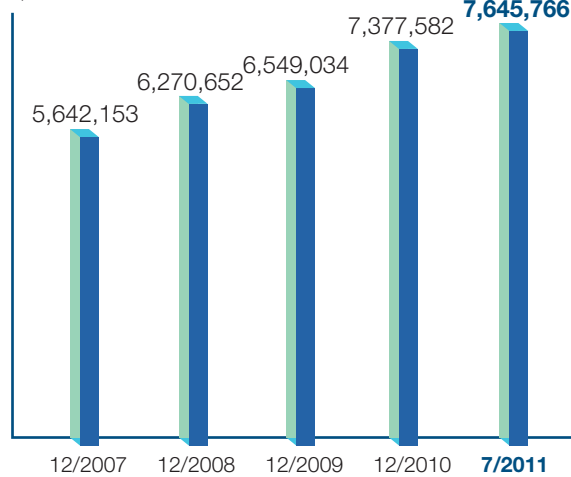


- Media and entertainment
- Corporate and others
- Film production and distribution



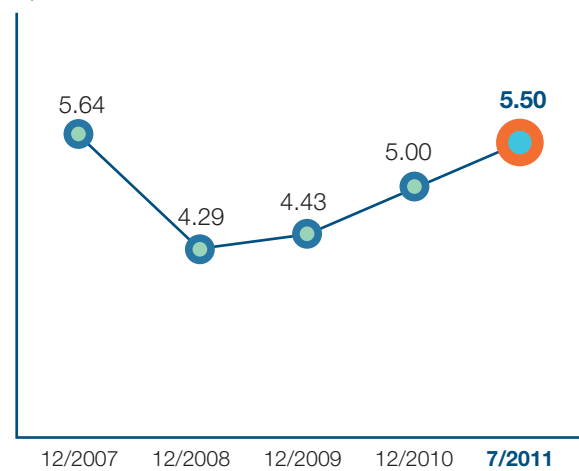
### Total Assets

HK\$'000



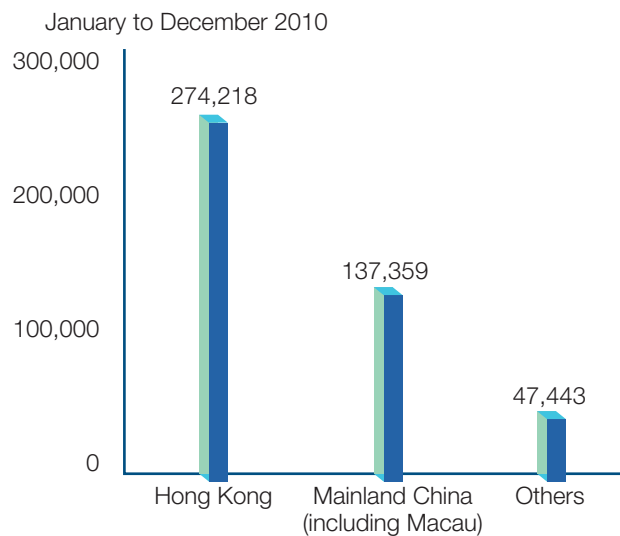
### Net Asset Value per Share

HK\$

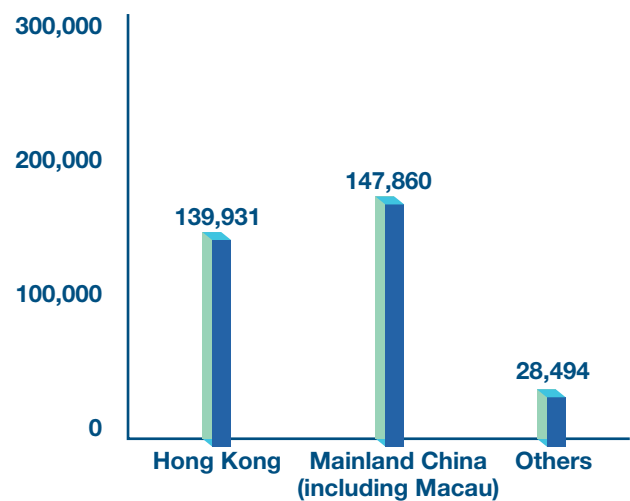


### Segment Sales by Geographical Location

HK\$'000



### January to July 2011



## CHAIRMAN'S STATEMENT

## 主席報告

## Chairman's Statement

LOW Chee Keong  
Chairman

**“Media Asia Group Holdings Limited serves as a platform which allows the Company to exploit the synergy between the media and entertainment businesses of both companies.”**

## OVERVIEW OF FINAL RESULTS

In May 2011, the Board of the Company resolved to change the financial year end date of the Company from 31 December to 31 July with effect from 31 July 2011 in order to align the financial year end date of the Company with its other listed affiliates. The change will have an effect of substantially simplifying the reporting procedures, accounts preparation and audit work. As a result of the change of the financial year end date, the current financial report only covers a seven-month period beginning on 1 January 2011 and ending on 31 July 2011.

Following completion of the Group's acquisition of a controlling equity stake of approximately 51.30% in Media Asia Group Holdings Limited (寰亞傳媒集團有限公司) (“MAGHL”, formerly known as Rojam Entertainment Holdings Limited) on 9 June 2011, the Group has since consolidated the results of the MAGHL.

For the seven months ended 31 July 2011, the Group recorded a turnover of HK\$316,285,000 (twelve months ended 31 December 2010: HK\$459,020,000). For the current reporting period, there were, on an annualised basis, increases in turnover contributed by film production and distribution and artiste management, and decreases in turnover in entertainment event income, music production and distribution and film library licensing income. The increase in turnover from film production and distribution was mainly due to the release of 3 films during the current reporting period and the continued contribution from the 8 films released in year 2010. Also, there was a corresponding increase in marketing expenses incurred for the related film production and distribution business.



## CHAIRMAN'S STATEMENT

For the seven months ended 31 July 2011, the Group recorded a loss from operating activities of HK\$154,482,000 (twelve months ended 31 December 2010: a loss of HK\$269,069,000).

During the period, the Group recognised a fair value gain on a forward contract of HK\$6,585,000 which represented the change in fair value of the forward contract associated with the contractual commitment for issuance of unsecured and unguaranteed 3-year zero coupon convertible notes by MAGHL to certain subscribers (including the Group) with an aggregate principal amount of approximately HK\$224,874,000, comprising approximately HK\$153,175,000 and approximately HK\$71,699,000 to be issued to the Group and other subscribers respectively on the first anniversary of 9 June 2011.

For the seven months ended 31 July 2011, the Group recorded a share of profits of associates of HK\$35,940,000 (twelve months ended 31 December 2010: HK\$541,685,000). Following the completion of the Group Reorganisation (as explained in the Chairman's Statement of the Company's Annual Report 2010) on 30 September 2010, the Group ceased to hold any shareholding interests in Lai Sun Development Company Limited ("LSD") and Lai Fung Holdings Limited ("Lai Fung") has since become an associate of the Company. The Group holds approximately 40.58% shareholding interests in Lai Fung since 30 September 2010. Accordingly, the share of profits of associates for the current reporting period was mainly attributable to Lai Fung. The share of profits of associates for the twelve months ended 31 December 2010 included mainly contributions from LSD of HK\$402,681,000 for the period up to 30 September 2010 (including the cross-shareholding effects) and contribution from Lai Fung of HK\$139,660,000 for the period from 1 October 2010 to 31 December 2010.

For the seven months ended 31 July 2011, the Group's share of losses from jointly-controlled entities was HK\$9,487,000, as compared to a reported loss of HK\$31,353,000 for the twelve months ended 31 December 2010. The decrease in share of losses from jointly-controlled entities was mainly attributable to the decrease in losses of the project of Macao Studio City (the "MSC").

Finance costs during the period ended 31 July 2011 was HK\$6,052,000 (twelve months ended 31 December 2010: HK\$7,226,000).

As a result of the completion of the disposal of the MSC project in July 2011, the Group recorded a one-off net gain of HK\$652,408,000 for the current reporting period. For the twelve months ended 31 December 2010, the Group booked a one-off gain of HK\$610,007,000 as a result of the completion of the Group Reorganisation where the Company transferred its entire shareholding interests in LSD and acquired the 40.58% shareholding interests in Lai Fung.

Due to the reasons stated above, the Group recorded a consolidated profit for the seven months ended 31 July 2011 (before non-controlling interests) of HK\$518,215,000 (twelve months ended 31 December 2010: HK\$842,777,000) and a consolidated profit attributable to owners of the Company for the period of HK\$524,538,000 (twelve months ended 31 December 2010: HK\$853,278,000).

Shareholders' equity as at 31 July 2011 amounted to HK\$6,837,486,000, as compared to HK\$6,198,759,000 as at 31 December 2010. Net asset value per share as at 31 July 2011 was HK\$5.5, as compared to HK\$5.0 as at 31 December 2010.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the financial period from 1 January 2011 to 31 July 2011 (Year ended 31 December 2010: Nil).

## CHAIRMAN'S STATEMENT

### BUSINESS REVIEW

#### **Resolution of MSC disputes and disposal of the Group's interests in the MSC project**

The MSC project had been intended as an integrated leisure resort project combining theatre/concert venues, live entertainment facilities, a destination retail complex, Las Vegas-style gaming facilities and world-class hotels. It had been developed by a joint venture, in which the Company had, but now no longer has, an interest as set out below.

Cyber One Agents Limited ("Cyber One") had been the jointly-controlled entity of the Group responsible for the development of the MSC project. East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)") — an indirect majority-owned subsidiary of the Company — had a 60% shareholding interest in Cyber One. New Cotai, LLC ("New Cotai") had been the US joint venture partner holding a 40% shareholding interest in Cyber One.

Since 2009, there had been disputes and ongoing litigation between EAST (Holdings) and New Cotai in respect of the development and construction of the MSC project, which effectively deadlocked the development and construction.

In order to resolve this deadlock, amongst other reasons, on 15 June 2011, EAST (Holdings), the Company and Melco Crown Entertainment Limited ("MCE") agreed amongst other things, that EAST (Holdings) would sell its 60% shareholding in Cyber One to MCE. During the period ended 31 July 2011, EAST (Holdings) had completed the disposal of its shares in Cyber One to MCE, such that the Company has ceased to hold any interest in Cyber One and the MSC project.

In order to achieve this, the Group acquired the 33.33% shareholding interests of CapitaLand Integrated Resorts Pte. Ltd. ("CIR") in EAST (Holdings) at a consideration of HK\$658,756,800 in accordance with a Waiver and Termination Agreement dated 15 June 2011, which also provided for the termination of the Put Option (as defined in Note 36 to the financial statements of this Annual Report) to CIR. The relevant transactions described above were completed on 27 July 2011.

The disputes and litigation between EAST (Holdings) and New Cotai have also been fully and finally settled on a no-admission of liability basis. Details of the litigation and settlement are set out in Note 49 to the financial statements of this Annual Report.

#### **Joint investment in and development of the Creative Culture City Project in Hengqin ("the Project")**

On 16 September 2011, the Company and Lai Fung entered into a Cooperation Agreement with the Hengqin New District Management Committee (the "Cooperation Agreement"), pursuant to which the Company and Lai Fung shall jointly invest in and develop the Project in the Hengqin Cultural and Creative Zone, Zhuhai City, Guangdong Province, China. In addition, the Company and Lai Fung entered into a strategic banking cooperation framework agreement with the China Construction Bank Corporation Guangdong Branch ("CCB") on 15 September 2011 and a banking cooperation agreement with Industrial Bank Co., Ltd. Guangzhou Branch ("Industrial Bank") on 25 July 2011 (collectively the "Banking Agreements") whereby both CCB and Industrial Bank have agreed to provide indicative credit facilities to support the development of the Project.

The cooperation under the Cooperation Agreement and the Banking Agreements is at a preliminary stage. The parties will further negotiate on the detailed terms of the cooperation and further updates will be made from time to time.

## CHAIRMAN'S STATEMENT

### Acquisition of MAGHL

On 9 June 2011, the Company, Yunfeng Fund, L.P. and the SINA Corporation acquired control of MAGHL for the consideration of HK\$490 million. The company name of MAGHL has been changed from Rojam Entertainment Holdings Limited with effect from 23 August 2011 and on its re-launch the re-branded group will expand into the Mainland of China's media and entertainment markets aiming to bring to the Mainland audience with ever-wider, more exuberant choice in entertainment experiences.

Leveraging on the Company's core resources in performance, media and entertainment business as well as programme management, and the strong business network and established strategic partnership of Yunfeng Fund, L.P., as well as the resource advantages of other leading local internet companies in new media, MAGHL will actively expand its presence and business in the media and entertainment markets of the Mainland of China. Its business scope includes film production, concert and music performance, artiste management, television dramas production and distribution, investment in movie theatres, and new media business.

### Media and entertainment

#### Film production and distribution

For the period ended 31 July 2011, the Group through its film production and distribution units, completed the principal photography on 3 films, with 6 other films in the production pipeline or under development and also committed equity investment in a film with a leading production company in Europe.

Due to the change in the financial year end date of the Group from 31 December to 31 July, the Group has released 3 films during the 7-month period, namely *Don't Go Breaking My Heart*, *Punished* and *A Beautiful Life* as compared to 8 films released in 2010, namely *Love In A Puff*, *Fire Of Conscience*, *Once A Gangster*, *Aftershock*, *Frozen*, *Legend of the Fist: The Return of Chen Zhen*, *Reign of Assassins* and *Bruce Lee, My Brother*.

#### Live entertainment

During the period, the Group's live entertainment division produced and participated in 58 (year ended 31 December 2010: 141) concerts and entertainment events by popular local, Asian and internationally renowned artistes, including Andy Lau, Sammi Cheng, Vivian Chow, Miriam Yeung, Andy Hui, Jim Chim, Jolin Tsai, Richie Jen, Emil Chau, Ekin Cheng, Eric Moo and Samuel Tai, Fish Leong, Lo Ta Yu, Elva Hsiao and Mayday, in Hong Kong, the Mainland of China, Macau, Malaysia and the United States of America.

#### Music production, distribution and publishing

During the period, the Group's music production and distribution division released 32 albums (year ended 31 December 2010: 45), including titles by Andy Lau, Sammi Cheng, Miriam Yeung, Denise Ho, Andy Hui, Ivana Wong, Ekin Cheng, William So, Eason Chan, Edison Chen and Ellen Lo.

The Group would increase its music licensing revenue from the exploitation of the music library through new media distribution. The performance of the music publishing business depends on, among other things, the capability of the new media distributor(s), the available channels for new media/digital distribution and the receptiveness of the public (in general) to use such distribution method for music.

#### Television drama, content production and distribution

During the period, the Group has made investments, via content directors, producers and artistes from the Mainland of China, to produce renowned television dramas and content. 30 episodes of television dramas were produced for the period ended 31 July 2011. In addition, the Group is gradually expanding its production and distribution network for such operation through merger and acquisitions.

## CHAIRMAN'S STATEMENT



### New media

Goyeah.com is a video community launched by the Company in 2009 and it provides not only FREE movies, the most popular Japanese animation, but also high quality content for the young generation.

### Cinema operation

The Group through its subsidiary, MAGHL, has entered into an agreement with an independent party of the Mainland of China to establish a joint venture for a total investment of approximately RMB40 million in a cinema project which will be located in a property currently under development in Sanlitun, Beijing, China. The cinema is expected to commence operation in 2014.

## OUTLOOK

### Growing the Group's media and entertainment businesses

By its acquisition of MAGHL, the Company has signaled its intention to further strengthen its media and entertainment businesses. Such a platform allows the Company to exploit the synergy between the Company's media and entertainment businesses with that of MAGHL which will allow the Group to grow and expand in various key areas (as described above), including music production, distribution and publishing, artiste management, new media (such as internet content licensing), live entertainment and television program production and distribution.

### Joint investment in and development of the Creative Culture City Project in Hengqin

The Creative Culture City project will be the main focus of the Group in the coming years. The investment horizon will include further negotiations with the Hengqin New District Management Committee in relation to the further details of the co-operation and the commencement of agreed works. It should also be noted that Lai Fung, which is an associate of the Group, will be participating in the Project as well. The Group is committed to the success of this Project.

## CHAIRMAN'S STATEMENT

### Further expansion through mergers and acquisitions

The Group will continue to look for suitable investment opportunities that have synergies with its existing core businesses in Hong Kong and overseas. In particular, the Group will look for investment opportunities that have good cash yield and potential for long term capital appreciation.

### Other matters relating to the Company

#### Update in relation to Passport Special Opportunities Master Fund, LP and Passport Global Master Fund SPC Limited ("Passport")

In December 2008, the Company had sought to raise approximately HK\$60 million through a share placement exercise (with the prospect of raising an additional HK\$60 million if the placees exercised the accompanying warrants in full). The placing shares would have represented approximately 8.82% of the enlarged issued share capital of the Company (and the shares issued on the full exercise of the warrants would have represented approximately 8.10% of the further enlarged issued share capital of the Company). The placing, which was primarily intended to finance the Group's media and entertainment businesses and otherwise for general working capital purposes, did not ultimately proceed because Passport, which was then a substantial shareholder of the Company, obtained an ex-parte injunction temporarily restraining the Company from proceeding with the placing (Passport and its affiliates disposed of their entire shareholdings in the Company on 30 April 2010.). Although the long-stop date for the placing was extended once, with the injunction order remaining in place and the conditions to the placing remaining unfulfilled, the placing agreement lapsed on 9 January 2009.

In essence, Passport alleged that the Company had no good commercial reason for the placement and that its sole or primary purpose was to dilute Passport's shareholding.

On 8 June 2011, judgment was handed down. The Judge held that Passport's claims to relief against the Company and the directors be dismissed. Passport has appealed against the decision and the hearing of the appeal will take place between 18 and 22 June 2012. In the meantime, a hearing has been fixed on 19 January 2012 before the Trial Judge to determine the question of costs and for directions to be given for the further conduct of the matter, namely on the question of enforcement of Passport's undertaking as to damages. Passport has put up a bank guarantee in the sum of HK\$120 million to fortify its undertaking as to damages. Passport also put up security for the Company's costs.

### LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS

As at 31 July 2011, cash and cash equivalents held by the Group amounted to HK\$2,311,490,000, of which over 97% was denominated in Hong Kong dollar and United States dollar currencies. As Hong Kong dollars are pegged to United States dollars, the Group considers that the corresponding exposure to exchange rate risk is nominal.

As at 31 July 2011, there existed unsecured other borrowings due to the late Mr. Lim Por Yen in the principal amount of HK\$112,938,000 which is interest-bearing at the HSBC prime rate per annum. The Group recorded interest accruals of HK\$51,663,000 for the said unsecured other borrowings as at 31 July 2011. On 31 July 2011, at the request of the Group, the executor of Mr. Lim Por Yen's estate confirmed that no demand for the repayment of the outstanding other borrowings or the related interest would be made within one year from 31 July 2011. As at 31 July 2011, the Group had secured bank borrowings in the Mainland of China of RMB10,000,000 (or HK\$12,092,000) falling due within one year, which was secured by pledged deposits of HK\$12,960,000. The secured bank borrowings bear interest with reference to the People's Bank of China Base Interest Rate. The Group recorded interest accruals of HK\$137,000 for the secured bank borrowings as at 31 July 2011. Also, the Group had finance lease payables of HK\$125,000 falling due within one year, HK\$119,000 falling due within the second year and HK\$128,000 falling due within the third to fifth years, as at 31 July 2011.

## CHAIRMAN'S STATEMENT

As at 31 July 2011, a subsidiary company MAGHL had unsecured and unguaranteed 3-year zero coupon convertible notes with an aggregate principal amount of approximately HK\$371,387,000, comprising approximately HK\$163,120,000 and HK\$208,267,000 issued to the Group and other subscribers, respectively on 9 June 2011. For accounting purposes after deducting the equity portion of the convertible notes from the principal amount, the resultant carrying amount of the convertible notes after adjusting for (i) accrued interest and (ii) intra-group elimination was HK\$155,422,000 as at 31 July 2011. MAGHL has conditionally agreed to issue to each of the subscribers (including the Group) and each of the subscribers (including the Group) has conditionally agreed to subscribe for unsecured and unguaranteed 3-year zero coupon convertible notes with an aggregate principal amount of approximately HK\$224,874,000, comprising approximately HK\$153,175,000 and approximately HK\$71,699,000 to be issued to the Group and other subscribers respectively on the first anniversary of 9 June 2011.

As at 31 July 2011, a revolving term loan facility in the amount of HK\$60 million was granted by a bank to the Group. The said loan facility is subject to an annual review and is secured by a pledge of the Group's land and buildings with a carrying amount of HK\$55,486,000 as at 31 July 2011. Such bank loan facility had not been utilised by the Group as at 31 July 2011. As at 31 July 2011, an unsecured revolving loan facility in the amount of HK\$20 million was granted by another bank to the Group. The said unsecured loan facility is subject to an annual review and such bank loan facility had not been utilised by the Group as at 31 July 2011.

The Group's debt to equity ratio, expressed as a percentage of total borrowings to consolidated net assets attributable to owners of the Company, remained low at approximately 5% as at 31 July 2011. All of the Group's borrowings, except for the secured bank borrowings of HK\$12,229,000 which are denominated in Renminbi, are denominated in Hong Kong dollars and the majority of which are floating rate debts. No financial instruments for hedging purposes were employed by the Group during the period under review.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 July 2011, the Group employed a total of around 325 employees. The Group recognises the importance of maintaining a stable staff force in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to employees based on their merit and in accordance with industry practice. Other benefits including share option schemes, mandatory provident fund scheme, free hospitalisation insurance plan, subsidised medical care and sponsorship for external education and training programmes are also offered to eligible employees.

## MANAGEMENT AND STAFF

As we continue to pursue our strategy to achieve sustainable growth with prudence, I would like to thank on behalf of the Board our staff and management for their dedication, energy and hard work, and express my gratitude to our shareholders and business associates for their valuable support during the past financial period.

**Low Chee Keong**  
*Chairman*

Hong Kong  
28 October 2011

## PROPERTY PORTFOLIO OF LAI FUNG

Guangzhou Eastern Place Phase V  
Residential Blocks



- **Lai Fung Holdings Limited, a 40.58%-owned associate of the Company, has a well established portfolio of property interests in the Mainland of China. ■**

Guangzhou Dolce Vita Residential Units  
(Lai Fung's joint venture project)



Zhongshan Palm Spring

Guangzhou West Point Centre



Shanghai May Flower Plaza



## PROPERTY PORTFOLIO OF LAI FUNG

### PARTICULARS OF PROPERTIES OF LAI FUNG HOLDINGS LIMITED ("LAI FUNG") IN THE MAINLAND OF CHINA (as at 31 July 2011)

Principal properties under development/construction of Lai Fung are as follows:

| Location  | Lai Fung's interest | Stage of construction         | Expected completion date    | Expected use                  | Area   |
|---|---------------------|-------------------------------|-----------------------------|-------------------------------|--|
| <b>Guangdong Province</b>   |                     |                               |                             |                               |  |
| Eastern Place Phase V, 787 Dongfeng East Road, Yuexiu District, Guangzhou | 100%                | Construction work in progress | 2012 and 2013               | Residential/office/commercial | Total site area: 19,750 sq.m.<br>Total gross floor area: approximately 101,000 sq.m.               |
| Haizhu Plaza, Chang Di Main Road, Yuexiu District, Guangzhou              | 100%                | Resettlement in progress      | Note 1                      | Commercial/office             | Total site area: 8,427 sq.m.<br>Total gross floor area: approximately 103,000 sq.m.                |
| King's Park, Donghua Dong Road, Yuexiu District, Guangzhou                | 100%                | Construction work in progress | 2012                        | Residential                   | Total site area: 3,263 sq.m.<br>Total gross floor area: approximately 10,000 sq.m.                 |
| Paramount Centre, Da Sha Tou Road, Yuexiu District, Guangzhou             | 100%                | Construction work in progress | 2012                        | Office                        | Total site area: 2,210 sq.m.<br>Total gross floor area: approximately 8,000 sq.m.                  |
| Guan Lu Road Project, Guan Lu Road, Yuexiu District, Guangzhou            | 100%                | Development under planning    | 2013                        | Residential                   | Total site area: 2,432 sq.m.<br>Total gross floor area: approximately 14,000 sq.m.                 |
| Palm Spring, Caihong Planning Area, Western District, Zhongshan           | 100%                | Construction work in progress | In phases from 2012 to 2015 | Residential/commercial        | Total site area: 236,648 sq.m.<br>Total gross floor area: approximately 504,000 sq.m.              |
| <b>Shanghai</b>   |                     |                               |                             |                               |  |
| May Flower Plaza, Sujiaxiang, Zhabei District                             | 95%                 | Construction work in progress | 2011                        | Residential/office/commercial | Total site area: approximately 22,000 sq.m.<br>Total gross floor area: approximately 111,000 sq.m. |
| Northgate Plaza II, Tian Mu Road West, Zhabei District                    | 99%                 | Development under planning    | Note 2                      | Commercial                    | Total site area: 4,115 sq.m.<br>Total gross floor area: approximately 25,000 sq.m.                 |

Notes:

- In the process of negotiating a land exchange.
- A comprehensive redevelopment proposal with the district government is under negotiation.

Principal completed properties for sale of Lai Fung are as follows:

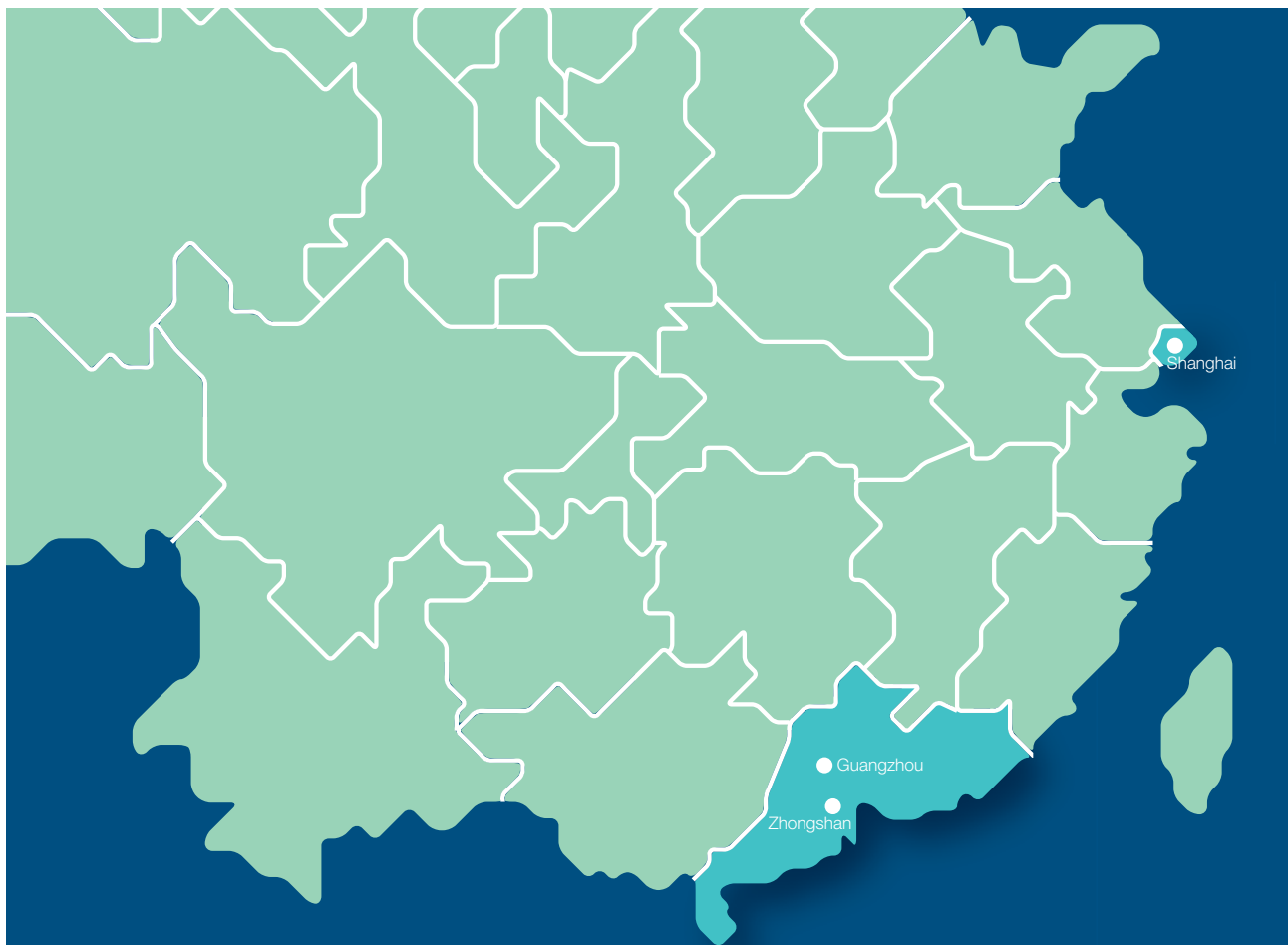
| Location   | Lai Fung's interest | Gross floor area           |
|--|---------------------|----------------------------|
| Certain residential units in Regents Park, Phase II, 88 Huichuan Road, Changning District, Shanghai                  | 95%                 | Approximately 1,714 sq. m. |
| Certain residential and office units in West Point, Zhongshan Qi Road, Liwan District, Guangzhou, Guangdong Province | 100%                | Approximately 3,307 sq. m. |



## PROPERTY PORTFOLIO OF LAI FUNG

Principal investment properties of Lai Fung are as follows:

| Location  | Lai Fung's interest | Tenure   | Use   | Gross floor area             |
|---|---------------------|--|---|------------------------------|
| <b>Shanghai</b>   |                     |  |   |                              |
| Commercial podium and certain office and serviced apartment units of Hong Kong Plaza, 282 & 283 Huaihaizhong Road, Luwan District | 95%                 | The property is held for a term of 50 years commencing on 16 September 1992  | Office/ shopping arcades/ serviced apartments | Approximately 111,000 sq. m. |
| Certain serviced apartment units in the North Tower of Hong Kong Plaza, 282 Huaihaizhong Road, Luwan District                     | 100%                | The property is held for a term of 50 years commencing on 16 September 1992  | Serviced apartments                           | Approximately 19,600 sq. m.  |
| Northgate Plaza I, 99 Tian Mu Road West, Zhabei District  | 97%                 | The property is held for a term of 50 years commencing on 15 June 1993   | Office/ commercial                            | Approximately 36,500 sq.m.   |
| <b>Guangdong Province</b>   |                     |  |   |                              |
| May Flower Plaza, 68 Zhongshanwu Road, Yuexiu District, Guangzhou   | 77.5%               | The property is held for a term of 40 years for commercial use and 50 years for other uses commencing on 14 October 1997 | Shopping arcades/ office                      | Approximately 51,000 sq. m.  |
| Commercial podium of West Point, Zhongshan Qi Road, Liwan District, Guangzhou   | 100%                | The property is held for a term of 40 years for commercial use and 50 years for other uses commencing on 3 July 2005     | Shopping arcades                              | Approximately 16,600 sq. m.  |



## PROPERTY PORTFOLIO OF LAI FUNG



Guangzhou May Flower Plaza

- **The eSun Group will continue to look for suitable investment opportunities that have synergies with its existing core businesses in Hong Kong and overseas.** ■

Guangzhou King's Park



Shanghai Hong Kong Plaza

Shanghai May Flower Plaza



## CORPORATE GOVERNANCE REPORT

### Corporate Governance Report

### 企業管治報告

The Company is committed to achieving and maintaining high standards of corporate governance in compliance with the principles set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) from time to time.

#### (1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the CG Code throughout the seven months ended 31 July 2011 save for the deviation from code provision A.4.1.

*Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election.*

None of the existing non-executive directors (including the independent non-executive directors) of the Company is appointed for a specific term. However, all directors of the Company (the “Directors”) are subject to the retirement provisions of the Bye-laws of the Company which require that the Directors for the time being shall retire from office by rotation once every three years since their last election by shareholders and the retiring Directors are eligible for re-election. In addition, any person appointed by the board of Directors (the “Board”) as an additional Director (including a non-executive Director) will hold office only until the next annual general meeting (the “AGM”) and will then be eligible for re-election. Further, Directors appointed to fill a causal vacancy will be subject to election by shareholders at the first general meeting after his/her appointment in line with the relevant code provision of the CG Code. In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the said code provision A.4.1 and, therefore, does not intend to take any remedial steps in this regard.

## CORPORATE GOVERNANCE REPORT

### (2) RECOMMENDED BEST PRACTICES

The Company and its subsidiaries (the “Group”) have implemented some of the recommended best practices contained in the CG Code so as to enhance the corporate governance standard within the Group as follows:

- (a) the Company has arranged for an appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities. The insurance coverage is reviewed on an annual basis.
- (b) the Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies and/or chambers so that they can continuously update and further improve their relevant knowledge and skills.

### (3) SECURITIES TRANSACTIONS BY DIRECTORS AND DESIGNATED EMPLOYEES

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the “Securities Code”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company has made specific enquiries of all the Directors who have confirmed in writing their compliance with the required standard set out in the Securities Code during the period ended 31 July 2011.

### (4) BOARD OF DIRECTORS

- (4.1) The Board oversees the management of the business and affairs of the Company. The Board’s primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely the Executive Committee, the Audit Committee and the Remuneration Committee. Specific responsibilities have been delegated to the above Committees.

- (4.2) The Directors who served the Board during the period under review and up to the date of this Report are named as follows:

**Executive Directors**

Lam Kin Ngok, Peter

Lui Siu Tsuen, Richard (*Chief Executive Officer*)

Cheung Wing Sum, Ambrose

Cheung Sum, Sam (appointed on 1 March 2011)

**Non-executive Directors (“NEDs”)**

U Po Chu

Albert Thomas da Rosa, Junior

Andrew Y. Yan (appointed on 1 September 2011)

Leung Churk Yin, Jeanny (resigned on 1 September 2011)

## CORPORATE GOVERNANCE REPORT

### **Independent Non-executive Directors (“INEDs”)**

|                                    |  |
|------------------------------------|--|
| Low Chee Keong ( <i>Chairman</i> ) | (re-designated from a NED to an INED on 1 September 2011)                      |
| Alfred Donald Yap                  |  |
| Ng Lai Man, Carmen                 |  |
| Lo Kwok Kwei, David                | (re-designated from a NED to an INED on 1 September 2011)                      |
| Tong Ka Wing, Carl                 | (resigned as an INED and ceased to be the Deputy Chairman on 1 September 2011) |

The brief biographical particulars of the abovementioned Directors are set out in the “Biographical Details of Directors” section of this Annual Report on pages 24 to 29.

- (4.3) The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules. The former Rule requires that every board of directors of a listed issuer must include at least three INEDs and the latter Rule requires that at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise. Save as disclosed in the immediate following paragraph, all INEDs meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

On 1 September 2011, Mr. Low Chee Keong (“Mr. Low”) and Mr. Lo Kwok Kwei, David (“Mr. Lo”) were re-designated from NEDs to INEDs, thereby increasing the total number of INEDs of the Company from three to four and exceeding the minimum number of INEDs required under Rule 3.10(1) of the Listing Rules. Both Mr. Low and Mr. Lo are considered to be independent as neither of them has taken up any executive responsibilities in the Group nor have they been involved in the day-to-day business transactions and operations of the Group since they first joined the Board on 2 August 1999 and 12 March 2009 respectively. Both Mr. Low and Mr. Lo also meet all the independence requirements set out in Rule 3.13 of the Listing Rules save for holding the position of NEDs of the Company before they were re-designated as INEDs on 1 September 2011. Further, up to the date of this Report, the Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

In addition to Mr. Cheung Wing Sum, Ambrose, Mr. Low and Mr. Alfred Donald Yap (“Mr. Yap”) will retire by rotation as Directors at the forthcoming special general meeting (the “SGM”). Being eligible, Mr. Low and Mr. Yap offer themselves for re-election. Mr. Low has served on the Board for more than 12 years (from August 1999 to May 2010 as an INED and then from June 2010 to August 2011 as a NED) before his re-designation as an INED on 1 September 2011. Mr. Yap has also served on the Board as an INED for over 14 years since December 1996. Being long-serving Directors, both Mr. Low and Mr. Yap have developed an in-depth understanding of the Company’s operations and business, and have expressed objective views and given independent guidance to the Company over the years. There is no empirical evidence that the long service of Mr. Low and Mr. Yap would impair their independent judgement. The Board is satisfied that each of Mr. Low and Mr. Yap will continue to have the required character and experience to fulfill the role of an INED and considers that the re-election of each of Mr. Low and Mr. Yap as an INED at the forthcoming SGM is in the best interest of the Company and its shareholders as a whole.

- (4.4) Dr. Lam Kin Ngok, Peter, an executive Director, is the son of Madam U Po Chu, a NED.

Save as disclosed above and in the “Biographical Details of Directors” section of this Annual Report, none of the Directors has any financial, business, family or other material/relevant relationships with one another.

## CORPORATE GOVERNANCE REPORT

### (5) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provides that the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual.

During the period under review, Mr. Low was the Chairman of the Company and Mr. Lui Siu Tsuen, Richard was the Chief Executive Officer of the Company.

### (6) NON-EXECUTIVE DIRECTORS

As explained in Paragraph (1) above, none of the existing NEDs was appointed for a specific term.

### (7) NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Potential new Directors will be recruited based on their knowledge, skills, experience and expertise and the requirements of the Company at the relevant time. The process of identifying and selecting appropriate candidates for approval by the Board will be carried out by the executive Directors. The executive Directors followed this process in the appointment of Mr. Cheung Sum, Sam as an additional executive Director during the period under review.

### (8) REMUNERATION COMMITTEE

(8.1) The Board established a Remuneration Committee on 16 September 2005, which currently comprises four members, including three INEDs, namely Mr. Low who held chairmanship until 27 March 2011 before he re-assumed chairmanship from 1 September 2011), Mr. Yap and Dr. Ng Lai Man, Carmen, and the Chief Executive Officer Mr. Lui Siu Tsuen, Richard (appointed as a member in place of Miss Leung Churk Yin, Jeanny who resigned as a member, both effective from 25 February 2011). Mr. Tong Ka Wing, Carl was a member during the period under review and the chairman of the Remuneration Committee from 28 March 2011 until his resignation as an INED and therefore cessation as a member of the Remuneration Committee on 1 September 2011.

(8.2) The Remuneration Committee has been charged with the responsibility of making recommendations to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all Directors and senior management, including but not limited to directors' fees, salaries, allowances, bonuses, share options, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.

(8.3) The Remuneration Committee held two meetings during the period under review to discuss remuneration-related matters and the constitution of the Remuneration Committee. All members of the Remuneration Committee had also deliberated on matters relating to the appointment of an executive Director by way of circular resolutions.

## CORPORATE GOVERNANCE REPORT

### (9) AUDIT COMMITTEE

(9.1) The Board established an Audit Committee on 29 April 1999, currently comprising three INEDs, namely Dr. Ng Lai Man, Carmen (Chairwoman), Mr. Yap and Mr. Low (re-designated from a NED to an INED on 1 September 2011). Mr. Tong Ka Wing, Carl was a member until the effective date of his resignation as an INED and therefore cessation as a member of the Audit Committee on 1 September 2011.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of periodical financial statements of the Company, the review of significant financial reporting judgements contained in them before submission to the Board for approval, and the review and monitoring of the auditors' independence and objectivity as well as the effectiveness of the audit process.

The Company has complied with Rule 3.21 of the Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an INED) is an INED who possesses appropriate professional qualifications or accounting or related financial management experience.

(9.2) The Audit Committee held a meeting during the period under review. It reviewed the results of the Company for the year ended 31 December 2010 and other matters related to the financial and accounting policies and practices of the Company.

### (10) INDEPENDENT AUDITORS' REMUNERATION

For the period under review, the fees in respect of audit and non-audit services provided to the Group by the independent auditors of the Company, Messrs. Ernst & Young, amounted to HK\$5,084,000 and HK\$1,906,000 respectively. The non-audit services mainly consist of the issue of certain letters of comfort and tax advisory service.

### (11) FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with accounting principles generally accepted in Hong Kong.

The statement made by the independent auditors of the Company about their responsibilities for the financial statements is set out in the independent auditors' report contained in this Annual Report.

## CORPORATE GOVERNANCE REPORT

### (12) ATTENDANCE RECORD AT MEETINGS

The attendance record of each Director at the Board meetings, Audit Committee meetings, Remuneration Committee meetings and Independent Board Committee meetings held during the period under review is set out in the following table:

#### Meetings held for the period from 1 January 2011 to 31 July 2011

| Directors   | Board   | Audit Committee | Remuneration Committee | Independent Board Committee |
|---|---|-----------------|------------------------|-----------------------------|
| <b>Number of Meetings held</b>                        | 11  | 1               | 2                      | 3                           |
|   | <b>Number of meetings attended/<br/>Number of meetings held</b> |                 |                        |                             |
| <b>Executive Directors</b>                            |   |                 |                        |                             |
| Dr. Lam Kin Ngok, Peter                               | 10/11   | —               | —                      | —                           |
| Mr. Lui Siu Tsuen, Richard                            | 11/11   | —               | 2/2                    | —                           |
| Mr. Cheung Wing Sum, Ambrose                          | 11/11   | —               | —                      | —                           |
| Mr. Cheung Sum, Sam <sup>(Note 1)</sup>               | 10/10   | —               | —                      | —                           |
| <b>Non-executive Directors</b>                        |   |                 |                        |                             |
| Mr. Low Chee Keong <sup>(Note 2)</sup>                | 11/11   | 1/1             | 2/2                    | —                           |
| Madam U Po Chu  | 0/11  | —               | —                      | —                           |
| Mr. Lo Kwok Kwei, David <sup>(Note 3)</sup>           | 9/11  | —               | —                      | —                           |
| Mr. Albert Thomas da Rosa, Junior <sup>(Note 4)</sup> | 8/11  | —               | —                      | —                           |
| Miss Leung Churk Yin, Jeanny <sup>(Note 5)</sup>      | 11/11   | —               | —                      | —                           |
| <b>Independent Non-executive Directors</b>            |   |                 |                        |                             |
| Mr. Tong Ka Wing, Carl <sup>(Note 6)</sup>            | 11/11   | 1/1             | 2/2                    | 3/3                         |
| Mr. Alfred Donald Yap <sup>(Note 6)</sup>             | 11/11   | 1/1             | 2/2                    | 3/3                         |
| Dr. Ng Lai Man, Carmen <sup>(Note 6)</sup>            | 11/11   | 1/1             | 2/2                    | 3/3                         |

*Notes:*

1. Mr. Cheung Sum, Sam was appointed an executive Director on 1 March 2011.
2. Mr. Low was re-designated from a NED to an INED on 1 September 2011.
3. Mr. Lo was re-designated from a NED to an INED on 1 September 2011.
4. Mr. Albert Thomas da Rosa, Junior did not attend two Board meetings held during the period under review due to conflict of interests.
5. Miss Leung Churk Yin, Jeanny resigned as a NED on 1 September 2011.
6. An Independent Board Committee comprising Mr. Tong Ka Wing, Carl, Mr. Yap and Dr. Ng Lai Man, Carmen was established in June 2011 for the purpose of advising the shareholders of the Company with regard to a major transaction and discloseable and connected transactions of the Company, details of which were set out in the Company's circular dated 7 July 2011.



## CORPORATE GOVERNANCE REPORT

### (13) INTERNAL CONTROLS

During the period under review, the Board has engaged BDO Financial Services Limited, an independent professional advisor, to perform internal audit functions and assist the Board in reviewing the effectiveness of the internal control system of the Group. The periodic review covered all material controls, including financial, operational and compliance controls and risk management functions of the Group.

### (14) COMMUNICATION WITH SHAREHOLDERS

The Company has established a number of channels to communicate with its shareholders as follows:

- (i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk) and the Company's website at [www.esun.com](http://www.esun.com);
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website;
- (iv) AGMs and special general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and
- (v) the Company's branch share registrars in Hong Kong serve the shareholders in respect of share registration, dividend payment, change of shareholders' particulars and related matters.

### (15) INVESTOR RELATIONS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public who may contact the Company by phone on (852) 2853 6609 during normal business hours, by fax at (852) 2853 6626 or by e-mail at [ir@esun.com](mailto:ir@esun.com).

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Biographical Details of Directors

### 董事之履歷

## EXECUTIVE DIRECTORS

Each of the executive directors of the Company (the “Executive Directors”) named below holds directorship in a number of subsidiaries of the Company and all or certain of its listed affiliates, namely Lai Sun Garment (International) Limited (“LSG”), Lai Sun Development Company Limited (“LSD”), Lai Fung Holdings Limited (“Lai Fung”) and Media Asia Group Holdings Limited (“MAGHL”, formerly known as “Rojam Entertainment Holdings Limited”). The issued shares of LSG, LSD and Lai Fung are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and MAGHL’s issued shares are listed and traded on the Growth Enterprise Market of the Stock Exchange. LSG is a controlling shareholder of LSD which in turn is a controlling shareholder of the Company, while Lai Fung is an associate of the Company and MAGHL is a subsidiary of the Company.

**Dr. Lam Kin Ngok, Peter**, aged 54, has been an Executive Director since October 1996 and is presently a member of the Executive Committee of the Company. He is also the deputy chairman of LSG, the chairman of LSD and Lai Fung, and an executive director of Crocodile Garments Limited which is listed on the Main Board of the Stock Exchange. Further, he was appointed an executive director and the chairman of MAGHL on 16 June 2011. Dr. Lam has extensive experience in the property development and investments, hospitality and media and entertainment businesses.

Currently, Dr. Lam is a director of The Real Estate Developers Association of Hong Kong. He is also chairman of Hong Kong Chamber of Films Limited and the Entertainment Industry Advisory Committee of the Hong Kong Trade Development Council, honorary chairman of Hong Kong Motion Picture Industry Association Limited, vice chairman of the Hong Kong Film Development Council and a member of the Hong Kong Tourism Board. In addition, Dr. Lam is a trustee of The Better Hong Kong Foundation, a member of the 11th National Committee of the Chinese People’s Political Consultative Conference, a member of Friends of Hong Kong Association Limited and a director of Hong Kong-Vietnam Chamber of Commerce Limited. He was conferred an Honorary Doctorate by The Hong Kong Academy for Performing Arts in June 2011. Dr. Lam is the son of Madam U Po Chu, a non-executive Director.

## BIOGRAPHICAL DETAILS OF DIRECTORS



**Mr. Lui Siu Tsuen, Richard**, aged 55, was appointed the Chief Executive Officer of the Company on 1 January 2011 and is a member of both the Executive Committee and the Remuneration Committee of the Company. He joined the Company in April 2010 as the chief operating officer of its Media and Entertainment Division and became an Executive Director with effect from 1 July 2010. Mr. Lui was also appointed an executive director of LSG, LSD and Lai Fung respectively on 1 January 2011 and an executive director of MAGHL on 16 June 2011.

Mr. Lui is currently an independent non-executive director of Prosperity Investment Holdings Limited and 21 Holdings Limited, both listed on the Stock Exchange. Prior to joining the Company, Mr. Lui was a director of Hanny Holdings Limited and Rosedale Hotel Holdings Limited (formerly known as “Wing On Travel (Holdings) Limited”), both listed on the Stock Exchange. He was also a director of PSC Corporation Ltd., a company listed on Singapore Exchange Limited, and a director of MRI Holdings Limited, a company previously listed on the Australian Securities Exchange.

He has over 25 years of experience in property investment, corporate finance and media and entertainment business. Mr. Lui is a fellow member of each of the Hong Kong Institute of Certified Public Accountants and The Chartered Institute of Management Accountants, United Kingdom, and an associate of The Institute of Chartered Accountants in England and Wales. He holds a Master of Business Administration degree from The University of Adelaide in Australia.

**Mr. Cheung Wing Sum, Ambrose, MH, JP**, aged 60, was appointed an Executive Director in September 2005 and is a member of the Executive Committee of the Company. He is also an executive director of LSD. Mr. Cheung is a business executive with a legal and banking background. He has over 30 years’ experience in mergers and acquisitions, management and development of hotel, hospitality and property industries. He was previously a partner of Woo, Kwan, Lee & Lo and Philip K H Wong, Kennedy Y H Wong & Co, and an executive director of Sino Land Company Limited. Mr. Cheung is a Justice of the Peace and a recipient of a Medal of Honour awarded by the Government of the Hong Kong Special Administrative Region in 2009; and over the last 30 years, he served on a number of public bodies and committees, which included the Legislative Council, the Urban Council and the Hong Kong Stadium Board of Governors. He is currently an elected member of the Shamshuipo District Council, the Chairman of Insurance Agents Registration Board and a member of both the Council of the Hong Kong Institute of Certified Public Accountants and the Advisory Committee, School of Hotel and Tourism Management, The Chinese University of Hong Kong.

**Mr. Cheung Sum, Sam**, aged 47, has been appointed an Executive Director since 1 March 2011 and is presently a member of the Executive Committee of the Company and the Chief Operating Officer of the Lai Sun Group. Mr. Cheung was also appointed an executive director of LSD and Lai Fung in March 2011. Mr. Cheung was an executive director of Brightoil Petroleum (Holdings) Limited from November 2009 to November 2010. From early June 2007 to early October 2009, he was an executive director of LSD and Lai Fung. Prior to joining LSD and Lai Fung in 2007, Mr. Cheung worked for a number of other listed companies and international investment banks in Hong Kong. He has extensive experience in corporate finance and financial management.

Mr. Cheung graduated from the London School of Economics and Political Science, University of London with a Bachelor of Science (Economics) degree in Accounting and Finance. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### NON-EXECUTIVE DIRECTORS

**Madam U Po Chu**, aged 86, is a non-executive director of the Company and was first appointed to the Board in October 1996. She is also a non-executive director of Lai Sun Garment (International) Limited (“LSG”) and Lai Sun Development Company Limited (“LSD”), and an executive director of Lai Fung Holdings Limited (“Lai Fung”). All the above companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited. LSG is a controlling shareholder of LSD which is in turn a controlling shareholder of the Company, while Lai Fung is an associate of the Company.

Madam U has over 55 years’ experience in the garment manufacturing business and had been involved in the printing business since the mid-1960’s. She started to expand the business to fabric bleaching and dyeing in the early 1970’s and became involved in property development and investment in the late 1980’s. She is the mother of Dr. Lam Kin Ngok, Peter, an executive director of the Company.

**Mr. Albert Thomas da Rosa, Junior**, aged 58, has been a non-executive director of the Company since 19 July 2010. Mr. da Rosa is a practising solicitor and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He holds both Bachelor’s and Master’s of Laws Degrees from The University of Hong Kong. He qualified as a solicitor of the Courts of Hong Kong in 1980. He also qualified as a solicitor of the Supreme Court of England and Wales, a barrister and solicitor of the Supreme Court of the Australian Capital Territory, a registered practitioner of the High Court of Australia and a barrister of Federal Courts of Australia and an advocate and solicitor of the Supreme Court of Singapore. Mr. da Rosa is also an Accredited Mediator with certain institutions in the United Kingdom (“UK”) and Hong Kong. He is a Fellow of the Chartered Institute of Arbitrators of the UK, the Hong Kong Institute of Arbitrators and The Hong Kong Institute of Directors. He is also a member of the Hong Kong Securities Institute and the Society of Hong Kong Registered Financial Planners. In addition, he is chairman of the Appeal Tribunal (Buildings) Panel, a deputy chairman and a member of the Board of Review (Inland Revenue) Panel and the Tribunal Convenor of the Solicitors Disciplinary Tribunal Panel in Hong Kong. He also served as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission of Hong Kong from February 2003 to March 2009.

Mr. da Rosa is currently an independent non-executive director of HKC (Holdings) Limited, a non-executive director of TCL Multimedia Technology Holdings Limited and the company secretary of Y.T. Realty Group Limited and Yugang International Limited, all being companies listed on the Main Board of The Stock Exchange of Hong Kong Limited.

**Mr. Andrew Y. Yan**, aged 54, was appointed a non-executive director of the Company on 1 September 2011. He joined SAIF Partners in 2001 and is currently its managing partner. He holds a Master’s degree in International Political Economy from the Princeton University and a Bachelor’s degree in Engineering from the Nanjing Aeronautic Institute (presently the Nanjing University of Aeronautics and Astronautics).

Mr. Yan is currently a non-executive director of China Huiyuan Juice Group Limited, Digital China Holdings Limited, MOBI Development Co., Ltd. and NVC Lighting Holding Limited and an independent non-executive director of China Resources Land Limited and Fosun International Limited. The issued shares of all the above companies are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Further, Mr. Yan is a director of Acorn International, Inc. (listed on the New York Stock Exchange (“NYSE”)), ATA Inc. and Global Education & Technology Group Limited (both listed on the NASDAQ Global Market) and Eternal Asia Supply Chain Management Ltd. (listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) as well as an independent director of Giant Interactive Group, Inc. (listed on the NYSE).

## BIOGRAPHICAL DETAILS OF DIRECTORS

In addition, from 2001 to November 2009, Mr. Yan was an independent non-executive director of Stone Group Holdings Limited, the shares of which were listed on the Stock Exchange. He was also an independent non-executive director of China Oilfield Services Limited (listed on the Stock Exchange) from 2002 to June 2009, and a director of China Digital TV Holding Co., Ltd. (listed on the NYSE) from 2004 to September 2008.

### INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDs”)

**Mr. Low Chee Keong**, aged 51, has been the Chairman of the Company since June 2010 and is currently a member of the Audit Committee and the chairman of the Remuneration Committee (the “RC”) of the Company. Mr. Low first joined the Board in August 1999 as an INED, was re-designated as a non-executive director on 1 June 2010, and was further re-designated as an INED on 1 September 2011. Serving as a member of the RC since October 2009, he was the RC chairman from October 2009 to 27 March 2011 and re-assumed the RC chairmanship on 1 September 2011. The annual remuneration of Mr. Low as the Chairman of the Company has been increased by HK\$50,000 to HK\$625,000 with effect from 28 March 2011.

Mr. Low has been a member of the Chartered Institute of Marketing of the United Kingdom since 1986. He has over 15 years’ experience in the property development and maintenance industry in Singapore.

Mr. Low does not have a service contract with the Company. However, in accordance with the provisions of the Bye-laws of the Company, he will be subject to retirement as a director by rotation once every three years if re-elected at the forthcoming special general meeting (the “SGM”) and will also be eligible for re-election at future annual general meeting (the “AGMs”). Mr. Low is entitled to an annual remuneration of HK\$625,000 and HK\$50,000 respectively for chairmanships of the Board and the RC, and other allowances (where applicable), and such remuneration and discretionary bonus to be determined by the Board from time to time with reference to the performance of the Company, his duties and responsibilities and time allocated to the Company as well as prevailing market practice.

Mr. Low has served on the Board for more than 12 years (from August 1999 to May 2010 as an INED and then as a non-executive Director from June 2010 to August 2011) before his re-designation as an INED on 1 September 2011. Being a long-serving Director, Mr. Low has developed an in-depth understanding of the Company’s operations and business, and has expressed objective views and given independent guidance to the Company over the years. There is no empirical evidence that the long service of Mr. Low would impair his independent judgement. The Board is satisfied that Mr. Low will continue to have the required character and experience to fulfill the role of an INED and considers that the re-election of Mr. Low as an INED at the forthcoming SGM is in the best interest of the Company and its shareholders as a whole.

Mr. Low does not have any relationship with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date of this Annual Report, he does not have any interests or short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Future Ordinance, Chapter 571 of the laws of Hong Kong (the “SFO”).

Please also refer to the Note at the end of this section of “Biographical Details of Directors”.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Alfred Donald Yap, J.P.**, aged 72, is an INED and a member of both the Audit Committee and the Remuneration Committee of the Company. He was first appointed to the Board in December 1996. Mr. Yap is presently a consultant of K. C. Ho & Fong, Solicitors and Notaries. He was a former president of both The Law Society of Hong Kong and The Law Association for Asia and the Pacific (LAWASIA). He was also a former Hong Kong Affairs Adviser appointed by the Chinese Government. Mr. Yap is an INED of Hung Hing Printing Group Limited and Wong's International (Holdings) Limited, which are both listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Yap does not have a service contract with the Company. However, in accordance with the provisions of the Bye-laws of the Company, he will be subject to retirement as a director by rotation once every three years if re-elected at the forthcoming SGM and will also be eligible for re-election at future AGMs. Mr. Yap is entitled to an annual director's fee of HK\$240,000 and other allowances (where applicable), and such remuneration and discretionary bonus to be determined by the Board from time to time with reference to the performance of the Company, his duties and responsibilities and time allocated to the Company as well as prevailing market practice.

Mr. Yap has served on the Board as an INED for over 14 years since December 1996. Being a long-serving Director, Mr. Yap has developed an in-depth understanding of the Company's operations and business, and has expressed objective views and given independent guidance to the Company over the years. There is no empirical evidence that the long service of Mr. Yap would impair his independent judgement. The Board is satisfied that Mr. Yap will continue to have the required character and experience to fulfill the role of an INED and considers that the re-election of Mr. Yap as an INED at the forthcoming SGM is in the best interest of the Company and its shareholders as a whole.

Mr. Yap does not have any relationship with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date of this Annual Report, he does not have any interests or short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO.

Please also refer to the Note at the end of this section of "Biographical Details of Directors".

**Dr. Ng Lai Man, Carmen**, aged 47, was appointed an INED in March 2009 and is presently the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. She has over 20 years of experience in professional accounting services and corporate finance in Hong Kong, the Mainland of China, Singapore, the United States, Canada and Europe.

Dr. Ng is a practising certified public accountant in Hong Kong and is currently a director of Cosmos Certified Public Accountants Limited in Hong Kong. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Certified Chartered Accountants in the United Kingdom, and an associate member of The Institute of Chartered Accountants in England and Wales. She received her Doctor of Business Administration from The Hong Kong Polytechnic University, Degree of Juris Doctor from The Chinese University of Hong Kong, Master of Laws in Corporate and Financial Laws from The University of Hong Kong, Master of Business Administration from The Chinese University of Hong Kong and Master of Professional Accounting from The Hong Kong Polytechnic University. In addition, Dr. Ng is an INED of Goldin Properties Holdings Limited, Cheong Ming Investments Limited and 1010 Printing Group Limited, which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Lo Kwok Kwei, David**, aged 51, joined the Board as a non-executive Director in March 2009 and has been re-designated from a non-executive Director to an INED with effect from 1 September 2011. Mr. Lo holds the degrees of Bachelor of Laws and Bachelor of Jurisprudence from the University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984 and has been a member of The Law Society of Hong Kong since 1987. He has been practising as a solicitor in Hong Kong for over 20 years and is a partner of a law firm David Lo & Partners. In addition, he is an independent non-executive director of Man Yue International Holdings Limited which is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

### FORMER DIRECTORS

**Miss Leung Churk Yin, Jeanny**, aged 46, resigned as a non-executive director of the Company with effect from 1 September 2011. She had been an executive Director and the chief executive officer of the Company from 1 September 2007 to 31 December 2010 before she was re-designated as a non-executive Director on 1 January 2011. She also resigned as a non-executive director of Lai Sun Garment (International) Limited with effect from 1 September 2011.

**Mr. Tong Ka Wing, Carl**, aged 60, resigned as an independent non-executive director of the Company with effect from 1 September 2011 after serving the Board for almost seven years; and accordingly, he ceased to be the Deputy Chairman of the Board, a member of the Audit Committee, and a member and the chairman of the Remuneration Committee of the Company with effect from the same date. Mr. Tong first joined the Board as an independent non-executive Director in September 2004 and became the Deputy Chairman of the Company in April 2009. He was appointed chairman of the Remuneration Committee in March 2011 and in addition to an annual director's fee and other allowances, he was entitled to receive a pro-rated portion of the annual Remuneration Committee Chairmanship fee of HK\$50,000 from that date until the effective date of his cessation in such capacity.

*Note:*

*Mr. Low Chee Keong and Mr. Alfred Donald Yap (the "Retiring Directors") will retire as Directors at the forthcoming SGM and being eligible, offer themselves for re-election thereat.*

*For the purpose of each of the Retiring Directors' re-election in accordance with code provision A.4.2 of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, there are no other matters which need to be brought to the attention of the shareholders of the Company, and there is no information which is discloseable pursuant to any of the requirements under Rule 13.51(2) of The Rules Governing the Listing of Securities on the Stock Exchange.*

## REPORT OF THE DIRECTORS

# 董事會報告

## Report of the Directors

The directors of the Company (the “Directors”) present their report and the audited consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the period from 1 January 2011 to 31 July 2011 (the “Period”).

To align its financial year end date with that of its other listed affiliates, namely Lai Sun Garment (International) Limited (“LSG”), Lai Sun Development Company Limited (“LSD”) and Lai Fung Holdings Limited (“Lai Fung”), and to simplify the reporting procedures, accounts preparation and audit work, the Company announced on 3 May 2011 that it would change its financial year end date from 31 December to 31 July effective from 31 July 2011.

The Company had sought from The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and the Stock Exchange had granted the Company (i) a waiver from its strict compliance with Rule 13.49(6) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) to publish a preliminary interim results announcement for the six months ended 30 June 2011 and (ii) a waiver from its strict compliance with Rule 13.48(1) of the Listing Rules to publish an interim report in respect of the six months ended 30 June 2011.

In light of the above and as the Company had already held its 2011 annual general meeting (“AGM”) on 27 May 2011, the board of Directors of the Company (the “Board”) will present the audited financial statements of the Group for the Period to its shareholders at a special general meeting of the Company (the “SGM”) to be held on 21 December 2011.



## REPORT OF THE DIRECTORS

### PRINCIPAL ACTIVITIES

During the Period, the Company acted as an investment holding company. The principal activities of its subsidiaries included the development and operation of and investment in media, entertainment, music production and distribution, the investment in and production and distribution of film and video format products, the provision of advertising agency services and the sale of cosmetic products.

### RESULTS AND DIVIDENDS

Details of the profit of the Group for the period ended 31 July 2011 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 48 to 156.

The Board does not recommend the payment of a final dividend for the financial period from 1 January 2011 to 31 July 2011 (year ended 31 December 2010: Nil). No interim dividend was paid or declared in respect of the period from 1 January 2011 to 31 July 2011 (year ended 31 December 2010: Nil).

### CONVERTIBLE NOTES

Details of the convertible notes issued by the Group during the Period, together with the reasons therefor, are set out in Note 38 to the financial statements.

### SHARE CAPITAL

Details of the movements in the Company's share capital during the Period, together with the reasons therefor, are set out in Note 40 to the financial statements.

## REPORT OF THE DIRECTORS

### DIRECTORS

The Directors who were in office during the Period and those as at the date of this Report are named as follows:

#### **Executive Directors**

Lam Kin Ngok, Peter

Lui Siu Tsuen, Richard (*Chief Executive Officer*)

Cheung Wing Sum, Ambrose

Cheung Sum, Sam (appointed on 1 March 2011)

#### **Non-executive Directors (“NEDs”)**

U Po Chu

Albert Thomas da Rosa, Junior

Andrew Y. Yan (appointed on 1 September 2011)

Leung Churk Yin, Jeanny (resigned on 1 September 2011)

#### **Independent Non-executive Directors (“INEDs”)**

Low Chee Keong (*Chairman*) (re-designated from a NED to an INED on 1 September 2011)

Alfred Donald Yap

Ng Lai Man, Carmen

Lo Kwok Kwei, David (re-designated from a NED to an INED on 1 September 2011)

Tong Ka Wing, Carl (resigned as an INED and ceased to be the Deputy Chairman on 1 September 2011)

Mr. Andrew Y. Yan was appointed a NED by the Board on 1 September 2011. Pursuant to code provision A.4.2 of the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Listing Rules, all directors of the listed companies appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Accordingly, Mr. Yan retired and was elected by the shareholders of the Company as a NED at a SGM on 22 October 2011.

Before the change in financial year end date effective from 31 July 2011, it has been the Company’s past practice to hold its AGMs in May each year; and Directors were required to retire by rotation in accordance with the provisions of the Bye-laws of the Company (the “Bye-Laws”) once every three years since their last election at AGMs held in May.

Due to the change in the financial year end date of the Company and as the Company had held its 2011 AGM on 27 May 2011 as mentioned at the beginning of this Report, the next AGM of the Company is expected to be held in August 2012 (the “2012 AGM”).

Pursuant to code provision A.4.2 of the CG Code, every director should be subject to retirement by rotation at least once every three years. Since Messrs. Low Chee Keong, Alfred Donald Yap and Cheung Wing Sum, Ambrose (the “Retiring Directors”) were last re-elected Directors at the Company’s AGM on 27 May 2009 and are due to retire at the Company’s next AGM, they would have held office for more than three years by the time the Company holds its 2012 AGM. As a good corporate governance practice and in strict compliance with the above code provision of the CG Code, the Retiring Directors have agreed to retire voluntarily at the forthcoming SGM. Being eligible, Mr. Low and Mr. Yap, offer themselves for re-election. However, Mr. Cheung has indicated that he will not be offering himself for re-election at the forthcoming SGM.

Details of the aforesaid Directors proposed for re-election required to be disclosed under Rule 13.51(2) of the Listing Rules are set out in the “Biographical Details of Directors” of this Annual Report and “Directors’ interests” section of this Report respectively.

## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical particulars of the Directors are set out on pages 24 to 29 of this Annual Report. Their other particulars are contained elsewhere in this Report.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming SGM has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 6 to the financial statements, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Period.

### CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in Note 6 to the financial statements, at no time during the Period had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

### CONTINUING CONNECTED TRANSACTIONS

#### 1. Media Asia Group Lease

The Company announced on 6 October 2010 that on 6 October 2010, Media Asia Group Limited ("Media Asia"), a wholly-owned subsidiary of the Company, entered into an offer letter (the "Offer Letter") with Gilroy Company Limited ("Gilroy"), a wholly-owned subsidiary of LSD, a substantial shareholder of the Company under the Listing Rules, pursuant to which Gilroy agreed to lease to Media Asia the whole 24th Floor, Causeway Bay Plaza 2, 463-483 Lockhart Road, Hong Kong for a term of 3 years from 1 October 2010 to 30 September 2013 at a monthly rental of HK\$202,500 (exclusive of rates, government rent, management fee, air-conditioning charges and other outgoings).

As at the date of signing of the Offer Letter, LSD had a 36.08% shareholding interest in the Company. Gilroy was, therefore, an associate of a connected person of the Company, rendering the entering into of the Offer Letter a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

#### 2. eSun Holdings Limited Lease

The Company announced on 14 December 2009 that on 11 December 2009, it entered into an offer letter (the "2009 Offer Letter") with Gilroy, pursuant to which Gilroy agreed to lease to the Company the whole 14th Floor, Causeway Bay Plaza 2, 463-483 Lockhart Road, Hong Kong for a term of 3 years from 6 December 2009 to 5 December 2012 at a monthly rental of HK\$187,500 (exclusive of rates, government rent, management fee, air-conditioning charges and other outgoings).

As at the date of entering into the 2009 Offer Letter, LSD held a 36.08% shareholding interest in the Company and Gilroy, being LSD's wholly-owned subsidiary was, therefore, an associate of a connected person of the Company under the Listing Rules; the entering into of the 2009 Offer Letter, therefore, constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

## REPORT OF THE DIRECTORS

The continuing connected transactions listed above have been reviewed by the INEDs who have confirmed that the transactions had been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms; and
- (c) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Ernst & Young, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued a letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with relevant clauses of Rule 14A.38 of the Listing Rules.

### CONNECTED TRANSACTION

Cyber One Agents Limited ("Cyber One") was the Company's jointly-controlled entity responsible for the Macao Studio City project proposed to be developed on a site in Cotai, the Macao Special Administrative Region of The People's Republic of China. In connection with the disposal of its interest in Cyber One, the Company announced on 16 June 2011, among others, that on 15 June 2011:

- (i) East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)", a then majority-owned subsidiary of the Company), the Company and Melco Crown Entertainment Limited ("MCE") had entered into a Sale and Purchase Agreement, pursuant to which, among other things, EAST (Holdings) conditionally agreed to sell, and MCE conditionally agreed to purchase, the Cyber One Transfer Securities (comprising 60% of the issued and paid-up share capital of Cyber One and the US\$60 million shareholder loan advanced by EAST (Holdings) to Cyber One) at a consideration of approximately US\$306.9 million (equivalent to approximately HK\$2,391.9 million) (the "Disposal"); and
- (ii) Boom Faith Limited ("Boom Faith", an indirect wholly-owned subsidiary of the Company), CapitaLand Commercial Limited ("CapitaLand Commercial"), CapitaLand Integrated Resorts Pte. Ltd. ("CIR"), EAST (Holdings) and the Company entered into a Waiver and Termination Agreement, pursuant to which, among other things, CIR conditionally agreed to sell, and Boom Faith conditionally agreed to purchase, the 33.33% of the then issued and paid-up share capital of EAST (Holdings) held by CIR ("East Asia Shares") at a consideration of HK\$658,756,800 (the "Acquisition"), and the parties thereto conditionally agreed to terminate:
  - (a) the share purchase agreement dated 9 January 2007 and entered into between Boom Faith, CapitaLand Commercial, CIR and the Company in relation to the sale and purchase of the East Asia Shares; and
  - (b) the joint venture agreement dated 12 March 2007 and entered into between Boom Faith, CapitaLand Commercial, CIR, EAST (Holdings) and the Company in relation to the management and ownership and the governance of the business and affairs of EAST (Holdings).

Completion of the Acquisition was conditional upon the occurrence of the completion of the Disposal.

## REPORT OF THE DIRECTORS

Further details regarding the Disposal and the Acquisition were set out in the Company's circular dated 7 July 2011 and Note 10 to the financial statements.

As at the date of entering into the Waiver and Termination Agreement, CIR held a 33.33% equity interest in EAST (Holdings) and EAST (Holdings) was an indirect 66.67%-owned subsidiary of the Company. Accordingly, CIR was a substantial shareholder of EAST (Holdings) and a connected person of the Company under the Listing Rules. As the applicable percentage ratio(s) under the Listing Rules exceeded 5%, the acquisition of the East Asia Shares by Boom Faith from CIR constituted a connected transaction for the Company and was subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

At a SGM held on 23 July 2011, the proposed resolutions to (i) approve, confirm and ratify the Sale and Purchase Agreement in relation to the Disposal; and (ii) approve, confirm and ratify the Waiver and Termination Agreement in relation to the Acquisition were passed by the shareholders of the Company. As no shareholder of the Company had a material interest in the Disposal or the Acquisition, no shareholders of the Company was required to abstain from voting on the resolutions proposed at the aforesaid meeting.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Period and/or up to the date of this Report, the following Directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Dr. Lam Kin Ngok, Peter and Messrs. Lui Siu Tsuen, Richard, Cheung Wing Sum, Ambrose and Cheung Sum, Sam and Madam U Po Chu (together the "Interested Directors") held shareholding interests and/or directorships in companies or other interest in entities engaged in the businesses of property investment and development in Hong Kong and the Mainland of China.

However, the Board is independent from the boards of directors/governing committees of the aforesaid companies/entities and none of the Interested Directors can personally control the Board. Further, each of the Interested Directors is fully aware of, and has been discharging, his/her fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and its shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

#### (1) The Company

An employee share option scheme (the “Scheme”) was adopted by the Company on 23 December 2005 (the “Date of Adoption”) and became effective on 5 January 2006. The Scheme will remain in force for a period of 10 years from the effective date. Pursuant to the terms of the Scheme and in compliance with Chapter 17 of the Listing Rules, the initial maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the total number of the issued shares on the Date of Adoption (the “Scheme Limit”) without the approval of the Company’s shareholders. At a SGM of the Company held on 27 May 2011, the refreshment of the Scheme Limit was approved by the Company’s shareholders, allowing the Company to grant further options for subscription of up to a total of 124,321,216 shares of the Company, being 10% of the 1,243,212,165 shares in issue at the date of passing the relevant resolution.

Information on movements of share options under the Scheme during the Period is set out below:

| Category/Name of participant     | Date of grant of share options<br>(Note 1) | Number of underlying shares comprised in options |                             |                    | Exercise period of share options | Exercise price of share options per share<br>HK\$<br>(Note 2) |
|----------------------------------|--|--|-----------------------------|--------------------|----------------------------------|---|
|                                  |  | As at 1 January 2011                             | Exercised during the period | As at 31 July 2011 |                                  |   |
| <b>Director</b>                  |  |  |                             |                    |                                  |   |
| Leung Churk Yin, Jeanny (Note 3) | 20/02/2008                                 | 1,267,810  | —                           | 1,267,810          | 01/01/2011 to 31/12/2011         | 6.52  |
| Total                            |  | 1,267,810  | —                           | 1,267,810          |                                  |   |
| <b>Other employees</b>           |  |  |                             |                    |                                  |   |
| In aggregate                     | 22/04/2010                                 | 2,480,000  | (2,480,000)                 | —                  | 01/01/2011 to 31/12/2013         | 1.40  |
|                                  | 22/04/2010                                 | 2,480,000  | —                           | 2,480,000          | 01/01/2012 to 31/12/2013         | 1.70  |
|                                  | 22/04/2010                                 | 2,480,000  | —                           | 2,480,000          | 01/01/2013 to 31/12/2013         | 1.90  |
| Total                            |  | 7,440,000  | (2,480,000)                 | 4,960,000          |                                  |   |
| <b>Grand Total</b>               |  | 8,707,810  | (2,480,000)                 | 6,227,810          |                                  |   |

## REPORT OF THE DIRECTORS

Notes:

1. *The vesting period of the share options is from the date of grant until the date of commencement of the exercise period.*
2. *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other specific changes in the Company's share capital.*
3. *An option comprising in part 1,267,810 shares with the exercise period from 1 January 2011 to 31 December 2011 lapsed on 1 September 2011 on the resignation of Miss Leung Churk Yin, Jeanny as a Director in accordance with the terms of the Scheme.*
4. *Options granted to Directors comprising a total of 5,046,824 shares lapsed on 1 January 2011 owing to the expiration of the exercise period from 1 January 2010 to 31 December 2010 in accordance with the terms of the Scheme.*
5. *Options granted to employees comprising a total of 3,779,014 shares lapsed on 1 January 2011 owing to the expiration of the exercise period from 1 January 2010 to 31 December 2010 in accordance with the terms of the Scheme.*

During the period under review, no share options were granted or cancelled in accordance with the terms of the Scheme.

Further details of the Scheme are included in Note 41 to the financial statements.

### **(2) Media Asia Group Holdings Limited**

Media Asia Group Holdings Limited ("MAGHL", formerly known as "Rojam Entertainment Holdings Limited"), a company listed on the Growth Enterprise Market of the Stock Exchange (the "GEM") and having become a subsidiary of the Company since 9 June 2011, adopted a share option scheme (the "MAGHL Scheme") on 19 November 2009. The MAGHL Scheme will remain in force for a period of 10 years from 24 November 2009, being the date of the conditional shares listing approval issued by the Stock Exchange. The initial maximum number of shares in respect of which options may be granted under the MAGHL Scheme shall not exceed 10% of the total number of MAGHL shares in issue on 19 November 2009 (the "MAGHL Scheme Limit").

In compliance with Chapter 23 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), the MAGHL shareholders passed a resolution at the AGM of MAGHL held on 20 August 2011 for approving the refreshment of the MAGHL Scheme Limit, allowing MAGHL to grant further options for subscription of up to a total of 1,011,025,761 MAGHL shares, representing 10% of the total issued shares of MAGHL as at the date of passing the relevant resolution.

The refreshment of the MAGHL Scheme Limit was also approved by the shareholders of the Company at a SGM held on 22 October 2011 pursuant to the requirements of Rule 17.01(4) of the Listing Rules and Rule 23.01(4) of the GEM Listing Rules.

## REPORT OF THE DIRECTORS

Details on movements of share options under the MAGHL Scheme during the period from 9 June 2011 (the date on which MAGHL became a subsidiary of the Company) to 31 July 2011 are as follows:

| Name of grantee              | Number of underlying MAGHL shares comprised in options |                                 |                                   |   | As at<br>31 July 2011 | Date of<br>grant of<br>MAGHL<br>share options | Exercise<br>period of<br>MAGHL<br>share options | Exercise<br>price of share<br>options per<br>MAGHL share<br>HK\$ |
|------------------------------|--|---------------------------------|-----------------------------------|---|-----------------------|---|---|--|
|                              | As at<br>9 June 2011                                   | Granted<br>during<br>the period | Exercised<br>during<br>the period | Cancelled/<br>lapsed during<br>the period           |                       |   |   |  |
| <b>Directors of MAGHL</b>    |  |                                 |                                   |   |                       |   |   |  |
| Mr. Chan Chi Ming,<br>Alvin  | 23,000,000   | —                               | (23,000,000)                      | —   | —                     | 15/11/2010                                    | 15/11/2010 to<br>14/11/2020                     | 0.198  |
| Mr. Luk Hong Man,<br>Hammond | 23,000,000   | —                               | (23,000,000)                      | —   | —                     | 15/11/2010                                    | 15/11/2010 to<br>14/11/2020                     | 0.198  |
| Ms. Etsuko Hoshiyama         | 5,800,000  | —                               | (3,000,000)                       | (2,800,000<br>lapsed)                               | —                     | 15/11/2010                                    | 15/11/2010 to<br>14/11/2020                     | 0.198  |
| <b>Others</b>                | 115,000,000  | —                               | (23,000,000)                      | (69,000,000<br>cancelled)<br>(23,000,000<br>lapsed) | —                     | 15/11/2010                                    | 15/11/2010 to<br>14/11/2020                     | 0.198  |
| <b>Total</b>                 | 166,800,000  | —                               | (72,000,000)                      | (94,800,000)  | —                     |   |   |  |

*Notes:*

- On 16 June 2011, pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, Perfect Sky Holdings Limited ("Perfect Sky", a wholly-owned subsidiary of the Company) made an unconditional mandatory cash offer (the "Offer") to acquire all the issued shares of MAGHL (other than those already owned or agreed to be acquired by Perfect Sky and the parties acting in concert with it) and a comparable cash offer to cancel the share options granted by MAGHL on 15 November 2010 under the MAGHL Scheme (the "Share Option Offer"). Share options to subscribe for 69,000,000 MAGHL shares which were tendered for acceptance of the Share Option Offer were cancelled. Outstanding share options to subscribe for 25,800,000 MAGHL shares lapsed automatically upon the close of the Offer and the Share Option Offer on 7 July 2011 pursuant to the terms of the MAGHL Scheme.
- An option exercisable in three tranches to subscribe for a total of 94,025,000 MAGHL shares at an initial exercise price ranging from HK\$0.2042 to HK\$0.26546 per share was granted to Mr. Tang Jun, an eligible participant under the MAGHL Scheme on 26 August 2011. Mr. Tang became the chief executive officer and an executive director of MAGHL on 6 September 2011.

Further details of the MAGHL Scheme are included in Note 41 to the financial statements.



## REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS

The following Directors and chief executive of the Company who held office on 31 July 2011 and their respective associates (as defined in the Listing Rules) were interested, or were deemed to be interested, in the following long positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) on that date (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO (the "Register"); or (c) as notified to the Company and the Stock Exchange pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company (the "Code") or (d) as otherwise known by the Directors:

## (1) The Company

| Name of Directors        | Capacity   | Long position in the ordinary shares of<br>HK\$0.50 each (the "Shares") and underlying Shares |                                |                              |             | Approximate<br>percentage<br>of issued<br>Shares |
|--------------------------|--|---|--------------------------------|------------------------------|-------------|--|
|                          |  | Number of Shares  |                                | Share<br>options             | Total       |  |
|                          |  | Personal<br>interests   | Corporate<br>interests         | Personal<br>interests        |             |  |
| Lam Kin Ngok, Peter      | Beneficial owner/<br>Owner of controlled<br>corporations | 2,794,443   | 447,604,186<br><i>(Note 1)</i> | Nil                          | 450,398,629 | 36.23%   |
| Cheung Wing Sum, Ambrose | Beneficial owner   | 2,194,443   | Nil                            | Nil                          | 2,194,443   | 0.18%  |
| Leung Churk Yin, Jeanny  | Beneficial owner   | Nil   | Nil                            | 1,267,810<br><i>(Note 2)</i> | 1,267,810   | 0.10%  |

## Notes:

- As at 31 July 2011, Dr. Lam Kin Ngok, Peter ("Dr. Lam"), an Executive Director, was deemed to be interested in 447,604,186 Shares (approximately 36.00%) owned by Lai Sun Development Company Limited ("LSD") by virtue of his personal and deemed shareholding interests in approximately 38.06% in Lai Sun Garment (International) Limited ("LSG"). LSD is approximately 47.97% directly and indirectly owned by LSG. LSG is approximately 8.07% owned by Dr. Lam and is approximately 29.99% owned by Wisdom Limited which is in turn 50% beneficially owned by Dr. Lam.
- Share options granted to Miss Leung Churk Yin, Jeanny (who resigned as a Director on 1 September 2011) under the share option scheme of the Company are shown in the section "Share Option Scheme" of this Report.

## REPORT OF THE DIRECTORS

### (2) Associated corporations

#### (i) Lai Fung Holdings Limited (“Lai Fung”) – an associate of the Company

- (a) By virtue of Dr. Lam’s deemed controlling interests in the Shares of the Company as described in Note 1 of item (1) above, he was deemed to be interested in 3,265,688,037 shares of HK\$0.10 each, representing approximately 40.58% of the then issued share capital, in Lai Fung, which shares were held by certain wholly-owned subsidiaries of the Company.
- (b) Mr. Cheung Sum, Sam, an Executive Director, was beneficially interested in a principal amount of US\$200,000 in the 9.125% Senior Notes due 2014 issued by Lai Fung.

#### (ii) Media Asia Group Holdings Limited (“MAGHL”) – a subsidiary of the Company

By virtue of Dr. Lam’s deemed controlling interests in the Shares of the Company as described in Note 1 of item (1) above, he was deemed to be interested in the following shares and underlying shares of MAGHL which were held by Perfect Sky, a wholly-owned subsidiary of the Company:

| Capacity/Nature of Interest                 | Number of<br>MAGHL shares | Number of<br>underlying<br>MAGHL shares | Approximate<br>percentage of<br>MAGHL’s issued<br>shares <i>(Note)</i> |
|---|---------------------------|---|--|
| (i) Owner of controlled corporations        | 5,150,425,500             |   | 50.94%   |
| (ii) Deemed interest under S.317 of the SFO | 1,768,343,209             |   | 17.49%   |
| Total                                       | 6,918,768,709             |   | 68.43%   |
| (iii) Owner of controlled corporations      |                           | 15,695,000,000                          | 155.24%  |
| (iv) Deemed interest under S.317 of the SFO |                           | 10,235,586,277                          | 101.24%  |
| Total                                       |                           | 25,930,586,277                          | 256.48%  |

*Note: The total number of issued shares of MAGHL as at 31 July 2011 (that is, 10,110,257,612 shares) has been used in the calculation of the approximate percentage.*

Save as disclosed above, as at 31 July 2011, none of the Directors or the chief executive of the Company and their respective associates was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations which were required to be notified under the SFO, recorded in the Register as aforesaid, notified under the Code or otherwise known by the Directors.

## REPORT OF THE DIRECTORS

## ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the “Share Option Scheme” section above and in Note 41 to the financial statements, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS

As at 31 July 2011, so far as it was known by or otherwise notified by any Director or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) who had 5% or more interests in the following long positions in the shares and underlying shares as recorded in the register required to be kept under Section 336 of the SFO or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company (the “Voting Entitlements”) (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:

| Name  | Long position in the Shares                      |                  | Approximate percentage of issued share capital |
|---|--|------------------|--|
|   | Capacity   | Number of Shares |  |
| <b>Substantial Shareholders</b>                             |  |                  |  |
| Lai Sun Development Company Limited <sup>(Note 1)</sup>     | Owner of controlled corporation                  | 447,604,186      | 36.00%<br><i>(Note 3)</i>                      |
| Lai Sun Garment (International) Limited <sup>(Note 2)</sup> | Owner of controlled corporations                 | 447,604,186      | 36.00%<br><i>(Note 3)</i>                      |
| <b>Other Person</b>   |  |                  |  |
| Yuan Lie Ming, Peter  | Beneficial owner/Owner of controlled corporation | 63,404,000       | 5.10%<br><i>(Note 4)</i>                       |

Notes:

- As at 31 July 2011, Dr. Lam, Mr. Cheung Wing Sum, Ambrose, Mr. Lui Siu Tsuen, Richard (“Mr. Lui”) and Mr. Cheung Sum, Sam, all Executive Directors, were also executive directors of LSD. Madam U Po Chu (“Madam U”), a NED, was also a non-executive director of LSD.
- As at 31 July 2011, Dr. Lam and Mr. Lui, both Executive Directors, were also executive directors of LSG. Madam U and Miss Leung Churk Yin, Jeanny, both NEDs, were also non-executive directors of LSG.
- Please refer to Note 1 of paragraph (1) in the “Directors’ Interests” section above for further details.
- As at 31 July 2011, Mr. Yuan Lie Ming, Peter beneficially owned 38,134,000 Shares and was deemed to be interested in 25,270,000 Shares owned by corporations wholly-owned by him.

Save as disclosed above, the Directors are not aware of any other corporation or person (other than a Director or the chief executive of the Company) who, as at 31 July 2011, had the Voting Entitlements or 5% or more interests or short positions in the shares or underlying shares as recorded in the register required to be kept under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## REPORT OF THE DIRECTORS

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the issued Shares was held by the public (i.e. the prescribed public float applicable to the Company under the Listing Rules) during the Period and up to the date of this Report.

### PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the period ended 31 July 2011, the Company did not redeem any of its shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any such shares.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the period ended 31 July 2011 are set out in Note 16 to the financial statements.

### RESERVES

Details of the movements in the reserves of the Group and the Company during the period ended 31 July 2011 are set out in Note 42 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 July 2011, the Company's reserves available for distribution comprised retained profits of HK\$852,436,000 and contributed surplus of HK\$845,455,000.

Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate amount of its liabilities and its issued share capital and share premium account.

In addition, the Company's share premium account, in the amount of HK\$4,230,797,000, may be applied to pay up unissued shares to be issued to members of the Company as fully paid bonus shares.

### MAJOR CUSTOMERS AND SUPPLIERS

During the period under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the Period. Purchase from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the Period.

## REPORT OF THE DIRECTORS

### SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial periods is set out in the Financial Summary on page 4 of this Annual Report.

### CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 23 of this Annual Report.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Directors who had served as an INED for the Period a written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules.

On 1 September 2011, Mr. Tong Ka Wing, Carl resigned as an INED; and both Mr. Low Chee Keong and Mr. Lo Kwok Kwei, David were re-designated from NEDs to INEDs on the same date. The Company has also received from each of Mr. Low and Mr. Lo a written confirmation of independence in relation to their respective re-designation save for holding the position of NEDs before their new roles. The Company considers all the INEDs who were in office during the Period and as at the date of this Report to be independent. For further information in this connection, please refer to paragraph (4) headed "Board of Directors" under the Corporate Governance Report in this Annual Report.

### 2012 AGM

Pursuant to the Company's Bye-laws, the Company is required to hold an AGM in each calendar year and within a period of not more than fifteen months after the holding of the last AGM. As the Company held its 2011 AGM on 27 May 2011, it is required to hold its 2012 AGM before 27 August 2012. Since the Company's audited financial statements for the year ending 31 July 2012 will only be available after the 2012 AGM, the Company will hold the 2012 AGM in August 2012 in compliance with its Bye-laws to deal with certain ordinary business, and then adjourn it until December 2012 for presenting the Company's aforementioned audited financial statements to shareholders for consideration and adoption.

### INDEPENDENT AUDITORS

At the 2011 AGM of the Company held on 27 May 2011, Ernst & Young were appointed as the independent auditors of the Company to hold office until the conclusion of the next AGM. As the Company's audited financial statements for the year ending 31 July 2012 will only be available after the 2012 AGM expected to be held in August 2012, a resolution for the re-appointment of Ernst & Young as the independent auditors of the Company will be put to the adjourned 2012 AGM for shareholders' approval.

ON BEHALF OF THE BOARD

**Low Chee Keong**

*Chairman*

Hong Kong

28 October 2011

## SHAREHOLDERS' INFORMATION

### TAXATION OF HOLDERS OF SHARES

#### (a) Hong Kong

The purchase, sale and transfer of shares registered in the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller (or transferee and transferor) is 0.1% of the consideration or, if greater, the fair value of the shares being bought/sold or transferred (rounded up to the nearest HK\$'000). In addition, a fixed duty of HK\$5.00 is currently payable on an instrument of transfer of shares.

Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

#### (b) Bermuda

Under the present Bermuda laws, transfers and other dispositions of shares in the Company are exempt from Bermuda stamp duty.

#### (c) Consultation with professional advisers

Intending holders and investors of the Company's shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in shares. It is emphasised that none of the Company or its Directors or officers will accept any responsibility for any tax effect on, or liabilities of, holders of shares in the Company resulting from their subscription for, purchase, holding, disposal of or dealing in such shares.

### KEY DATES

Shareholders and investors are advised to note the following key dates of the Company and take appropriate action:

|   | Year 2011/2012                |
|---|-------------------------------|
| Final results announcement for the Period   | 28 October 2011               |
| Latest time and date to lodge transfer documents with the Hong Kong branch share registrars for entitlement to attending and voting at the 2011 special general meeting ("SGM") | 4:30 p.m. on 16 December 2011 |
| SGM   | 21 December 2011              |
| Interim results announcement  | on or before 31 March 2012    |
| 2012 annual general meeting ("AGM")   | August 2012                   |
| Annual results announcement   | on or before 31 October 2012  |
| Adjourned 2012 AGM  | December 2012                 |



## Financial Section

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## INDEPENDENT AUDITORS' REPORT



### To the shareholders of eSun Holdings Limited

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of eSun Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 48 to 156, which comprise the consolidated and company statements of financial position as at 31 July 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2011 to 31 July 2011, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## INDEPENDENT AUDITORS' REPORT

### To the shareholders of eSun Holdings Limited

*(Incorporated in Bermuda with limited liability)*

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2011, and of the Group's profit and cash flows for the period from 1 January 2011 to 31 July 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

18th Floor,  
Two International Finance Centre,  
8 Finance Street, Central  
Hong Kong

28 October 2011

## CONSOLIDATED INCOME STATEMENT

Period from 1 January 2011 to 31 July 2011

|   | Notes | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|---|-------|--|---|
| <b>TURNOVER</b>   | 7     | <b>316,285</b>   | 459,020                                       |
| Cost of sales   | 8     | <b>(207,878)</b>   | (348,684)                                     |
| Gross profit  |       | <b>108,407</b>   | 110,336                                       |
| Other revenue   | 7     | <b>11,879</b>  | 18,077  |
| Marketing expenses  |       | <b>(63,492)</b>  | (64,124)                                      |
| Administrative expenses   |       | <b>(147,126)</b>   | (234,780)                                     |
| Other operating gains   |       | <b>2,634</b>   | 30,010  |
| Other operating expenses  |       | <b>(81,708)</b>  | (103,232)                                     |
| Fair value gain on a forward contract                           | 31    | <b>6,585</b>   | —   |
| Fair value loss on a put option                                 | 36    | <b>—</b>   | (25,356)                                      |
| Gain on bargain purchase of subsidiaries                        | 43    | <b>8,339</b>   | —   |
| <b>LOSS FROM OPERATING ACTIVITIES</b>                           |       | <b>(154,482)</b>   | (269,069)                                     |
| Finance costs   | 9     | <b>(6,052)</b>   | (7,226)                                       |
| Gain on disposal of investments in jointly-controlled entities  | 10    | <b>652,408</b>   | —   |
| Gain on shares swap transactions                                | 11    | <b>—</b>   | 610,007                                       |
| Share of profits and losses of jointly-controlled entities      |       | <b>(9,487)</b>   | (31,353)                                      |
| Share of profits and losses of associates                       |       | <b>35,940</b>  | 541,685                                       |
| <b>PROFIT BEFORE TAX</b>  | 8     | <b>518,327</b>   | 844,044                                       |
| Income tax expense  | 13    | <b>(112)</b>   | (1,267)                                       |
| <b>PROFIT FOR THE PERIOD/YEAR</b>                               |       | <b>518,215</b>   | 842,777                                       |
| Attributable to:  |       |  |   |
| Owners of the Company   | 14    | <b>524,538</b>   | 853,278                                       |
| Non-controlling interests                                       |       | <b>(6,323)</b>   | (10,501)                                      |
|   |       | <b>518,215</b>   | 842,777                                       |
| <b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b> | 15    |  |   |
| Basic   |       | <b>HK\$0.42</b>  | HK\$0.69                                      |
| Diluted   |       | <b>HK\$0.42</b>  | HK\$0.69                                      |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Period from 1 January 2011 to 31 July 2011

|   | Note | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|---|------|--|---|
| <b>PROFIT FOR THE PERIOD/YEAR</b>   |      | <b>518,215</b>   | 842,777                                       |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>  |      |  |   |
| Exchange realignment on translation of foreign operations   |      | <b>1,358</b>   | 2,861   |
| Fair value gain of an available-for-sale investment   |      | —  | 150   |
| Release of investment revaluation reserve upon realisation of<br>an available-for-sale investment | 8    | —  | (25,505)                                      |
| Share of other comprehensive income of jointly-controlled entities                                |      | <b>130</b>   | 251   |
| Share of other comprehensive income of associates   |      | <b>101,563</b>   | 143,947                                       |
| Release of reserves upon disposal of an associate   |      | —  | (282,717)                                     |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)<br/>FOR THE PERIOD/YEAR, NET OF TAX</b>                      |      | <b>103,051</b>   | (161,013)                                     |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR</b>   |      | <b>621,266</b>   | 681,764                                       |
| Attributable to:  |      |  |   |
| Owners of the Company   |      | <b>627,589</b>   | 692,265                                       |
| Non-controlling interests   |      | <b>(6,323)</b>   | (10,501)                                      |
|   |      | <b>621,266</b>   | 681,764                                       |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 July 2011

|   | Notes | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
|---|-------|-----------------------------|---------------------------------|
| <b>NON-CURRENT ASSETS</b>                               |       |                             |                                 |
| Property, plant and equipment                           | 16    | 77,639                      | 80,032                          |
| Film rights   | 18    | 54,614                      | 60,624                          |
| Film products   | 19    | 77,277                      | 86,765                          |
| Music catalogs  | 20    | 48,287                      | 92,530                          |
| Investments in jointly-controlled entities              | 21    | 74,303                      | 1,037,169                       |
| Investments in associates                               | 22    | 4,467,382                   | 4,345,306                       |
| Available-for-sale investment                           | 23    | 78,969                      | 77,946                          |
| Deposits, prepayments and other receivables             | 30    | 88,764                      | 99,747                          |
| Deferred tax assets                                     | 39    | —                           | 329                             |
| Total non-current assets                                |       | 4,967,235                   | 5,880,448                       |
| <b>CURRENT ASSETS</b>                                   |       |                             |                                 |
| Due from a jointly-controlled entity                    | 21    | —                           | 513                             |
| Loan receivable   | 24    | 11,000                      | 11,000                          |
| Inventories   | 25    | 7,854                       | 5,317                           |
| Equity investments at fair value through profit or loss | 26    | 1,474                       | 2,083                           |
| Held-to-maturity debt investments                       | 27    | —                           | 51,561                          |
| Films under production                                  | 28    | 104,090                     | 91,657                          |
| Debtors   | 29    | 97,680                      | 122,736                         |
| Deposits, prepayments and other receivables             | 30    | 123,647                     | 110,163                         |
| Forward contract  | 31    | 8,336                       | —                               |
| Pledged deposit   | 32    | 12,960                      | 12,960                          |
| Cash and cash equivalents                               | 32    | 2,311,490                   | 1,089,144                       |
| Total current assets                                    |       | 2,678,531                   | 1,497,134                       |
| <b>CURRENT LIABILITIES</b>                              |       |                             |                                 |
| Creditors and accruals                                  | 33    | 334,561                     | 540,999                         |
| Tax payable   |       | 2,789                       | 3,555                           |
| Finance lease payables                                  | 34    | 125                         | 130                             |
| Interest-bearing bank borrowings                        | 35    | 12,229                      | 11,820                          |
| Put option  | 36    | —                           | 143,684                         |
| Total current liabilities                               |       | 349,704                     | 700,188                         |
| <b>NET CURRENT ASSETS</b>                               |       | 2,328,827                   | 796,946                         |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES — page 51</b>  |       | 7,296,062                   | 6,677,394                       |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

31 July 2011

|  | Notes | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
|--|-------|-----------------------------|---------------------------------|
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES – page 50</b> |       | <b>7,296,062</b>            | 6,677,394                       |
| <b>NON-CURRENT LIABILITIES</b>                         |       |                             |                                 |
| Finance lease payables                                 | 34    | (247)                       | (314)                           |
| Interest-bearing other borrowings                      | 37    | (164,601)                   | (161,321)                       |
| Convertible notes                                      | 38    | (155,422)                   | —                               |
| Deferred tax liabilities                               | 39    | (61)                        | —                               |
| Total non-current liabilities                          |       | (320,331)                   | (161,635)                       |
| Net assets   |       | <b>6,975,731</b>            | 6,515,759                       |
| <b>EQUITY</b>  |       |                             |                                 |
| <b>Equity attributable to owners of the Company</b>    |       |                             |                                 |
| Issued capital   | 40    | 621,606                     | 620,366                         |
| Reserves   | 42    | 6,215,880                   | 5,578,393                       |
|  |       | <b>6,837,486</b>            | 6,198,759                       |
| <b>Non-controlling interests</b>                       |       | <b>138,245</b>              | 317,000                         |
| Total equity   |       | <b>6,975,731</b>            | 6,515,759                       |

**Low Chee Keong**  
Director

**Lui Siu Tsuen, Richard**  
Director

## CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Period from 1 January 2011 to 31 July 2011

|   | Notes | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|---|-------|--|---|
| Equity attributable to owners of the Company<br>at the beginning of period/year   |       | <b>6,198,759</b>   | 5,490,662                                     |
| Profit for the period/year  |       | <b>524,538</b>   | 853,278                                       |
| Other comprehensive income for the period/year:   |       |  |   |
| Exchange realignment  |       | <b>1,358</b>   | 2,861   |
| Fair value gain of an available-for-sale investment   |       | —  | 150   |
| Release of investment revaluation reserve upon realisation<br>of an available-for-sale investment                       |       | —  | (25,505)                                      |
| Share of other comprehensive income of<br>jointly-controlled entities   |       | <b>130</b>   | 251   |
| Share of other comprehensive income of associates   |       | <b>101,563</b>   | 143,947                                       |
| Release of reserves upon disposal of an associate   |       | —  | (282,717)                                     |
| <b>Total comprehensive income for the period/year</b>   |       | <b>627,589</b>   | 692,265                                       |
| Issue of shares, including share premium  | 40(b) | <b>3,472</b>   | —   |
| Equity-settled share option arrangements  | 41    | <b>405</b>   | 2,078   |
| Disposal of partial interests in a subsidiary to<br>non-controlling interests   |       | —  | 13,754  |
| Deemed disposal of partial interests in a subsidiary arising<br>from exercise of its share options                      |       | <b>7,261</b>   | —   |
| <b>Equity attributable to owners of the Company<br/>at the end of period/year</b>                                       |       | <b>6,837,486</b>   | 6,198,759                                     |
| Non-controlling interests at the beginning of period/year   |       | <b>317,000</b>   | 326,229                                       |
| Loss for the period/year and total comprehensive loss<br>for the period/year  |       | <b>(6,323)</b>   | (10,501)                                      |
| Shareholder loan/(repayment of shareholder loan) from a<br>non-controlling shareholder to a non-wholly-owned subsidiary |       | <b>(315,674)</b>   | 26  |
| Disposal of partial interests in a subsidiary to<br>non-controlling interests   |       | —  | 1,246   |
| Deemed disposal of partial interests in a subsidiary arising<br>from exercise of its share options                      |       | <b>6,995</b>   | —   |
| Acquisition of subsidiaries   | 43    | <b>136,247</b>   | —   |
| <b>Non-controlling interests at the end of period/year</b>  |       | <b>138,245</b>   | 317,000                                       |
| <b>Total equity at the end of period/year</b>   |       | <b>6,975,731</b>   | 6,515,759                                     |

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Period from 1 January 2011 to 31 July 2011

|   | Notes | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|---|-------|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |       |  |   |
| Profit before tax   |       | <b>518,327</b>   | 844,044                                       |
| Adjustments for:  |       |  |   |
| Finance costs   | 9     | <b>6,052</b>   | 7,226   |
| Gain on bargain purchase of subsidiaries  | 43    | <b>(8,339)</b>   | —   |
| Gain on disposal of investments in jointly-controlled entities  | 10    | <b>(652,408)</b>   | —   |
| Gain on shares swap transactions  | 11    | —  | (610,007)                                     |
| Share of profits and losses of jointly-controlled entities  |       | <b>9,487</b>   | 31,353  |
| Share of profits and losses of associates   |       | <b>(35,940)</b>  | (541,685)                                     |
| Interest income   | 7     | <b>(3,568)</b>   | (5,215)                                       |
| Distribution income from an unlisted available-for-sale investment  | 7     | <b>(1,023)</b>   | (3,100)                                       |
| Dividend income from listed investments   | 7     | —  | (4)   |
| Fair value losses on realised equity investments<br>at fair value through profit or loss  | 8     | —  | 56  |
| Fair value losses on unrealised equity investments<br>at fair value through profit or loss  | 8     | <b>609</b>   | 197   |
| Fair value gains of an available-for-sale investment<br>(transfer from investment revaluation reserve upon<br>realisation of the available-for-sale investment) | 8     | —  | (25,505)                                      |
| Fair value gain on a forward contract   | 31    | <b>(6,585)</b>   | —   |
| Fair value loss on a put option   | 36    | —  | 25,356  |
| Depreciation  | 8     | <b>5,249</b>   | 8,678   |
| Amortisation of film rights   | 8     | <b>7,986</b>   | 12,604  |
| Amortisation of film products   | 8     | <b>67,056</b>  | 93,463  |
| Amortisation of music catalogs  | 8     | <b>3,053</b>   | 4,825   |
| Impairment of film rights   | 8     | —  | 3,033   |
| Impairment of film products   | 8     | —  | 10,065  |
| Impairment of music catalogs  | 8     | <b>41,990</b>  | 33,094  |
| Impairment of films under production  | 8     | <b>500</b>   | 1,059   |
| Loss on disposal of items of property, plant and equipment  | 8     | <b>1</b>   | 98  |
| Write-off of bad debts  | 8     | <b>17</b>  | 129   |
| Recovery of bad debts   | 8     | <b>(270)</b>   | (168)   |
| Provision for doubtful debts  | 8     | —  | 116   |
| Provision for other receivables   | 8     | <b>844</b>   | —   |
| Provision for advances to artistes  | 8     | <b>1,936</b>   | —   |
| Reversal of provision for advances to artistes  | 8     | —  | (2,345)                                       |
| Reversal of provision for other receivables   | 8     | <b>(4)</b>   | (500)   |
| Reversal of provision for inventories   | 8     | <b>(82)</b>  | (1,374)                                       |
| Equity-settled share option expense   | 8     | <b>405</b>   | 2,078   |
|   |       | <b>(44,707)</b>  | (112,429)                                     |

## CONSOLIDATED STATEMENT OF CASH FLOWS

Period from 1 January 2011 to 31 July 2011

|  | Notes | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|--|-------|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES (continued)</b>                              |       |  |   |
| Decrease in inventories  |       | (2,455)  | (174)   |
| Additions of films under production  | 28    | (70,239)   | (81,928)                                      |
| Decrease/(increase) in debtors   |       | 26,793   | (33,756)                                      |
| Decrease/(increase) in deposits, prepayments and other receivables                   |       | 21,911   | (14,858)                                      |
| Increase/(decrease) in creditors and accruals  |       | (55,178)   | 49,239  |
| Additions of film products   | 19    | (262)  | (1,720)                                       |
| Cash used in operations  |       | (124,137)  | (195,626)                                     |
| Overseas taxes paid  |       | (51)   | (52)  |
| Hong Kong taxes paid   |       | (862)  | —   |
| Net cash flows used in operating activities  |       | (125,050)  | (195,678)                                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |       |  |   |
| Interest received  |       | 3,075  | 3,720   |
| Additions to film rights   | 18    | (1,976)  | (3,693)                                       |
| Proceeds from redemption of held-to-maturity debt investments                        |       | 51,950   | 121,559                                       |
| Proceeds from the sale of equity investments at fair value<br>through profit or loss |       | —  | 473   |
| Distribution income from an unlisted available-for-sale investment                   |       | —  | 3,100   |
| Dividend income from listed investments  |       | —  | 4   |
| Dividend income from an associate  |       | 16,328   | —   |
| Proceeds from disposal of items of property, plant and equipment                     |       | 420  | 87  |
| Purchases of items of property, plant and equipment                                  |       | (1,904)  | (3,816)                                       |
| Purchases of available-for-sale investments  |       | —  | (16,858)                                      |
| Purchases of held-to-maturity debt investments                                       |       | —  | (50,900)                                      |
| Proceeds from disposal of an available-for-sale investment                           |       | —  | 29,400  |
| Advances to jointly-controlled entities  |       | (1,798)  | (25,241)                                      |
| Repayment from jointly-controlled entities   |       | 8,757  | 3,170   |
| Net proceeds from disposal of investments in<br>jointly-controlled entities          |       | 1,044,305  | —   |
| Advances to associates   |       | (901)  | (1,505)                                       |
| Repayment from associates  |       | —  | 15  |
| Payment for shares swap transactions   | 11    | (78,353)   | (100,000)                                     |
| Acquisition of subsidiaries  | 43    | 288,620  | —   |
| Increase in pledged deposit  |       | —  | (360)   |
| Net cash flows generated from/(used in) investing activities                         |       | 1,328,523  | (40,845)                                      |



**CONSOLIDATED STATEMENT OF CASH FLOWS**

Period from 1 January 2011 to 31 July 2011

|  | Notes | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|--|-------|--|---|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |       |  |   |
| Proceeds from issue of shares  | 40    | 3,472  | —   |
| Proceeds from disposal of partial interests in<br>a subsidiary to non-controlling interests                      |       | —  | 15,000  |
| Proceeds from deemed disposal of partial interests in<br>a subsidiary arising from exercise of its share options |       | 14,256   | —   |
| Shareholder loan from a non-controlling interest   |       | —  | 26  |
| Repayment of promissory notes  |       | —  | (33,366)                                      |
| Capital element of finance lease rental payments   |       | (72)   | (130)   |
| Interest paid  |       | (307)  | (487)   |
| Net cash flows generated from/(used in) financing activities   |       | 17,349   | (18,957)                                      |
| <b>NET INCREASE/(DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>  |       |  |   |
|  |       | 1,220,822  | (255,480)                                     |
| Cash and cash equivalents at the beginning of period/year  |       | 1,089,144  | 1,341,437                                     |
| Effect of foreign exchange rate changes, net   |       | 1,524  | 3,187   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF<br/>PERIOD/YEAR</b>   |       |  |   |
|  | 32    | 2,311,490  | 1,089,144                                     |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>   |       |  |   |
| Cash and cash equivalents  | 32    | 2,311,490  | 1,089,144                                     |

## STATEMENT OF FINANCIAL POSITION

31 July 2011

|  | Notes | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
|--|-------|-----------------------------|---------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                             |                                 |
| Property, plant and equipment                | 16    | 381                         | 477                             |
| Investments in subsidiaries                  | 17    | 5,357,362                   | 5,707,107                       |
| Deposits, prepayments and other receivables  | 30    | 10,658                      | 10,658                          |
| Total non-current assets                     |       | 5,368,401                   | 5,718,242                       |
| <b>CURRENT ASSETS</b>                        |       |                             |                                 |
| Deposits, prepayments and other receivables  | 30    | 611                         | 708                             |
| Cash and cash equivalents                    | 32    | 1,471,421                   | 786,536                         |
| Total current assets                         |       | 1,472,032                   | 787,244                         |
| <b>CURRENT LIABILITY</b>                     |       |                             |                                 |
| Creditors and accruals                       | 33    | 123,393                     | 84,131                          |
| <b>NET CURRENT ASSETS</b>                    |       | 1,348,639                   | 703,113                         |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | 6,717,040                   | 6,421,355                       |
| <b>NON-CURRENT LIABILITY</b>                 |       |                             |                                 |
| Interest-bearing other borrowings            | 37    | (164,601)                   | (161,321)                       |
| Net assets                                   |       | 6,552,439                   | 6,260,034                       |
| <b>EQUITY</b>                                |       |                             |                                 |
| Issued capital                               | 40    | 621,606                     | 620,366                         |
| Reserves                                     | 42    | 5,930,833                   | 5,639,668                       |
| Total equity                                 |       | 6,552,439                   | 6,260,034                       |

**Low Chee Keong**  
Director

**Lui Siu Tsuen, Richard**  
Director

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 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 period, the Company and its subsidiaries (collectively, the “Group”) were involved in the following principal activities:

- development and operation of and investment in, media, entertainment, music production and distribution;
- investment in, and production and distribution of films and video format products;
- provision of advertising agency services;
- sale of cosmetic products; and
- investment holding.

Details of the principal activities of the principal subsidiaries, jointly-controlled entities and associates are set out in Notes 17, 21 and 22 to the financial statements, respectively.

### 2. CHANGE OF FINANCIAL YEAR END DATE

During the period, the board of directors of the Company resolved to change the financial year end date of the Company from 31 December to 31 July effective from 31 July 2011 in order to align the financial year end date of the Company with its other listed affiliates. The consolidated financial statements presented for the current period therefore covered a seven-month period from 1 January 2011 to 31 July 2011. The corresponding comparative amounts presented for the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes, which were prepared for the year from 1 January 2010 to 31 December 2010, may not be comparable with amounts shown for the current period.

### 3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, 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 equity investments at fair value through profit or loss, a forward contract and a put option, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.1 BASIS OF PREPARATION (continued)

#### Basis of consolidation

##### Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 January 2011 to 31 July 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

##### Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs, which are applicable to the Group, for the first time for the current period's financial statements:

|                   |  |
|-------------------|--|
| HK(IFRIC)-Int 19  | <i>Extinguishing Financial Liabilities with Equity Instruments</i> |
| HKAS 24 (Revised) | <i>Related Party Disclosures</i>                                   |

HK(IFRIC)-Int 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of HKAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.

Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognised immediately in profit or loss.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. The new definitions emphasis a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationship of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard.

The adoption of these new and revised standards has had no significant financial impact on these financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

|                    |   |
|--------------------|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>1</sup> |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> <sup>1</sup>  |
| HKFRS 9            | <i>Financial Instruments</i> <sup>4</sup>   |
| HKFRS 10           | <i>Consolidated Financial Statements</i> <sup>4</sup>   |
| HKFRS 11           | <i>Joint Arrangements</i> <sup>4</sup>  |
| HKFRS 12           | <i>Disclosure of Interests in Other Entities</i> <sup>4</sup>   |
| HKFRS 13           | <i>Fair Value Measurement</i> <sup>4</sup>  |
| HKAS 1 (Revised)   | Amendments to HKAS 1 (Revised) <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>3</sup>                                       |
| HKAS 12 Amendments | Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> <sup>2</sup>  |
| HKAS 19 (2011)     | <i>Employee Benefits</i> <sup>4</sup>   |
| HKAS 27 (2011)     | <i>Separate Financial Statements</i> <sup>4</sup>   |
| HKAS 28 (2011)     | <i>Investments in Associates and Joint Ventures</i> <sup>4</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

The amendments to HKAS 12 “Deferred Tax: Recovery of Underlying Assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The adoption of the amendments to HKAS 12 may have a material impact on deferred tax recognised for investment properties that are measured using the fair value model. The Group is in the process of assessing the impact from application of these amendments.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group’s results of operations and financial position.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 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 investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 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 and the basis on which the assets are to be realised upon its dissolution. The profits or 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.

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 neither has 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 investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

There was a crossholding between the Group and Lai Sun Development Company Limited ("LSD"), a former associate of the Group. Therefore, the Group's share of the results of LSD for the year ended 31 December 2010 included the results of the Group which were shared by LSD while LSD was equity accounting for the Group's results.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

#### Business combinations and goodwill

##### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.



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**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Business combinations and goodwill** (continued)**Business combinations from 1 January 2010** (continued)

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 July or 31 December. 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.

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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

**Business combinations prior to 1 January 2010 but after 1 January 2005**

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

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 the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, but 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 an 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 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 related leases |
| Furniture, fixtures and equipment | 20.0%                                |
| Motor vehicles                    | 10.0% – 20.0%                        |
| Computers                         | 18.0% – 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.

**NOTES TO FINANCIAL STATEMENTS**

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**3.4 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 least at the end of each financial year.

An item of property, plant and equipment and any significant part initially recognised 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.

**Music catalogs**

Music catalogs represent song catalogs, music video recording rights and publishing rights of songs acquired from outsiders. They are stated at cost less accumulated amortisation and impairment losses.

The costs of music catalogs less accumulated impairment loss are amortised to the income statement in proportion to the estimated projected revenue when realised over their economic beneficial period subject to a maximum of 15 years. Additional amortisation/impairment loss is made if estimated projected revenues are adversely different from the previous estimation. Estimated projected revenues are reviewed at regular intervals.

**Film rights, film products and films under production**

Film rights are rights acquired or licensed from outsiders for exhibition and other exploitation of the films. Film products are completed films produced by the Group.

Film rights are stated at cost less accumulated amortisation and impairment losses. Film rights, less estimated residual value and accumulated impairment loss, are amortised in proportion to the estimated projected revenues over their economic beneficial period subject to a maximum of 10 years. Additional amortisation/impairment loss is made if future estimated projected revenues are adversely different from the previous estimation. Estimated projected revenues are reviewed at regular intervals.

Film products are stated at the lower of cost and net realisable value. Film products pending or under theatrical release are included in current assets whereas film products for markets other than theatrical release are included in non-current assets. Cost of film products, accounted for on a film-by-film basis, includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film. Film products, less estimated residual value and accumulated amortisation, are amortised in proportion to the estimated projected revenues over their economic beneficial period subject to a maximum of 10 years.

Films under production include production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film. Upon completion, these films under production are reclassified as film products. Films under production are accounted for on a film-by-film basis and are stated at cost less any impairment losses.

An impairment loss is made if there has been a change in the estimate used to determine the recoverable amount and the carrying amount exceeds the recoverable amount.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets

##### Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and cash equivalents, pledged deposit, debtors, other receivables, loan receivable, a forward contract, quoted and unquoted financial instruments.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### 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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue in the income statement. The loss arising from impairment is recognised in the income statement as other operating expenses.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets** (continued)**Subsequent measurement** (continued)**Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue in the income statement. The loss arising from impairment is recognised in the income statement as other operating expenses.

**Available-for-sale financial investments**

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other revenue, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the investment revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other revenue in accordance with the policies set out for "Revenue recognition" below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### **Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Impairment of financial assets** (continued)**Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

**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 when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial liabilities**

##### **Initial recognition and measurement**

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowing, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include creditors and accruals, interest-bearing bank borrowings, interest-bearing other borrowings, convertible notes and a put option.

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

##### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss and financial liabilities held for trading.

##### **Put option**

For accounting purpose, put option of the Group is classified as a derivative financial instrument which is categorised as financial liabilities held for trading under HKAS 39. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

##### **Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate 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 effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

##### **Convertible notes**

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the fair value of the convertible notes is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of fair value of the convertible notes to the liability and equity components when the instruments are first recognised.



**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Financial liabilities** (continued)**Subsequent measurement** (continued)**Forward contract**

For accounting purpose, forward contract on the Second Completion Convertible Notes (Note 31) of the Group is classified as a derivative financial instrument under HKAS 39. Forward contract is initially recognised at fair value on which the forward contract is entered into and is subsequently re-measured at fair value through profit or loss. Forward contract is carried as an asset when its fair value is positive and as liability when its fair value is negative.

**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.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

**Inventories**

Inventories comprise cosmetics and video 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 costs to be incurred to completion and disposal.

**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 end of the reporting period 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.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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, including prepaid land lease payments under 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.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following bases:

- (a) turnover from entertainment events organised by the Group, when the events are completed;
- (b) net income from entertainment events organised by other co-investors, when the events are completed and in proportion as agreed with co-investors;
- (c) income from films licensed to movie theatres, when the films are exhibited;
- (d) licence 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;
- (e) licence 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;
- (f) sale of products and albums, 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 products and albums sold;
- (g) distribution commission income, when the album or film materials have been delivered to the wholesalers and distributors;
- (h) album licence income and music publishing income, on an accrual basis in accordance with the terms of the relevant agreements;

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Revenue recognition** (continued)

- (i) advertising agency, artiste management fee and consultancy service income, in the period in which the relevant services are rendered;
- (j) 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; and
- (k) dividend and distribution income, when the shareholders' right to receive payment has been established.

**Employee benefits****Share-based payment transactions**

The Group operates share option schemes 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 for grants after 7 November 2002 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 and Binomial Option Pricing model, further details of which are given in Note 41 to the financial statements.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 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.

The employees of the Group's subsidiaries which operate in the Mainland of China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. 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.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the period/year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the accumulated losses. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, 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 period/year are translated into Hong Kong dollars at the weighted average exchange rates for the period/year.

**NOTES TO FINANCIAL STATEMENTS**

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**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Dividends**

The proposed final dividends are recognised as a liability in the Group's financial statements in the period in which dividends are approved by the Company's shareholders.

Interim dividends are simultaneously proposed and declared, because the Company's Memorandum of Association and Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or 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, associates and 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, associates and 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.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Income tax** (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

#### **Related parties**

A person or entity is considered to be related to the Group if:

- (a) a person or a close member of that person's family (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group;
- (b) the entity and the Group are members of the same group, which means that each parent, subsidiary and fellow subsidiary is related to the others;
- (c) one entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which the other entity is a member;
- (d) both entities are joint ventures of the same third party;
- (e) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (f) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (g) the entity is controlled or jointly controlled by a person identified in (a); and
- (h) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

#### **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, 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, 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 statements of financial position, 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.

## NOTES TO FINANCIAL STATEMENTS

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### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### 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 non-financial 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.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

#### Accounting for film rights and film products

The costs of film rights and film products, less residual values, are 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 of 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 at regular intervals. Such change in revenue projections or estimations may result in a change in the rate of amortisation and/or the 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 amounts of film rights and film products at 31 July 2011 were HK\$54,614,000 (31 December 2010: HK\$60,624,000) and HK\$77,277,000 (31 December 2010: HK\$86,765,000), respectively.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### **Estimation uncertainty** (continued)

##### **Accounting for music catalogs**

The cost of music catalogs is amortised in proportion to the estimated projected revenues over the economic beneficial period subject to a maximum of 15 years. Additional amortisation is made if estimated projected revenues are materially different from the previous estimation.

Management bases its estimates of the total projected revenues of each music catalog based on the current and past popularity of the artistes or song writers, the initial or expected commercial acceptability of the products, the current and past popularity of the genre of music/songs that the products are designed to appeal to, and agreements for future sales.

Based on this information, management reviews and revises, when necessary, the estimated projected revenues at regular intervals. Such change in revenue projection or estimations may result in a change in the rate of amortisation and/or the 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 music catalogs at 31 July 2011 was HK\$48,287,000 (31 December 2010: HK\$92,530,000).

##### **Impairment of loans and receivables**

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

##### **Fair value of derivative financial instruments**

Where fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as adjustment factors to stock price, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. As at 31 July 2011, the fair value of the Group's forward contract was approximately HK\$8,336,000 (31 December 2010: Nil). The fair value of the Group's put option as at 31 December 2010 was HK\$143,684,000.



## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has the following reportable segments:

- (a) the media and entertainment segment engages in the investment in, and the production of entertainment events, the provision of artiste management services, album sales and distribution and licence of music;
- (b) the film production and distribution segment engages in the investment in, production of, sale and distribution of films as well as the distribution of video format products derived from these films and films licensed-in by the Group; and
- (c) the corporate and others segment comprises, principally, the Group's interests in Cyber One Agents Limited ("Cyber One") (Note 21), Lai Fung Holdings Limited ("Lai Fung") and Lai Sun Development Company Limited ("LSD") (Note 22), where appropriate, advertising agency services and sales of cosmetic products, together with corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income and distribution income are excluded from such measurement.

Segment assets exclude deferred tax assets, available-for-sale investments, equity investments at fair value through profit or loss, held-to-maturity debt investments and a forward contract as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, convertible notes, finance lease payables and deferred tax liabilities as these liabilities are managed on a group basis.

In determining the Group's geographical information, revenue information is based on the location of the customers, and asset information is based on the location of the assets.

There were no material intersegmental sales and transfers during the period (Year ended 31 December 2010: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 5. OPERATING SEGMENT INFORMATION (continued)

#### Segment revenue/results:

|   | Media and entertainment           |                     | Film production and distribution  |                     | Corporate and others              |                     | Consolidated                      |                     |
|---|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
|   | Period from                       | Year ended          | Period from                       | Year ended          | Period from                       | Year ended          | Period from                       | Year ended          |
|   | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 |
|   | HK\$'000                          | HK\$'000            | HK\$'000                          | HK\$'000            | HK\$'000                          | HK\$'000            | HK\$'000                          | HK\$'000            |
| Segment revenue:  |                                   |                     |                                   |                     |                                   |                     |                                   |                     |
| Sales to external customers   | 142,518                           | 261,332             | 142,965                           | 151,232             | 30,802                            | 46,456              | 316,285                           | 459,020             |
| Other revenue   | 3,012                             | 3,936               | 2,898                             | 5,034               | 1,379                             | 620                 | 7,289                             | 9,590               |
| <b>Total</b>  | <b>145,530</b>                    | <b>265,268</b>      | <b>145,863</b>                    | <b>156,266</b>      | <b>32,181</b>                     | <b>47,076</b>       | <b>323,574</b>                    | <b>468,610</b>      |
| Segment results   | (60,201)                          | (46,273)            | (3,454)                           | (46,909)            | (101,393)                         | (158,765)           | (165,048)                         | (251,947)           |
| Unallocated interest and other gains  |                                   |                     |                                   |                     |                                   |                     | 4,590                             | 8,487               |
| Fair value losses on realised equity investments at fair value through profit or loss   | -                                 | -                   | -                                 | -                   | -                                 | (56)                | -                                 | (56)                |
| Fair value losses on unrealised equity investments at fair value through profit or loss | -                                 | -                   | -                                 | -                   | (609)                             | (197)               | (609)                             | (197)               |
| Fair value gain on a forward contract   | -                                 | -                   | -                                 | -                   | -                                 | -                   | 6,585                             | -                   |
| Fair value loss on a put option   | -                                 | -                   | -                                 | -                   | -                                 | (25,356)            | -                                 | (25,356)            |
| Loss from operating activities  |                                   |                     |                                   |                     |                                   |                     | (154,482)                         | (269,069)           |
| Finance costs   |                                   |                     |                                   |                     |                                   |                     | (6,052)                           | (7,226)             |
| Gain on disposal of investments in jointly-controlled entities                          | -                                 | -                   | -                                 | -                   | 652,408                           | -                   | 652,408                           | -                   |
| Gain on shares swap transactions  |                                   |                     |                                   |                     |                                   |                     | -                                 | 610,007             |
| Share of profits and losses of jointly-controlled entities                              | 1,662                             | (541)               | (2,821)                           | (4,169)             | (8,328)                           | (26,643)            | (9,487)                           | (31,353)            |
| Share of profits and losses of associates   | (339)                             | (656)               | -                                 | -                   | 36,279                            | 542,341             | 35,940                            | 541,685             |
| Profit before tax   |                                   |                     |                                   |                     |                                   |                     | 518,327                           | 844,044             |
| Income tax expense  |                                   |                     |                                   |                     |                                   |                     | (112)                             | (1,267)             |
| <b>Profit for the period/year</b>   |                                   |                     |                                   |                     |                                   |                     | <b>518,215</b>                    | <b>842,777</b>      |

NOTES TO FINANCIAL STATEMENTS

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5. OPERATING SEGMENT INFORMATION (continued)

Segment assets/liabilities:

|  | Media and entertainment |                  | Film production and distribution |                  | Corporate and others |                  | Consolidated |                  |
|--|-------------------------|------------------|----------------------------------|------------------|----------------------|------------------|--------------|------------------|
|  | 31 July 2011            | 31 December 2010 | 31 July 2011                     | 31 December 2010 | 31 July 2011         | 31 December 2010 | 31 July 2011 | 31 December 2010 |
|  | HK\$'000                | HK\$'000         | HK\$'000                         | HK\$'000         | HK\$'000             | HK\$'000         | HK\$'000     | HK\$'000         |
| Segment assets                             | 759,372                 | 294,040          | 517,033                          | 504,442          | 1,738,897            | 1,064,193        | 3,015,302    | 1,862,675        |
| Investments in jointly-controlled entities | 9,565                   | 7,285            | 64,738                           | 74,752           | —                    | 955,645          | 74,303       | 1,037,682        |
| Investments in associates                  | 690                     | 115              | —                                | —                | 4,466,692            | 4,345,191        | 4,467,382    | 4,345,306        |
| Unallocated assets                         |                         |                  |                                  |                  |                      |                  | 88,779       | 131,919          |
| Total assets                               |                         |                  |                                  |                  |                      |                  | 7,645,766    | 7,377,582        |
| Segment liabilities                        | 69,106                  | 97,166           | 88,769                           | 86,420           | 176,686              | 501,097          | 334,561      | 684,683          |
| Unallocated liabilities                    |                         |                  |                                  |                  |                      |                  | 335,474      | 177,140          |
| Total liabilities                          |                         |                  |                                  |                  |                      |                  | 670,035      | 861,823          |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 5. OPERATING SEGMENT INFORMATION (continued)

#### Other segment information:

|  | Media and entertainment           |                     | Film production and distribution  |                     | Corporate and others              |                     | Consolidated                      |                     |
|--|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
|  | Period from                       | Year ended          | Period from                       | Year ended          | Period from                       | Year ended          | Period from                       | Year ended          |
|  | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 | 1 January 2011<br>to 31 July 2011 | 31 December<br>2010 |
|  | HK\$'000                          | HK\$'000            | HK\$'000                          | HK\$'000            | HK\$'000                          | HK\$'000            | HK\$'000                          | HK\$'000            |
| Depreciation                                   | 2,135                             | 3,176               | 104                               | 228                 | 3,010                             | 5,274               | 5,249                             | 8,678               |
| Amortisation of film rights                    | —                                 | —                   | 7,986                             | 12,604              | —                                 | —                   | 7,986                             | 12,604              |
| Amortisation of film products                  | —                                 | —                   | 67,056                            | 93,463              | —                                 | —                   | 67,056                            | 93,463              |
| Amortisation of music catalogs                 | 3,053                             | 4,825               | —                                 | —                   | —                                 | —                   | 3,053                             | 4,825               |
| Write-off of bad debts                         | 17                                | —                   | —                                 | 129                 | —                                 | —                   | 17                                | 129                 |
| Recovery of bad debts                          | —                                 | —                   | —                                 | —                   | 270                               | 168                 | 270                               | 168                 |
| Provision for doubtful debts                   | —                                 | 70                  | —                                 | 46                  | —                                 | —                   | —                                 | 116                 |
| Provision for other receivables                | 844                               | —                   | —                                 | —                   | —                                 | —                   | 844                               | —                   |
| Provision for advances to artistes             | 1,936                             | —                   | —                                 | —                   | —                                 | —                   | 1,936                             | —                   |
| Reversal of provision for other receivables    | —                                 | —                   | 2                                 | 500                 | 2                                 | —                   | 4                                 | 500                 |
| Reversal of provision for advances to artistes | —                                 | 2,345               | —                                 | —                   | —                                 | —                   | —                                 | 2,345               |
| Reversal of provision for inventories          | —                                 | —                   | —                                 | —                   | 82                                | 1,374               | 82                                | 1,374               |
| Impairment of film rights                      | —                                 | —                   | —                                 | 3,033               | —                                 | —                   | —                                 | 3,033               |
| Impairment of film products                    | —                                 | —                   | —                                 | 10,065              | —                                 | —                   | —                                 | 10,065              |
| Impairment of music catalogs                   | 41,990                            | 33,094              | —                                 | —                   | —                                 | —                   | 41,990                            | 33,094              |
| Impairment of films under production           | —                                 | —                   | 500                               | 1,059               | —                                 | —                   | 500                               | 1,059               |
| Additions of property, plant and equipment     | 1,679                             | 1,027               | 75                                | 50                  | 150                               | 3,022               | 1,904                             | 4,099               |
| Additions of film rights                       | —                                 | —                   | 1,976                             | 3,693               | —                                 | —                   | 1,976                             | 3,693               |
| Additions of film products                     | —                                 | —                   | 262                               | 1,720               | —                                 | —                   | 262                               | 1,720               |
| Additions of films under production            | —                                 | —                   | 70,239                            | 81,928              | —                                 | —                   | 70,239                            | 81,928              |
| Additions of music catalogs                    | 800                               | 15,200              | —                                 | —                   | —                                 | —                   | 800                               | 15,200              |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 5. OPERATING SEGMENT INFORMATION (continued)

## Geographical information:

|  | Hong Kong  |                                   | Mainland China<br>(including Macau)              |                                   | Others   |                                   | Consolidated                                     |                                   |
|--|--|-----------------------------------|--|-----------------------------------|--|-----------------------------------|--|-----------------------------------|
|  | Period from<br>1 January 2011<br>to 31 July 2011 | Year ended<br>31 December<br>2010 | Period from<br>1 January 2011<br>to 31 July 2011 | Year ended<br>31 December<br>2010 | Period from<br>1 January 2011<br>to 31 July 2011 | Year ended<br>31 December<br>2010 | Period from<br>1 January 2011<br>to 31 July 2011 | Year ended<br>31 December<br>2010 |
|  | HK\$'000   | HK\$'000                          | HK\$'000   | HK\$'000                          | HK\$'000   | HK\$'000                          | HK\$'000   | HK\$'000                          |
| Revenue:                                   |  |                                   |  |                                   |  |                                   |  |                                   |
| Sales to external customers                | 139,931  | 274,218                           | 147,860  | 137,359                           | 28,494   | 47,443                            | 316,285  | 459,020                           |
| Assets:                                    |  |                                   |  |                                   |  |                                   |  |                                   |
| Segment assets:                            |  |                                   |  |                                   |  |                                   |  |                                   |
| – non-current assets                       | 323,162  | 385,459                           | 4,565,104  | 5,416,714                         | –  | –                                 | 4,888,266  | 5,802,173                         |
| – current assets                           | 2,554,734  | 1,329,076                         | 102,042  | 98,771                            | 11,945   | 15,643                            | 2,668,721  | 1,443,490                         |
| Unallocated assets                         |  |                                   |  |                                   |  |                                   | 88,779   | 131,919                           |
| Total assets                               |  |                                   |  |                                   |  |                                   | 7,645,766  | 7,377,582                         |
| Other information:                         |  |                                   |  |                                   |  |                                   |  |                                   |
| Additions of property, plant and equipment | 673  | 3,460                             | 1,231  | 639                               | –  | –                                 | 1,904  | 4,099                             |
| Additions of film rights                   | 1,976  | 3,693                             | –  | –                                 | –  | –                                 | 1,976  | 3,693                             |
| Additions of film products                 | 262  | 1,720                             | –  | –                                 | –  | –                                 | 262  | 1,720                             |
| Additions of films under production        | 70,239   | 81,928                            | –  | –                                 | –  | –                                 | 70,239   | 81,928                            |
| Additions of music catalogs                | 800  | 15,200                            | –  | –                                 | –  | –                                 | 800  | 15,200                            |

## Information about a major customer:

For the period from 1 January 2011 to 31 July 2011, revenue of approximately HK\$42,827,000 was derived from a single customer of film production and distribution segment which contributed to 10% or more of the Group's revenue for the period (year ended 31 December 2010: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 6. 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 period/year.

## (a) Transactions with related parties

|   | Notes | Group  |   |
|---|-------|--|---|
|   |       | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| LSD Group (defined in Note 11):                 |       |  |   |
| Rental expense and building management fee paid | (i)   | 4,283  | 7,225   |
| Jointly-controlled entities:                    |       |  |   |
| Distribution and licence fee income             | (ii)  | 134  | 340   |
| Consultancy and production service fee paid     | (iii) | 1,042  | 2,040   |
| Consultancy service income                      | (iii) | 2,439  | 3,834   |
| Interest income received                        | (iv)  | 1,473  | 2,055   |
| Lai Fung Group (defined in Note 11):            |       |  |   |
| Management fee income                           | (iii) | 1,587  | 775   |
| Advertising agency income                       | (v)   | 575  | 1,424   |

Notes:

- (i) The rental expense and building management fee were charged with reference to market rates.
- (ii) The distribution and licence fee income was charged to jointly-controlled entities on contract terms.
- (iii) The consultancy and production service fee, consultancy service income and management fee income were charged on bases mutually agreed by the respective parties.
- (iv) The interest income was charged with reference to the People's Bank of China's base interest rate per annum.
- (v) The advertising agency income was charged with reference to market rates.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 6. RELATED PARTY TRANSACTIONS (continued)

## (a) Transactions with related parties (continued)

Pursuant to the respective lease agreements, the rental expenses paid or payable by the Group to the LSD Group constituted continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The details of these continuing connected transactions, which were subject to the reporting requirement set out in Chapter 14A of the Listing Rules, were disclosed under the section of continuing connected transactions of the Report of the Directors.

## (b) Compensation of key management personnel of the Group

|  | Group  |   |
|--|--|---|
|  | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Short term employee benefits                               | 14,040   | 21,665  |
| Post-employment benefits                                   | 175  | 341   |
| Equity-settled share option expense                        | —  | 704   |
| <b>Total compensation paid to key management personnel</b> | <b>14,215</b>  | <b>22,710</b>                                 |

Further details of directors' emoluments are included in Note 12 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 7. TURNOVER AND OTHER REVENUE

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

|   | Group  |   |
|---|--|---|
|   | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| <b>Turnover</b>   |  |   |
| Entertainment event income  | <b>89,271</b>  | 174,377                                       |
| Distribution commission income and licence fee income<br>from film products and film rights           | <b>141,085</b>   | 141,865                                       |
| Album sales, licence income and distribution commission income<br>from music publishing and licensing | <b>36,303</b>  | 71,072  |
| Artiste management fee income   | <b>12,021</b>  | 10,738  |
| Advertising agency income   | <b>15,005</b>  | 21,207  |
| Sale of products  | <b>22,600</b>  | 39,761  |
|   | <b>316,285</b>   | 459,020                                       |
| <b>Other revenue</b>  |  |   |
| Bank interest income  | <b>1,506</b>   | 1,658   |
| Interest income on held-to-maturity debt investments  | <b>389</b>   | 1,502   |
| Interest income from an amount due from a jointly-controlled entity                                   | <b>1,673</b>   | 2,055   |
| Consultancy service income from a jointly-controlled entity   | <b>2,305</b>   | 3,834   |
| Distribution income from an unlisted available-for-sale investment                                    | <b>1,023</b>   | 3,100   |
| Dividend income from listed investments   | <b>—</b>   | 4   |
| Others  | <b>4,983</b>   | 5,924   |
|   | <b>11,879</b>  | 18,077  |
|   | <b>328,164</b>   | 477,097                                       |



## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 8. PROFIT BEFORE TAX

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

|  | Note | Group  |   |
|--|------|--|---|
|  |      | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Cost of film rights, licence rights and film products  |      | 77,179   | 116,431                                       |
| Cost of artiste management services, advertising agency services, and services for entertainment events provided |      | 114,215  | 210,127                                       |
| Cost of inventories sold   |      | 16,484   | 22,126  |
| <b>Total cost of sales</b>   |      | <b>207,878</b>   | 348,684                                       |
| Employee benefit expense (including directors' emoluments (Note 12)):  |      |  |   |
| Wages and salaries   |      | 75,046   | 113,245                                       |
| Equity-settled share option expense  |      | 405  | 2,078   |
| Pension scheme contributions ###   |      | 1,494  | 2,417   |
|  |      | <b>76,945</b>  | 117,740                                       |
| Auditors' remuneration   |      | 5,084  | 4,316   |
| Depreciation   | 16   | 5,249  | 8,678   |
| Minimum lease payments under operating leases in respect of land and buildings incurred for:                     |      |  |   |
| Entertainment events ##  |      | 1,491  | 2,218   |
| Others   |      | 8,445  | 13,156  |
| Contingent rents incurred for entertainment events ##  |      | 13,562   | 21,635  |
| <b>Total operating lease payments</b>  |      | <b>23,498</b>  | 37,009  |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 8. PROFIT BEFORE TAX (continued)

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

|  | Notes | Group  |   |
|--|-------|--|---|
|  |       | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Impairment of film rights **   | 18    | —  | 3,033   |
| Impairment of film products #  | 19    | —  | 10,065  |
| Impairment of music catalogs **  | 20    | <b>41,990</b>  | 33,094  |
| Impairment of films under production #   | 28    | <b>500</b>   | 1,059   |
| Share of net income from entertainment events organised<br>by co-investors *   |       | <b>(1,124)</b>   | (3,099)                                       |
| Fair value losses on realised equity investments at fair value<br>through profit or loss *                                   |       | —  | 56  |
| Fair value losses on unrealised equity investments at fair value<br>through profit or loss **                                |       | <b>609</b>   | 197   |
| Fair value gains of an available-for-sale investment<br>(transfer from investment revaluation reserve upon<br>realisation) * |       | —  | (25,505)                                      |
| Amortisation of film rights #  | 18    | <b>7,986</b>   | 12,604  |
| Amortisation of film products #  | 19    | <b>67,056</b>  | 93,463  |
| Amortisation of music catalogs #   | 20    | <b>3,053</b>   | 4,825   |
| Provision for doubtful debts **  | 29    | —  | 116   |
| Provision for other receivables **   |       | <b>844</b>   | —   |
| Provision for advances to artistes #   |       | <b>1,936</b>   | —   |
| Reversal of provision for other receivables #  |       | <b>(4)</b>   | (500)   |
| Reversal of provision for advances to artistes #   |       | —  | (2,345)                                       |
| Loss on disposal of items of property, plant and equipment **  |       | <b>1</b>   | 98  |
| Write-off of bad debts **  |       | <b>17</b>  | 129   |
| Recovery of bad debts *  |       | <b>(270)</b>   | (168)   |
| Reversal of provision for inventories #  |       | <b>(82)</b>  | (1,374)                                       |
| Foreign exchange gains, net  |       | <b>(2,222)</b>   | (747)   |

\* These items are included in "Other operating gains" on the face of the consolidated income statement.

\*\* These items are included in "Other operating expenses" 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.

### As at 31 July 2011 and 31 December 2010, the Group had no forfeited contributions from the pension scheme available to reduce its contributions to the pension scheme in future years.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 9. FINANCE COSTS

An analysis of finance costs is as follows:

|  | Group  |   |
|--|--|---|
|  | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Interest on other borrowings wholly repayable within five years        | 3,280  | 5,648   |
| Interest on secured bank borrowings wholly repayable within five years | 367  | 528   |
| Interest on convertible notes (Note 38)                                | 2,404  | —   |
| Interest on promissory notes   | —  | 1,047   |
| Interest on finance leases   | 1  | 3   |
|  | <b>6,052</b>   | <b>7,226</b>                                  |

## 10. GAIN ON DISPOSAL OF INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

On 15 June 2011, East Asia Satellite Television (Holdings) Limited (“EAST (Holdings)”) (a then indirect non wholly-owned subsidiary of the Company), the Company and Melco Crown Entertainment Limited (“MCE”) entered into a sale and purchase agreement, pursuant to which, among other things, EAST (Holdings) conditionally agreed to sell, and MCE conditionally agreed to purchase 60% equity interest in Cyber One Agents Limited (“Cyber One”) and the shareholder loan of US\$60 million (equivalent to approximately HK\$467.7 million) advanced to Cyber One (the “Cyber One Transfer Securities”) at a consideration of approximately US\$306.9 million (equivalent to approximately HK\$2,391.9 million) (the “Cyber One Disposal”), which includes the consideration for the Cyber One Transfer Securities payable by MCE to EAST (Holdings) in the amount of US\$260.0 million (equivalent to HK\$2,025.9 million) and the release of the obligation of the Group to pay to the Macau government the outstanding land premium in the amount of approximately MOP377 million (equivalent to approximately HK\$366 million) in relation to the land grant modification premium of the MSC (defined below) project.

On 15 June 2011, Boom Faith Limited (“Boom Faith”) (an indirect wholly-owned subsidiary of the Company), CapitaLand Commercial Limited (“CapitaLand Commercial”), CapitaLand Integrated Resorts Pte. Ltd. (“CIR”), EAST (Holdings) and the Company entered into a waiver and termination agreement, pursuant to which, among other things, CIR conditionally agreed to sell, and Boom Faith conditionally agreed to purchase 33.33% equity interest of EAST (Holdings) held by CIR (the “East Asia Shares”) at a consideration of HK\$658,756,800 (the “Cyber One Acquisition”). These parties conditionally agreed to terminate the share purchase agreement entered into between Boom Faith, CapitaLand Commercial, CIR and the Company on 9 January 2007 in relation to the sale and purchase of the 33.33% equity interest in EAST (Holdings) (the “East Asia SPA”) and the joint venture agreement entered into between Boom Faith, CapitaLand Commercial, CIR, EAST (Holdings) and the Company on 12 March 2007 in relation to the management and ownership and the governance of the business and affairs of EAST (Holdings) (the “East Asia JVA”). The Put Option (defined in Note 36 to the financial statements) would consequentially be terminated together with all the other rights and obligations of the parties to the East Asia SPA under the East Asia SPA.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 10. GAIN ON DISPOSAL OF INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Pursuant to the waiver and termination agreement, the Cyber One Acquisition is conditional upon the Cyber One Disposal. The Cyber One Disposal and the Cyber One Acquisition (collectively, the “Cyber One Transactions”) are considered by the Company as an inter-connected series of transactions.

It was further agreed that on the completion date, Boom Faith would reimburse CIR an amount of US\$548,600 (equivalent to approximately HK\$4.3 million), representing the legal and administrative costs, charges and expenses reasonably incurred by CIR and CapitalLand Commercial in respect of the legal proceedings in relation to Cyber One, in accordance with a pre-existing letter agreement. Upon the completion of the Cyber One Acquisition, EAST (Holdings) would use the proceeds received from the Cyber One Disposal to repay the shareholder loans advanced by Boom Faith and CIR in the amount of approximately US\$80 million (equivalent to approximately HK\$624.2 million) and approximately US\$40 million (equivalent to approximately HK\$312.1 million), respectively, in accordance with the East Asia SPA.

Prior to the completion of the Cyber One Transactions, the Group held a 60% equity interest in Cyber One and its subsidiaries (the “Cyber One Group”), through EAST (Holdings), a 66.67%-owned subsidiary. CIR held the remaining 33.33% interest in EAST (Holdings). New Cotai, LLC (“New Cotai”) is the US joint venture partner holding a 40% equity interest in the Cyber One Group.

Cyber One, through its interest in East Asia-Televisão Por Satélite, Limitada (“EAST (Macau)”), holds a piece of land in Macau which the Group wished to see be developed into a retail complex, hotels, a television studio, a concert hall and a convention and exhibition centre (the “MSC”).

The Cyber One Disposal constituted a major transaction for the Company and the Cyber One Acquisition constituted discloseable and connected transactions for the Company under the Listing Rules. Further details of the Cyber One Disposal and Cyber One Transactions are set out in the Company’s announcement dated 16 June 2011 and the Company’s circular dated 7 July 2011. Resolutions for approving the Cyber One Transactions were duly passed at a special general meeting of the Company on 23 July 2011.

The Cyber One Transactions were completed on 27 July 2011 pursuant to a supplemental agreement entered into amongst the contractual parties on 27 July 2011 (the “Cyber One Transactions Completion Date”).

The Group has recognised a net gain of approximately HK\$652,408,000 arising from the disposal consideration of approximately HK\$2,026 million less the Group’s carrying value in Cyber One as at the date of disposal of approximately HK\$947 million, the acquisition consideration for the East Asia Shares amounted to approximately HK\$659 million; and the other costs and expenses amounting to approximately HK\$130 million associated with the Cyber One Transactions; plus derecognition of accrued land premium of approximately HK\$219 million and the reversal of the Put Option of approximately HK\$144 million as at the date of the disposal.

Upon completion of the Cyber One Transactions, the Group ceased to hold any equity interest in Cyber One, and accordingly, the Cyber One Group ceased to be jointly-controlled entities of the Group.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 11. GAIN ON SHARES SWAP TRANSACTIONS

On 26 July 2010, the Company entered into a conditional shares swap agreement (the “Shares Swap Agreement”) with Lai Sun Garment (International) Limited (“LSG”), a company in which a director of the Company (together with his associates) owns a controlling interest, pursuant to which:

- (a) LSG has agreed to transfer or procure the transfer of, and the Company has agreed to accept the transfer of, LSG’s direct and indirect interests in 3,265,688,037 shares in the capital of Lai Fung Holdings Limited (“Lai Fung”) (the “Lai Fung Transaction”), representing approximately 40.58% of the existing issued share capital of Lai Fung and LSG’s entire shareholding interest in Lai Fung. The consideration was to be satisfied by (i) the transfer to LSG of the Group’s entire shareholding interest in Lai Sun Development Company Limited (“LSD”); and (ii) cash consideration of approximately HK\$178.4 million (HK\$100 million paid on the date of completion of the Shares Swap Transactions (see definition below), and approximately HK\$78.4 million to be paid, without interest, six months after the date of completion); and
- (b) the Company has agreed to procure the transfer of, and LSG has agreed to accept the transfer of, the Company’s indirect interest in 5,200,000,000 shares in the capital of LSD (the “LSD Transaction”, together with the Lai Fung Transaction collectively referred to as “Shares Swap Transactions”), representing approximately 36.72% of the existing issued share capital of LSD and the Group’s entire shareholding interest in LSD. The consideration was to be satisfied by the transfer of LSG’s entire shareholding interest in Lai Fung less the cash consideration of approximately HK\$178.4 million.

The Lai Fung Transaction constituted a very substantial acquisition and connected transaction for the Company and the LSD Transaction constituted a very substantial disposal and connected transaction for the Company under the Listing Rules. Further details of the Shares Swap Transactions are set out in the joint announcement of the Company and LSG dated 26 July 2010 and the Company’s circular dated 30 August 2010. Resolutions for approving the Shares Swap Agreement were duly passed at a special general meeting of the Company and an extraordinary general meeting of LSG on 20 September 2010. All the conditions precedent under the Shares Swap Agreement were fulfilled and completion of the Shares Swap Transactions took place on 30 September 2010 (the “Shares Swap Completion Date”).

During the year ended 31 December 2010, the Group had recognised gain on the Shares Swap Transactions in its consolidated income statement as below:

|  | Notes | HK\$'000 |
|--|-------|----------|
| Gain on disposal of 36.72% equity interest in LSD              | (a)   | 604,850  |
| Gain on bargain purchase of 40.58% equity interest in Lai Fung | (b)   | 5,157    |
| Gain on the Shares Swap Transactions                           |       | 610,007  |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 11. GAIN ON SHARES SWAP TRANSACTIONS (continued)

Notes:

- (a) Taking into account the consideration received by the Group for the disposal of a 36.72% equity interest in LSD of approximately HK\$3,930,519,000 (being the fair value of the Group's 36.72% interests in the identifiable net assets of LSD and its subsidiaries (the "LSD Group") as at 30 September 2010) and the Group's share of net assets of the LSD Group up to date of disposal of approximately HK\$3,608,386,000, a gain on disposal of approximately HK\$604,850,000 (including release of reserves of LSD shared by the Group up to the Shares Swap Completion Date of approximately HK\$282,717,000) was recognised in the consolidated income statement for the year ended 31 December 2010.
- (b) Taking into account the consideration given up by the Group for the purchase of a 40.58% equity interest in Lai Fung of approximately HK\$4,108,872,000 (being the fair value of the Group's 36.72% interests in the identifiable net assets of the LSD Group as at 30 September 2010 plus cash consideration of approximately HK\$178,353,000) and the fair value of the Group's 40.58% interests in the identifiable net assets of Lai Fung and its subsidiaries (the "Lai Fung Group") as at 30 September 2010 of approximately HK\$4,114,029,000, a gain on bargain purchase of approximately HK\$5,157,000 was recognised in the consolidated income statement for the year ended 31 December 2010.

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

Directors' remuneration for the period/year, disclosed pursuant to the Listing Rules and the disclosure requirements of Section 161 of the Hong Kong Companies Ordinance, is as follows:

|   | Group  |   |
|---|--|---|
|   | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Fees  | 1,310  | 1,894   |
| Other emoluments:   |  |   |
| Basic salaries, housing and other allowances, and<br>benefits in kind | 12,730   | 19,771  |
| Equity-settled share option benefits                                  | —  | 704   |
| Pension scheme contributions  | 175  | 341   |
|   | 12,905   | 20,816  |
|   | 14,215   | 22,710  |

In prior years, certain directors of the Company 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 41 to the financial statements. The fair value of such options which has been recognised in 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 year ended 31 December 2010 had been included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 July 2011

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

|  | Fees<br>HK\$'000 | Basic salaries,<br>housing and<br>other allowances,<br>and benefits<br>in kind<br>HK\$'000 | Equity-<br>settled<br>share option<br>benefits<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|--|------------------|--|--|--|-----------------------------------|
| <b>Period from<br/>1 January 2011 to 31 July 2011</b>  |                  |  |  |  |                                   |
| Executive directors:   |                  |  |  |  |                                   |
| Lam Kin Ngok, Peter  | 15*              | 4,667  | —  | —  | 4,682                             |
| Lui Siu Tsuen, Richard   | 15*              | 2,079  | —  | 7  | 2,101                             |
| Cheung Wing Sum, Ambrose   | —                | 3,267  | —  | 163  | 3,430                             |
| Cheung Sum, Sam<br>(appointed on 1 March 2011)   | —                | 610  | —  | 5  | 615                               |
|  | <b>30</b>        | <b>10,623</b>  | <b>—</b>   | <b>175</b>                                     | <b>10,828</b>                     |
| Non-executive directors ("NEDs"):  |                  |  |  |  |                                   |
| U Po Chu   | —                | —  | —  | —  | —                                 |
| Albert Thomas da Rosa, Junior  | 140              | 45   | —  | —  | 185                               |
| Leung Churk Yin, Jeanny<br>(re-designated as a NED on<br>1 January 2011 and resigned<br>on 1 September 2011) | —                | 1,762  | —  | —  | 1,762                             |
|  | <b>140</b>       | <b>1,807</b>   | <b>—</b>   | <b>—</b>                                       | <b>1,947</b>                      |
| Independent non-executive<br>directors ("INEDs"):  |                  |  |  |  |                                   |
| Low Chee Keong<br>(re-designated from a NED to<br>an INED on 1 September 2011)                               | 365              | 60   | —  | —  | 425                               |
| Alfred Donald Yap  | 140              | 60   | —  | —  | 200                               |
| Ng Lai Man, Carmen   | 198              | 70   | —  | —  | 268                               |
| Lo Kwok Kwei, David<br>(re-designated from a NED to<br>an INED on 1 September 2011)                          | 140              | 40   | —  | —  | 180                               |
| Tong Ka Wing, Carl<br>(resigned on 1 September 2011)   | 297              | 70   | —  | —  | 367                               |
|  | <b>1,140</b>     | <b>300</b>   | <b>—</b>   | <b>—</b>                                       | <b>1,440</b>                      |
|  | <b>1,310</b>     | <b>12,730</b>  | <b>—</b>   | <b>175</b>                                     | <b>14,215</b>                     |

\* The amounts are paid by Media Asia Group Holdings Limited.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

#### (a) Directors' emoluments (continued)

|  | Fees<br>HK\$'000 | Basic salaries,<br>housing and<br>other allowances,<br>and benefits<br>in kind<br>HK\$'000 | Equity-<br>settled<br>share option<br>benefits<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|--|------------------|--|--|--|-----------------------------------|
| Year ended 31 December 2010  |                  |  |  |  |                                   |
| Executive directors:   |                  |  |  |  |                                   |
| Lam Kin Ngok, Peter  | —                | 8,000  | —  | —  | 8,000                             |
| Lui Siu Tsuen, Richard<br>(appointed on 1 July 2010)   | —                | 997  | —  | 3  | 1,000                             |
| Leung Churk Yin, Jeanny<br>(re-designated as a NED on<br>1 January 2011 and resigned on<br>1 September 2011)                   | —                | 3,067  | 438  | 12   | 3,517                             |
| Cheung Wing Sum, Ambrose   | —                | 6,900  | —  | 320  | 7,220                             |
| Low Kit Leong<br>(resigned on 9 January 2010)  | —                | 82   | 266  | 1  | 349                               |
|  | —                | 19,046   | 704  | 336  | 20,086                            |
| Non-executive directors:   |                  |  |  |  |                                   |
| Low Chee Keong<br>(re-designated as a NED on<br>1 June 2010 and re-designated<br>from a NED to an INED on<br>1 September 2011) | 486              | 95   | —  | —  | 581                               |
| U Po Chu   | —                | —  | —  | —  | —                                 |
| Lien Jown Jing, Vincent<br>(retired on 1 June 2010)  | —                | 245  | —  | 5  | 250                               |
| Lo Kwok Kwei, David<br>(re-designated from a NED to<br>an INED on 1 September 2011)  | 240              | 60   | —  | —  | 300                               |
| Albert Thomas da Rosa, Junior<br>(appointed on 19 July 2010)   | 108              | 35   | —  | —  | 143                               |
|  | 834              | 435  | —  | 5  | 1,274                             |
| Independent non-executive directors:   |                  |  |  |  |                                   |
| Alfred Donald Yap  | 240              | 95   | —  | —  | 335                               |
| Tong Ka Wing, Carl<br>(resigned on 1 September 2011)   | 480              | 100  | —  | —  | 580                               |
| Ng Lai Man, Carmen   | 340              | 95   | —  | —  | 435                               |
|  | 1,060            | 290  | —  | —  | 1,350                             |
|  | 1,894            | 19,771   | 704  | 341  | 22,710                            |

There was no arrangement under which a director waived or agreed to waive any remuneration during the period (year ended 31 December 2010: Nil).



## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

## (b) Employees' emoluments

The five highest paid employees during the period included four (year ended 31 December 2010: three) directors, details of whose emoluments are set out above. Details of the remuneration of the remaining one (year ended 31 December 2010: two) non-director, highest paid employees for the period/year are as follows:

|   | Group  |   |
|---|--|---|
|   | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Salaries, allowances and benefits in kind | 3,094  | 8,103   |
| Equity-settled share option expense       | —  | —   |
| Pension scheme contributions              | 7  | 24  |
|   | <b>3,101</b>   | 8,127   |

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

|                               | Group  |                                   |
|-------------------------------|--|-----------------------------------|
|                               | Period from<br>1 January 2011<br>to 31 July 2011 | Year ended<br>31 December<br>2010 |
| HK\$2,500,001 – HK\$3,000,000 | —  | 1                                 |
| HK\$3,000,001 – HK\$3,500,000 | 1  | —                                 |
| HK\$5,000,001 – HK\$5,500,000 | —  | 1                                 |
|                               | <b>1</b>   | 2                                 |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 13. INCOME TAX EXPENSE

No provision for Hong Kong profits tax was made for the period from 1 January 2011 to 31 July 2011 as there were no assessable profits arising in Hong Kong for the period. Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2010. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

|  | Group  |   |
|--|--|---|
|  | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| Provision for tax for the period/year: |  |   |
| Hong Kong                              | —  | 930   |
| Elsewhere                              | 147  | 243   |
|  | 147  | 1,173   |
| Deferred tax charge/(credit) (Note 39) | (35)   | 94  |
| Total tax charge for the period/year   | 112  | 1,267   |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e., the statutory tax rate) to the effective tax rate, are as follows:

|  | Group  |        |  |        |
|--|--|--------|--|--------|
|  | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | %      | Year ended<br>31 December 2010<br>HK\$'000 | %      |
| Profit before tax  | 518,327  |        | 844,044                                    |        |
| Tax at the statutory tax rate  | 85,524   | 16.5   | 139,267                                    | 16.5   |
| Adjustments for tax rates for other jurisdictions                                | 98   | 0.1    | 164  | 0.1    |
| Profits and losses attributable to<br>jointly-controlled entities and associates | (4,365)  | (0.8)  | (84,205)                                   | (10.0) |
| Income not subject to tax  | (111,286)  | (21.5) | (101,704)                                  | (12.0) |
| Expenses not deductible for tax  | 17,998   | 3.5    | 21,602                                     | 2.5    |
| Estimated tax losses utilised from<br>previous periods                           | (2,545)  | (0.5)  | (3,352)                                    | (0.4)  |
| Estimated tax losses not recognised  | 14,688   | 2.8    | 29,495                                     | 3.5    |
| Tax charge at the Group's effective rate   | 112  | 0.1    | 1,267                                      | 0.2    |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the period from 1 January 2011 to 31 July 2011 includes a profit of HK\$288,528,000 (year ended 31 December 2010: profit of HK\$2,306,626,000) which has been dealt with in the financial statements of the Company (Note 42).

## 15. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period/year attributable to owners of the Company and the weighted average number of ordinary shares of 1,241,937,071 (year ended 31 December 2010: 1,240,732,165) in issue during the period/year.

The calculation of diluted earnings per share amount is based on the profit for the period/year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period/year, as used in the basic earnings per share calculation, and weighted average number of ordinary shares assumed to have been issued at no consideration as if all the Company's outstanding share options had been considered.

The calculation of basic and diluted earnings per share is based on:

|  | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|--|--|---|
| <b>Earnings</b>  |  |   |
| Profit attributable to owners of the Company,<br>used in the basic earnings per share calculation                                | <b>524,538</b>   | 853,278                                       |
|  |  |   |
|  | Period from<br>1 January 2011<br>to 31 July 2011             | Year ended<br>31 December<br>2010             |
|  | Number of shares   |   |
| <b>Shares</b>  |  |   |
| Weighted average number of ordinary shares in issue during<br>the period/year used in the basic earnings per share calculation   | <b>1,241,937,071</b>   | 1,240,732,165                                 |
| Effect of dilution — weighted average number of ordinary shares:<br>— Share options  | <b>545,397</b>   | —   |
| Weighted average number of ordinary shares in issue during<br>the period/year used in the diluted earnings per share calculation | <b>1,242,482,468</b>   | 1,240,732,165                                 |

The conversion of outstanding convertible notes issued by MAGHL (as defined in Note 17) has an anti-dilutive effect on the basic earnings per share existed during the period ended 31 July 2011.

The calculation of diluted earnings per share for the year ended 31 December 2010 had not assumed the exercise of the share options of the Company as no diluting events existed during that year.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 16. PROPERTY, PLANT AND EQUIPMENT

#### Group

|   | Notes | Land and buildings<br>HK\$'000 | Leasehold improvements<br>HK\$'000 | Furniture, fixtures and equipment<br>HK\$'000 | Motor vehicles<br>HK\$'000 | Computers<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------|--------------------------------|------------------------------------|---|----------------------------|-----------------------|-------------------|
| Cost:                                     |       |                                |                                    |   |                            |                       |                   |
| At 1 January 2010                         |       | 88,588                         | 39,948                             | 9,304   | 7,728                      | 20,323                | 165,891           |
| Additions                                 |       | —                              | 1,459                              | 1,405   | 258                        | 977                   | 4,099             |
| Disposals                                 |       | —                              | (946)                              | (1,041)                                       | (64)                       | (972)                 | (3,023)           |
| Write-off                                 |       | —                              | (24,263)                           | —   | —                          | —                     | (24,263)          |
| Exchange realignment                      |       | —                              | 14                                 | 52  | 5                          | 40                    | 111               |
| At 31 December 2010 and<br>1 January 2011 |       |                                |                                    |   |                            |                       |                   |
|   |       | 88,588                         | 16,212                             | 9,720   | 7,927                      | 20,368                | 142,815           |
| Additions                                 |       | —                              | 44                                 | 405   | 934                        | 521                   | 1,904             |
| Acquisition of subsidiaries               | 43    | —                              | —                                  | 229   | 1,322                      | 472                   | 2,023             |
| Disposals                                 |       | —                              | (565)                              | (2)   | (738)                      | (3)                   | (1,308)           |
| Exchange realignment                      |       | —                              | 16                                 | 40  | 4                          | 33                    | 93                |
| <b>At 31 July 2011</b>                    |       | <b>88,588</b>                  | <b>15,707</b>                      | <b>10,392</b>                                 | <b>9,449</b>               | <b>21,391</b>         | <b>145,527</b>    |
| Accumulated depreciation and impairment:  |       |                                |                                    |   |                            |                       |                   |
| At 1 January 2010                         |       | 16,675                         | 35,245                             | 7,182   | 4,948                      | 17,080                | 81,130            |
| Provided during the year                  | 8     | 2,481                          | 2,685                              | 1,092   | 1,357                      | 1,063                 | 8,678             |
| Disposals                                 |       | —                              | (937)                              | (929)   | (39)                       | (933)                 | (2,838)           |
| Write-off                                 |       | —                              | (24,263)                           | —   | —                          | —                     | (24,263)          |
| Exchange realignment                      |       | —                              | 6                                  | 38  | 1                          | 31                    | 76                |
| At 31 December 2010 and<br>1 January 2011 |       |                                |                                    |   |                            |                       |                   |
|   |       | 19,156                         | 12,736                             | 7,383   | 6,267                      | 17,241                | 62,783            |
| Provided during the period                | 8     | 1,446                          | 1,737                              | 577   | 854                        | 635                   | 5,249             |
| Acquisition of subsidiaries               | 43    | —                              | —                                  | 75  | 351                        | 257                   | 683               |
| Disposals                                 |       | —                              | (565)                              | (2)   | (318)                      | (2)                   | (887)             |
| Exchange realignment                      |       | —                              | 7                                  | 28  | 1                          | 24                    | 60                |
| <b>At 31 July 2011</b>                    |       | <b>20,602</b>                  | <b>13,915</b>                      | <b>8,061</b>                                  | <b>7,155</b>               | <b>18,155</b>         | <b>67,888</b>     |
| Net carrying amount:                      |       |                                |                                    |   |                            |                       |                   |
| <b>At 31 July 2011</b>                    |       | <b>67,986</b>                  | <b>1,792</b>                       | <b>2,331</b>                                  | <b>2,294</b>               | <b>3,236</b>          | <b>77,639</b>     |
| At 31 December 2010                       |       | 69,432                         | 3,476                              | 2,337   | 1,660                      | 3,127                 | 80,032            |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

## Company

|   | Computers<br>HK\$'000 |
|---|-----------------------|
| Cost:   |                       |
| <b>At 1 January 2010, 31 December 2010, 1 January 2011 and 31 July 2011</b> | <b>824</b>            |
| Accumulated depreciation:   |                       |
| At 1 January 2010   | 182                   |
| Provided during the year  | 165                   |
| At 31 December 2010 and 1 January 2011                                      | 347                   |
| Provided during the period  | 96                    |
| <b>At 31 July 2011</b>  | <b>443</b>            |
| Net carrying amount:  |                       |
| <b>At 31 July 2011</b>  | <b>381</b>            |
| At 31 December 2010   | 477                   |

The Group's land and buildings are held under medium-term leases and are situated in:

|                         | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
|-------------------------|-----------------------------|---------------------------------|
| At net carrying amount: |                             |                                 |
| Hong Kong               | 55,486                      | 56,615                          |
| Macau                   | 12,500                      | 12,817                          |
|                         | <b>67,986</b>               | 69,432                          |

At 31 July 2011, the Group's land and buildings in Hong Kong with a net carrying amount of HK\$55,486,000 (31 December 2010: HK\$56,615,000) were pledged to secure general banking facilities granted to the Group (Note 35).

The net carrying amount of the Group's assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31 July 2011 amounted to approximately HK\$369,000 (31 December 2010: HK\$515,000).

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 17. INVESTMENTS IN SUBSIDIARIES

|                               | Company                                |                                 |
|-------------------------------|--|---------------------------------|
|                               | 31 July<br>2011<br>HK\$'000            | 31 December<br>2010<br>HK\$'000 |
| Unlisted shares, at cost      | <b>894,680</b>                         | 894,680                         |
| Amounts due from subsidiaries | <b>7,335,816</b>                       | 7,562,796                       |
| Impairment #                  | <b>8,230,496</b><br><b>(2,873,134)</b> | 8,457,476<br>(2,750,369)        |
|                               | <b>5,357,362</b>                       | 5,707,107                       |

# The impairment as at 31 July 2011 includes impairment provision of HK\$1,978,541,000 (31 December 2010: HK\$1,855,776,000) for amounts due from subsidiaries in view of the operating performance of these subsidiaries. The provision was determined on the basis of the amounts recoverable from the subsidiaries with reference to the estimated fair value of the underlying assets held by the subsidiaries.

Movements in the provision for impairment of amounts due from subsidiaries are as follows:

|   | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
|---|--|---|
| At the beginning of the reporting periods | <b>1,855,776</b>   | 1,647,225                                     |
| Impairment loss recognised                | <b>122,765</b>   | 208,551                                       |
| At the end of the reporting periods       | <b>1,978,541</b>   | 1,855,776                                     |

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

The carrying amounts of the amounts due from subsidiaries approximate their fair values.

The market values at 31 July 2011 and at the date of approval of these financial statements of the listed shares of a non-wholly-owned subsidiary held by the Group at 31 July 2011 were approximately HK\$1,030,085,000 and HK\$844,670,000, respectively.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 17. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries as at 31 July 2011 are as follows:

| Name of company                                      | Place of incorporation/ registration and operations | Nominal value of issued share/ registered capital and class of shares held | Effective percentage of capital held by |       | Principal activities                             |
|--|---|--|---|-------|--|
|  |   |  | Company                                 | Group |  |
| Accuremark Limited                                   | British Virgin Islands/<br>Hong Kong                | US\$1<br>Ordinary  | —                                       | 100   | Trading of securities                            |
| Capital Artists Limited                              | Hong Kong   | HK\$44,394,500<br>Ordinary   | —                                       | 100   | Music production and distribution                |
| Champ Universe Limited **                            | Hong Kong   | HK\$1<br>Ordinary  | —                                       | 50.94 | Provision of management services                 |
| East Asia Entertainment Limited                      | Hong Kong   | HK\$2<br>Ordinary  | —                                       | 100   | Entertainment activity production                |
| East Asia Feng Li Performance Agency (Macao) Limited | Macau   | MOP25,000 #  | —                                       | 100   | Entertainment activity production                |
| East Asia Films Distribution Limited                 | British Virgin Islands/<br>Hong Kong                | US\$1<br>Ordinary  | —                                       | 100   | Investment in and licensing of film rights       |
| East Asia Music (Holdings) Limited                   | Hong Kong   | HK\$10,000<br>Ordinary   | —                                       | 100   | Music production and distribution                |
| eSun High-Tech Limited                               | Hong Kong   | HK\$2<br>Ordinary  | —                                       | 100   | Investment in and licensing of film rights       |
| eSun.Com Limited                                     | Hong Kong   | HK\$2<br>Ordinary  | —                                       | 100   | Investment in and licensing of film rights       |
| Glynhill International Limited                       | Hong Kong   | HK\$912,623,351<br>Ordinary  | 100                                     | 100   | Investment holding                               |
| Go Yeah Limited                                      | Hong Kong   | HK\$1<br>Ordinary  | —                                       | 85    | Investment in and operation of internet websites |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 17. INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company   | Place of incorporation/ registration and operations | Nominal value of issued share/ registered capital and class of shares held | Effective percentage of capital held by |       | Principal activities  |
|---|---|--|---|-------|---|
|   |   |  | Company                                 | Group |   |
| Grandeur Limited  | Hong Kong/ Macau                                    | HK\$1 Ordinary   | —                                       | 100   | Property holding  |
| Guangzhou Beautifirm Cosmetic Limited ***                                     | People's Republic of China ("PRC")/ Mainland China  | US\$1,260,000 #  | —                                       | 100   | Sale of cosmetic products                                       |
| Jadecode Limited  | Hong Kong   | HK\$1 Ordinary   | —                                       | 100   | Investment holding  |
| Kaleidoscope International Limited  | British Virgin Islands/ Hong Kong                   | US\$1 Ordinary   | 100                                     | 100   | Property holding  |
| Media Asia Distribution Ltd.  | British Virgin Islands/ Hong Kong                   | US\$80 Ordinary  | —                                       | 100   | Film distribution, licensing of film rights and film investment |
| Media Asia Distribution (HK) Limited  | Hong Kong   | HK\$2 Ordinary   | —                                       | 100   | Film distribution and film library management                   |
| Media Asia Entertainment Limited ** (formerly known as Forest Garden Limited) | Hong Kong   | HK\$100 Ordinary   | —                                       | 50.94 | Entertainment activity production                               |
| Media Asia Entertainment Group Limited  | Bermuda/ Hong Kong                                  | HK\$24,000,000 Ordinary  | —                                       | 100   | Investment holding  |
| Media Asia Films Limited  | Hong Kong   | HK\$2 Ordinary   | —                                       | 100   | Film production and investment holding                          |
| Media Asia Films (BVI) Ltd.   | British Virgin Islands/ Hong Kong                   | US\$7 Ordinary   | —                                       | 100   | Film production, licensing of films and investment holding      |



## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 17. INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company   | Place of incorporation/ registration and operations                    | Nominal value of issued share/ registered capital and class of shares held | Effective percentage of capital held by |       | Principal activities  |
|---|--|--|---|-------|---|
|   |  |  | Company                                 | Group |   |
| Media Asia Film Production Limited ** (formerly known as Dynasty Choice Development Limited)                        | Hong Kong  | HK\$100 Ordinary   | —                                       | 50.94 | Film production   |
| Media Asia Group Holdings Limited ("MAGHL", formerly known as Rojam Entertainment Holdings Limited) <sup>Note</sup> | Incorporated in the Cayman Islands and continued in Bermuda/ Hong Kong | HK\$101,102,576 Ordinary   | —                                       | 50.94 | Investment holding  |
| Media Asia Group Limited  | Hong Kong  | HK\$2 Ordinary   | —                                       | 100   | Investment holding and provision of management services               |
| Media Asia Holdings Ltd.  | British Virgin Islands/ Hong Kong                                      | US\$6,831 Ordinary   | —                                       | 100   | Investment holding  |
| Mega Star Video Distribution (HK) Limited   | Hong Kong  | HK\$2 Ordinary   | —                                       | 100   | Licensing of film products and film rights and sale of video products |
| Merit Worth Limited   | British Virgin Islands/ Hong Kong                                      | US\$1 Ordinary   | 100                                     | 100   | Investment holding  |
| Perfect Sky Holdings Limited  | British Virgin Islands/ Hong Kong                                      | US\$1 Ordinary   | 100                                     | 100   | Investment holding  |
| Rich & Famous Talent Management Group Limited   | Hong Kong  | HK\$100 Ordinary   | —                                       | 75    | Provision of artiste management services                              |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 17. INVESTMENTS IN SUBSIDIARIES (continued)

| Name of company                         | Place of incorporation/ registration and operations | Nominal value of issued share/ registered capital and class of shares held | Effective percentage of capital held by |       | Principal activities   |
|---|---|--|---|-------|--|
|   |   |  | Company                                 | Group |  |
| Silver Glory Securities Limited         | British Virgin Islands/ Hong Kong                   | US\$1 Ordinary   | —                                       | 100   | Investment holding   |
| Silver Hunter Limited                   | Hong Kong   | HK\$1 Ordinary   | —                                       | 100   | Licensing of television drama and film rights                        |
| Skymaster International Inc.            | British Virgin Islands/ Hong Kong                   | US\$1 Ordinary   | —                                       | 100   | Investment holding   |
| Vision Communications Limited           | Hong Kong   | HK\$2 Ordinary   | —                                       | 100   | Provision of advertising agency services and investment holding      |
| Vision Communications (GZ) Limited **** | PRC/ Mainland China                                 | HK\$3,000,000 #  | —                                       | 90    | Provision of advertising agency services                             |
| 豐麗星恒文化顧問(北京)有限公司 ***                    | PRC/ Mainland China                                 | HK\$40,000,000 #   | —                                       | 100   | Provision of consultancy services in relation to cultural activities |
| 豐麗常升文化顧問(北京)有限公司 ***                    | PRC/ Mainland China                                 | RMB36,500,000 #  | —                                       | 100   | Provision of consultancy services in relation to cultural activities |
| 東亞豐麗演出經紀(北京)有限公司 ***                    | PRC/ Mainland China                                 | RMB25,000,000 #  | —                                       | 100   | Provision of artiste management and performance agency services      |

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**17. INVESTMENTS IN SUBSIDIARIES** (continued)

- # The amounts stated represent the paid-up capital.
- ## These subsidiaries are registered as wholly-foreign-owned enterprises under the law of the PRC.
- ### This subsidiary is registered as a co-operative joint venture under the law of the PRC.
- \* The statutory financial statements of the subsidiaries listed above are not audited by Ernst & Young, Hong Kong or another member firm of Ernst & Young global network.
- \*\* These are subsidiaries of MAGHL.

Note: On 23 March 2011, MAGHL entered into a subscription agreement (the "Subscription Agreement") with Perfect Sky Holdings Limited ("Perfect Sky"), a wholly-owned subsidiary of the Company, Sun Great Investment Limited, Next Gen Entertainment Limited, Memestar Limited, On Chance Inc. and Grace Promise Limited (collectively the "Other Subscriber(s)", together with Perfect Sky referred to as the "Subscribers"), pursuant to which:

- MAGHL has conditionally agreed to issue, and Perfect Sky and the Other Subscribers have conditionally agreed to subscribe for 6,918,343,209 ordinary shares of MAGHL of HK\$0.01 each at an aggregate cash consideration of HK\$118,613,358 (collectively, the "Share Subscription");
- MAGHL has conditionally agreed to issue, and Perfect Sky and the Other Subscribers have conditionally agreed to subscribe for the first tranche convertible notes in an aggregate principal amount of HK\$371,386,642 (the "First Completion Convertible Notes"); and
- MAGHL has conditionally agreed to issue, and Perfect Sky and the Other Subscribers have conditionally agreed to subscribe for the second tranche convertible notes in an aggregate principal amount of HK\$224,873,937 (the "Second Completion Convertible Notes").

The Share Subscription and subscription of the First Completion Convertible Notes and the Second Completion Convertible Notes were discloseable transactions of the Company under the Listing Rules.

Further details of which are set out in the Company's announcement dated 31 March 2011 and the circular of MAGHL dated 21 April 2011.

All conditions precedent to the completion of the Share Subscription and the subscription of the First Completion Convertible Notes (the "First Completion") were fulfilled on 9 June 2011 (the "First Completion Date"). On the First Completion Date, MAGHL issued to the Subscribers (i) an aggregate of 6,918,343,209 ordinary shares of MAGHL of HK\$0.01 each for a total subscription price (before expenses) of HK\$118,613,358; and (ii) the First Completion Convertible Notes with an aggregate principal amount (before expenses) of HK\$371,386,642. Upon the completion of the First Completion, the Group held approximately 51.3% equity interest in MAGHL which has become an indirect subsidiary of the Group. Further details of the acquisition of MAGHL are set out in Note 43 to the financial statements.

As at 31 July 2011, the Group held approximately 50.94% equity interest in MAGHL as a result of new shares issued upon exercise of MAGHL Share Options during the period from 9 June 2011 to 31 July 2011.

Further details of the First Completion Convertible Notes and the Second Completion Convertible Notes are set out in Note 38 and Note 31 to the financial statements, respectively.

The issued ordinary shares of MAGHL are listed and traded on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

The principal activity of MAGHL is investment holding. The principal activities of the subsidiaries of MAGHL during the period consisted of development and licensing of software and technology for use in connection with the provision of value-added telecommunication services in the Mainland of China and entertainment business in the Mainland of China and Macau.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period/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.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 18. FILM RIGHTS

|  | Note | Group<br>HK\$'000 |
|--|------|-------------------|
| Cost:                                    |      |                   |
| At 1 January 2010                        |      | 239,437           |
| Additions                                |      | 3,693             |
| <hr/>                                    |      |                   |
| At 31 December 2010 and 1 January 2011   |      | 243,130           |
| Additions                                |      | 1,976             |
| <hr/>                                    |      |                   |
| <b>At 31 July 2011</b>                   |      | <b>245,106</b>    |
| <hr/>                                    |      |                   |
| Accumulated amortisation and impairment: |      |                   |
| At 1 January 2010                        |      | 166,869           |
| Provided during the year                 | 8    | 12,604            |
| Impairment during the year               | 8    | 3,033             |
| <hr/>                                    |      |                   |
| At 31 December 2010 and 1 January 2011   |      | 182,506           |
| Provided during the period               | 8    | 7,986             |
| <hr/>                                    |      |                   |
| <b>At 31 July 2011</b>                   |      | <b>190,492</b>    |
| <hr/>                                    |      |                   |
| Net carrying amount:                     |      |                   |
| <b>At 31 July 2011</b>                   |      | <b>54,614</b>     |
| <hr/>                                    |      |                   |
| At 31 December 2010                      |      | 60,624            |
| <hr/>                                    |      |                   |

In light of the circumstances of film industry, the Group regularly reviewed its library of film rights to assess the marketability of film rights and the corresponding recoverable amounts. During the year ended 31 December 2010, the directors of the Company determined that these film rights were impaired due to prevailing marketability circumstances. The directors assessed the recoverable amount of the film rights and based on which an impairment loss of HK\$3,033,000 was recognised in the consolidated income statement for the year ended 31 December 2010. The estimated recoverable amount as at 31 July 2011 and 31 December 2010 was determined based on the present value of expected future revenue arising from the distribution and sub-licensing of the film rights and their residual values, which was derived from discounting the projected cash flows by a discount rate of approximately 13% (31 December 2010: 13%).

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**19. FILM PRODUCTS**

|  | Notes | Group<br>HK\$'000 |
|--|-------|-------------------|
| Cost:                                    |       |                   |
| At 1 January 2010                        |       | 229,270           |
| Additions                                |       | 1,720             |
| Transfer from films under production     | 28    | 120,035           |
| <hr/>                                    |       |                   |
| At 31 December 2010 and 1 January 2011   |       | 351,025           |
| Additions                                |       | 262               |
| Transfer from films under production     | 28    | 57,306            |
| <hr/>                                    |       |                   |
| <b>At 31 July 2011</b>                   |       | <b>408,593</b>    |
| <hr/>                                    |       |                   |
| Accumulated amortisation and impairment: |       |                   |
| At 1 January 2010                        |       | 160,732           |
| Provided during the year                 | 8     | 93,463            |
| Impairment during the year               | 8     | 10,065            |
| <hr/>                                    |       |                   |
| At 31 December 2010 and 1 January 2011   |       | 264,260           |
| Provided during the period               | 8     | 67,056            |
| <hr/>                                    |       |                   |
| <b>At 31 July 2011</b>                   |       | <b>331,316</b>    |
| <hr/>                                    |       |                   |
| Net carrying amount:                     |       |                   |
| <b>At 31 July 2011</b>                   |       | <b>77,277</b>     |
| <hr/>                                    |       |                   |
| At 31 December 2010                      |       | 86,765            |
| <hr/>                                    |       |                   |

Included in the net carrying amount as at 31 July 2011 are film products of HK\$60,041,000 (31 December 2010: HK\$86,765,000) carried at net realisable value.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 20. MUSIC CATALOGS

|  | Note | Group<br>HK\$'000 |
|--|------|-------------------|
| Cost:                                    |      |                   |
| At 1 January 2010                        |      | 125,234           |
| Additions                                |      | 15,200            |
| <hr/>                                    |      |                   |
| At 31 December 2010 and 1 January 2011   |      | 140,434           |
| Additions                                |      | 800               |
| <hr/>                                    |      |                   |
| <b>At 31 July 2011</b>                   |      | <b>141,234</b>    |
| <hr/>                                    |      |                   |
| Accumulated amortisation and impairment: |      |                   |
| At 1 January 2010                        |      | 9,985             |
| Provided during the year                 | 8    | 4,825             |
| Impairment during the year               | 8    | 33,094            |
| <hr/>                                    |      |                   |
| At 31 December 2010 and 1 January 2011   |      | 47,904            |
| Provided during the period               | 8    | 3,053             |
| Impairment during the period             | 8    | 41,990            |
| <hr/>                                    |      |                   |
| <b>At 31 July 2011</b>                   |      | <b>92,947</b>     |
| <hr/>                                    |      |                   |
| Net carrying amount:                     |      |                   |
| <b>At 31 July 2011</b>                   |      | <b>48,287</b>     |
| <hr/>                                    |      |                   |
| At 31 December 2010                      |      | 92,530            |
| <hr/>                                    |      |                   |

In light of the circumstances of music licencing industry, the Group undertook a review of its library of music catalogs to assess the marketability of respective music catalogs and the corresponding recoverable amounts. During the period ended 31 July 2011 and the year ended 31 December 2010, the directors of the Company determined that the music catalogs were impaired due to prevailing marketability circumstances. The directors assessed the recoverable amount of the music catalogs and based on which impairment loss of HK\$41,990,000 (year ended 31 December 2010: HK\$33,094,000) was recognised in the consolidated income statement for the period from 1 January 2011 to 31 July 2011. The estimated recoverable amount as at 31 July 2011 and 31 December 2010 was determined based on the present value of expected future cash flows generated from the music catalogs, which was discounted by a discount rate of approximately 13% (31 December 2010: 13%).

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES**

|   | Group                       |                                 |
|---|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Share of net assets/(liabilities)                             | (25,523)                    | 463,242                         |
| Goodwill arising from acquisition                             | 2,359                       | 2,359                           |
|   | <b>(23,164)</b>             | 465,601                         |
| Amounts due from jointly-controlled entities                  | <b>97,467</b>               | 571,568                         |
|   | <b>74,303</b>               | 1,037,169                       |
| Amount due from a jointly-controlled entity — current portion | —                           | 513                             |

The balances with jointly-controlled entities are unsecured and have no fixed terms of repayment. As at 31 July 2011, the balances were interest-free except for an amount of HK\$51,494,000 (31 December 2010: HK\$49,711,000) which was interest-bearing with reference to the People's Bank of China's base interest rate. The carrying amounts of the amounts due from jointly-controlled entities approximate their fair values.

As at 31 July 2011, the above balance included an entity, incorporated in the PRC, to which the Group is able to exercise joint control over significant operating and financing policies through contractual provision stipulated in the agreements entered into between the Group and the joint venturer. In the opinion of the Company's directors, the entity is considered as a jointly-controlled entity of the Group. The principal activities of this jointly-controlled entity consist of investment in and production and distribution of television dramas and films in the Mainland of China.

## NOTES TO FINANCIAL STATEMENTS

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### 21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

As at 31 December 2010, particulars of the principal jointly-controlled entities were as follows:

| Name of company                            | Particulars of issued shares held        | Place of incorporation/ registration and operations | Percentage of      |                        |                | Principal activities                                   |
|--|--|---|--------------------|------------------------|----------------|--|
|  |  |   | Ownership interest | Effective voting power | Profit sharing |  |
| Cyber Neighbour Limited                    | Ordinary share of US\$1 each             | British Virgin Islands                              | 60*                | 50 <sup>†</sup>        | 60*            | Investment holding                                     |
| Cyber One Agents Limited                   | Ordinary share of US\$1 each             | British Virgin Islands                              | 60*                | 50 <sup>†</sup>        | 60*            | Investment holding                                     |
| East Asia-Televisão Por Satélite, Limitada | Registered capital of MOP6,000,000 quota | Macau   | 60*                | 50 <sup>†</sup>        | 60*            | Investment and development in a piece of land in Macau |
| Macao Studio City (Hong Kong) Limited      | Ordinary share of HK\$1 each             | Hong Kong   | 60*                | 50 <sup>†</sup>        | 60*            | Provision of management services                       |

The investments in jointly-controlled entities were all indirectly held by the Company.

\* The relevant disclosures represented the proportion of ownership interest and profit sharing in these jointly-controlled entities as held by a 66.67%-owned subsidiary.

† The relevant disclosure reflected the effective voting power of the Group in relation to these jointly-controlled entities, which (by contract) requires, for principal decisions, the approval or ratification of all the joint venture partners.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the period/year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

As further detailed in Note 10, on the completion date of the Cyber One Transactions, Cyber One Group has ceased to be jointly-controlled entities of the Group.



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**21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES** (continued)

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

Share of the jointly-controlled entities' assets and liabilities at end of reporting periods:

|                          | <b>31 July<br/>2011<br/>HK\$'000</b> | 31 December<br>2010<br>HK\$'000 |
|--------------------------|--------------------------------------|---------------------------------|
| Current assets           | <b>119,767</b>                       | 337,029                         |
| Non-current assets       | <b>52,517</b>                        | 816,488                         |
| Current liabilities      | <b>(134,528)</b>                     | (630,668)                       |
| Non-current liabilities  | <b>(63,279)</b>                      | (59,607)                        |
| Net assets/(liabilities) | <b>(25,523)</b>                      | 463,242                         |

Share of the jointly-controlled entities' results for the period/year:

|                | <b>Period from<br/>1 January 2011<br/>to 31 July 2011<br/>HK\$'000</b> | Year ended<br>31 December<br>2010<br>HK\$'000 |
|----------------|--|---|
| Turnover       | <b>37,127</b>  | 88,289  |
| Other revenue  | <b>1,388</b>   | 2,249   |
| Total expenses | <b>(47,990)</b>  | (121,571)                                     |
| Tax            | <b>(12)</b>  | (320)   |
| Loss after tax | <b>(9,487)</b>   | (31,353)                                      |

**22. INVESTMENTS IN ASSOCIATES**

|                             | <b>Group</b>                         |                                 |
|-----------------------------|--------------------------------------|---------------------------------|
|                             | <b>31 July<br/>2011<br/>HK\$'000</b> | 31 December<br>2010<br>HK\$'000 |
| Share of net assets         | <b>4,465,024</b>                     | 4,343,849                       |
| Amounts due from associates | <b>2,358</b>                         | 1,457                           |
|                             | <b>4,467,382</b>                     | 4,345,306                       |

Balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of the amounts due from associates approximate their fair values.

## NOTES TO FINANCIAL STATEMENTS

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### 22. INVESTMENTS IN ASSOCIATES (continued)

The market values of the listed shares of an associate at 31 July 2011 and at the date of approval of these financial statements were approximately HK\$898,064,000 and HK\$731,514,000, respectively.

Details of the principal associates as at 31 July 2011 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 |
|--|-----------------------------------|------------------------------------|--|----------------------|
| Lai Fung Holdings Limited ("Lai Fung") | Ordinary shares of HK\$0.1 each   | Cayman Islands                     | 40.58  | Note                 |

Note: Lai Fung's principal activity was investment holding. The principal activities of the subsidiaries of Lai Fung during the period/year consisted of property development for sale and property investment for rental purpose, in the Mainland of China.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the period/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.

As further detailed in Note 11 to the financial statements, upon completion of the Shares Swap Transactions on 30 September 2010, LSD ceased to be an associate of the Group while Lai Fung has become a 40.58%-owned associate of the Group.

#### Investments in Lai Fung

The Lai Fung Group has a financial year end date of 31 July. The Group has equity accounted for the results of the Lai Fung Group for the period from 1 February 2011 to 31 July 2011 in its consolidated financial statements for the period from 1 January 2011 to 31 July 2011. The Group equity accounted for the results of the Lai Fung Group for the period from the Shares Swap Completion Date to 31 January 2011 in its consolidated financial statements for the year ended 31 December 2010. The unaudited consolidated financial statements of the Lai Fung Group for the period ended 31 January 2011 are adjusted, for the purpose of equity accounting for the results of the Lai Fung Group by the Group for the year ended 31 December 2010, for material transactions between 31 January 2011 and 31 December 2010.

For the period from 1 January 2011 to 31 July 2011, the Group's share of profit of the Lai Fung Group included in the Group's share of profits and losses of associates was HK\$36,454,000 (year ended 31 December 2010: HK\$139,660,000). The Group's share of net assets of the Lai Fung Group is included in the Group's investments in associates as at 31 July 2011 and 31 December 2010.

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**22. INVESTMENTS IN ASSOCIATES** (continued)**Investments in LSD**

The LSD Group has a financial year end date of 31 July. The Group has equity accounted for the results of the LSD Group for the period from 1 January 2010 to the Shares Swap Completion Date in its consolidated financial statements for the year ended 31 December 2010. The unaudited consolidated financial statements of the LSD Group are adjusted, for the purpose of equity accounting for the results of the LSD Group by the Group, for material transactions between 31 July 2010 and the Shares Swap Completion Date.

A cross-holding position had existed between LSD and the Company since 7 December 2004 and up to the Shares Swap Completion Date. Up to the Shares Swap Completion Date, the Group's interest in LSD was 36.72% and the LSD Group held in aggregate 36.08% in the issued share capital of the Company.

During the year ended 31 December 2010, the Group's share of profit of the LSD Group included in the Group's share of profits and losses of associates, after taking into account the cross-holdings between the Group and the LSD Group, for the period from 1 January 2010 to the Shares Swap Completion Date was HK\$402,681,000.

The following table illustrates the summarised financial information of the Group's associates extracted from their audited financial statements, if available, or management accounts:

|             | <b>Period from<br/>1 January 2011<br/>to 31 July 2011<br/>HK\$'000</b> | <b>Year ended<br/>31 December<br/>2010<br/>HK\$'000</b> |
|-------------|--|---|
| Assets      | <b>14,936,622</b>  | 14,276,459  |
| Liabilities | <b>(5,865,777)</b>   | (5,588,964)   |
| Turnover    | <b>263,985</b>   | 891,670   |
| Profit      | <b>155,840</b>   | 1,528,020   |

The above financial information includes, among others, the followings:

- (a) assets and liabilities of the Lai Fung Group as at 31 July 2011 and 31 January 2011; and
- (b) turnover and profit of Lai Fung Group for the period from 1 February 2011 to 31 July 2011 (year ended 31 December 2010: turnover and profit of the LSD Group for the period from 1 January 2010 to the Shares Swap Completion Date and of the Lai Fung Group for the period from the Shares Swap Completion Date to 31 January 2011).

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### 23. AVAILABLE-FOR-SALE INVESTMENT

|                                     | Group                       |                                 |
|-------------------------------------|-----------------------------|---------------------------------|
|                                     | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Unlisted equity investment, at cost | <b>78,969</b>               | 77,946                          |

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

As at 31 July 2011, unlisted equity investment of the Group with carrying amount of HK\$78,969,000 (31 December 2010: HK\$77,946,000) was stated at cost less impairment because the variability in the range of reasonable fair value estimate was so significant that the directors were of the opinion that its fair value could not be measured reliably.

During the year ended 31 December 2010, the fair value gain in respect of the Group's available-for-sale investment recognised in other comprehensive income amounted to HK\$150,000. A revaluation gain of HK\$25,505,000 was reclassified from other comprehensive income to the income statement for the year ended 31 December 2010 upon realisation of the available-for-sale investment.

### 24. LOAN RECEIVABLE

|                 | Group                       |                                 |
|-----------------|-----------------------------|---------------------------------|
|                 | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Loan receivable | <b>11,000</b>               | 11,000                          |

Loan receivable represented a loan principal of HK\$17 million granted by the Group to an independent third party during the year ended 31 December 2007. The loan is interest-free and repayable on demand. The loan was granted in connection with a joint venture arrangement with an independent third party. The borrower has assigned certain economic interests and benefits in certain television dramas to the Group in connection with the loan receivable.

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

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**25. INVENTORIES**

|                  | Group                       |                                 |
|------------------|-----------------------------|---------------------------------|
|                  | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Raw materials    | 3,524                       | 2,605                           |
| Work in progress | 271                         | 271                             |
| Finished goods   | 4,059                       | 2,441                           |
|                  | <b>7,854</b>                | 5,317                           |

**26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

|   | Group                       |                                 |
|---|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Listed equity investments in Hong Kong, at market value | 1,474                       | 2,083                           |

The above equity investments as at 31 July 2011 and 31 December 2010 were classified as held for trading.

The market value of the Group's short-term investments at the date of approval of these financial statements was approximately HK\$1,030,000.

**27. HELD-TO-MATURITY DEBT INVESTMENTS**

|                          | Group                       |                                 |
|--------------------------|-----------------------------|---------------------------------|
|                          | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Unlisted debt securities | —                           | 51,561                          |

As at 31 December 2010, the weighted average interest rate on these held-to-maturity debt investments was approximately 1.7% per annum. The debt investments matured and were redeemed during the period from 1 January 2011 to 31 July 2011.

## NOTES TO FINANCIAL STATEMENTS

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### 28. FILMS UNDER PRODUCTION

|   | Notes | Group  |   |
|---|-------|--|---|
|   |       | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| At the beginning of the reporting periods |       | <b>91,657</b>  | 130,823                                       |
| Additions                                 |       | <b>70,239</b>  | 81,928  |
| Transfer to film products                 | 19    | <b>(57,306)</b>  | (120,035)                                     |
| Impairment                                | 8     | <b>(500)</b>   | (1,059)                                       |
| At the end of the reporting periods       |       | <b>104,090</b>   | 91,657  |

### 29. DEBTORS

|               | Group                       |                                 |
|---------------|-----------------------------|---------------------------------|
|               | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Trade debtors | <b>104,974</b>              | 126,049                         |
| Impairment    | <b>(7,294)</b>              | (3,313)                         |
|               | <b>97,680</b>               | 122,736                         |

The Group's trading terms with its customers are mainly on credit. Invoices are normally payable within 30 to 90 days of issuance, except for certain well-established customers, where the terms are extended to 120 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 its 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 ageing analysis of the trade debtors, net of provision for doubtful debts, based on payment due date, as at the respective end of the reporting periods, is as follows:

|                               | Group                       |                                 |
|-------------------------------|-----------------------------|---------------------------------|
|                               | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Trade debtors:                |                             |                                 |
| Neither past due nor impaired | <b>44,850</b>               | 40,858                          |
| 1 – 90 days past due          | <b>21,608</b>               | 54,873                          |
| Over 90 days past due         | <b>31,222</b>               | 27,005                          |
|                               | <b>97,680</b>               | 122,736                         |

**NOTES TO FINANCIAL STATEMENTS**

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**29. DEBTORS** (continued)

Included in trade debtors are amounts due from related companies of HK\$7,000 (31 December 2010: HK\$280,000). The balances arose from ordinary course of business of the Group. The balances are unsecured, interest-free and are subject to similar credit terms to those offered to major customers of the Group.

Movements in the provision for impairment of trade debtors are as follows:

|   | Notes | Group  |   |
|---|-------|--|---|
|   |       | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| At the beginning of the reporting periods |       | <b>3,313</b>   | 3,352   |
| Acquisition of subsidiaries               | 43    | <b>3,918</b>   | —   |
| Provision for doubtful debts              | 8     | —  | 116   |
| Write-off                                 |       | <b>(2)</b>   | (235)   |
| Exchange realignment                      |       | <b>65</b>  | 80  |
| At the end of the reporting periods       |       | <b>7,294</b>   | 3,313   |

Included in the above provision for impairment of trade debtors is a provision for individually impaired trade debtors of HK\$7,294,000 (31 December 2010: HK\$3,313,000) with a gross carrying amount before provision of HK\$7,294,000 (31 December 2010: HK\$3,313,000). The individually impaired trade debtors related to customers that were in default in settlements and no portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## NOTES TO FINANCIAL STATEMENTS

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### 30. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

|   | Group                       |                                 | Company                     |                                 |
|---|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Deposits, prepayments and advances for artiste management, music production and film production | <b>62,188</b>               | 68,673                          | —                           | —                               |
| Other deposits, prepayments and other receivables   | <b>150,223</b>              | 141,237                         | <b>11,269</b>               | 11,366                          |
|   | <b>212,411</b>              | 209,910                         | <b>11,269</b>               | 11,366                          |
| Portion classified as current portion   | <b>(123,647)</b>            | (110,163)                       | <b>(611)</b>                | (708)                           |
| Non-current portion   | <b>88,764</b>               | 99,747                          | <b>10,658</b>               | 10,658                          |

Net of the advances for artiste management and other receivables is a provision of HK\$22,172,000 (31 December 2010: HK\$19,396,000).

The carrying amounts of advances for artiste management, music production and film production, and other receivables approximate their fair values.

Movements in the provision for advances and other receivables are as follows:

|  | Group  |   |
|--|--|---|
|  | Period from<br>1 January 2011<br>to 31 July 2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 |
| At the beginning of the reporting periods                            | <b>19,396</b>  | 34,644  |
| Provision for advances to artistes and other receivables             | <b>2,780</b>   | —   |
| Reversal of provision for advances to artistes and other receivables | <b>(4)</b>   | (2,845)                                       |
| Write-off  | —  | (12,403)                                      |
| At the end of the reporting periods                                  | <b>22,172</b>  | 19,396  |

Included in the above provision for advances and other receivables is a provision for individually impaired receivables of HK\$22,172,000 (31 December 2010: HK\$19,396,000) with a gross carrying amount of HK\$22,172,000 (31 December 2010: HK\$19,396,000). The individually impaired receivables and advances relate to the portions of receivables that were not expected to be recovered.



**NOTES TO FINANCIAL STATEMENTS**

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**31. FORWARD CONTRACT**

Pursuant to the Subscription Agreement as set out in Note 17 to the financial statements, among other terms, MAGHL has conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe for the Second Completion Convertible Notes.

The Second Completion Convertible Notes are 3-year zero coupon convertible notes in an aggregate principal amount of HK\$224,873,937.

The Second Completion Convertible Notes are convertible, at the option of the holders, into MAGHL's ordinary shares of HK\$0.01 each at a conversion price of HK\$0.02785 per share any time during the period commencing on the first date of issuance of the Second Completion Convertible Notes and expiring on the date which is five business days preceding the maturity date. Unless previously converted, redeemed, purchased or cancelled in accordance with the terms and conditions of the Second Completion Convertible Notes, the Second Completion Convertible Notes will be redeemed by MAGHL on the maturity date at the principal amount outstanding.

Subject to fulfilment of certain conditions, completion of the issue of the Second Completion Convertible Notes is expected to take place on the first anniversary of the First Completion Date, i.e. 9 June 2012.

MAGHL was contractually obligated to issue the Second Completion Convertible Notes to Perfect Sky and the Other Subscribers. In this regard, before the issue of the Second Completion Convertible Notes, the Subscription Agreement in respect of the issue of the Second Completion Convertible Notes constitutes a forward contract within the scope of HKAS 39, and is recognised at its fair value as an asset or a liability on the commitment date, and is subsequently remeasured at fair value with changes in fair value recognised in the consolidated income statement.

At the date of becoming the Group's subsidiary on 9 June 2011, MAGHL had a derivative financial asset, after eliminating the portion on Perfect Sky, of HK\$1,751,000 (Note 43 to the financial statements). As at 31 July 2011, the Group recognised a derivative financial assets of HK\$8,336,000 (31 December 2010: Nil) in respect of the forward contract on the Second Completion Convertible Notes, after eliminating the portion on Perfect Sky in the consolidated statement of financial position. A fair value gain in respect of the forward contract of HK\$6,585,000 (year ended 31 December 2010: Nil) has been recognised in the consolidated income statement during the period from 1 January 2011 to 31 July 2011.

The fair values of the forward contract as at the issue date of 9 June 2011 and 31 July 2011 were determined with reference to the valuations of the forward contract as at those dates performed by Greater China Appraisal Limited, an independent firm of professional valuers. The valuations have been taken into account factors including adjusted weighted average market prices of the MAGHL's shares, volatilities and prevailing market interest rates etc.

## NOTES TO FINANCIAL STATEMENTS

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### 32. CASH AND CASH EQUIVALENTS, AND PLEDGED DEPOSIT

|   | Group                       |                                 | Company                     |                                 |
|---|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Cash and bank balances                                      | <b>717,543</b>              | 233,810                         | <b>9,078</b>                | 13,203                          |
| Time deposits   | <b>1,606,907</b>            | 868,294                         | <b>1,462,343</b>            | 773,333                         |
|   | <b>2,324,450</b>            | 1,102,104                       | <b>1,471,421</b>            | 786,536                         |
| Less: Pledged time deposit for<br>bank borrowings (Note 35) | <b>(12,960)</b>             | (12,960)                        | —                           | —                               |
| Cash and cash equivalents                                   | <b>2,311,490</b>            | 1,089,144                       | <b>1,471,421</b>            | 786,536                         |

At 31 July 2011, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$57,712,000 (31 December 2010: HK\$55,683,000). The conversion of RMB denominated cash and bank balances into foreign currencies and the remittance of such foreign currencies denominated balances out of the Mainland of China are subject to the relevant rules and regulations of foreign exchanges control promulgated by the government authorities concerned.

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. Bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate their fair values.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 33. CREDITORS AND ACCRUALS

An ageing analysis of the trade creditors, prepared based on the dates of receipt of the goods and services purchased, as at the respective end of the reporting periods, is as follows:

|                              | Group                       |                                 | Company                     |                                 |
|------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|                              | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Trade creditors:             |                             |                                 |                             |                                 |
| Less than 30 days            | <b>7,430</b>                | 20,533                          | —                           | —                               |
| 31 – 60 days                 | <b>946</b>                  | 288                             | —                           | —                               |
| 61 – 90 days                 | <b>420</b>                  | 13                              | —                           | —                               |
| Over 90 days                 | <b>1,581</b>                | 1,015                           | —                           | —                               |
|                              | <b>10,377</b>               | 21,849                          | —                           | —                               |
| Payable to LSG (Note)        | —                           | 78,353                          | —                           | 78,353                          |
| Other creditors and accruals | <b>324,184</b>              | 440,797                         | <b>123,393</b>              | 5,778                           |
|                              | <b>334,561</b>              | 540,999                         | <b>123,393</b>              | 84,131                          |

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

Note: The balance represented the balance of the consideration for the Shares Swap Transactions (Note 11) payable to LSG. The amount was unsecured, interest-free and payable on 31 March 2011 and was fully settled during the period from 1 January 2011 to 31 July 2011.

## NOTES TO FINANCIAL STATEMENTS

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### 34. 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 three years.

At 31 July 2011, the total future minimum lease payments under finance leases and their present values were as follows:

| Group                                     | Minimum lease payments |                  | Present value of minimum lease payments |                  |
|---|------------------------|------------------|---|------------------|
|   | 31 July 2011           | 31 December 2010 | 31 July 2011                            | 31 December 2010 |
|   | HK\$'000               | HK\$'000         | HK\$'000                                | HK\$'000         |
| Amounts payable:                          |                        |                  |   |                  |
| Within one year                           | <b>126</b>             | 132              | <b>125</b>                              | 130              |
| In the second year                        | <b>119</b>             | 120              | <b>119</b>                              | 120              |
| In the third to fifth years, inclusive    | <b>128</b>             | 194              | <b>128</b>                              | 194              |
| Total minimum finance lease payments      | <b>373</b>             | 446              | <b>372</b>                              | 444              |
| Future finance charges                    | <b>(1)</b>             | (2)              |   |                  |
| Total net finance lease payables          | <b>372</b>             | 444              |   |                  |
| Portion classified as current liabilities | <b>(125)</b>           | (130)            |   |                  |
| Non-current portion                       | <b>247</b>             | 314              |   |                  |

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**35. INTEREST-BEARING BANK BORROWINGS**

|                         | Effective contractual<br>interest rate (%) |                     | Group           |                     |
|-------------------------|--|---------------------|-----------------|---------------------|
|                         | 31 July<br>2011                            | 31 December<br>2010 | 31 July<br>2011 | 31 December<br>2010 |
|                         |  |                     | HK\$'000        | HK\$'000            |
| Secured bank borrowings | <b>5.68</b>                                | 5.00                | <b>12,229</b>   | 11,820              |

|   | Group           |                     |
|---|-----------------|---------------------|
|   | 31 July<br>2011 | 31 December<br>2010 |
|   | HK\$'000        | HK\$'000            |
| Analysed into:                            |                 |                     |
| Bank borrowings repayable within one year | <b>12,229</b>   | 11,820              |

The bank borrowings are interest-bearing at a rate with reference to the People's Bank of China's base interest rate per annum and are repayable within one year from 31 July 2011. The bank borrowings are secured by the pledge of the Group's time deposit amounting to HK\$12,960,000 (31 December 2010: HK\$12,960,000) (Note 32). The carrying amounts of the Group's secured bank borrowings approximate their fair values.

The Group's available banking facilities, which were not utilised as at 31 July 2011 and 31 December 2010, included in which of HK\$60,000,000 are secured by fixed charges over the Group's land and buildings with an aggregate net carrying amount at 31 July 2011 of HK\$55,486,000 (31 December 2010: HK\$56,615,000) (Note 16).

## NOTES TO FINANCIAL STATEMENTS

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### 36. PUT OPTION

|                           | Group                       |                                 |
|---------------------------|-----------------------------|---------------------------------|
|                           | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Put option, at fair value | —                           | 143,684                         |

In connection with the disposal of one-third of the equity interest in EAST (Holdings) by the Group to CIR, an independent third party, for a cash consideration of HK\$658,757,000 on 12 March 2007 (the “CapitaLand Transaction”), the Group granted CIR a right (but not the obligation) at nil consideration, to sell or put back (the “Put Option”) to the Group all (and not some) of the shares of EAST (Holdings) then held by CIR at that time, in exchange for the return of:

- (i) the purchase consideration paid for such shares; and
- (ii) any associated joint venture capital contributions made up to that time, net of any benefits had or received by CIR in respect of such shareholding.

The principal asset of EAST (Holdings) was its investment in Cyber One, which through its direct and indirect interests in EAST (Macau), held a piece of land in Macau proposed to be developed into the MSC.

Prior to the completion of the Cyber One Transactions as set out in Note 10, the Put Option were only exercisable under certain discrete circumstances; including the failure to obtain certain documents such as the occupation permit of the MSC, solely due to the failure in obtaining a land grant modification within 54 months after completion of the CapitaLand Transaction, i.e. by 11 September 2011. Further details of the Put Option are set out in the Company’s circular dated 1 February 2007. The land grant modification was being sought for an increase in the developable gross floor area from the original gazetted area.

Pursuant to the waiver and termination agreement entered into between the Group and CIR, the Put Option has been cancelled upon completion of the Cyber One Acquisition as detailed in Note 10. The Put Option has been derecognised during the period from 1 January 2011 to 31 July 2011.

As at 31 December 2010, the directors considered that the fair value of the Put Option depended on the possibility and timing of certain events (including whether and when EAST (Macau) would obtain the (gazetted) land grant modification for the MSC as well as the probability of exercising the Put Option).

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**36. PUT OPTION** (continued)

During the year ended 31 December 2010, after taking into consideration the litigation between the Group and New Cotai, including the proceedings initiated by the Group in October 2009 and the proceedings initiated by New Cotai and related parties in October 2010, and the prevailing progress and uncertainties as regards obtaining the abovementioned land grant modification (details as set out in Note 49 to the financial statements), the directors reassessed the fair value of the Put Option at HK\$143,684,000. Fair value loss on the Put Option of HK\$25,356,000 was recognised in the consolidated income statement for the year ended 31 December 2010.

The fair value of the Put Option as at 31 December 2010 had been determined (i) by using a Black-Scholes model with key inputs including estimated valuation of the underlying property of Cyber One, expected volatility and risk-free rate; and (ii) with reference to the estimation by the Company's directors of the probability of the Put Option being exercised.

**37. INTEREST-BEARING OTHER BORROWINGS**

|                              | Effective contractual |             | Group and Company |             |
|------------------------------|-----------------------|-------------|-------------------|-------------|
|                              | interest rate (%)     |             | 31 July           | 31 December |
|                              | 31 July               | 31 December | 2011              | 2010        |
|                              | 2011                  | 2010        | HK\$'000          | HK\$'000    |
| Other borrowings — unsecured | <b>5.00</b>           | 5.00        | <b>164,601</b>    | 161,321     |

|   | Group and Company |             |
|---|-------------------|-------------|
|   | 31 July           | 31 December |
|   | 2011              | 2010        |
|   | HK\$'000          | HK\$'000    |
| Analysed into:                                |                   |             |
| Other borrowings repayable in the second year | <b>164,601</b>    | 161,321     |

The unsecured other borrowings as at 31 July 2011 and 31 December 2010 represented amounts due to the late Mr. Lim Por Yen which bears interest at The Hongkong and Shanghai Banking Corporation Limited prime rate per annum except for an amount of HK\$51,663,000 which is interest-free.

At 31 July 2011 and 31 December 2010, at the request of the Group, the executor of Mr. Lim Por Yen's estate confirmed to the Group that no demand for the repayment of the outstanding other borrowings or the related interest would be made within one year from respective end of the reporting periods.

## NOTES TO FINANCIAL STATEMENTS

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### 38. CONVERTIBLE NOTES

Pursuant to the Subscription Agreement (Note 17), on 9 June 2011, MAGHL issued to the Subscribers and the Subscribers subscribed for 3-year zero coupon convertible notes in an aggregate principal amount of HK\$371,386,642 (the "First Completion Convertible Notes"). The First Completion Convertible Notes are convertible, at the option of the holders, into the MAGHL's ordinary shares of HK\$0.01 each during the period commencing on the first date of the First Completion Convertible Notes and expiring on the date which is five business days preceding the maturity date.

The note holders may at any time before the maturity date, convert in whole or in part of the First Completion Convertible Notes at the option of the holders. The First Completion Convertible Notes with the principal amount of HK\$170,000,000 carries the rights to convert the principal amount into 10,625,000,000 ordinary shares of MAGHL at a conversion price of HK\$0.016 per share whereas the First Completion Convertible Notes with the principal amount of HK\$201,386,642 carries a right to convert the principal amount into 7,231,118,192 ordinary shares of MAGHL at a conversion price of HK\$0.02785 per share.

Unless previously converted, redeemed, purchased or cancelled in accordance with the terms and conditions of the First Completion Convertible Notes, the First Completion Convertible Notes will be redeemed by MAGHL on the maturity date at the principal amount outstanding.

On initial recognition, the fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in equity.

The net proceeds received from the issue of the First Completion Convertible Notes after eliminating the subscription of the First Completion Convertible Notes of HK\$163,120,000 by Perfect Sky at a conversion price of HK\$0.016 per share, were split as to the liability and equity components on the issue date, as follows:

|  | Group<br>31 July 2011<br>HK\$'000 |
|--|-----------------------------------|
| Face value   | 208,267                           |
| Equity component   | (50,419)                          |
| Direct transaction costs attributable to the liability component | (4,830)                           |
| Liability component at date of issue (Note 43)                   | 153,018                           |
| Interest charged (Note 9)  | 2,404                             |
| Liability component at 31 July 2011                              | 155,422                           |

The interest charged for the period from the issue date of the First Completion Convertible Notes to 31 July 2011 was calculated by applying an effective interest rate of 10.8% per annum to the liability component.

The fair value of the liability component of the First Completion Convertible Notes at 31 July 2011 was approximately HK\$147,072,000. This fair value has been calculated by discounting the future cash flow at the prevailing market interest rate as at 31 July 2011.



**NOTES TO FINANCIAL STATEMENTS**

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**39. DEFERRED TAXATION**

The movements of deferred tax assets and (liabilities) during the current and prior reporting periods are as follows:

|   | Notes | Group  |                        |   | Total<br>HK\$'000 |
|---|-------|--|------------------------|---|-------------------|
|   |       | Accelerated<br>tax<br>depreciation<br>HK\$'000 | Tax losses<br>HK\$'000 | Other<br>temporary<br>differences<br>HK\$'000 |                   |
| At 1 January 2010                                     |       | —  | 423                    | —   | 423               |
| Charge to income statement<br>for the year            | 13    | —  | (94)                   | —   | (94)              |
| At 31 December 2010 and<br>1 January 2011             |       | —  | 329                    | —   | 329               |
| Exchange differences                                  |       | 50   | —                      | —   | 50                |
| Acquisition of subsidiaries                           | 43    | (149)  | —                      | (326)   | (475)             |
| Credit/(charge) to income<br>statement for the period | 13    | 369  | (294)                  | (40)  | 35                |
| <b>At 31 July 2011</b>                                |       | <b>270</b>                                     | <b>35</b>              | <b>(366)</b>                                  | <b>(61)</b>       |

Certain deferred tax assets and liabilities have been offset.

At 31 July 2011, the Group has tax losses arising in Hong Kong of HK\$1,254,005,000 (31 December 2010: HK\$1,099,855,000) 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 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the Mainland of China. The requirement is effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the Mainland of China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and jointly-controlled entities established in the Mainland of China in respect of earnings generated from 1 January 2008.

At 31 July 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in the Mainland of China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and jointly-controlled entities in the Mainland of China for which deferred tax liabilities have not been recognised totalled approximately HK\$3,645,000 at 31 July 2011 (31 December 2010: HK\$3,407,000).

## NOTES TO FINANCIAL STATEMENTS

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### 40. SHARE CAPITAL

#### Shares

|                                  | 31 July 2011          |                        | 31 December 2010      |                        |
|----------------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                                  | Number of shares '000 | Nominal value HK\$'000 | Number of shares '000 | Nominal value HK\$'000 |
| Authorised:                      |                       |                        |                       |                        |
| Ordinary shares of HK\$0.50 each | 2,500,000             | 1,250,000              | 2,000,000             | 1,000,000              |
| Issued and fully paid:           |                       |                        |                       |                        |
| Ordinary shares of HK\$0.50 each | 1,243,212             | 621,606                | 1,240,732             | 620,366                |

Movement in the Company's authorised and issued share capital during the period/year are summarised as follows:

|   | Number of authorised shares '000 | Number of issued ordinary shares '000 | Issued share capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000   |
|---|----------------------------------|---------------------------------------|-------------------------------|--------------------------------|------------------|
| At 1 January 2010,  |                                  |                                       |                               |                                |                  |
| 31 December 2010 and  |                                  |                                       |                               |                                |                  |
| 1 January 2011  | 2,000,000                        | 1,240,732                             | 620,366                       | 4,227,678                      | 4,848,044        |
| Increase in authorised shares (Note (a))                                    | 500,000                          | —                                     | —                             | —                              | —                |
| Issue of shares (Note (b))  | —                                | 2,480                                 | 1,240                         | 2,232                          | 3,472            |
| Release from share option reserve upon exercise of share options (Note (b)) | —                                | —                                     | —                             | 887                            | 887              |
| <b>At 31 July 2011</b>  | <b>2,500,000</b>                 | <b>1,243,212</b>                      | <b>621,606</b>                | <b>4,230,797</b>               | <b>4,852,403</b> |

Notes:

- (a) Pursuant to an ordinary resolution passed by the shareholders of the Company on 27 May 2011, the authorised ordinary share capital of the Company was increased from HK\$1,000,000,000 divided into 2,000,000,000 shares with par value of HK\$0.50 each to HK\$1,250,000,000 divided into 2,500,000,000 shares by creation of additional 500,000,000 shares.
- (b) During the period, subscription rights attaching to 2,480,000 share options granted under the Company's share option scheme (the "Share Option Scheme") were exercised at a subscription price of HK\$1.40 per share (Note 41). Total cash consideration of approximately HK\$3,472,000 was received and 2,480,000 shares of HK\$0.50 each were issued. The share option reserve of HK\$887,000 (Note 42) was released to the share premium account.

#### Share options

Details of the Company's and MAGHL's share option schemes and the share options issued under the schemes are included in Note 41 to the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

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**41. SHARE OPTION SCHEMES****(a) The Company**

The Company operates 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 23 December 2005 (the "Adoption Date") and became effective on 5 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:

- (i) The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue on the Adoption Date unless the 10% limit has been refreshed on shareholders' approval. The 10% limit was refreshed on shareholders' approval at a special general meeting of the Company held on 27 May 2011. 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 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 of the Company.
- (ii) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. 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 of the Company.
- (iii) 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 is determinable by the board of directors in its absolute discretion.
- (iv) The subscription (or exercise) price of any share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (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 of the Company.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 41. SHARE OPTION SCHEMES (continued)

#### (a) The Company (continued)

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

|  | Period from 1 January 2011<br>to 31 July 2011           |                              | Year ended<br>31 December 2010                          |                              |
|--|---|------------------------------|---|------------------------------|
|  | Weighted<br>average<br>exercise price<br>HK\$ per share | Number of<br>options<br>'000 | Weighted<br>average<br>exercise price<br>HK\$ per share | Number of<br>options<br>'000 |
| At the beginning of<br>the reporting periods | 3.72  | 17,534                       | 5.42  | 13,340                       |
| Granted during the period/year               | —   | —                            | 1.67  | 7,440                        |
| Exercised during the period/year             | 1.40  | (2,480)                      | —   | —                            |
| Lapsed during the period/year                | 5.05  | (8,826)                      | 6.01  | (3,246)                      |
| At the end of the reporting periods          | 2.76  | 6,228                        | 3.72  | 17,534                       |

The share price at the date of exercise of the share options exercised during the period ended 31 July 2011 was HK\$2.70.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting periods are as follows:

#### 31 July 2011

| Number of options<br>'000 | Exercise price*<br>HK\$ per share | Exercise period      |
|---------------------------|-----------------------------------|----------------------|
| 1,268                     | 6.52                              | 1-1-11 to 31-12-11 # |
| 2,480                     | 1.70                              | 1-1-12 to 31-12-13   |
| 2,480                     | 1.90                              | 1-1-13 to 31-12-13   |
| 6,228                     |                                   |                      |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 41. SHARE OPTION SCHEMES (continued)

#### (a) The Company (continued)

31 December 2010

| Number of options<br>'000 | Exercise price*<br>HK\$ per share | Exercise period      |
|---------------------------|-----------------------------------|----------------------|
| 5,669                     | 4.68                              | 1-1-10 to 31-12-10## |
| 1,889                     | 5.42                              | 1-1-10 to 31-12-10## |
| 1,268                     | 6.18                              | 1-1-10 to 31-12-10## |
| 1,268                     | 6.52                              | 1-1-11 to 31-12-11   |
| 2,480                     | 1.40                              | 1-1-11 to 31-12-13   |
| 2,480                     | 1.70                              | 1-1-12 to 31-12-13   |
| 2,480                     | 1.90                              | 1-1-13 to 31-12-13   |
| <b>17,534</b>             |                                   |                      |

\* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

# 1,267,810 share options with the exercise period from 1 January 2011 to 31 December 2011 lapsed on 1 September 2011 on cessation of employment of the participant in accordance with terms of the Share Option Scheme.

## A total of 8,825,838 share options lapsed on expiration of the exercise period from 1 January 2010 to 31 December 2010 in accordance with terms of the Share Option Scheme.

The fair value of the share options granted during the year ended 31 December 2010 was HK\$2,323,000. The Group recognised a share option expense of HK\$405,000 (year ended 31 December 2010: HK\$2,078,000) (Note 42) during the period from 1 January 2011 to 31 July 2011.

The fair value of equity-settled share options granted during the year ended 31 December 2010 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:

| Date of grant                        | 22 April 2010 |
|--------------------------------------|---------------|
| Dividend yield (%)                   | —             |
| Expected volatility (%)              | 58.17%        |
| Historical volatility (%)            | 58.17%        |
| Risk-free interest rate (%)          | 1.59%         |
| Expected life of option (year)       | 3.7 years     |
| Closing share price (HK\$ per share) | 1.02          |

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

## NOTES TO FINANCIAL STATEMENTS

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### 41. SHARE OPTION SCHEMES (continued)

#### (a) The Company (continued)

At 31 July 2011, the Company had 6,227,810 share options outstanding under the Share Option Scheme which represented approximately 0.50% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,227,810 additional ordinary shares of the Company and additional share capital of approximately HK\$3,114,000 and share premium of approximately HK\$14,080,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 4,960,000 share options outstanding under the Share Option Scheme, which represented approximately 0.40% of the Company's shares issued as at that date and might grant further options to subscribe for a maximum of 124,321,216 shares of HK\$0.50 each in the Company, representing 10% of the Company's shares in issue as at that date.

#### (b) MAGHL

MAGHL operates a share option scheme (the "MAGHL Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to MAGHL and its subsidiaries and/or to enable the MAGHL and its subsidiaries to recruit and retain high-caliber employees and attract human resources that are valuable to MAGHL and its subsidiaries and any Invested Entity (as defined in MAGHL Share Option Scheme). Eligible participants include full-time and part-time employees, executive directors, non-executive directors, suppliers, customers, advisors, consultants, agents, contractors and shareholders of any member of MAGHL and its subsidiaries and any Invested Entity. The MAGHL Share Option Scheme was adopted on 19 November 2009 and become effective on 24 November 2009 (being the date of the conditional listing approval issued by the Stock Exchange) and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The principal terms of the MAGHL Share Option Scheme are:

- (i) The maximum number of shares of MAGHL ("MAGHL Shares") to be issued upon exercise of all outstanding share options granted and yet to be exercised under the MAGHL Share Option Scheme and any other share option scheme of MAGHL must not in aggregate exceed 30% of the issued share capital of MAGHL from time to time.
- (ii) The total number of MAGHL Shares which may be issued upon exercise of all share options to be granted under the MAGHL Share Option Scheme must not in aggregate exceed 10% of the total number of MAGHL Shares in issue as at 19 November 2009 (the "MAGHL Scheme Limit").
- (iii) MAGHL may seek approval of MAGHL's shareholders at general meeting for refreshing the 10% limit under the MAGHL Share Option Scheme save that the total number of MAGHL Shares which may be issued upon exercise of all share options to be granted under the MAGHL Share Option Scheme under the limit as refreshed must not exceed 10% of the total number of MAGHL Shares in issue as at the date of approval of the limit.

**NOTES TO FINANCIAL STATEMENTS**

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**41. SHARE OPTION SCHEMES** (continued)**(b) MAGHL** (continued)

- (iv) The maximum number of MAGHL Shares issuable under share options to each eligible participant (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the shares of MAGHL in issue at anytime. Any further grant of shares options in excess of this limit is subject to the MAGHL shareholders' approval at a general meeting with such participant and his associates abstaining from voting.
- (v) Any grant of share options to a director, chief executive or substantial shareholder of MAGHL, or to any of their associates, are subject to approval in advance by the independent non-executive directors of MAGHL.
- (vi) Any share options granted to a substantial shareholder or an independent non-executive director of MAGHL, or to any of their associates, in excess of 0.1% of MAGHL Shares in issue at any time or with an aggregate value (based on the closing price of MAGHL Shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to the MAGHL shareholders' approval in advance at a general meeting.
- (vii) The offer of a grant of share options may be accepted within 28 days from the date of the offer, together with payment of a nominal consideration of HK\$1 for the grant by the grantee.
- (viii) The exercise period of the share options granted is determinable by the directors of MAGHL provided that such period must not be more than ten years from the date of the offer of the share options or the determination date of the MAGHL Share Option Scheme, if earlier.
- (ix) The exercise price of the share options is determinable by the directors of MAGHL, but must not be lower than the highest of (i) the Stock Exchange closing price of MAGHL Shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of MAGHL Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of MAGHL Shares on the date of the offer.

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

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 41. SHARE OPTION SCHEMES (continued)

#### (b) MAGHL (continued)

Details of the share options outstanding during the period from 9 June 2011 to 31 July 2011 (the "Period") are as follows:

|  | Number of<br>share options | Exercise<br>price*<br>HK\$<br>per share |
|--|----------------------------|---|
| Outstanding at the beginning of the Period | 166,800,000                | 0.198                                   |
| Exercised during the Period                | (72,000,000)               | 0.198                                   |
| Lapsed/cancelled during the Period         | (94,800,000)               | 0.198                                   |
| Outstanding at the end of the Period       | —                          | —                                       |

\* The exercise price of the share options is subject to adjustment in case of rights or bonus issues or other similar changes in MAGHL's share capital.

The weighted average share price of MAGHL at the date of exercise for share options of MAGHL during the Period was HK\$0.258 per share.

At 31 July 2011, MAGHL had no share option outstanding under the MAGHL Share Option Scheme.

In compliance with Chapter 23 of the GEM Listing Rules, the shareholders of MAGHL passed a resolution at the annual general meeting of MAGHL held on 20 August 2011 for approving the refreshment of the MAGHL Scheme Limit allowing MAGHL to grant further options for subscription of up to a total of 1,011,025,761 shares, representing 10% of the total issued shares of MAGHL as at the date of passing the relevant resolution.

The refreshment of the MAGHL Scheme Limit was also approved by the shareholders of the Company at a special general meeting held on 22 October 2011 pursuant to the requirements of Rule 17.01(4) of the Main Board Listing Rules and Rule 23.01(4) of the GEM Listing Rules.

Subsequent to the end of the reporting period, on 26 August 2011, a total of 94,025,000 MAGHL share options of MAGHL was granted to an eligible participant (who has been appointed an executive director and the chief executive officer of MAGHL with effect from 6 September 2011 (the "Commencement Date")). These share options will be vested separately in three tranches with different exercise periods. The exercise period of the first tranche will start from the twelfth month after the Commencement Date, and at exercise prices range from HK\$0.2042 to HK\$0.26546 per share. The closing price of MAGHL Shares at the date of grant was HK\$0.2042 per share on 26 August 2011. Further details of the share options granted on 26 August 2011 are set out in MAGHL's announcement dated 26 August 2011.

At the date of approval of these financial statements, MAGHL had an outstanding share option entitling the grantee to subscribe for 94,025,000 shares of HK\$0.01 each in MAGHL, which represented approximately 0.72% of the MAGHL Shares in issue at that date (13,140,257,612 shares) and might grant further options to subscribe for a maximum of 1,011,025,761 shares of HK\$0.01 each in MAGHL, representing 7.69% of the MAGHL Shares in issue as at that date.



## NOTES TO FINANCIAL STATEMENTS

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### 42. RESERVES

#### Group

|  | Note | Share premium account<br>HK\$'000 | Contributed surplus*<br>HK\$'000 | Share option reserve<br>HK\$'000 | Investment revaluation reserve<br>HK\$'000 | Exchange reserve<br>HK\$'000 | Other reserve<br>HK\$'000 | Retained profits/<br>(accumulated losses)<br>HK\$'000 | Total<br>HK\$'000 |
|--|------|-----------------------------------|----------------------------------|----------------------------------|--|------------------------------|---------------------------|---|-------------------|
| At 1 January 2010  |      | 4,227,678                         | 891,289                          | 15,586                           | 256,640                                    | 27,105                       | —                         | (548,002)   | 4,870,296         |
| Profit for the year  |      | —                                 | —                                | —                                | —  | —                            | —                         | 853,278   | 853,278           |
| Other comprehensive income for the year:                                   |      |                                   |                                  |                                  |  |                              |                           |   |                   |
| Exchange realignment   |      | —                                 | —                                | —                                | —  | 2,861                        | —                         | —   | 2,861             |
| Fair value gain of an available-for-sale investment                        |      | —                                 | —                                | —                                | 150  | —                            | —                         | —   | 150               |
| Release of reserves upon realisation of available-for-sale investment      |      | —                                 | —                                | —                                | (25,505)                                   | —                            | —                         | —   | (25,505)          |
| Share of reserve movements of jointly-controlled entities                  |      | —                                 | —                                | —                                | —  | 251                          | —                         | —   | 251               |
| Share of reserve movements of associates                                   |      | —                                 | —                                | (175)                            | 49,736                                     | 91,886                       | 2,100                     | 400   | 143,947           |
| Release of reserves upon disposal of an associate                          |      | —                                 | —                                | (4,715)                          | (281,021)                                  | (1,696)                      | (2,100)                   | 6,815   | (282,717)         |
| Total comprehensive income/(loss) for the year                             |      | —                                 | —                                | (4,890)                          | (256,640)                                  | 93,302                       | —                         | 860,493   | 692,265           |
| Equity-settled share option arrangements                                   | 41   | —                                 | —                                | 2,078                            | —  | —                            | —                         | —   | 2,078             |
| Release of reserves upon lapse of share options                            |      | —                                 | —                                | (10,147)                         | —  | —                            | —                         | 10,147  | —                 |
| Disposal of partial interests in a subsidiary to non-controlling interests |      | —                                 | —                                | —                                | —  | —                            | 13,754                    | —   | 13,754            |
| At 31 December 2010  |      | 4,227,678                         | 891,289                          | 2,627                            | —  | 120,407                      | 13,754                    | 322,638   | 5,578,393         |

## NOTES TO FINANCIAL STATEMENTS

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### 42. RESERVES (continued)

#### Group (continued)

|   | Notes | Share premium account<br>HK\$'000 | Contributed surplus*<br>HK\$'000 | Share option reserve<br>HK\$'000 | Investment revaluation reserve<br>HK\$'000 | Exchange reserve<br>HK\$'000 | Other reserve<br>HK\$'000 | Retained profits/<br>(accumulated losses)<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------|-----------------------------------|----------------------------------|----------------------------------|--|------------------------------|---------------------------|---|-------------------|
| At 1 January 2011   |       | 4,227,678                         | 891,289                          | 2,627                            | –  | 120,407                      | 13,754                    | 322,638   | 5,578,393         |
| Profit for the period   |       | –                                 | –                                | –                                | –  | –                            | –                         | 524,538   | 524,538           |
| Other comprehensive income for the period:  |       |                                   |                                  |                                  |  |                              |                           |   |                   |
| Exchange realignment  |       | –                                 | –                                | –                                | –  | 1,358                        | –                         | –   | 1,358             |
| Share of reserve movements of jointly-controlled entities                                       |       | –                                 | –                                | –                                | –  | 130                          | –                         | –   | 130               |
| Share of reserve movements of associates  |       | –                                 | –                                | –                                | –  | 101,563                      | –                         | –   | 101,563           |
| Total comprehensive income for the period   |       | –                                 | –                                | –                                | –  | 103,051                      | –                         | 524,538   | 627,589           |
| Issue of shares upon exercise of share options  | 40(b) | 3,119                             | –                                | (887)                            | –  | –                            | –                         | –   | 2,232             |
| Equity-settled share option arrangements  | 41    | –                                 | –                                | 405                              | –  | –                            | –                         | –   | 405               |
| Deemed disposal of partial interests in a subsidiary arising from exercise of its share options |       | –                                 | –                                | –                                | –  | –                            | 7,261                     | –   | 7,261             |
| <b>At 31 July 2011</b>  |       | <b>4,230,797</b>                  | <b>891,289</b>                   | <b>2,145</b>                     | <b>–</b>                                   | <b>223,458</b>               | <b>21,015</b>             | <b>847,176</b>  | <b>6,215,880</b>  |
| Retained by:  |       |                                   |                                  |                                  |  |                              |                           |   |                   |
| Company and subsidiaries  |       | 4,230,797                         | 891,289                          | 2,145                            | –  | 29,911                       | 21,015                    | 714,174   | 5,889,331         |
| Jointly-controlled entities   |       | –                                 | –                                | –                                | –  | 518                          | –                         | (40,469)  | (39,951)          |
| Associates  |       | –                                 | –                                | –                                | –  | 193,029                      | –                         | 173,471   | 366,500           |
| <b>At 31 July 2011</b>  |       | <b>4,230,797</b>                  | <b>891,289</b>                   | <b>2,145</b>                     | <b>–</b>                                   | <b>223,458</b>               | <b>21,015</b>             | <b>847,176</b>  | <b>6,215,880</b>  |
| Company and subsidiaries  |       | 4,227,678                         | 891,289                          | 2,627                            | –  | 28,553                       | 13,754                    | 394,374   | 5,558,275         |
| Jointly-controlled entities   |       | –                                 | –                                | –                                | –  | 388                          | –                         | (209,267)   | (208,879)         |
| Associates  |       | –                                 | –                                | –                                | –  | 91,466                       | –                         | 137,531   | 228,997           |
| At 31 December 2010   |       | 4,227,678                         | 891,289                          | 2,627                            | –  | 120,407                      | 13,754                    | 322,638   | 5,578,393         |

\* 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.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**42. RESERVES** (continued)**Company**

|   | Notes | Share premium account<br>HK\$'000 | Contributed surplus<br>HK\$'000 | Share option reserve<br>HK\$'000 | Retained profits/<br>(accumulated losses)<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------|-----------------------------------|---------------------------------|----------------------------------|---|-------------------|
| At 1 January 2010   |       | 4,227,678                         | 845,455                         | 10,696                           | (1,752,865)   | 3,330,964         |
| Profit for the year and total comprehensive income for the year     | 14    | —                                 | —                               | —                                | 2,306,626   | 2,306,626         |
| Equity-settled share option arrangements                            | 41    | —                                 | —                               | 2,078                            | —   | 2,078             |
| Release of reserves upon lapse of share options                     |       | —                                 | —                               | (10,147)                         | 10,147  | —                 |
| At 31 December 2010 and 1 January 2011                              |       | 4,227,678                         | 845,455                         | 2,627                            | 563,908   | 5,639,668         |
| Profit for the period and total comprehensive income for the period | 14    | —                                 | —                               | —                                | 288,528   | 288,528           |
| Issue of shares upon exercise of share options                      | 40(b) | 3,119                             | —                               | (887)                            | —   | 2,232             |
| Equity-settled share option arrangements                            | 41    | —                                 | —                               | 405                              | —   | 405               |
| <b>At 31 July 2011</b>  |       | <b>4,230,797</b>                  | <b>845,455</b>                  | <b>2,145</b>                     | <b>852,436</b>  | <b>5,930,833</b>  |

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

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### 43. BUSINESS COMBINATION

As further detailed in Note 17 to the financial statements, the Group acquired 51.3% equity interest in MAGHL. Since then, MAGHL has become a subsidiary of the Group.

The Group consider that the acquisition of a controlling interest in MAGHL represents a good opportunity for the Group to leverage the Group's established networks in the media and entertainment sectors into different geographic focus.

The Group has elected to measure the non-controlling interests in MAGHL at the non-controlling interests' proportionate share of MAGHL's identifiable net assets.

The fair values of the identifiable assets and liabilities of MAGHL as at the date of acquisition were as follows:

|  | Notes | Fair values<br>HK\$'000 |
|--|-------|-------------------------|
| Property, plant and equipment  | 16    | 1,340                   |
| Debtors  |       | 1,737                   |
| Deposits, prepayments and other receivables                              |       | 27,631                  |
| Forward contract   | 31    | 1,751                   |
| Cash and bank balances   |       | 371,033                 |
| Creditors and accruals   |       | (23,000)                |
| Convertible notes  | 38    | (153,018)               |
| Deferred tax liabilities   | 39    | (475)                   |
|  |       | <b>226,999</b>          |
| Non-controlling interests of the Group                                   |       | <b>(136,247)</b>        |
|  |       | <b>90,752</b>           |
| Total identifiable net assets of MAGHL                                   |       | <b>90,752</b>           |
| Gain on bargain purchase recognised in the consolidated income statement |       | <b>(8,339)</b>          |
|  |       | <b>82,413</b>           |
| Satisfied by cash  |       | <b>82,413</b>           |

The Group incurred transaction costs of HK\$4,991,000 for this acquisition. These transaction costs have been expensed and are included in other operating expenses in the consolidated income statement.

The fair values of debtors as at the date of acquisition amounted to HK\$1,737,000. The gross contractual amount of debtors was HK\$5,655,000 of which amounts of HK\$3,918,000 (Note 29) are expected to be uncollectable.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**43. BUSINESS COMBINATION** (continued)

As analysis of the cash flows in respect of the acquisition of MAGHL is as follows:

|  | HK\$'000        |
|--|-----------------|
| Cash consideration paid  | <b>(82,413)</b> |
| Cash and bank balances acquired  | <b>371,033</b>  |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | <b>288,620</b>  |
| Transaction cost of the acquisition included in cash flows from operating activities     | <b>(4,991)</b>  |
|  | <b>283,629</b>  |

Since its acquisition, MAGHL contributed HK\$9,871,000 to the Group's turnover and loss of HK\$2,715,000 included in the consolidated profit for the period from 1 January 2011 to 31 July 2011.

Had the combination taken place at the beginning of the period, the turnover of the Group and the profit of the Group for the period from 1 January 2011 to 31 July 2011 would have been HK\$318,848,000 and HK\$491,210,000, respectively.

**44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****Major non-cash transactions**

- (i) During the period from 1 January 2011 to 31 July 2011, prepayment of HK\$800,000 (Year ended 31 December 2010: HK\$15,200,000) was transferred to music catalogs.
- (ii) As at 31 July 2011, accrued cost and expenses of HK\$123,583,000 in connection with the Cyber One Transactions was recorded in the consolidated statement of financial position. During the period from 1 January 2011 to 31 July 2011, derecognition of accrued land premium of HK\$219,490,000 recorded in the creditors and accruals, and the Put Option of HK\$143,684,000 in connection with the Cyber One Transactions have no cash flow impact on the Group.
- (iii) The balance of the consideration payable to LSG pursuant to the Shares Swap Transactions (Note 11) of HK\$78,353,000 has not yet been due for payment and is included in creditors and accruals in the consolidated statement of financial position as at 31 December 2010.
- (iv) During the year ended 31 December 2010, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the lease of HK\$283,000.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 45. COMMITMENTS

- (a) The Group had the following capital commitments, contracted but not provided for, at the end of the reporting periods:

|   | Group                       |                                 |
|---|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Commitments in respect of:  |                             |                                 |
| Acquisition of furniture, fixtures and equipment                  | —                           | 57                              |
| Capital contributions payable to joint ventures to be established | 15,624                      | 11,752                          |
| Contribution to an available-for-sale investment                  | 69                          | 69                              |
|   | <b>15,693</b>               | 11,878                          |

On 9 November 2007, shareholders of Cyber One entered into a Memorandum of Understanding (the "MOU"). The MOU recognised New Cotai Entertainment, LLC's exercise of a lease option as valid, conditionally amended certain provisions of the governing lease documents, and provided the mechanism by which the amendments would become effective. The MOU also conditionally provided for the increase of each shareholder's proportional contribution to the MSC project, on a several basis, from US\$200 million to US\$500 million, subject to the approval of the shareholders of the Company and further negotiation of the definitive documents to reflect and expand upon matters agreed in the MOU.

On 16 October 2008, New Cotai issued a notice of termination of the MOU (dated 15 October 2008) to the respective parties of the MOU, in accordance with the provisions thereof, the definitive documents not having been settled within the prescribed time limit. However, certain provisions of the MOU remain valid and binding on the parties. Up to the Cyber One Transactions Completion Date, the MSC shareholders have only advanced US\$200 million in accordance with the terms of the original Cyber One joint venture agreement of 6 December 2006. The Company's contribution has been US\$80 million as of the date of 31 December 2010 and the Cyber One Transactions Completion Date, which is proportional to its effective interest of 40%.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**45. COMMITMENTS** (continued)

(a) (continued)

Upon completion of the Cyber One Transactions on 27 July 2011, the Company's contribution commitment to Cyber One Group and the Group's share of the Cyber One Group's own capital commitments were released.

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

|                                  | Group                       |                                 |
|----------------------------------|-----------------------------|---------------------------------|
|                                  | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Contracted, but not provided for | —                           | 280,834                         |

At the end of the respective reporting periods, the Company did not have any significant capital commitments.

(b) As at 31 July 2011, the Group and the Company leased certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years (31 December 2010: one to ten years).

At the end of the reporting periods, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | Group                       |                                 |
|---|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Within one year                         | <b>10,636</b>               | 8,779                           |
| In the second to fifth years, inclusive | <b>11,368</b>               | 7,562                           |
|   | <b>22,004</b>               | 16,341                          |

|   | Company                     |                                 |
|---|-----------------------------|---------------------------------|
|   | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Within one year                         | <b>2,526</b>                | 2,941                           |
| In the second to fifth years, inclusive | <b>780</b>                  | 2,093                           |
|   | <b>3,306</b>                | 5,034                           |

## NOTES TO FINANCIAL STATEMENTS

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### 46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

#### Group

**31 July 2011**

#### Financial assets

|   | Financial assets<br>at fair value through<br>profit or loss –<br>held for trading<br>HK\$'000 | Loans and<br>receivables<br>HK\$'000 | Available-for-<br>sale financial<br>assets<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|--------------------------------------|--|-------------------|
| Investments in jointly-controlled entities<br>(Note 21)                     | –   | 97,467                               | –  | 97,467            |
| Investments in associates (Note 22)   | –   | 2,358                                | –  | 2,358             |
| Available-for-sale investments  | –   | –                                    | 78,969   | 78,969            |
| Debtors   | –   | 97,680                               | –  | 97,680            |
| Financial assets included in deposits,<br>prepayments and other receivables | –   | 70,238                               | –  | 70,238            |
| Equity investments at fair value through<br>profit or loss                  | 1,474   | –                                    | –  | 1,474             |
| Loan receivable   | –   | 11,000                               | –  | 11,000            |
| Forward contract  | 8,336   | –                                    | –  | 8,336             |
| Pledged deposit   | –   | 12,960                               | –  | 12,960            |
| Cash and cash equivalents   | –   | 2,311,490                            | –  | 2,311,490         |
|   | 9,810   | 2,603,193                            | 78,969   | 2,691,972         |

#### Financial liabilities

|  | Financial<br>liabilities at<br>amortised cost<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|-------------------|
| Trade creditors  | 10,377  | 10,377            |
| Financial liabilities included in other creditors and accruals | 166,526   | 166,526           |
| Finance lease payables   | 372   | 372               |
| Interest-bearing bank borrowings                               | 12,229  | 12,229            |
| Interest-bearing other borrowings                              | 164,601   | 164,601           |
| Convertible notes  | 155,422   | 155,422           |
|  | 509,527   | 509,527           |



## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

#### Group (continued)

31 December 2010

#### Financial assets

|   | Financial assets<br>at fair value through<br>profit or loss –<br>held for trading<br>HK\$'000 | Held-to-<br>maturity<br>investments<br>HK\$'000 | Loans and<br>receivables<br>HK\$'000 | Available-for-<br>sale financial<br>assets<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---|--------------------------------------|--|-------------------|
| Investments in jointly-controlled entities<br>(Note 21)                     | —   | —   | 571,568                              | —  | 571,568           |
| Investments in associates (Note 22)   | —   | —   | 1,457                                | —  | 1,457             |
| Available-for-sale investment   | —   | —   | —                                    | 77,946   | 77,946            |
| Debtors   | —   | —   | 122,736                              | —  | 122,736           |
| Financial assets included in deposits,<br>prepayments and other receivables | —   | —   | 80,520                               | —  | 80,520            |
| Equity investments at fair value through<br>profit or loss                  | 2,083   | —   | —                                    | —  | 2,083             |
| Held-to-maturity debt investments   | —   | 51,561  | —                                    | —  | 51,561            |
| Due from a jointly-controlled entity  | —   | —   | 513                                  | —  | 513               |
| Loan receivable   | —   | —   | 11,000                               | —  | 11,000            |
| Pledged deposit   | —   | —   | 12,960                               | —  | 12,960            |
| Cash and cash equivalents   | —   | —   | 1,089,144                            | —  | 1,089,144         |
|   | 2,083   | 51,561  | 1,889,898                            | 77,946   | 2,021,488         |

#### Financial liabilities

|  | Financial liabilities<br>at fair value through<br>profit or loss<br>HK\$'000 | Financial<br>liabilities at<br>amortised cost<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|---|-------------------|
| Trade creditors  | —  | 21,849  | 21,849            |
| Financial liabilities included in other creditors and accruals | —  | 125,285   | 125,285           |
| Finance lease payables   | —  | 444   | 444               |
| Interest-bearing bank borrowings                               | —  | 11,820  | 11,820            |
| Interest-bearing other borrowings                              | —  | 161,321   | 161,321           |
| Put option   | 143,684  | —   | 143,684           |
|  | 143,684  | 320,719   | 464,403           |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

#### Company

##### Financial assets

|  | Loans and receivables       |                                 |
|--|-----------------------------|---------------------------------|
|  | 31 July<br>2011<br>HK\$'000 | 31 December<br>2010<br>HK\$'000 |
| Due from subsidiaries (Note 17)  | <b>5,357,275</b>            | 5,707,020                       |
| Financial assets included in deposits, prepayments and other receivables | <b>141</b>                  | 78                              |
| Cash and cash equivalents  | <b>1,471,421</b>            | 786,536                         |
|  | <b>6,828,837</b>            | 6,493,634                       |

##### Financial liabilities

|                                   | Financial liabilities at amortised cost |                                 |
|-----------------------------------|---|---------------------------------|
|                                   | 31 July<br>2011<br>HK\$'000             | 31 December<br>2010<br>HK\$'000 |
| Interest-bearing other borrowings | <b>164,601</b>                          | 161,321                         |

**NOTES TO FINANCIAL STATEMENTS**

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**47. FAIR VALUE HIERARCHY**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value as at 31 July 2011 and 31 December 2010:

**Group**

|   | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| <b>31 July 2011</b>   |                     |                     |                     |                   |
| Equity investments at fair value through profit or loss (Note 26) | 1,474               | —                   | —                   | 1,474             |
| Forward contract (Note 31)  | —                   | —                   | 8,336               | 8,336             |
|   | <b>1,474</b>        | <b>—</b>            | <b>8,336</b>        | <b>9,810</b>      |

31 December 2010

|   |       |   |   |       |
|---|-------|---|---|-------|
| Equity investments at fair value through profit or loss (Note 26) | 2,083 | — | — | 2,083 |
|---|-------|---|---|-------|

Liabilities measured at fair value as at 31 December 2010:

**Group**

|                      | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------|---------------------|---------------------|---------------------|-------------------|
| Put option (Note 36) | —                   | —                   | 143,684             | 143,684           |

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 47. FAIR VALUE HIERARCHY (continued)

Movement of changes in fair value of financial instruments measured based on Level 3 during the period/year is as follows:

#### Forward contract

|   | <b>Group</b><br>HK\$'000 |
|---|--------------------------|
| At 1 January 2010, 31 December 2010 and 1 January 2011          | —                        |
| Initial recognition of fair value                               | 1,751                    |
| Fair value gain recognised in the consolidated income statement | 6,585                    |
| <b>At 31 July 2011</b>  | <b>8,336</b>             |

#### Put option

|  | <b>Group</b><br>HK\$'000 |
|--|--------------------------|
| At 1 January 2010                                    | 118,328                  |
| Loss recognised in the consolidated income statement | 25,356                   |
| At 31 December 2010 and 1 January 2011               | 143,684                  |
| Reversed during the period                           | (143,684)                |
| <b>At 31 July 2011</b>                               | <b>—</b>                 |

The Company did not have any financial assets and financial liabilities measured at fair value as at 31 July 2011 and 31 December 2010.

### 48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, interest-bearing other borrowings, put option, finance leases, convertible notes, forward contract, pledged deposit, 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 and creditors, which arise directly from its operations, and held-to-maturity debt investments, available-for-sale investments, equity investments at fair value through profit or loss which are held by the Group for investment purpose.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**48. 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, liquidity risk and equity price 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) 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 changes in 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.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate time deposits, loan receivable and borrowings) and the Group's and the Company's equity.

|  | Group  |   |                                | Company                                      |                                |
|--|--|---|--------------------------------|--|--------------------------------|
|  | Increase in interest rate<br>(in percentage) | Increase in profit before tax<br>HK\$'000 | Increase in equity<br>HK\$'000 | Increase in interest rate<br>(in percentage) | Increase in equity<br>HK\$'000 |

**Period ended 31 July 2011**

Time deposits, loan receivables and borrowings denominated in:

|                     |     |       |       |     |       |
|---------------------|-----|-------|-------|-----|-------|
| — Hong Kong dollars | 0.5 | 2,411 | 2,411 | 0.5 | 1,492 |
| — US dollars        | 0.5 | 5,255 | 5,255 | 0.5 | 5,255 |

## Year ended 31 December 2010

Time deposits, loan receivables and borrowings denominated in

|                   |     |       |       |     |       |
|-------------------|-----|-------|-------|-----|-------|
| Hong Kong dollars | 0.5 | 3,966 | 3,966 | 0.5 | 3,302 |
|-------------------|-----|-------|-------|-----|-------|

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (ii) Foreign currency risk

##### RMB

Certain subsidiaries of the Company have transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

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.

The following table demonstrates the sensitivity of the Group's equity at the end of the reporting periods to a reasonably possible change in the RMB exchange rates, with all other variables held constant.

|   | Increase in<br>RMB rate<br>% | Increase in<br>equity<br>HK\$'000 |
|---|------------------------------|-----------------------------------|
| <b>Period ended 31 July 2011</b>        |                              |                                   |
| If Hong Kong dollar weakens against RMB | <b>5</b>                     | <b>8,684</b>                      |
| Year ended 31 December 2010             |                              |                                   |
| If Hong Kong dollar weakens against RMB | 5                            | 6,793                             |

##### USD

Certain of the Group's and the Company's monetary assets are denominated in US dollars. The Group and the Company are exposed to foreign exchange risk arising from the exposure of US dollars against Hong Kong dollars.

The Group and the Company considered the impact on the equity from the change in US dollars exchange rate was minimal at the end of reporting periods since Hong Kong dollars are pegged to US dollars.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**(iii) Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets which comprise cash and cash equivalents, available-for-sale assets, held-to-maturity debt investments, amounts due from associates and jointly-controlled entities, loan receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors and other receivables are disclosed in Notes 29 and 30 to the financial statements, respectively.

**(iv) Liquidity risk**

The Group's objective is to ensure adequate funds are available 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.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (iv) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting periods, based on the contractual undiscounted payments, was as follows:

#### Group

|                                   | 31 July 2011          |                                   |   |                             |                   |
|-----------------------------------|-----------------------|-----------------------------------|---|-----------------------------|-------------------|
|                                   | On demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to less than<br>12 months<br>HK\$'000 | 1 to 5<br>years<br>HK\$'000 | Total<br>HK\$'000 |
| Trade creditors                   | —                     | 8,796                             | 1,581                                   | —                           | 10,377            |
| Other creditors                   | 166,526               | —                                 | —                                       | —                           | 166,526           |
| Finance lease payables            | —                     | —                                 | 126                                     | 247                         | 373               |
| Interest-bearing bank borrowings  | —                     | 12,229                            | —                                       | —                           | 12,229            |
| Interest-bearing other borrowings | —                     | —                                 | —                                       | 170,248                     | 170,248           |
| Convertible notes                 | —                     | —                                 | —                                       | 208,267                     | 208,267           |
|                                   | <b>166,526</b>        | <b>21,025</b>                     | <b>1,707</b>                            | <b>378,762</b>              | <b>568,020</b>    |

|                                   | 31 December 2010      |                                   |   |                             |                   |
|-----------------------------------|-----------------------|-----------------------------------|---|-----------------------------|-------------------|
|                                   | On demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to less than<br>12 months<br>HK\$'000 | 1 to 5<br>years<br>HK\$'000 | Total<br>HK\$'000 |
| Trade creditors                   | —                     | 20,834                            | 1,015                                   | —                           | 21,849            |
| Other creditors                   | 46,932                | 78,353                            | —                                       | —                           | 125,285           |
| Finance lease payables            | —                     | —                                 | 132                                     | 314                         | 446               |
| Interest-bearing bank borrowings  | —                     | —                                 | 11,820                                  | —                           | 11,820            |
| Interest-bearing other borrowings | —                     | —                                 | —                                       | 166,968                     | 166,968           |
| Put option*                       | —                     | —                                 | 143,684                                 | —                           | 143,684           |
|                                   | <b>46,932</b>         | <b>99,187</b>                     | <b>156,651</b>                          | <b>167,282</b>              | <b>470,052</b>    |

\* Were the put option to become exercisable and be exercised, the total contractual amount payable by the Group based on the conditions prevailing as at 31 December 2010 would be approximately HK\$971 million. Further details of the put option are set out in Note 36 to the financial statements.



**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)**(iv) Liquidity risk** (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting periods, based on the contractual undiscounted payments, was as follows:

**Company**

|                                   | 31 July 2011          |                                   |   |                             |                   |
|-----------------------------------|-----------------------|-----------------------------------|---|-----------------------------|-------------------|
|                                   | On demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to less than<br>12 months<br>HK\$'000 | 1 to 5<br>years<br>HK\$'000 | Total<br>HK\$'000 |
| Interest-bearing other borrowings | —                     | —                                 | —                                       | 170,248                     | 170,248           |

|                                   | 31 December 2010      |                                   |   |                             |                   |
|-----------------------------------|-----------------------|-----------------------------------|---|-----------------------------|-------------------|
|                                   | On demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to less than<br>12 months<br>HK\$'000 | 1 to 5<br>years<br>HK\$'000 | Total<br>HK\$'000 |
| Interest-bearing other borrowings | —                     | —                                 | —                                       | 166,968                     | 166,968           |

**(v) Equity price risk**

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss (Note 26) and an available-for-sale investment (Note 23) at the end of the reporting periods. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting periods.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (v) Equity price risk (continued)

The following table demonstrates the sensitivity to every 5% increase in the fair value of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting periods.

|                              | Carrying amount<br>of equity<br>investments<br>HK\$'000 | Increase in<br>profit<br>before tax<br>HK\$'000 | Increase in<br>equity<br>HK\$'000 |
|------------------------------|---|---|-----------------------------------|
| <b>31 July 2011</b>          |   |   |                                   |
| Investments listed in:       |   |   |                                   |
| Hong Kong — Held-for-trading | 1,474   | 74  | 74                                |
| <br>31 December 2010         |   |   |                                   |
| Investments listed in:       |   |   |                                   |
| Hong Kong — Held-for-trading | 2,083   | 104   | 104                               |

#### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure in order to support its business operations.

The capital structure of the Group consists of debts which include interest-bearing bank borrowings, interest-bearing other borrowings, cash and cash equivalents, pledged deposit and equity attributable to owners of the Company. The Group manages its capital structure and makes adjustments to it, in the light of changes in the economic and financial market conditions. To maintain or adjust the capital structure, the Group may adjust its policy of dividend payment to shareholders, issue new shares, raise new borrowings or realise its assets.

The Group also regularly monitors the current ratio of the Group, which is total current assets divided by total current liabilities of the Group. The current ratio of the Group as at 31 July 2011 was 7.66 (31 December 2010: 2.14).

No changes were made in the objectives, policies or processes of capital management by the Group during the period from 1 January 2011 to 31 July 2011 and the year ended 31 December 2010.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**49. LITIGATION****(a) Litigation with New Cotai**

Cyber One had been the jointly-controlled entity of the Group responsible for the MSC project. EAST (Holdings) — of which 66.7% was held indirectly by the Company and 33.3% was held by CIR — had a 60% shareholding interest in Cyber One. New Cotai had been the US joint venture partner holding a 40% shareholding interest in Cyber One.

Since 2009, there had been disputes and ongoing litigation between EAST (Holdings) and New Cotai in respect of the development and construction of the MSC project, which had effectively deadlocked the project's development and construction. The litigation between the parties was, in short, as follows:

- (i) On 29 October 2009, EAST (Holdings) commenced legal proceedings (HCA 2189/2009) in the Hong Kong SAR against New Cotai and parties interested in that company. Amongst other things, EAST (Holdings) claimed damages of approximately HK\$689 million for breach or inducing breaches of contract.
- (ii) On 29 October 2009, EAST (Holdings) also sought an order by way of a petition (under HCMP 2218/2009) requiring New Cotai to transfer its interests in the Cyber One Group to EAST (Holdings).
- (iii) On 14 October 2010, New Cotai Entertainment, LLC commenced an action (HCA 1545 of 2010) in the Hong Kong High Court against EAST (Macau), the Company, EAST (Holdings), CIR and CapitaLand Limited seeking specific performance of the execution of a casino lease, and damages for breach of contract and inducing or procuring breach of contract for failure to execute the casino lease.
- (iv) Also on 14 October 2010, the directors of Cyber One nominated by New Cotai commenced an action (HCA 1546 of 2010) against Cyber One and EAST (Holdings) seeking an indemnity of all costs and expenses incurred by them in defending the legal proceedings commenced against them by EAST (Holdings).
- (v) On 29 October 2010, New Cotai also presented to the Hong Kong High Court a counter petition (HCMP 2185 of 2010) seeking an order requiring EAST (Holdings) to transfer its interests in the Cyber One group to New Cotai. Essentially, New Cotai's petition was the mirror-image of EAST (Holdings)'s petition.

In order to resolve the deadlock between the parties, amongst other reasons, EAST (Holdings), the Company and MCE agreed amongst other things that EAST (Holdings) would sell its 60% shareholding in Cyber One to MCE. As at 31 July 2011, EAST (Holdings) had completed the disposal of its shares in Cyber One to MCE, such that the Company has ceased to hold any interest in Cyber One and the MSC project.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 49. LITIGATION (continued)

#### **(a) Litigation with New Cotai** (continued)

On the event of the above completion, and pursuant to the terms of a Deed of Settlement dated 15 June 2011, the Company, EAST (Holdings), CIR, CapitalLand Limited, New Cotai and New Cotai Entertainment, LLC on a no admission of liability basis, fully and finally settled:

- (i) the above claims and petitions; and
- (ii) all disputes between them arising out of, or in connection with, the MSC project and the related joint venture between EAST (Holdings) and New Cotai.

The settlement includes a release from liability between the parties to the Deed of Settlement and no settlement sum has been paid by any party pursuant to the terms of that Deed.

#### **(b) Litigation with Passport Special Opportunities Master Fund, LP and Passport Global Master Fund SPC Limited (“Passport”)**

In December 2008, the Company had sought to raise approximately HK\$60 million through a share placement exercise (with the prospect of raising an additional HK\$60 million if the placees exercised the accompanying warrants in full). The placing shares would have represented approximately 8.82% of the enlarged issued share capital of the Company (and the shares issued on the full exercise of the warrants would have represented approximately 8.10% of the further enlarged issued share capital of the Company). The placing, which was primarily intended to finance the Group’s media and entertainment businesses and otherwise for general working capital purposes, did not ultimately proceed because Passport, which was then a substantial shareholder of the Company, obtained an ex-parte injunction temporarily restraining the Company from proceeding with the placing (Passport and its affiliates disposed of their entire shareholdings in the Company on 30 April 2010). Although the long-stop date for the placing was extended once, with the injunction order remaining in place and the conditions to the placing remaining unfulfilled, the placing agreement lapsed on 9 January 2009.

In essence, Passport alleged that the Company had no good commercial reason for the placement and that its sole or primary purpose was to dilute Passport’s shareholding.

On 8 June 2011, judgment was handed down. The Judge held that Passport’s claims to relief against the Company and the directors be dismissed. Passport has appealed against the decision and the hearing of the appeal will take place between 18 and 22 June 2012. In the meantime, a hearing has been fixed on 19 January 2012 before the Trial Judge to determine the question of costs and for directions to be given for the further conduct of the matter, namely on the question of enforcement of Passport’s undertaking as to damages. Passport has put up a bank guarantee in the sum of HK\$120 million to fortify its undertaking as to damages. Passport also put up security for the Company’s costs.

**NOTES TO FINANCIAL STATEMENTS**

31 July 2011

**50. EVENTS AFTER THE REPORTING PERIOD****(a) MAGHL – Change of company name and increase in authorised share capital**

The board of directors of MAGHL proposed to seek approval of the shareholders of MAGHL at the annual general meeting of MAGHL held on 20 August 2011 (the “AGM”), among other things:

- (i) to change MAGHL’s English name from “Rojam Entertainment Holdings Limited” to “Media Asia Group Holdings Limited” and adopt the Chinese name “寰亞傳媒集團有限公司” as the secondary name of MAGHL (the “Change of MAGHL Name”); and
- (ii) to increase the authorised share capital of MAGHL from HK\$500,000,000 divided into 50,000,000,000 ordinary shares of HK\$0.01 each (the “Shares”) to HK\$600,000,000 divided into 60,000,000,000 Shares by the creation of an additional 10,000,000,000 Shares, ranking *pari passu* in all respects with the existing Shares (the “Increase in MAGHL Authorised Share Capital”).

The Change of MAGHL Name and the Increase in MAGHL Authorised Share Capital were approved by the shareholders of MAGHL at the AGM. The Change of MAGHL Name was approved by the Registrar of Companies in Bermuda on 23 August 2011 and by the Registrar of Companies in Hong Kong on 12 September 2011. The English stock short name of MAGHL has been changed from “Rojam” to “Media Asia” and the Chinese stock short name of “寰亞傳媒” has been adopted with effect from 22 September 2011.

Further details of the Change of MAGHL Name and the Increase in MAGHL Authorised Share Capital are set out in MAGHL’s circular dated 21 July 2011 and MAGHL’s announcement dated 19 September 2011.

**(b) MAGHL – Placing of new shares**

MAGHL and CLSA Limited (the “Placing Agent”) entered into a conditional placing agreement and a supplemental agreement on 28 July 2011 and 1 August 2011, respectively, pursuant to which the Placing Agent agreed to place up to 2,022,051,522 MAGHL new shares (the “Placing Shares”) at a price of HK\$0.20 per Share (the “Placing”). The Placing was approved by the shareholders of MAGHL at the special general meeting of MAGHL held on 27 August 2011. The Placing was completed on 8 September 2011 and, an aggregate of 1,467,500,000 Placing Shares were issued to three independent placees. The net proceeds from the Placing amounted to approximately HK\$291,000,000.

On 8 September 2011 and immediately before the completion of the Placing, Perfect Sky converted the First Completion Convertible Notes in an aggregate principal amount of HK\$25,000,000 into 1,562,500,000 new shares of MAGHL. Immediately following the completion of the Placing, MAGHL continues to remain as a subsidiary of the Company and the Company’s shareholding interest in MAGHL has been increased from 50.94% to 51.09%.

Further details of the Placing are set out in MAGHL’s circular dated 11 August 2011 and the joint announcements of the Company and MAGHL dated 28 July 2011, 1 August 2011 and 8 September 2011.

## NOTES TO FINANCIAL STATEMENTS

31 July 2011

### 50. EVENTS AFTER THE REPORTING PERIOD (continued)

#### **(c) MAGHL – Grant of share options**

On 26 August 2011, 94,025,000 share options of MAGHL were granted to an eligible participant of MAGHL as further detailed in Note 41 to the financial statements.

#### **(d) Joint investment in and development of the Creative Culture City Project in Hengqin (the “Project”)**

On 16 September 2011, the Company and Lai Fung entered into a co-operation agreement with the Hengqin New District Management Committee (the “Cooperation Agreement”), pursuant to which the Company and Lai Fung shall jointly invest in and develop the project in Hengqin Cultural and Creative Zone. In addition, the Company and Lai Fung entered into a strategic banking co-operation framework agreement with the China Construction Bank Corporation Guangdong Branch (“CCB”) on 15 September 2011 and a banking co-operation agreement with Industrial Bank Co., Limited Guangzhou Branch (“Industrial Bank”) on 25 July 2011 (collectively the “Banking Agreements”) whereby both CCB and Industrial Bank have agreed to provide indicative credit facilities to support development of the Project.

The co-operation under the Cooperation Agreement and the Banking Agreements is at a preliminary stage. The parties will further negotiate on the detailed terms of the co-operation and further updates will be made from time to time. Further details are set out in a joint announcement of the Company and Lai Fung dated 16 September 2011.

### 51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 28 October 2011.

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “SGM”) of the members (the “Members”) of eSun Holdings Limited (the “Company”) will be held at Salon 1–3, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 21 December 2011 at 10:00 a.m. for the following purposes:

1. To consider and adopt the audited financial statements and the reports of the directors and the independent auditors of the Company for the seven months ended 31 July 2011; and
2. To re-elect the retiring directors of the Company (the “Directors”) and to authorise the board of Directors (the “Board”) to fix the Directors’ remuneration.

By Order of the Board  
**eSun Holdings Limited**  
**Kwok Siu Man**  
Company Secretary

Hong Kong, 22 November 2011

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal Place of Business:*  
11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

*Notes:*

- (1) *A Member entitled to attend and vote at the SGM convened by the above notice (the “Notice”) (or any adjournment thereof) is entitled to appoint one (or, if he/she/it holds two or more shares in the Company (the “Shares”), more than one) proxy to attend and, on a poll, vote on his/her/its behalf in accordance with the Company’s Bye-laws. A proxy need not be a Member.*
- (2) *A form of proxy for use at the SGM is enclosed with the Notice.*
- (3) *To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong (the “Registrar”), at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or its adjourned meeting (as the case may be) and in default, the proxy will not be treated as valid. Completion and return of the form of proxy shall not preclude Members from attending in person and voting at the SGM or at any of its adjourned meeting should they so wish. In such case, the said form(s) of proxy shall be deemed to be revoked.*

*The contact phone and fax numbers of the Registrar are (852) 2980 1333 and (852) 2810 8185 respectively.*

- (4) *To ascertain the entitlements to attend and vote at the SGM, Members must lodge the relevant transfer document(s) and share certificate(s) at the Registrar’s above office no later than 4:30 p.m. on Friday, 16 December 2011 for registration.*
- (5) *Where there are joint registered holders of any Share, any one of such joint holders may attend and vote at the SGM or its adjourned meeting (as the case may be), either in person or by proxy, in respect of such Share as if he/she/it is solely entitled thereto, but if more than one of such joint holders are present at the SGM or its adjourned meeting (as the case may be) personally or by proxy, that one of such holders so present whose name stands first in the registrar/branch register of Members in respect of such Share shall alone be entitled to vote in respect thereof.*

## NOTICE OF SPECIAL GENERAL MEETING

- (6) Concerning agenda item 2 of this Notice,
- (i) in accordance with the Company's Bye-laws and code provision A.4.2 of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), Messrs. Cheung Wing Sum, Ambrose, Low Chee Keong and Alfred Donald Yap will voluntarily retire as Directors by rotation at the SGM though they are due to retire only at the annual general meeting to be held in 2012. Being eligible, Mr. Low and Mr. Yap offer themselves for re-election; however, Mr. Cheung has indicated that he will not be offering himself for re-election at the SGM; and
  - (ii) in accordance with Rule 13.74 of Listing Rules details of the aforesaid Directors proposed to be re-elected are set out in the "Biographical Details of Directors" section of the Annual Report 2011 of the Company for the seven months ended 31 July 2011.
- (7) In compliance with Rule 13.39(4) of the Listing Rules, voting on the resolutions proposed in the Notice shall be decided by way of a poll at the SGM.
- (8) If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time between 9:00 a.m. and 5:00 p.m. on the date of the SGM, then the SGM will be postponed and the Members will be informed of the date, time and venue of the postponed SGM by a supplementary notice, posted on the respective websites of the Company and the Stock Exchange.

*If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is lowered or cancelled at or before 9:00 a.m. on the date of the SGM, and where conditions permit, the SGM will be held as scheduled.*

*The SGM will be held as scheduled when an amber or red rainstorm warning signal is in force.*

*Members should decide on their own whether they would attend the SGM under a bad weather condition bearing in mind their own situations and if they do so, they are advised to exercise care and caution.*





■ By acquiring Media Asia Group Holdings Limited, the Company will further strengthen its media and entertainment businesses. ■

■ 透過收購寰亞傳媒集團有限公司，本公司將進一步加強其媒體及娛樂業務。■



**eSun Holdings Limited**  
**豐德麗控股有限公司**

*(Incorporated in Bermuda with limited liability)*  
(於百慕達註冊成立之有限公司)

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