

Report of the Auditors



To the members

Lai Sun Development Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 35 to 102 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

Scope limitations — Interest in an associate, eSun Holdings Limited (“eSun”) and its subsidiaries (the “eSun Group”)

Included in the Group's interests in associates as at 31st July, 2004 is the Group's share of net assets of the eSun Group of HK\$793,145,000. As further detailed in note 19 to the financial statements, the auditors of eSun issued a disclaimer opinion on the financial statements of the eSun Group for the year ended 31st December, 2003 because of (a) the possible effects of scope limitations in respect of (i) the recoverability of HK\$1,500,040,000 due by the Group to the eSun Group (the “Debt”) and (ii) the impairment of film rights owned by the eSun Group with a carrying amount of HK\$197,655,000; and (b) the fundamental uncertainty relating to the going concern basis.

We have been unable either to obtain sufficient reliable information and explanation or to carry out any alternative audit procedures to satisfy ourselves as to the value of the Group's share of net assets of the eSun Group included in the consolidated balance sheet as at 31st July, 2004.

Report of the Auditors

Scope limitations — Interest in an associate, eSun Holding Limited (“eSun”) and its subsidiaries (the “eSun Group”) (continued)

Included in the Company’s balance sheet as at 31st July, 2004 is its 37.86% interest in eSun of HK\$896,277,000 and the Company’s interests in subsidiaries, which in turn held a 4.68% interest in eSun, with an aggregate carrying value of HK\$170,806,000. We have also been unable either to obtain sufficient reliable information and explanation, or to carry out alternative audit procedures to satisfy ourselves as to the carrying value of the Company’s interests in eSun and in these subsidiaries as at 31st July, 2004.

Any adjustments that might have been found necessary in respect of the above scope limitations would have a consequential impact on the deficiency in assets of the Group and the Company as at 31st July, 2004 and the net loss attributable to the shareholders for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the circumstances giving rise to concerns regarding the fundamental uncertainty relating to (1) the successful implementation of the debt settlement arrangements agreed by the Company with each of eSun and the holders of the Exchangeable Bonds and the Convertible Bonds (the “Settlements”) and (2) the successful refinancing of the Group’s short-term bank and other borrowings to longer term financing (the “Long-term Financing”). These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Settlements and securing the Long-term Financing. These financial statements do not include any adjustments that may be necessary if the Company fails to successfully implement the Settlements and secure the Long-term Financing. We consider that the appropriate disclosures have been made and our opinion is not qualified in this respect.

DISCLAIMER OF OPINION

Because of the significance of the possible effects of the scope limitations in evidence available to us as mentioned in the “Basis of Opinion” above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31st July, 2004 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the scope limitations on our work relating to the carrying value of eSun, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Ernst & Young

Certified Public Accountants

Hong Kong

12th November, 2004