eSun Holdings Limited

Annual Report 2007

(Stock code: 571)

Contents

eSun Holdings Limited
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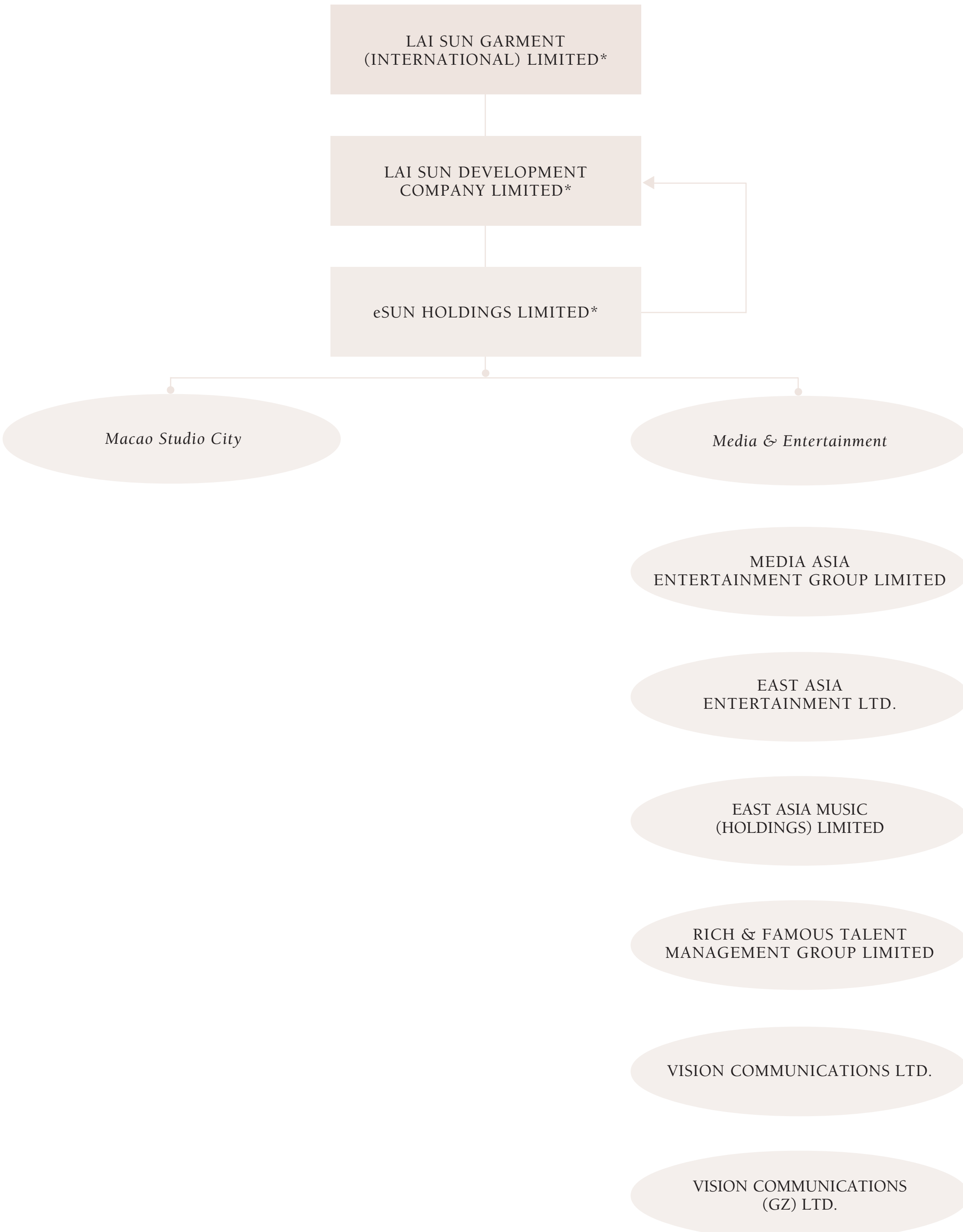
Stock code on Hong Kong Stock Exchange: ***571***

Corporate Profile

eSun Holdings Limited is a member of the Lai Sun Group which had been established in Hong Kong since 1947. The principal activities of the eSun Group comprise the development and operation of and investment in media, entertainment, music production and distribution, the production, investment in and distribution of film and video format products, the provision of advertising agency services, sale of cosmetic products and development of a multiuse complex in Cotai, Macau Special Administrative Region of the People's Republic of China.



* Listed on the Main Board of the Hong Kong Stock Exchange

Corporate Information

Place of Incorporation
Bermuda

Directors
Executive Directors
Leung Churk Yin, Jeanny *(Chief Executive Officer)*
Lam Kin Ngok, Peter
Cheung Wing Sum, Ambrose
Liu Ngai Wing
Low Kit Leong

Non-Executive Directors
Lien Jown Jing, Vincent *(Chairman)*
Lam Kin Ming
U Po Chu
Alfred Donald Yap*
Low Chee Keong*
Tong Ka Wing, Carl*

* *Independent non-executive Directors*

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Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Secretary and Principal Office
Yeung Kam Hoi
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Qualified Accountant
Hui Mei Yin

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 Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08, Bermuda

Auditors
Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Solicitors
As to Hong Kong Law:
Vincent T. K. Cheung, Yap & Co.
15th Floor, Alexandra House
18 Chater Road
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in association with Reed Smith LLP
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Alexandra House
16-20 Chater Road
Central
Hong Kong

As to Bermuda Law:
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2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Bankers
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

Chairman's Statement

Chairman LIEN Jown Jing, Vincent

BUSINESS REVIEW

Overview of results

For the year ended 31st December, 2007, the Group recorded a turnover from continuing operations of HK$289,780,000 (2006: HK$148,938,000), representing an increase of approximately 94.6% from the previous year. The increase was largely due to higher entertainment event income and the consolidation of the financial results of Media Asia Entertainment Group Limited ("MAEG") following the completion of the privatisation and delisting of MAEG on the Singapore Stock Exchange in August 2007.

For the year under review, the Group recorded a profit from operating activities of HK$324,189,000 (2006: HK$857,066,000), representing a decrease of approximately 62.2% from the previous year.

The decrease in profit from operating activities as compared to the previous year was mainly due to: (i) the amount of a gain on sale of a 20% effective interest in Macao Studio City to CapitaLand Integrated Resorts Pte. Limited ("CapitaLand Integrated Resorts") of HK$499,969,000 versus a gain on sale of a 40% effective interest in Macao Studio City project to New Cotai, LLC ("New Cotai") of HK$974,556,000 in the previous year, (ii) the increase in total expenses (marketing, administrative and other operating) for the year ended 31st December, 2007 of HK$276,390,000 (2006: HK$193,461,000), exceeded the amount of increase in other revenue (mainly interest income) and other operating gains for the year ended

BUSINESS REVIEW (continued)

Overview of results (continued)

31st December, 2007 of HK$62,758,000 (2006: HK$18,628,000) and HK$4,751,000 (2006: HK$24,280,000) respectively. The increase in total expenses was attributed to the increase in headcount of executives and staff to oversee the various business operations of the Group and the joint venture development of Macao Studio City project, as well as the consolidation of the expenses related to MAEG.

For the year ended 31st December, 2007, the Group recorded a profit after tax from continuing operations of HK$924,351,000 (2006: HK$1,180,992,000). During the year, the Group discontinued its satellite television operations and such discontinued operation incurred a loss of HK$35,827,000 (2006: a loss of HK$30,924,000).

For the year ended 31st December, 2007, the Group achieved a consolidated profit attributable to equity holders of the Company of HK$895,710,000 (2006: HK$1,150,068,000), representing a reduction by approximately 22.1% as compared to the previous year. Share of profits of associates (in this case, mainly Lai Sun Development Company Limited ("LSD") of HK$642,044,000 was up by approximately 87.0% from HK$343,360,000 of the previous year. The amount of the share of losses of jointly controlled entities (in this case, mainly Macao Studio City joint venture) of HK$32,147,000 was up by approximately 284.4% from HK$8,363,000 of the previous year.

Shareholders' equity as at 31st December, 2007 amounted to HK$4,669,218,000, up from HK$3,624,693,000 as at 31st December, 2006. Net asset value per share as at 31st December, 2007 was HK$5.64, as compared to HK$4.42 as at 31st December, 2006.

Macao Studio City

Macao Studio City will be one of Asia's leading integrated leisure resorts combining theatre/concert, live entertainment facilities, Studio Retail™ (a destination retail complex), Las Vegas style gaming facilities and world class hotels. The project will be developed on a site strategically located "Where Cotai Begins™", next to the new Lotus Bridge immigration checkpoint, linking the complex directly to Zhuhai's Hengqin Island.

Joint venture arrangements

In December 2006, the Group completed the sale of a 40% interest in Cyber One Agents Limited ("Cyber One" or "Macao Studio City JV"), the investment holding company of the Macao Studio City project, to our US joint venture partner New Cotai.

Chairman's Statement

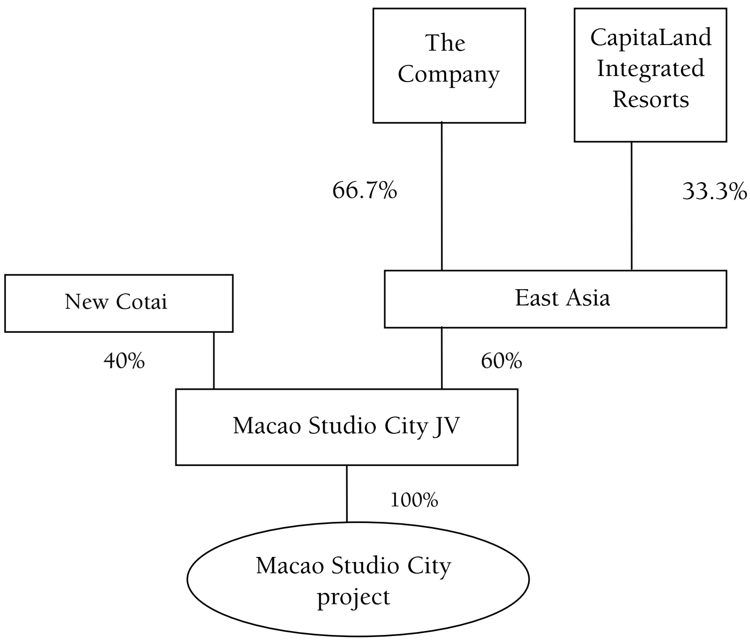
BUSINESS REVIEW (continued)

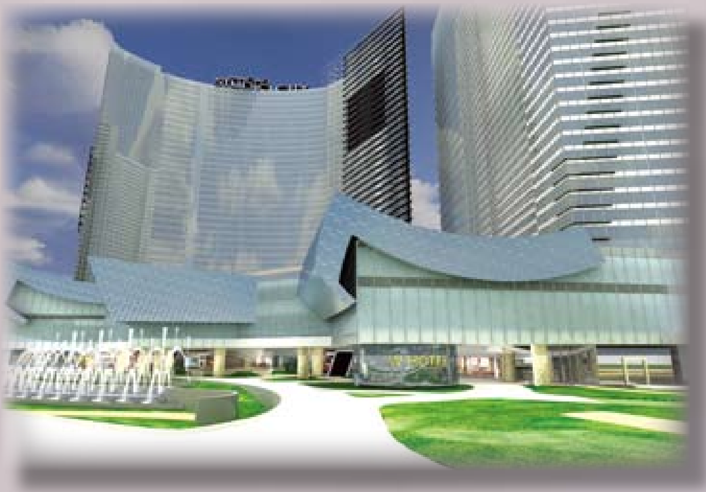
Macao Studio City (continued)

Joint venture arrangements (continued)

In March 2007, the Group further completed the sale of a 33.3% interest in East Asia Satellite Television (Holdings) Limited ("East Asia"), the holding company of the 60% interest in Cyber One, to CapitaLand Integrated Resorts. CapitaLand Integrated Resorts is a wholly-owned subsidiary of CapitaLand Limited, one of the largest listed real estate companies in Asia.

Following the completion of the disposal of a 40% and a 20% effective interest in the Macao Studio City project to New Cotai and CapitaLand Integrated Resorts respectively, the current simplified shareholding structure of Macao Studio City project is as follows:





Macao Studio City
(artist impression)

Chairman's Statement

BUSINESS REVIEW (continued)

Macao Studio City (continued)

Joint venture arrangements (continued)

Following completion of the sale of effective interests in Macao Studio City project, the Group received the initial sale considerations of HK$1,317,513,600 and HK$658,756,800 respectively from New Cotai in December 2006 and CapitaLand Integrated Resorts in March 2007, based on the currently approved gross floor area ("GFA") of 3,659,760 square feet for Phase I of the project and based on HK$900 per square foot of GFA approved.

During the year, Macao Studio City JV submitted land grant modifications on land uses and to increase the developable gross floor area of the site to approximately 6,000,000 square feet. Macao Studio City JV has yet to receive formal approval to the same from the Macau government. Upon approval and satisfaction of other terms the Group should receive further sale considerations from New Cotai and CapitaLand Integrated Resorts.

Hotel partnerships

During the year, Macao Studio City JV executed various agreements or memoranda of understanding regarding hotel components of the project. Phase I of Macao Studio City will involve the building of a luxury Ritz-Carlton Hotel (256 rooms) and W Hotel (563 rooms), a first-class Marriott Hotel (965 rooms) and a new super-luxury boutique hotel under the brand "The Tang Hotel" (118 rooms). These four world-class hotel partners of the Macao Studio City project will add over 1,900 hotel rooms to the Cotai area.

Retail partnership

On 29th January, 2008, Macao Studio City JV entered into certain agreements with a subsidiary of Taubman Centers, Inc. ("Taubman") in respect of a joint venture to be established for the purpose of owning, developing and operating of retail shopping arcade in Phase I of Macao Studio City ("Phase I Retail Component") and to document a right of first offer in respect of the retail component of Phase II of Macao Studio City.

Taubman is a global leader of the shopping center industry. Phase I Retail Component comprises retail space of approximately 904,000 square feet of GFA. Macao Studio City JV, which retains a 75% interest in the Phase I Retail Component, will develop the Phase I Retail Component in a joint venture with Taubman.

BUSINESS REVIEW (continued)

Macao Studio City (continued)

Retail partnership (continued)

Under these agreements, Macao Studio City JV has sold to Taubman a 25% equity participation interest in the Phase I Retail Component for an initial cash consideration of approximately HK$376.80 million and re-imbursement of 25% of the development costs. Macao Studio City JV will further receive additional consideration, depending upon performance, of the Phase I Retail Component over time. The initial cash consideration of approximately HK$376.80 million has been calculated on the estimated value of 25% of the GFA of the Phase I Retail Component, determined at HK$1,667 per square foot.

Independent shareholders of the Company have also approved the relevant agreements in respect of the joint venture with Taubman at a special general meeting of the Company held on 18th March, 2008.

Playboy Mansion Macao

In September 2007, the Company announced that Macao Studio City JV entered into agreements with a wholly-owned subsidiary of Playboy Enterprises International, Inc. ("Playboy") to develop "Playboy Mansion Macao" in Phase I of Macao Studio City project. Playboy Mansion Macao will be a Playboy-inspired multi-use entertainment venue of approximately 30,000 to 40,000 square feet.

Financing

According to the latest development plan of Macao Studio City project, Phase I of the project will require a development cost of approximately US$1.7 billion (including, but not limited to, hard construction costs, fixtures and equipment, soft and consultancy costs, contingency, interest coverage and pre-opening expenses, but excluding land value).

As the sub-prime mortgage crisis in the US emerged in 2007, the widespread dispersion of credit risk caused financial institutions to reduce lending activity or to make loans at higher interest rates. The deteriorating global credit and bond markets negatively affected and delayed the anticipated debt fundraising exercise of Macao Studio City. As of the date of this report, Macao Studio City JV is still working with banks on the debt financing element of the project.

In view of the difficult credit market conditions, shareholders of Macao Studio City JV entered into a memorandum of understanding on 9th November, 2007 that, amongst other things, called for the proposed injection of additional capital into the joint venture and the granting of other financial support by its shareholders. As envisaged by such

Chairman's Statement

BUSINESS REVIEW (continued)

Macao Studio City (continued)

Financing (continued)

Memorandum of Understanding, shareholders of Macao Studio City JV agreed to increase shareholders' contribution to Macao Studio City project, on a several basis, to US$500 million, subject to the approval of eSun shareholders and further negotiation of definitive documents to reflect and expand upon matters agreed in the Memorandum of Understanding. As at date of this report, the shareholders of Macao Studio City JV have already contributed capital of US$200 million.

Assuming the definitive documents are settled and entered into, and the relevant terms are approved by eSun shareholders, eSun's outstanding funding commitment to Macao Studio City JV will be US$120 million (equivalent to approximately HK$936 million), being 40% of the additional capital of US$300 million.

The current situation is that the parties have yet to finalise the long term definitive documentation envisaged by the Memorandum of Understanding. However, eSun remains committed to negotiating in good faith with a view to concluding the definitive documents. Given the delay in agreeing the definitive documentation, it is now permissible for any party to terminate the Memorandum of Understanding. As at the date of this report, no party has taken this step.

Until the definitive documents can be agreed, the obligation on the Company's subsidiary, East Asia, to make the additional funding contributions of US$180 million (i.e. 60% of the US$300 million) to the Macao Studio City JV as envisaged by the Memorandum of Understanding, has yet to become legally-binding. As such, the obligation on the Company to make its pro-rata contribution towards this US$180 million sum (i.e. US$120 million, being two-thirds thereof) has also yet to become legally-binding.

Although, the longer timeframe required to finalise the definitive documents may prolong the time needed to settle the overall funding plan for the Macao Studio City project, the Company remains firmly committed to the Macao Studio City project and is determined to proceed with its rights issue, as announced in March 2008. The rights issue is not and has never been conditional upon finalising the definitive documents and, as previously announced, the Company wishes to have sufficient capital available for the Macao Studio City project, however the project evolves, and otherwise for its general working capital purposes.

BUSINESS REVIEW (continued)

Macao Studio City (continued)

Construction

The ground breaking ceremony of Macao Studio City project was held in January 2007. Foundation work for Phase I of the project has been completed. We anticipate the construction work for Phase I would commence upon finalisation of the loan financing element of the project.

Media and entertainment

Film production and distribution — MAEG

Following the closing of the voluntary cash offer on 11th June, 2007, the Group held a 98.44% interest in MAEG. The financial results of MAEG had since then been consolidated into the Group. In August 2007, the Group completed the privatisation and delisting of MAEG on the Singapore Stock Exchange and MAEG became a wholly-owned subsidiary of the Group.

After completion of the privatisation, the Group would be able to enjoy greater autonomy over MAEG's business direction and better control over deployment and utilisation of resources. The increase in the Group's interest in MAEG will enhance the Group's media and entertainment business portfolio and promote synergies with other business units of the Group. For the year ended 31st December, 2007, the MAEG Group contributed a turnover of HK$84,088,000 and a gross profit of HK$15,830,000 to the Group's consolidated results.

In 2007, MAEG released 5 films — *Hooked On You, Triangle, Wedding*, *The Warlords* and *Assembly*. Among these films, *The Warlords*, is a mega-budget film directed by Peter Chan and featuring Asia's top actors — Jet Li, Andy Lau, Takeshi Kaneshiro, and *Assembly*, is a Chinese war drama directed by Feng Xiaogang. The box-office receipts of *The Warlords* and *Assembly* are among the top three movies in the Mainland of China last year.

In 2007, MAEG's films released last year continued to receive industry recognitions in local and international film festivals. *The Banquet* won the Best Supporting Actress at The 26th Hong Kong Film Awards, and the Best Supporting Actress, the Best Art Direction and the Best Original Theme Song at The 12th Golden Bauhinia. *Confession of Pain* won the Best Cinematography and the Best Sound Effect at The 12th Golden Bauhinia, and the Best Cinematography at The 26th Hong Kong Film Awards. *Exiled* won the Best Picture, the Best Director and the Top Ten Film of the Year at The 12th Golden Bauhinia. In the upcoming 27th Hong Kong Film Awards, *The Warlords* received 13 nominations including Best Film, Best Director, Best Actors, Best Acting and Best Cinematography.

Chairman's Statement

BUSINESS REVIEW (continued)

Media and Entertainment (continued)

Film library

As at 31st December, 2007, the film rights and film products of the Group represented mainly all rights, titles and interests in an aggregate of 161 films, of which 130 film rights are beneficially owned by the Group (excluding the MAEG Group) and the remaining 31 film products are beneficially owned by the MAEG Group with an aggregate carrying value of approximately HK$199 million (2006: HK$134 million).

Live entertainment

In 2007, the Group's live entertainment division maintained its dominant market share position in Hong Kong, and produced and participated in an aggregate of 154 concerts and entertainment events by popular local and Asian artistes including: Andy Lau, Sammi Cheng, Denise Ho, Ayumi Hamasaki, in cooperation with leading Japan music label, Avex Group, and Tsai Chin as well as produced highly acclaimed theater musicals such as Once in a Life Time.

Music production and distribution

In 2007, the Group's music production and distribution divisions released 42 albums, including titles for *"Everyone is No. 1"* for Andy Lau, *"This Is Mi"* for Sammi Cheng, *"We Stand As One and Live In Unity 2006演唱會"* for Denise Ho, *"4 In Love"* for Leon Lai, "*空前絕後*" for Andy Hui, "*Meridian*" for Miriam Yeung, *"Once in a Life Time"* and "*東亞萬歲*".

In 2007, the Group successfully concluded contracts with Andy Lau and released his "Everyone is No. 1" album. In addition, under the same deal, the Group acquired a music library containing over 600 songs and 250 MVs with the intention to expand its new media distribution business.

In the same year, the Group has also obtained the administrative rights of a number of composers/lyricists including Peter Kam, Chan Siu Kei, Mini Choi Min Lai and Nan Yik Pong.

Satellite television

Taking into account the current business environment and conditions and the expected pattern of inflow of economic benefits, the Group decided to focus its resources on media and entertainment contents production. Accordingly, the satellite television division ceased its broadcast in the Mainland and Hong Kong from January 2008 and April 2008 respectively.

BUSINESS REVIEW (continued)

Media and Entertainment (continued)

Television drama and content production

As part of the Group's effort to become a comprehensive entertainment Chinese language content platform in Greater China, the Group has decided to expand its entertainment offerings to include TV drama business. During the year, the Group has commenced discussions with renowned directors/producers and artistes in Mainland China to produce television dramas and contents.

LSD

For the year ended 31st December, 2007, LSD continued to benefit from the continued rental reversion from its investment properties, from the increase in average daily room rate of its hotel operations, from its disposal of hotel assets and from its share of profits of the Group as a result of the cross-holding shareholdings between LSD and the Company.

Property Development — Wanchai Wood Road Project

This joint residential development project is a 50:50 joint venture between LSD and a unit of AIG Global Real Estate Investment (Asia) LLC. The development has a planned total gross floor area of approximately 140,000 square feet and a total development cost is now estimated to be about HK$1 billion.

Foundation work started in November 2007 and is expected to be completed by September 2008. Construction will start thereafter and is scheduled for completion by 2011.

Property Development — Tai Po Road Project

In August 2007, LSD completed the acquisition of a site situated at Nos. 20, 22, 24, 26 and 28 Tai Po Road, Kowloon, Hong Kong for a consideration of HK$303 million. LSD owns 100% of this development project. The development has a planned total gross floor area of over 60,000 square feet mainly for residential use and a total development cost is now estimated to be about HK$450 million.

Foundation work is expected to be started in mid April 2008 and completed by September 2008. Construction will start thereafter and is scheduled for completion by 2010.

Disposal of 50% interest in Majestic Hotel and Majestic Centre

In July 2007, LSD completed the disposal of its 50% interest in Majestic Hotel and Majestic Centre, Kowloon, Hong Kong. LSD received its share of the sale proceeds, after repayment of the bank loan secured by the subject property, of approximately HK$600 million.

Chairman's Statement

BUSINESS REVIEW (continued)

LSD (continued)

Redevelopment of The Ritz-Carlton Hong Kong site

In December 2007, LSD together with the other three remaining shareholders of Diamond String Limited (the company which owns the property of The Ritz-Carlton Hong Kong) ("Diamond String") completed the sale of a total of 40% interest in Diamond String to CCB International Group Holdings Limited ("CCB International"), a wholly-owned subsidiary of China Construction Bank Corporation ("CCB"). Out of the aforesaid 40% interest, LSD sold 16.57% interest in Diamond String and received a sale consideration of approximately HK$567 million (subject to adjustment). The hotel operation of The Ritz-Carlton Hong Kong was ceased on 1st February, 2008.

Immediately following this disposal, LSD and CCB International held 60% and 40% interest in Diamond String respectively. Both parties, through Diamond String, will invest in the redevelopment of the site of The Ritz-Carlton Hong Kong into a Grade-A office tower.

PROSPECTS

Overall

Macao Studio City project will dramatically transform the Group's businesses. Given its mega-scale and its unique positioning in Macau — a new integrated leisure, convention and retail centre in Asia, we expect Macao Studio City will stand as one of the major entertainment destinations for visitors from Greater China and other parts of the world. It will become an important platform for the Group to expand and monetarise its entertainment and media expertise. The Group's current prime objective is to ensure smooth execution of Phase I of Macao Studio City.

Macao Studio City

The joint venture shareholders and component partners provide the project with world-class expertise in different areas and complement the Group's strong position in the media and entertainment sector.

As mentioned above, the Company remains firmly committed to the Macao Studio City project and is determined to proceed with its fully-underwritten 1-for-2 rights issue to raise net proceeds of around HK$1 billion as announced in March 2008. The rights issue is conditional upon LSD shareholders passing

PROSPECTS (continued)

Macao Studio City (continued)

a resolution to permit LSD to participate in the rights issue but is not and has never been conditional upon finalising the definitive documents. As previously announced, the Company wishes to have sufficient capital available for the Macao Studio City project, however the project evolves, and otherwise for its general working capital purposes. With the increase in shareholders' contribution, Macao Studio City JV will have a very substantial equity base comprising shareholders contribution and the land value. Even though the global credit market still remains unstable, Macao Studio City JV targets to complete the debt financing exercise within this year in order to finance the development of Phase I of the project.

Construction for super-structure work of Phase I of the project will commence once the debt financing exercise is finalised. Construction schedule and formal opening of Phase I will now depend on timing of the conclusion of the debt financing exercise. The Group however targets completion of Phase I in 2010, subject to financing.

Media and entertainment

The Group's vision is to become the top five Chinese language content entertainment company in Greater China. Key initiatives in 2008 include 1) expand the Group's footprint into the Mainland ("PRC") in all segments of our entertainment offering; 2) initiate/source TV drama production/co-production opportunities in PRC; and 3) engage in music publishing business.

Film production and distribution

After privatising MAEG in 2007, the film production and distribution division initiatives in 2008 include 1) continued building momentum of the Group by steadily increasing the number of films produced per annum with the aim of expanding market share as well as diversifying earnings risk as a result of over reliant on small number of films produced per annum; 2) fully deploy our relationships with leading/reknown director and producer that MAEG has co-operated with in the past including Mr. Johnnie To and Mr. Andrew Lau to increase the number of quality films produced; 3) expand film revenue base in multiple geographies by engaging into relationships with leading studios beyond Greater China.

MAEG is also planning a number of big budget films in the coming years. It intends to increase its yearly total investments in film production with its internal resources and other external sources, including but not limited to, jointly produced with independent film funds.

Chairman's Statement

PROSPECTS (continued)

Media and entertainment (continued)

Live entertainment

Live Entertainment division sees great opportunity in expanding footprints in multiple geographies. 2008 initiatives include 1) maintain our live entertainment dominant market leadership position in Hong Kong; 2) expand into live entertainment promotion business in PRC; 3) make our debut into the live entertainment promotion business into Macao; 4) strategically develop long run live entertainment projects; and 5) source/ train more talent new singers/composers/lyric writers.

In 2008, the live entertainment division of the Group has already scheduled its own production of 22 concerts and entertainment events by popular local artistes and participation in the other promoters' production of 11 other concerts, already involving around 46 shows in total.

Music production, distribution and publishing

Music production and distribution main objectives include 1) increase our market share in Hong Kong with the goals of greatly enhancing East Asia Music, Amusic, and Clot Music brand presence in Southern China; and 2) debut East Asia Music expansion into Mandarin album release targeting the PRC market.

Despite continued challenge in dwindling physical music sales, the Group is cautiously optimistic with the outlook as 1) the shift in consumers pattern from physical to digital music sales offer unique opportunities to extract new revenue streams from digital sales; and 2) the indication over the longer term prospect of the digital music market in PRC.

The Group entered into music publishing business in late 2007 through establishing East Asia Music Publishing. Music publishing is highly attractive 1) as evidenced by global music labels, music publishing offers recurring and stable cash flows; and 2) revenue streams are ever expanding as new digital media platform emerges globally, and particularly in PRC, which slowly emerges to offer means to collect publishing fees.

PROSPECTS (continued)

Media and entertainment (continued)

Television drama

There are three distinct advantages to TV drama business in the PRC, namely 1) it offers stable recurring cash flow; 2) premium quality TV drama offers very stable margin and 3) it also offers the Group a window/opportunity to expand and develop our artiste management business in the PRC. Accordingly, the management intends to place more focus to develop and groom this business in the near future.

LSD

Property investment and development

LSD continues to improve its tenant mix in its investment properties so as to strengthen its rental income base. Other than its current development projects, LSD is also actively looking for new development projects in Hong Kong and overseas which offer good investment returns.

Redevelopment of The Ritz-Carlton Hong Kong site

On 31st March, 2008, LSD completed the sale of a further 10% stake in Diamond String to CCB International for a total consideration of approximately HK$417 million (subject to adjustment). Immediately after the completion, LSD and CCB International own this redevelopment project on a 50:50 basis.

The buildable GFA for the redevelopment is approximately 225,000 square feet. Demolition work will start by end of April 2008. The redevelopment is expected to be completed in 2011.

The redeveloped office tower will become a landmark property in Central, Hong Kong. Part of the redeveloped property, upon its completion, will be used by CCB as offices of its Hong Kong operations. The Group is very excited to partner with CCB for the redevelopment of The Ritz-Carlton Hong Kong. The partnership with CCB marks a vital move for the future development of the Company.

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

As at 31st December, 2007, cash and cash equivalents held by the Group amounted to HK$1,126,017,000 of which over 88% were denominated in Hong Kong dollar currency.

As at 31st December, 2007, the Group has unsecured promissory notes payables of HK$10,000,000 falling due within one year, HK$20,000,000 falling due within the second year and HK$30,219,000 falling due within the third to fifth years, respectively. The promissory notes payables are interest-free except for an amount of HK$30,000,000 which bears interest at 3.5% per annum. As at 31st December, 2007, the unsecured other borrowings from a former shareholder of the Company with the principal amount of HK$112,938,000 is interest-bearing at the HSBC prime rate per annum and is not repayable within one year. The Group recorded interest accruals of HK31,001,000 for the other borrowings as at 31st December, 2007. In addition, certain land and buildings of the Group with a carrying amount of HK$62,422,000 were pledged to a bank to secure general banking facilities granted to the Group. As at 31st December, 2007, the general banking facilities were not utilised by the Group. Also, the Group has finance lease payables of HK$65,000 falling due within one year, HK$68,000 falling due within the second year and HK$126,000 falling due within the third to fifth years, as at 31st December, 2007.

The Group's debt to equity ratio, expressed as a percentage of total borrowings to total net assets, remained low at approximately 4% as at 31st December, 2007. All of the Group's borrowings are denominated in Hong Kong dollars and the majority of which are floating rate debts. No financial instruments for hedging purposes were employed by the Group during the year under review.

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

Chairman's Statement

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 41 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 280 employees as at 31st December, 2007. The total staff costs including share-based payment and pension contributions for the year ended 31st December, 2007 were approximately HK$121,936,000. Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 23rd December, 2005.

MANAGEMENT AND STAFF

On behalf of the Board, I would like to thank members of the staff and management for their perseverence in tackling the challenges faced by the Company in 2007. Madam Tam Wai Chu, Maria resigned from the Board on 29th January 2008 and Mr. Liu Ngai Wing will retire at the forthcoming Annual General Meeting in May 2008 and will not be offering himself for re-election. The Board wishes to record a vote of thanks to Madam Tam and Mr. Liu for their counsel and contributions to the Company during their tenure of office.

I would also take this opportunity to express the appreciation of the Board of the continuous support given by our shareholders and business associates during the year.

Lien Jown Jing, Vincent
Chairman

Hong Kong
11th April, 2008

Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the development and operation of and investment in media, entertainment, music production and distribution, production, investment in and distribution of film and video format products, provision of advertising agency services and sale of cosmetic products.

RESULTS AND DIVIDENDS

Details of the profit of the Group for the year ended 31st December, 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 49 to 137.

No interim dividend was paid or declared in respect of the year ended 31st December, 2007 (2006: Nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2007 (2006: Nil) at the forthcoming Annual General Meeting.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 35 to the financial statements.

DIRECTORS

The Directors of the Company who were in office during the year and those as at the date of this report are as follows:

Lien Jown Jing, Vincent *(Chairman)*	
Leung Churk Yin, Jeanny *(Chief Executive Officer)*	(appointed on 1st September, 2007)
Lam Kin Ngok, Peter	
Liu Ngai Wing	
Cheung Wing Sum, Ambrose	
Low Kit Leong	(appointed on 1st June, 2007)
Lam Kin Ming	
U Po Chu	
Alfred Donald Yap*	
Low Chee Keong*	
Tong Ka Wing, Carl*	
Lee Po On *(Chief Executive Officer)*	(resigned on 22nd January, 2007)
Tam Wai Chu, Maria	(resigned on 29th January, 2008)

* *Independent non-executive Directors*

DIRECTORS (continued)

In accordance with Bye-law 87 of the Company, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Liu Ngai Wing will retire by rotation at the forthcoming Annual General Meeting. Being eligible, Mr. Lam and Madam U offer themselves for re-election. However, Mr. Liu has indicated that he will not be offering himself for re-election at the forthcoming Annual General Meeting.

In accordance with Bye-law 86(2) of the Company, Ms. Leung Churk Yin, Jeanny and Mr. Low Kit Leong, who were appointed by the Board during the year, retire at the forthcoming Annual General Meeting of the Company and being eligible, they offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company, 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 5 to the financial statements, none of the Directors had a material interest, either 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 year.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in note 5 to the financial statements, at no time during the year 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) **Playboy Mansion Macao in Macao Studio City**

The Company announced on 21st September, 2007 that on 21st June, 2007, members of the Cyber One Agents Limited ("Cyber One") Group had entered into certain agreements with members of the Playboy Group for the development of a 30,000 to 40,000 square-foot multi-use entertainment venue to be called the "Playboy Mansion Macao". The arrangements involved the establishment of a new joint venture company owned as to 51% by Cyber One and 49% by Playboy, with the joint venture company being granted a licence, for an initial term of ten years from the opening date of the Venue, to use certain Playboy intellectual property in connection with the Venue. The joint venture company has also granted a sub-licence of the same intellectual property to the New Cotai Group in connection with a proposed 5,000 square-foot special entertainment space to be developed by New Cotai Entertainment LLC, a member of the New Cotai Group, within the Venue (the "New Cotai Entertainment Site").

Cyber One is an indirect non-wholly owned subsidiary of the Company (or "eSun") for the purposes of the Listing Rules. Cyber One's subsidiary, East Asia Televisão Por Satéllite Limitada ("Macau Co"), owns a leasehold interest in the Cotai Site in the Macau SAR, on which it is proposed, subject to the Macau government's approval, that the Macao Studio City Project will be developed.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (continued)

(1) Playboy Mansion Macao in Macao Studio City (continued)

Because New Cotai Holdings is a substantial shareholder of Cyber One, and Cyber One is an indirect non-wholly owned subsidiary of eSun, New Cotai Holdings and its associates, including New Cotai, are treated as connected persons of eSun. Moreover, by virtue of the fact that Playboy has become a substantial shareholder of the joint venture company, itself an indirect non-wholly owned subsidiary of eSun, Playboy and its associates are also treated as connected persons of eSun.

The principal terms of the Licence Agreement and Sub-licence Agreement are summarised below:

(A) Licence Agreement

(a) The Licence Agreement was entered into between Playboy and the Joint Venture Company on 21st June, 2007, pursuant to which Playboy granted a licence to the Joint Venture Company for the use of certain Playboy intellectual properties in relation to the joint venture (including “Playboy”, “Playmate” and the “bunny logo”).

(b) The Joint Venture Company will pay to Playboy, as license fees, a fixed portion of the annual revenues earned through the operation of the Venue.

(c) The initial term of the Licence Agreement is ten years from the opening date of the Venue. The Joint Venture Company has the option to renew the term for an additional ten years, subject to the Joint Venture Company achieving certain performance thresholds.

Each party has certain customary rights to terminate the Licence Agreement in the event of default by the other party under circumstances detailed in the agreement.

(B) Sub-Licence Agreement

(a) The Sub-Licence Agreement was entered into between the Joint Venture Company, New Cotai Entertainment, LLC and New Cotai Entertainment (Macau) Limited on 21st June, 2007, the latter two being associates of New Cotai.

Pursuant to the Agreement, the Joint Venture Company has granted certain members of the New Cotai Group a sub-licence in respect of the same intellectual property referred to in the Licence Agreement, to be used solely in connection with the New Cotai Entertainment Site.

(b) The Joint Venture Company is entitled to substantially all of the annual net revenues attributable to the New Cotai Entertainment Site. New Cotai Entertainment is entitled to a small fixed percentage of the annual revenues of the New Cotai Entertainment Site for services to be provided by New Cotai Entertainment in, inter alia, the management of the special entertainment space and the facilities in relation thereto.

(c) The term of the Agreement is intended to match the term of the Licence Agreement. The Agreement would therefore terminate or be renewed in tandem with the Licence Agreement.

CONTINUING CONNECTED TRANSACTIONS (continued)

(1) **Playboy Mansion Macao in Macao Studio City (continued)**

(C) ***Annual Caps applicable to the Licence Agreement and Sub-Licence Agreement***

Pending the opening of the Venue, no amounts are payable by the Joint Venture Company under the Licence Agreement or the Sub-Licence Agreement. Annual caps will, in due course, be set for each of the Licence Agreement and the Sub-Licence Agreement in accordance with the relevant requirements of the Listing Rules.

(2) **Media Asia Group Lease**

The Company announced on 9th October, 2007 that on 5th October, 2007, Media Asia Group Limited ("Media Asia"), a subsidiary of the Company, entered into the offer letter with Gilroy Company Limited ("Gilroy"), a subsidiary of LSD, 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 1st October, 2007 to 30th September, 2010 at the monthly rental of HK$165,000 (exclusive of rates, government rent, management fee, air-conditioning charges and other outgoings).

LSD holds a 34.75% interest in the Company as at the date of entering into the transaction. Gilroy is therefore an associate of a connected person of the Company under the Listing Rules. Accordingly, the entering into of the offer letter between Gilroy and Media Asia constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

(3) **Licensing Agreements with CCTV-6**

eSun has an indirect non-wholly owned subsidiary called China Film Media Asia Audio Video Distribution Company Limited (中影寰亞音像制品有限公司), being a company incorporated in the Mainland of China ("Distribution Co"). eSun indirectly owns 70% of Distribution Co, with the other 30% being owned by China Film Audio Video Publishing House, a member of the China Film Group Corporation ("China Film Group")(中國電影集團公司).

Distribution Co became an indirect non-wholly owned subsidiary of eSun in June 2007 at the time when eSun acquired a further interest of approximately 62.67% of MAEG, in the context of the privatisation of MAEG. Distribution Co is, itself, a subsidiary of MAEG. Accordingly, at the time MAEG became a subsidiary of eSun, so too did Distribution Co. and China Film Audio Video Publishing House became a connected person to eSun for the purposes of Chapter 14A of the Listing Rules.

Distribution Co had entered into two licensing agreements with the movie channel of China Central Television Network (中國國家廣播電影電視總局電影衛星頻道節目製作中心) ("CCTV-6") on 20th September, 2005 and 28th March, 2007, respectively (the "Licensing Agreements"). CCTV-6 is understood by the eSun Directors also to be a member of the China Film Group and for the sake of prudence the eSun Directors have assumed that it is an associate of China Film Audio Video Publishing House and, accordingly, since the completion of the privatisation, an associate of a connected person to eSun. At the respective times that these agreements were entered into, neither was a continuing connected transaction for eSun. However, following the completion of the privatisation in August 2007, both agreements have become continuing connected transactions for eSun, on the basis of the relationship mentioned above.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (continued)

(3) Licensing Agreements with CCTV-6 (continued)

The material terms of the Licensing Agreements are very similar, with the 20th September, 2005 agreement relating to all films produced or co-produced by the MAEG group during the three-year period ended 31st December, 2006, and the 28th March, 2007 agreement relating to all films produced or co-produced by the MAEG group during the three-year period ending 31st December, 2009.

Pursuant to each agreement, CCTV-6 is licenced to broadcast any particular film the subject of that agreement for a total period of 10 years from the relevant rights commencement date applicable to that film, provided always that no film may be broadcasted more than 100 times under the agreement. The licence to broadcast is an exclusive right limited to pay television and free to air television in the Mainland (excluding Hong Kong, Taiwan and Macau).

The licence fee payable in cash in stages for each film varies according to the relative expenditure incurred in producing the film, and comprises, in each case, a base licence fee and by way of additional licence fee (if applicable) a fixed percentage of the amount by which total income derived from cinematic broadcast of the film in the PRC may have exceeded certain agreed minimum prescribed thresholds, provided always that the total licence fee payable per film is capped at a maximum of RMB2.5 million per film.

Subsequent to the time when Distribution Co. became a subsidiary of eSun in June 2007 and up to 31st December, 2007, CCTV-6 paid total fees to Distribution Co. of approximately HK$1,567,000.

As both agreements were entered into at times when the parties were unconnected, neither agreement was, or is, subject to annual caps on its value for the purposes of Listing Rule 14A.35(2).

The aforesaid continuing connected transactions under items (1), (2) and (3) have been reviewed by the independent non-executive Directors of the Company who have confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms or terms no less favourable than terms available to independent third parties; and

(c) in accordance with the terms of the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have provided a confirmation in accordance with the relevant clauses of the Listing Rules applicable to each of the abovementioned continuing connected transactions under items (1), (2) and (3) for the year ended 31st December, 2007.

CONTINUING CONNECTED TRANSACTIONS (continued)

(4) **Joint Venture in respect of Phase I Retail Component of Macao Studio City**

Cyber One Agents Limited ("Cyber One"), an indirect non-wholly owned subsidiary of the Company for the purposes of the Listing Rules, is developing the Macao Studio City project (the "Project") at a site at Cotai Macau. The leasehold interest in the Cotai site is owned by a subsidiary of Cyber One incorporated in Macau named East Asia-Televisão Por Satélite Limitada (or Macau Co). Phase I of the Project will include retail space of approximately 904,000 square feet of gross floor area or 615,000 square feet of gross leaseable area (the "Phase I Retail Component").

The Company announced on 31st January, 2008 that members of the Cyber One Group and Taubman Centres, Inc. and its subsidiaries ("Taubman Group") had entered into certain agreements on 29th January, 2008 relating to the formation of a joint venture for the purposes of owning, developing and operating the Phase I Retail Component and to document a right of first offer in respect of the retail component of the second phase of the Project. The aforesaid agreements comprise (i) the Equity Participation Agreement; (ii) the Joint Venture Agreement; (iii) the Agreement for Lease; (iv) the Development Services Agreement between Macau Co and Taubman Macau; and (v) the Management and Leasing Agreement between Macau Sub and Taubman Macau.

Taubman Group will, prior to completion of the sale of a 25% attributable interest in the Phase I Retail Component to it as envisaged under the Equity Participation Agreement and Joint Venture Agreement, be independent of the Company and its connected persons. However, by virtue of the fact that Taubman Group becomes a substantial shareholder of Retail Holding Company (through which the parties propose to conduct the joint venture) and that the Retail Holding Company is treated, for the purposes of the Listing Rules, as an indirect non-wholly owned subsidiary of eSun, Taubman Group becomes a connected person of eSun. Both the Development Services Agreement and the Management and Leasing Agreement therefore constituted continuing connected transactions for eSun. The Joint Venture Agreement, Development Services Agreement and Management and Leasing Agreement and all transactions and matters contemplated therein were approved by the independent shareholders of the Company at a special general meeting of the Company held on 18th March, 2008.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (continued)

(4) **Joint Venture in respect of Phase I Retail Component of Macao Studio City (continued)**

The principal terms of the relevant agreements are summarised below:

(A) Equity Participation Agreement and Joint Venture Agreement

(a) Under the Equity Participation Agreement and the Joint Venture Agreement dated 29th January, 2008, Cyber One has agreed to sell, and Taubman has agreed to purchase, a 25% interest in the Phase I Retail Component for an initial cash consideration of approximately HK$376.8 million. In addition, Taubman will reimburse Cyber One the sum of US$6 million on account of 25% of the development costs incurred to date in respect of the Phase I Retail Component. Cyber One will own the remaining 75% interest in the Phase I Retail Component.

(b) Both the consideration and the reimbursement sum have been paid into an escrow account and will be released to Cyber One on fulfillment of certain conditions.

(c) Although it is intended that construction and development of the Macao Studio City project will be financed by way of debt, Cyber One and Taubman have agreed under the Joint Venture Agreement to fund any shortfall in the development costs of Phase I Retail Component on a pro-rata basis, up to an agreed aggregate budget threshold of US$457 million. The maximum pro-rata contributions of Cyber One, if required, would be approximately US343 million (HK$2,673 million).

(d) If Cyber One were called upon to contribute its maximum pro-rata share towards the funding of the Phase I Retail Component, this would constitute a major transaction for eSun under Chapter 14 of the Stock Exchange Listing Rules, and should therefore be subject to approval by shareholders.

(B) Agreement for Lease

(a) Under the Agreement for Lease dated 29th January, 2008, Macau Co has agreed to grant to the wholly-owned Macau subsidiary of Retail Holding Company ("Macau Sub") a lease for the Phase I Retail Component for an initial term of 14 years from the date that licence to use the premises can be provided by Macau Co.

(b) During the construction of the Phase I Retail Component, no rent is payable to Macau Co. A formal lease will be signed between Macau Co and Macau Sub within 10 days on notice from Macau Co that licence to use has been issued.

CONTINUING CONNECTED TRANSACTIONS (continued)

(4) **Joint Venture in respect of Phase I Retail Component of Macao Studio City (continued)**

(C) Development Services Agreement

(a) For the purpose of developing the premises for the Phase I Retail Component, Macau Co, as owner of the Macao Studio City project, has appointed Taubman Macau under the Development Services Agreement dated 29th January, 2008, to provide assistance with respect to the design, development, planning and construction of the Phase I Retail Component.

(b) Macau Co is obliged to pay to Taubman Macau a development fee fixed at the total of US$10 million. The fee is payable by Macau Co. in equal monthly instalments. Cyber One has calculated that the aggregate amounts payable by Macau Co to Taubman Macau under the Development Services Agreement in any of the 3 financial years ending 31st December, 2010 ought not to exceed US$10 million per annum.

(D) Management and Leasing Agreement

(a) Under the agreement dated 29th January, 2008, Macau Sub has appointed Taubman Macau to manage, lease, operate, maintain and market the Phase I Retail Component and to provide other services including maintenance, repair and collection of use fees on behalf of Macau Sub.

Unless otherwise terminated, this agreement will expire on the 15th anniversary of the date on which the Phase I Retail Component first opens to the public but will be renewable for consecutive one-year terms subject to conditions.

(b) Macau Sub is obliged to pay to Taubman Macau an annual management fee, performance fees and retail merchandising unit fees ranging from 0.10% to 5% of gross receipts of Macau Sub. Use commission and sponsorship services commission are also payable to Taubman Macau.

It is estimated that when Phase I Retail Component becomes operational, the aggregate fees and commissions payable by Macau Sub to Taubman Macau could result in such payments exceeding the 2.5% threshold set out in Listing Rule 14A.34. The Stock Exchange has agreed to grant a waiver from strict compliance with the relevant Listing Rules.

Further details of the foregoing agreements and the relevant transactions are set out in the Company's circular dated 28th February, 2008.

Report of the Directors

CONNECTED TRANSACTIONS

(1) On 26th February, 2007, the Directors resolved to procure Skymaster International Inc. ("Skymaster"), a wholly-owned subsidiary of eSun, as Offeror, to make a voluntary conditional offer to acquire all the issued ordinary shares of MAEG not already owned by the Offeror at a cash consideration of SG$0.265 (equivalent to approximately HK$1.35) per offer share (the "Offer"). MAEG was then a company listed on the Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System. It was the intention of the Company to privatise MAEG. Mr. Lam Kin Ngok, Peter is a director of the Company and owned 2,300,000 MAEG Shares then, representing approximately 0.96% of the existing issued share capital of MAEG. Any transfer of those shares owned by Mr. Lam Kin Ngok, Peter to the Offeror pursuant to the Offer would constitute a connected transaction for the Company, but one that is exempt from the independent shareholders' approval requirements under the Listing Rules.

The Offer and the privatisation of MAEG constituted very substantial acquisition and connected transaction for the Company for the possible purchase of MAEG Shares from a director of the Company under the Listing Rules, and was subject to the approval of the Company's shareholders. Such approval was obtained at a special general meeting of the Company held on 26th April, 2007. On 27th April, 2007, the Offer was made by Skymaster.

The Offer closed on 11th June, 2007 and upon closing of the Offer, valid acceptances under the Offer had been received in respect of 146,652,848 offer shares, which when taken together with 89,591,568 shares already held by Skymaster, represented approximately 98.44% of the entire issued share capital of MAEG. The acceptances included the 2,300,000 offer shares held by Mr. Lam Kin Ngok, Peter. The Company paid a consideration of S$609,500 (approximately HK$3,105,000) to Mr. Lam Kin Ngok, Peter on 4 June 2007 for the acquisition of 2,300,000 offer shares and transfer of those shares took place on 28 June 2007.

Further details of the Offer are set out in the Company's circular dated 4th April, 2007.

(2) **Co-Production Agreement**

On 3rd December, 2007, Media Asia Films Limited ("Media Asia Films") entered into a Co-Production Agreement with China Film Group and Xing Mei (Beijing) Film Co., Ltd. (星美(北京)影業有限公司)("Xing Mei") (the "Co-Production Agreement").

Pursuant to the terms of the Co-Production Agreement, Media Asia Films, China Film Group and Xing Mei agreed to co-invest in the production of a film (the "Film"), to be produced jointly by China Film Group and Xing Mei.

The estimated production budget of the Film is RMB72 million, determined by the producers taking into account all costs and expenses related to the Film (including for example, actors fees and film support services). The investment contribution ratio in the Film for China Film Group and Xing Mei (collectively) is 90% of the estimated production budget (i.e. RMB64.8 million, or HK$68.6 million), and for Media Asia Films, 10% of the estimated production budget (i.e. RMB7.2 million, or HK$7.6 million) (the "Investment Contribution Ratio"). The profit sharing ratio in the Film will be on the same basis as the Investment Contribution Ratio. The investment contribution will be payable in cash in stages by Media Asia Films and is funded from internal resources.

CONNECTED TRANSACTIONS (continued)

(2) Co-Production Agreement (continued)

Media Asia Films is an indirect wholly-owned subsidiary of eSun. China Film Audio Video Publishing House, a member of the China Film Group, is the substantial shareholder of an indirect subsidiary and a connected person of eSun. As such, China Film Group (a counter-party to the Co-Production Agreement) is understood by the eSun Directors to be an associate of a connected person to eSun and therefore, the Co-Production Agreement is a connected transaction for eSun under Chapter 14A of the Listing Rules. To the best of the eSun Directors' knowledge, information and belief having made all reasonable enquiries, Xing Mei and its ultimate beneficial owner are third parties independent of eSun and China Film Group.

The aggregate amount payable under the Co-Production Agreement represents more than 0.1 per cent. but less than 2.5 per cent. of one or more applicable percentage ratios (as defined in the Listing Rules). Accordingly, whilst the Co-Production Agreement is subject to reporting and announcement requirements under Rule 14A.32 of the Listing Rules, no approval of independent shareholders of the Company is required.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed below, during the year and up to the date of this report, Mr. Lam Kin Ming, a Director of the Company, is 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.

Mr. Lam Kin Ming is a director and the controlling shareholder of Big Honor Investment Ltd. ("Big Honor"), a private company incorporated in Hong Kong. The principal activities of Big Honor are the production of pop concerts and management of artistes.

As the Board is independent from the board of the aforesaid company and the abovementioned Director of the Company does not control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from the businesses of, the aforesaid company.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Leung Churk Yin, Jeanny, aged 43, was appointed an executive Director and chief executive officer of the Company in September 2007. She has over 20 years of corporate finance experience in Hong Kong, the Mainland China and Taiwan and was one of the founders and the managing director of Access Capital Limited. Before joining Access Capital Limited, a licensed corporation to carry out certain regulated activities under the Securities and Futures Ordinance, she worked at Yuanta Securities (Hong Kong) Company Limited, JP Morgan Securities (Asia) Limited, Standard Chartered (Asia) Limited and The Stock Exchange of Hong Kong Limited. She is also an executive director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD") and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Ms Leung is also a non-executive director of Top Form International Limited, a listed Company in Hong Kong. Ms. Leung holds options to subscribe for 5,000,000 shares in the share capital of the Company under the share option scheme of the Company. The Company has entered into a service contract with Ms. Leung with no fixed term, but such contract is determinable by the employing company within one year without payment of compensation, other than statutory compensation. Ms. Leung will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company in accordance with the provisions of the Bye-laws of the Company. Ms. Leung is entitled to such remuneration and discretionary bonus, to be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Lam Kin Ngok, Peter, aged 50, was appointed an executive Director of the Company in October 1996. He is also a deputy chairman of Lai Sun Garment (International) Limited ("LSG"), the chairman of Lai Sun Development Company Limited ("LSD") and Lai Fung Holdings Limited, an executive director of Crocodile Garments Limited and the chairman of Media Asia Entertainment Group Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, an executive committee member of the Hong Kong Hotel Owners Association, a council member of the Anglo Hong Kong Trust, a member of the Film Development Council of Hong Kong and a member of the 11th National Committee of the Chinese People's Political Consultative Conference. Mr. Lam is a son of Madam U Po Chu and is the younger brother of Mr. Lam Kin Ming. Mr. Lam is interested or deemed to be interested in the shares of the Company and LSD disclosed under the "Directors' Interests" sections of this report. Mr. Lam does not have a service contract with the Company but he will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company in accordance with the provisions of the Bye-laws of the Company. Mr. Lam is entitled to such remuneration and discretionary bonus as may be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive Directors (continued)

Mr. Liu Ngai Wing, aged 57, was appointed an executive Director of the Company in November 1998. He is also an independent non-executive director of Hang Fung Gold Technology Limited, New Smart Energy Group Limited and Daiwa Associate Holdings Limited, all being listed companies in Hong Kong. Mr. Liu holds a Master of Business Administration degree, a Master of Science degree in Hotel and Tourism Management and a Master of Science degree in Global Business. He is also an Associate Member of both the Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants.

Mr. Cheung Wing Sum, Ambrose, aged 57, was appointed an executive Director of the Company in September, 2005. Mr. Cheung is also an executive director of Lai Sun Development Company Limited ("LSD"). LSD is the controlling shareholder of the Company. Mr. Cheung is a business executive with a legal and banking background. He has over 24 years experience in merger and acquisition, management and development of hotels, 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 executive director of Sino Land Company Limited. Mr. Cheung is a Justice of the Peace and over the last 24 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, a member of The Hong Kong Institute of Certified Public Accountants Council and Advisory Committee, School of Hotel and Tourism Management, The Chinese University of Hong Kong.

Mr. Low Kit Leong, aged 37, was appointed an executive Director of the Company in June 2007. Mr. Low was executive director at the Goldman Sachs Asia-Pacific Research Entertainment, Media, and Internet team prior to joining the Company. He joined Goldman Sachs in June 2003 as an Associate. Before joining Goldman Sachs, Mr. Low worked as a Program Manager for Johnson Controls Inc., managing Toyota Corolla and Tacoma vehicle interior development in the United States. He subsequently joined Sybase Inc., an enterprise software company, as a Program Manager in its Global Products Group. Mr. Low received his Bachelor of Science Degree in Industrial Engineering and Motion Picture Production from the University of Wisconsin-Madison, and his MBA from Columbia Business School in the United States. Mr. Low holds options to subscribe for 4,800,000 shares in the share capital of the Company under the share option scheme of the Company. The Company has entered into a service contract with Mr. Low for a fixed term of three years, but such contract is determinable by the employing company within one year without payment of compensation, other than statutory compensation. Mr. Low will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company in accordance with the provisions of the Bye-laws of the Company. Under his service contract, Mr. Low is entitled to such remuneration and discretionary bonus as may be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-Executive Directors

Mr. Lien Jown Jing, Vincent, Chairman, aged 47, first joined the Board as an independent non-executive Director in August 1998 and was later re-designated as non-executive Chairman of the Company in May 2007. He has over 13 years' experience in banking and corporate finance in Hong Kong, Mainland of China, Singapore and South-east Asia, having held various senior positions at several major multinational banking institutions.

Mr. Lam Kin Ming, aged 70, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Lam is the chairman of Lai Sun Garment (International) Limited ("LSG") and has been involved in the day-to-day management of the garment business since 1958. He is also the chairman and chief executive officer of Crocodile Garments Limited, deputy chairman of Lai Fung Holdings Limited and a non-executive director of Lai Sun Development Company Limited ("LSD"). LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Lam is the elder brother of Mr. Lam Kin Ngok, Peter.

Madam U Po Chu, aged 83, is a non-executive Director of the Company and was first appointed to the Board in October 1996. She is a non-executive director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD") and an executive director of Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Madam U has over 60 years' experience in the garment manufacturing business and has been involved in the printing business since the mid-1960's. In the early 1970's, she started to expand her business to fabric bleaching and dyeing and became involved in property development and investment in the late 1980's. Since the 1980's, she began investing in the catering business in Hong Kong. She is the mother of Mr. Lam Kin Ngok, Peter. Madam U holds interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance as disclosed under the "Directors' Interests" section of this report. Madam U does not have a service contract with the Company but she will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company in accordance with the provisions of the Bye-laws of the Company. Madam U is entitled to such remuneration and discretionary bonus as may determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent non-Executive Directors

Mr. Alfred Donald Yap, J.P., aged 69, is an independent non-executive Director of the Company and was first appointed to the Board in December 1996. Mr. Yap is presently a consultant of K. C. Ho & Fong, Solicitors and Notaries. Mr. Yap is a former president of The Law Society of Hong Kong and past president of The Law Association for Asia and the Pacific (LAWASIA). Mr. Yap was also a former Hong Kong Affairs Adviser appointed by the Chinese Government.

Mr. Low Chee Keong, aged 47, was appointed an independent non-executive Director of the Company in August 1999. Mr. Low has been a member of the Chartered Institute of Marketing of the United Kingdom since 1986. He has over 11 years' experience in the property development and maintenance industry in Singapore, and is currently the managing director of Hong Siong Holding Pte Ltd.

Mr. Tong Ka Wing, Carl, aged 57, was appointed an independent non-executive Director of the Company in September, 2004. He is a non-executive director of Crocodile Garments Limited and is currently the managing director and chief executive officer of Creative Master Bermuda Limited, a company listed on the main board of the Singapore Exchange Securities Trading Limited. Mr. Tong is a member of the Hong Kong Institute of Certified Public Accountants and he qualified as a Chartered Accountant of England and Wales in 1981. He has over 20 years' experience in corporate management.

SHARE OPTION SCHEME

An employee share option scheme (the "Scheme") was adopted by the Company on 23rd December, 2005 and became effective on 5th January, 2006. It will remain in force for a period of 10 years from the effective date. Information on movements under the Scheme during the financial year is set out below:

Category/Name of participant	Number of share options: At 1st January, 2007	Number of share options: Granted during the year	Number of share options: Exercised during the year	Number of share options: At 31st December, 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$ per share
Directors							
Lam Kin Ngok, Peter	1,862,962	—	1,862,962	—	24/2/2006	1/1/2007 to 31/12/2007	4.00
	1,862,962	—	—	1,862,962	24/2/2006	1/1/2008 to 31/12/2008	4.25
	1,862,962	—	—	1,862,962	24/2/2006	1/1/2009 to 31/12/2009	4.50
	1,862,963	—	—	1,862,963	24/2/2006	1/1/2010 to 31/12/2010	4.75
	7,451,849	—	1,862,962	5,588,887			
Cheung Wing Sum, Ambrose	1,862,962	—	1,862,962	—	24/2/2006	1/1/2007 to 31/12/2007	4.00
	1,862,962	—	—	1,862,962	24/2/2006	1/1/2008 to 31/12/2008	4.25
	1,862,962	—	—	1,862,962	24/2/2006	1/1/2009 to 31/12/2009	4.50
	1,862,963	—	—	1,862,963	24/2/2006	1/1/2010 to 31/12/2010	4.75
	7,451,849	—	1,862,962	5,588,887			
Other employees							
In aggregate	1,862,962	—	1,862,962	—	14/2/2006	1/1/2007 to 31/12/2007	4.00
	1,862,962	—	—	1,862,962	14/2/2006	1/1/2008 to 31/12/2008	4.50
	1,862,962	—	—	1,862,962	14/2/2006	1/1/2009 to 31/12/2009	5.00
	1,862,963	—	—	1,862,963	14/2/2006	1/1/2010 to 31/12/2010	5.50
	1,862,962	—	1,862,962	—	24/2/2006	1/1/2007 to 31/12/2007	4.00
	1,862,962	—	—	1,862,962	24/2/2006	1/1/2008 to 31/12/2008	4.25
	1,862,962	—	—	1,862,962	24/2/2006	1/1/2009 to 31/12/2009	4.50
	1,862,963	—	—	1,862,963	24/2/2006	1/1/2010 to 31/12/2010	4.75
	14,903,698	—	3,725,924	11,177,774			
	29,807,396	—	7,451,848	22,355,548			

Ms. Leung Churk Yin, Jeanny and Mr. Low Kit Leong, directors of the Company, were granted 5,000,000 share options and 4,800,000 share options respectively in the share capital of the Company on 20 February 2008.

During the financial year, no share options were cancelled or had lapsed in accordance with the terms of the Scheme.

Further details of the Scheme are included in note 36 to the financial statements.

DIRECTORS' INTERESTS

As at 31st December, 2007, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company (the "Code") to be notified to the Company and the Stock Exchange:

(1) The Company

	Long positions in the shares						
Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total	Percentage
Lien Jown Jing, Vincent	931,800	Nil	Nil	Nil	Beneficial owner	931,800	0.11%
Lam Kin Ngok, Peter	1,862,962	Nil	Nil	5,588,887 *(Note)*	Beneficial owner	7,451,849	0.90%
Cheung Wing Sum, Ambrose	1,862,962	Nil	Nil	5,588,887 *(Note)*	Beneficial owner	7,451,849	0.90%

Note: An employee share option scheme was adopted by the Company on 23rd December, 2005 and became effective on 5th January, 2006 and will remain in force for a period of 10 years. Options granted to the above Directors of the Company are shown in the "Share Option Scheme" section in this report.

(2) Associated Corporation

Lai Sun Development Company Limited ("LSD")

	Long positions in the shares of LSD					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
U Po Chu	633,400	Nil	Nil	Beneficial owner	633,400	0.004%
Lam Kin Ngok, Peter	10,099,585	Nil	1,582,869,192 *(Note)*	Beneficial owner	1,592,968,777	11.25%
Liu Ngai Wing	800	Nil	Nil	Beneficial owner	800	0.000006%

Note: Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 11.18% of the issued ordinary share capital of LSD. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.

Report of the Directors

DIRECTORS' INTERESTS (continued)

Save as disclosed above, as at 31st December, 2007, none of the Directors or chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share Option Scheme" section above and in note 36 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company 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 31st December, 2007, the following persons, other than a director or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Nature	Number of Ordinary Shares	Percentage of Issued Share Capital
Lai Sun Development Company Limited	Beneficial owner	Corporate Interest	285,512,791	34.52%
Semler Eric	Owner of controlled corporation	Corporate Interest	101,701,000 *(Note 1, 2 & 9)*	12.38%
TCS Capital GP, LLC	Investment manager	Corporate Interest	99,201,000 *(Note 1 & 9)*	12.07%
Och, Daniel Saul	Owner of controlled corporation	Corporate Interest	73,554,000 *(Note 1, 3 & 9)*	8.95%
Och-Ziff Capital Management Group LLC	Investment manager	Corporate Interest	73,554,000 *(Note 1, 4 & 9)*	8.95%
OZ Management L.P.	Investment manager	Corporate Interest	73,554,000 *(Note 1 & 9)*	8.95%
Jarvis David R.	Owner of controlled corporation	Corporate Interest	49,622,000 *(Note 1, 5 & 9)*	6.05%
Maclean Malcolm F.	Owner of controlled corporation	Corporate Interest	49,622,000 *(Note 1, 6 & 9)*	6.05%
Mercury Real Estate Advisors, LLC	Investment manager	Corporate Interest	49,622,000 *(Note 1 & 9)*	6.05%
Burbank John H.	Owner of controlled corporation	Corporate Interest	41,254,000 *(Note 1, 7 & 9)*	5.02%
Passport Capital, LLC	Investment manager	Corporate Interest	41,254,000 *(Note 1, 8 & 9)*	5.02%
Passport Management, LLC	Investment manager	Corporate Interest	41,254,000 *(Note 1 & 9)*	5.02%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Notes:

1. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.

2. Semler Eric was taken to be interested in 101,701,000 shares in the Company due to his beneficial interests in TCS Capital GP, LLC and another controlled corporation.

3. Och, Daniel Saul was taken to interested in 73,554,000 shares in the Company due to his beneficial interests in Och-Ziff Capital Management Group LLC.

4. Och-Ziff Capital Management Group LLC was taken to be interested in 73,554,000 shares in the Company due to its beneficial interests in OZ Management, L.P..

5. Jarvis David R. was taken to be interested in 49,622,000 shares in the Company due to his beneficial interests in Mercury Real Estate Advisors, LLC.

6. Maclean Malcolm F. was taken to be interested in 49,622,000 shares in the Company due to his beneficial interests in Mercury Real Estate Advisors, LLC.

7. Burbank John H. was taken to be interested in 41,254,000 shares in the Company due to his beneficial interests in Passport Capital, LLC..

8. Passport Capital, LLC. was taken to be interested in 41,254,000 shares in the Company due to its beneficial interests in Passport Management, LLC..

9. The total number of issued shares of the Company prior to 14th December, 2007 was 821,565,891. Following the issue and allotment of additional shares on exercise of share options of the Company on 14th, 21st and 31st December, 2007, the total number of issued shares had been increased to 827,154,777. The percentages shown were based on the total number of issued shares of 821,565,891.

Save as disclosed above, no other person was recorded in the register required to be kept under the provision of Divisions 2 and 3 of Part XV of the SFO as having an interest or short position in the shares and underlying shares of equity derivatives and debentures of the Company as at 31st December, 2007.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules during the year ended 31st December, 2007.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

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 existing shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2007, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK$3,419,843,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 33% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

SUMMARY OF FINANCIAL INFORMATION (continued)

RESULTS

	Year ended 31st December,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
TURNOVER	**289,780**	148,938	136,633	149,129	91,979
PROFIT/(LOSS) BEFORE TAX	**924,369**	1,180,613	239,933	(116,235)	(35,853)
Tax	**(18)**	379	(717)	2,014	(3,129)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**924,351**	1,180,992	239,216	(114,221)	(38,982)
DISCONTINUED OPERATIONS					
Loss for the year from discontinued operations	**(35,827)**	(30,924)	(28,748)	(31,296)	(53,722)
PROFIT/(LOSS) FOR THE YEAR	**888,524**	1,150,068	210,468	(145,517)	(92,704)
Attributable to:					
Equity holders of the parent	**895,710**	1,150,068	210,468	(145,517)	(92,707)
Minority interests	**(7,186)**	—	—	—	3
	888,524	1,150,068	210,468	(145,517)	(92,704)

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st December,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	**80,180**	77,310	207,713	166,029	144,251
Goodwill	**35,202**	—	—	—	—
Film rights	**139,059**	133,745	187,187	190,684	197,655
Film products	**59,545**	—	—	—	—
Music catalogs	**61,645**	—	—	—	—
Interests in jointly-controlled entities	**972,146**	654,534	223	1,125	1,463
Interests in associates	**2,620,179**	1,992,165	1,632,930	1,515,217	113,053
Available-for-sale investments	**51,631**	34,704	—	—	—
Deferred tax assets	**434**	—	—	—	—
Deposits, prepayments and other receivables	**83,408**	10,048	—	—	—
Due from Furama Hotel Enterprises Limited	**—**	—	—	—	1,500,040
Current assets	**1,538,724**	1,110,809	258,757	85,231	64,193
TOTAL ASSETS	**5,642,153**	4,013,315	2,286,810	1,958,286	2,020,655
Current liabilities	**(452,404)**	(252,925)	(115,953)	(292,303)	(236,571)
Long term promissory notes, bank loans and other borrowings	**(194,352)**	(135,501)	(126,607)	(32,341)	(5,042)
Deferred tax liabilities	**(44)**	—	—	—	—
TOTAL LIABILITIES	**(646,800)**	(388,426)	(242,560)	(324,644)	(241,613)
MINORITY INTERESTS	**(326,135)**	(196)	(196)	(196)	(196)
	4,669,218	3,624,693	2,044,054	1,633,446	1,778,846

Report of the Directors

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 44 to the financial statements.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 42 to 46 of the 2007 Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers all the independent non-executive directors to be independent.

AUDITORS

Ernst & Young retire at the conclusion of the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Lien Jown Jing, Vincent
Chairman

Hong Kong
11th April, 2008

Corporate Governance Report

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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1st January, 2005.

(1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the CG Code throughout the accounting period covered by the Annual Report save for the following deviation from code provision A.4.1 summarised below:

Code Provision A.4.1

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

(2) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a Code for Securities Transactions by Directors (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the year ended 31st December, 2007.

(3) BOARD OF DIRECTORS

(3.1) The Board supervises 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.

(3.2) During the year under review, the Board comprises five executive Directors, namely, Mr. Lam Kin Ngok, Peter, Ms. Leung Churk Yin, Jeanny (Chief Executive Officer), Mr. Liu Ngai Wing, Mr. Cheung Wing Sum, Ambrose and Mr. Low Kit Leong; four non-executive Directors, namely, Mr. Lien Jown Jing, Vincent (Chairman), Mr. Lam Kin Ming, Miss Tam Wai Chu, Maria (Ms. Tam has resigned on 29th January, 2008) and Madam U Po Chu; and three independent non-executive Directors, namely, Mr. Alfred Donald Yap, Mr. Low Chee Keong and Mr. Tong Ka Wing, Carl.

(3) BOARD OF DIRECTORS (continued)

(3.3) The Board met five times in 2007. The attendance record of individual director at these board meetings is set out in the following table:

	Board Meetings	
Directors	**Held**	**Attended**
Executive Directors		
Leung Churk Yin, Jeanny *(Chief Executive Officer)*†	2	2
Lam Kin Ngok, Peter	5	1
Liu Ngai Wing	5	1
Cheung Wing Sum, Ambrose	5	4
Low Kit Leong†	3	3
Non-Executive Directors		
Lien Jown Jing, Vincent *(Chairman)*	5	4
Lam Kin Ming	5	0
Tam Wai Chu, Maria*	5	4
U Po Chu	5	0
Independent Non-Executive Directors		
Alfred Donald Yap	5	5
Low Chee Keong	5	3
Tong Ka Wing, Carl	5	5

† appointed during the year
* resigned on 29th January, 2008

(3.4) The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

(3.5) Mr. Lam Kin Ngok, Peter, an executive Director, is the son of Madam U Po Chu, and the younger brother of Mr. Lam Kin Ming, the latter two being non-executive directors.

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

Corporate Governance Report

(4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive Officer be separated and not performed by the same individual.

During the year under review, Mr. Lien Jown Jing, Vincent was the Chairman of the Company while Ms. Leung Churk Yin, Jeanny acted as the Chief Executive Officer of the Company since 1st September, 2007.

(5) NON-EXECUTIVE DIRECTORS

As explained in Paragraph (1) above, none of the existing non-executive Directors of the Company is appointed for a specific term.

(6) REMUNERATION COMMITTEE

(6.1) The Board established a Remuneration Committee on 16th September, 2005, which now comprises two independent non-executive Directors, namely, Messrs. Tong Ka Wing, Carl (Chairman), and Alfred Donald Yap, and an Executive Director and Chief Executive Officer, Ms. Leung Churk Yin, Jeanny. Mr. Lee Po On ceased to be a member of the Remuneration Committee on 22nd January, 2007, following his resignation as a director of the Company, Ms. Leung Churk Yin, Jeanny was appointed a member of the Remuneration Committee on 14th September, 2007.

(6.2) The Remuneration Committee has been charged with the responsibility to recommend 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.

(6.3) The Remuneration Committee held one meeting during the year to discuss remuneration related matters.

The attendance record of individual member at this Remuneration Committee Meeting is set out in the following table:

Committee Members	No. of Remuneration Committee Meetings Held	Attended
Tong Ka Wing, Carl	1	1
Alfred Donald Yap	1	1
Leung Churk Yin, Jeanny †	1	1

† appointed during the year

(7) NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Potential new directors will be recruited based on their 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 of the Company.

(8) AUDITORS' REMUNERATION

The auditors of the Company, Ernst & Young, received audit fees amounting to HK$3,260,000 for the year under review. Ernst & Young also received fees amounting to HK$903,000 for providing non-audit services including issuance of certain comfort letters in relation to a very substantial transaction, the performance of certain agreed-upon procedures for the interim financial statements and taxation services to the Company and its subsidiaries during the year.

(9) AUDIT COMMITTEE

(9.1) The Board established an Audit Committee on 29th April, 1999, which currently comprises the three independent non-executive Directors, namely, Messrs. Alfred Donald Yap (Chairman), Low Chee Keong and Tong Ka Wing, Carl.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of the periodical financial statements of the Company and the review of significant financial reporting judgements contained in them before submission to the Board for approval.

The Company has complied with Rule 3.21 of the Listing Rules in that one of the members of the Audit Committee possesses appropriate professional qualifications or accounting or related financial management experience.

(9.2) The Audit Committee held two meetings during the year under review. The attendance record of individual member at these Audit Committee Meetings is set out in the following table:

	No. of Audit Committee Meetings	
Committee Members	**Held**	**Attended**
Alfred Donald Yap	2	2
Low Chee Keong	2	1
Tong Ka Wing, Carl	2	1

(9.3) The Audit Committee reviewed the half-yearly and annual results of the Company, and other matters related to the financial and accounting policies and practices of the Company.

Corporate Governance Report

(10) 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 Company and its subsidiaries, in accordance with the accounting principles generally accepted in Hong Kong.

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

(11) INTERNAL CONTROL

During the year, Horwath Risk Advisory Services Limited has been engaged to perform internal audit functions and to assist the Board in reviewing the effectiveness of the internal control system of the Group. The periodic review will cover all material controls, including financial, operational and compliance controls and risk management functions of the Group.

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of eSun Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of eSun Holdings Limited set out on pages 49 to 137, which comprise the consolidated and company balance sheets as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended 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.

Without qualifying our opinion above, we draw attention to the fact that our report dated 23rd March, 2007 on the Group's financial statements for the year ended 31st December, 2006, which form the basis for the comparative amounts presented in the current year's financial statements, was qualified on account of a limitation of audit scope, as we were unable to ascertain whether the opening balances of film rights and accumulated losses as at 1st January, 2006 were fairly stated. Any adjustments to the opening net assets of the Group as at 1st January, 2006 would have consequential impact on the profits of the Group for the year ended 31st December, 2006. Accordingly, the comparative amounts of the consolidated income statement for the year ended 31st December, 2006 may not be comparable with the amounts for the current year.

Ernst and Young
Certified Public Accountants
Hong Kong

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

11th April, 2008

Consolidated Income Statement

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
CONTINUING OPERATIONS			
TURNOVER	6	289,780	148,938
Cost of sales	7	(256,679)	(115,875)
Gross profit		33,101	33,063
Other revenue	6	62,758	18,628
Marketing expenses		(42,194)	(31,144)
Administrative expenses		(167,253)	(121,812)
Other operating gains		4,751	24,280
Other operating expenses		(66,943)	(40,505)
Gain on disposal of a partial interest in a subsidiary	16(b)	499,969	—
Gain on disposal of subsidiaries	16(c)	—	974,556
PROFIT FROM OPERATING ACTIVITIES		324,189	857,066
Finance costs	8	(8,954)	(9,337)
Share of profits and losses of jointly-controlled entities		(32,147)	(8,363)
Provision for amounts due from jointly-controlled entities		(763)	(2,113)
Share of profits and losses of associates		642,044	343,360
PROFIT BEFORE TAX	7	924,369	1,180,613
Tax	10	(18)	379
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		924,351	1,180,992
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	12	(35,827)	(30,924)
PROFIT FOR THE YEAR		888,524	1,150,068
Attributable to:			
Equity holders of the parent	11	895,710	1,150,068
Minority interests		(7,186)	—
		888,524	1,150,068

Consolidated Income Statement

Year ended 31st December, 2007

	Note	2007	2006
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
— BASIC			
— For profit for the year		**HK$1.09**	HK$1.43
— For profit from continuing operations		**HK$1.13**	HK$1.47
— DILUTED			
— For profit for the year		**HK$1.08**	HK$1.42
— For profit from continuing operations		**HK$1.12**	HK$1.46

Consolidated Balance Sheet

31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	80,180	77,310
Goodwill	15	35,202	—
Film rights	17	139,059	133,745
Film products	18	59,545	—
Music catalogs	19	61,645	—
Interests in jointly-controlled entities	20	972,146	654,534
Interests in associates	21	2,620,179	1,992,165
Available-for-sale investments	22	51,631	34,704
Deferred tax assets	34	434	—
Deposits, prepayments and other receivables	28	83,408	10,048
Total non-current assets		4,103,429	2,902,506
CURRENT ASSETS			
Inventories	23	4,630	3,338
Equity investments at fair value through profit or loss	24	17,806	20
Films under production	25	33,560	—
Due from a jointly-controlled entity	20	90,842	—
Loan receivables	26	50,607	128,151
Debtors	27	50,931	26,982
Deposits, prepayments and other receivables	28	164,331	90,864
Cash and cash equivalents	29	1,126,017	861,454
Total current assets		1,538,724	1,110,809
CURRENT LIABILITIES			
Creditors, accruals and provision	30	434,135	250,252
Tax payable		8,204	2,642
Finance lease payables	31	65	31
Promissory notes	32	10,000	—
Total current liabilities		452,404	252,925
NET CURRENT ASSETS		1,086,320	857,884
TOTAL ASSETS LESS CURRENT LIABILITIES — page 52		5,189,749	3,760,390

Consolidated Balance Sheet

31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES — page 51		5,189,749	3,760,390
NON-CURRENT LIABILITIES			
Finance lease payables	31	(194)	(102)
Promissory notes	32	(50,219)	—
Interest-bearing other borrowings	33	(143,939)	(135,399)
Deferred tax liabilities	34	(44)	—
Total non-current liabilities		(194,396)	(135,501)
Net assets		4,995,353	3,624,889
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	413,577	409,851
Reserves	37	4,255,641	3,214,842
		4,669,218	3,624,693
Minority interests		326,135	196
Total equity		4,995,353	3,624,889

Lien Jown Jing, Vincent
Director

Leung Churk Yin, Jeanny
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Equity attributable to equity holders of the parent at 1st January		3,624,693	2,044,054
Exchange realignment on translation of financial statements of foreign subsidiaries, net	37	1,964	817
Changes in fair value of available-for-sale investments	37	—	(1,727)
Total income and expense for the year recognised directly in equity		1,964	(910)
Profit for the year	37	895,710	1,150,068
Total income and expense for the year attributable to equity holders of the parent		897,674	1,149,158
Issue of shares, including share premium	35	29,807	432,204
Share issue expenses	35	—	(6,711)
Equity-settled share option arrangements	36	8,588	9,929
Share of reserve movements of associates	37	106,729	1,022
Release upon deemed disposal of an associate	37	—	(4,963)
Release upon disposal of available-for-sale investments	37	1,727	—
Equity attributable to equity holders of the parent at 31st December		4,669,218	3,624,693
Minority interests at 1st January		196	196
Acquisition of a subsidiary	38	(631)	—
Disposal of a partial interest in a subsidiary		60,896	—
Share of loss by minority interests for the year		(7,186)	—
Shareholder loan from a minority shareholder to a non-wholly-owned subsidiary	16(b)	272,860	—
Minority interests at 31st December		326,135	196
Total equity at 31st December		4,995,353	3,624,889

Consolidated Cash Flow Statement

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
From continuing operations		924,369	1,180,613
From a discontinued operation		(35,827)	(30,924)
Adjustments for:			
Finance costs	8	8,954	9,337
Gain on disposal of subsidiaries	16(c)	—	(974,556)
Gain on disposal of a partial interest in a subsidiary	16(b)	(499,969)	—
Gain on deemed disposal of an associate	7	—	(20,985)
Share of profits and losses of jointly-controlled entities		32,147	8,363
Provision for amounts due from jointly-controlled entities		763	2,113
Share of profits and losses of associates		(642,044)	(343,360)
Interest income	6	(58,742)	(14,040)
Gain on disposal of available-for-sale investments	7	(1,834)	—
Gain on the sale of equity investments at fair value through profit or loss	7	(1,270)	(1,927)
Depreciation	7	9,143	6,143
Amortisation of film rights	7	15,851	14,442
Amortisation of music catalogs	7	1,555	—
Amortisation of film products	7	41,377	—
Impairment of film rights	7	5,000	39,000
Impairment of films under production	7	18,160	—
Impairment of items of property, plant and equipment	7	6,079	—
Impairment of goodwill arising from acquisition of a jointly-controlled entity	7	3,500	—
Fair value losses on equity investments at fair value through profit or loss	7	3,341	2
Loss on disposal of items of property, plant and equipment	7	190	25
Write-off of bad debts	7	27	430
Provision for doubtful debts	7	—	88
Provision for other receivable	7	5,000	—
Provision for advances to artistes	7	20,143	—
Provision for indemnity	7	25,000	—
Write-back of provision for doubtful debts	7	(193)	(168)
Provision for inventories	7	715	423
Equity-settled share option expense	7	8,588	9,929
		(109,977)	(115,052)
Increase in inventories		(395)	(889)
Increase in deposits, prepayments and other receivables		(117,132)	(33,516)
Decrease/(increase) in debtors		3,427	(9,445)
Decrease in creditors, accruals and provision		(32,631)	(74,635)
Additions of films under production	25	(35,958)	—
Cash used in operations		(292,666)	(233,537)
Hong Kong taxes paid		(14)	(340)
Overseas taxes refunded		438	35
Net cash outflow from operating activities — page 55		(292,242)	(233,842)

Consolidated Cash Flow Statement

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash outflow from operating activities — page 54		(292,242)	(233,842)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		49,078	13,889
Additions of film rights	17	(26,047)	—
Proceeds from the sale of equity investments at fair value through profit or loss		11,139	13,544
Proceeds from the sale of available-for-sale investments		36,594	—
Proceeds from disposal of subsidiaries	39(a)	—	1,317,169
Proceeds from disposal of a partial interest in a subsidiary	16(b)	658,757	—
Proceeds from disposal of items of property, plant and equipment		104	—
Purchases of items of property, plant and equipment		(17,572)	(188,464)
Purchases of equity investments at fair value through profit or loss		(30,996)	(11,617)
Additions of music catalogs		(23,200)	—
Acquisition of a subsidiary	38	(90,304)	—
Acquisition of a jointly-controlled entity		—	(5,000)
Advances to jointly-controlled entities		(354,752)	(469,841)
Advances to associates		(121)	(626)
Dividends received from an associate		—	2,198
Decrease/(increase) in deposits		4,667	(10,048)
Addition of a loan receivable		(17,000)	(128,000)
Repayment of a loan receivable		104,208	—
Purchases of available-for-sale investments		(49,960)	(36,431)
Net cash inflow from investing activities		254,595	496,773
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	29,807	432,204
Share issue expenses	35	—	(6,711)
Shareholder loan from a minority shareholder of a subsidiary		272,860	—
Repayment of bank borrowings		—	(4,000)
Capital element of finance lease rental payments		(35)	(29)
Interest paid		(195)	(412)
Net cash inflow from financing activities		302,437	421,052
NET INCREASE IN CASH AND CASH EQUIVALENTS		264,790	683,983
Cash and cash equivalents at beginning of year		861,454	177,080
Effect of foreign exchange rate changes, net		(227)	391
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	1,126,017	861,454
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	29	1,126,017	861,454

Balance Sheet

31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**2,706,273**	2,376,524
CURRENT ASSETS			
Deposits, prepayments and other receivables	28	**11,135**	11,346
Cash and cash equivalents	29	**809,200**	641,457
Total current assets		**820,335**	652,803
CURRENT LIABILITIES			
Creditors and accruals		**26,853**	1,880
Tax payable		**412**	412
Promissory notes	32	**10,000**	—
Total current liabilities		**37,265**	2,292
NET CURRENT ASSETS		**783,070**	650,511
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,489,343**	3,027,035
NON-CURRENT LIABILITIES			
Promissory notes	32	**(50,219)**	—
Interest-bearing other borrowings	33	**(143,939)**	(135,399)
Total non-current liabilities		**(194,158)**	(135,399)
Net assets		**3,295,185**	2,891,636
EQUITY			
Issued capital	35	**413,577**	409,851
Reserves	37	**2,881,608**	2,481,785
Total equity		**3,295,185**	2,891,636

Lien Jown Jing, Vincent
Director

Leung Churk Yin, Jeanny
Director

1. CORPORATE INFORMATION

eSun Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively, the "Group") were involved in the following principal activities:

- development and operation of, and investment in, media, entertainment, and music production and distribution;
- production, investment in and distribution of films and video format products;
- provision of advertising agency services;
- satellite television operations (discontinued during the year — note 12);
- sale of cosmetic products; and
- investment holding.

Details of the principal activities of the principal subsidiaries, jointly-controlled entities and an associate are set out in notes 16, 20 and 21 to the financial statements, respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong 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 certain equity investments, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 43 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no material impact on the financial position or results of operations of the Group.

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

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1st January, 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not reversed at a subsequent balance sheet date. This interpretation has had no impact on the financial position or results of operations of the Group.

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

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

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKFRS 2 Amendment	Share-based Payment [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions [2]
HKFRS 3 (Revised)	Business Combination [3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [3]

1 Effective for annual periods beginning on or after 1st January, 2009.
2 Effective for annual periods beginning on or after 1st March, 2007.
3 Effective for annual periods beginning on or after 1st July, 2009.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in a single statement, or in two linked statements. The Group is evaluating whether it will have one or more statements.

The amendment to HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendment is not expected to have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1st January, 2009.

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

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revisions to HKFRS 3 and HKAS 27 will be applied by the Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Group with minority interests.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. Adjustments are made to bring into line any dissimilar accounting polices that may exist.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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 transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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 interests in associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

There is a crossholding between the Group and Lai Sun Development Company Limited ("LSD"), an associate of the Group. Therefore, the Group's share of the results of LSD for the year and subsequent accounting periods also includes the results of the Group which are shared by LSD while LSD is equity accounting for the Group's results. Appropriate elimination is made by the Group while the Group is accounting for the crossholding.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31st 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets 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 impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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%
Broadcast operations and engineering equipment	10.0%
Motor vehicles	10.0% — 20.0%
Computers	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.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises prepaid land lease payments and the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Film products, film rights and films under production

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

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 adversely differ 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.

Films under production includes 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assess whether an embedded derivative is required to be separated from the host contract when analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs of there is a charge in the terms of the contract that significantly modifies the cash flows that would otherwise be required at the balance sheet date.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net value gains or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share value volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvements takes the form of a written and/or purchased option (including a cash-settled option or similar provisions) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Financial liabilities including trade creditors and other creditors, promissory notes and interest-bearing other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories comprise 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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) advertising agency, artiste management fee and television subscription fee income, in the period in which the relevant services are rendered;

(b) turnover from entertainment events organised by the Group, when the events are completed;

(c) net income from entertainment events organised by other co-investors, when the events are completed and in proportion as agreed with co-investors;

(d) 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;

(e) 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;

(f) income from films licensed to movie theatres, when the films are exhibited;

(g) 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;

(h) 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;

(i) distribution commission income, when the album or film materials have been delivered to the wholesalers and distributors;

(j) album licence income, on an accrual basis in accordance with the terms of the relevant agreements; and

(k) television airtime sales, when the relevant advertisements are broadcast.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Scholes model, further details of which are given in note 36 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The employees of the Group's subsidiaries which operate in Mainland 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 are initially recorded using the 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 balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the accumulated losses. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

— where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party directly or indirectly through one or more intermediaries (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 reporting date. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment test of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill arising on acquisition of a subsidiary and a jointly-controlled entity at 31st December, 2007 were HK$35,202,000 (2006: Nil) and HK$Nil (2006: HK$3,500,000), respectively. Further details are included in notes 15 and 20.

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.

Notes to Financial Statements

31st December, 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Accounting for film rights and film products (continued)

These estimated projected revenues can change significantly due to a variety of factors. Based on information available on the actual results of films, management reviews and revises, when necessary, the estimated projected revenues on a film-by-film basis at regular intervals. Such change in revenue projections or estimations may result in a change in the rate of amortisation and/or 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 31st December, 2007 were HK$139,059,000 (2006: HK$133,745,000) and HK$59,545,000 (2006: Nil), respectively.

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 result of operations. The carrying amount of music catalogs at 31st December, 2007 was HK$61,645,000 (2006: Nil).

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing operations

(a) the media and entertainment segment engages in investment in, and the production of, entertainment events, the provision of artiste management services, album sales and distribution and license of music;

(b) the film production and distribution segment engages in the production of, investment in, 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;

4. SEGMENT INFORMATION (continued)

Continuing operations (continued)

(c) the advertising agency segment engages in the provision of advertising agency services, primarily in respect of advertisements on television and in newspapers;

(d) the cosmetics segment engages in the sale of cosmetic products; and

(e) the corporate and others segment comprises interests in Cyber One Agents Limited ("Cyber One") (note 20) and LSD (note 21), together with corporate income and expense items.

Discontinued operation

(f) The satellite television segment engaged in the television broadcasting business, including the production of television programmes, the operation of a satellite television channel and the provision of other related services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no intersegmental sales and transfers during the year (2006: Nil).

Note: The film production and distribution business constituted a reportable business segment of the Group in accordance with the requirements of HKAS 14 Segment Reporting ("HKAS 14") subsequent to the acquisition of Media Asia Entertainment Group Limited during the year. Accordingly, the comparative figures for the film production and distribution business segment for the year ended 31st December, 2006 which were previously included in media and entertainment segment are now separately disclosed in the film production and distribution segment to conform to current year's presentation.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2007 and 2006.

	Continuing operations												Discontinued operation			
	Media and entertainment		Film production and distribution		Advertising agency		Cosmetics		Corporate and others		Total		Satellite television		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:																
Sales to external customers	138,988	76,914	97,166	20,243	31,112	31,017	22,514	20,764	—	—	289,780	148,938	2,130	1,301	291,910	150,239
Other revenue	2,452	2,920	1,557	—	—	1,645	7	4	—	19	4,016	4,588	43	—	4,059	4,588
Total	141,440	79,834	98,723	20,243	31,112	32,662	22,521	20,768	—	19	293,796	153,526	2,173	1,301	295,969	154,827
Segment results	(33,403)	(10,487)	(28,185)	(38,299)	(1,080)	982	(4,362)	(5,389)	(167,255)	(101,247)	(234,285)	(154,440)	(35,827)	(30,924)	(270,112)	(185,364)
Unallocated interest and other gains											58,742	14,040	—	—	58,742	14,040
Gain on disposal of subsidiaries	—	—	—	—	—	—	—	—	—	974,556	—	974,556	—	—	—	974,556
Gain on disposal of a partial interest in a subsidiary	—	—	—	—	—	—	—	—	499,969	—	499,969	—	—	—	499,969	—
Gain on the sale of equity investments at fair value through profit or loss	—	—	—	—	—	—	—	—	1,270	1,927	1,270	1,927	—	—	1,270	1,927
Gain on deemed disposal of an associate	—	—	—	—	—	—	—	—	—	20,985	—	20,985	—	—	—	20,985
Gain on disposal of available-for-sale investments	—	—	—	—	—	—	—	—	1,834	—	1,834	—	—	—	1,834	—
Fair value losses on equity investments at fair value through profit or loss	—	—	—	—	—	—	—	—	(3,341)	(2)	(3,341)	(2)	—	—	(3,341)	(2)
Profit/(loss) from operating activities											324,189	857,066	(35,827)	(30,924)	288,362	826,142
Finance costs											(8,954)	(9,337)	—	—	(8,954)	(9,337)
Share of profits and losses of jointly-controlled entities	(429)	(5,529)	(5,533)	—	—	—	—	—	(26,185)	(2,834)	(32,147)	(8,363)	—	—	(32,147)	(8,363)
Provision for amounts due from jointly-controlled entities	(763)	(2,113)	—	—	—	—	—	—	—	—	(763)	(2,113)	—	—	(763)	(2,113)
Share of profits and losses of associates	53	91	(5,292)	2,725	—	—	—	—	647,283	340,544	642,044	343,360	—	—	642,044	343,360
Profit/(loss) before tax											924,369	1,180,613	(35,827)	(30,924)	888,542	1,149,689
Tax											(18)	379	—	—	(18)	379
Profit/(loss) for the year											924,351	1,180, 992	(35,827)	(30,924)	888,524	1,150,068
Segment assets	293,154	108,433	499,681	137,928	11,977	12,398	13,063	13,665	1,071,263	984,545	1,889,138	1,256,969	945	76,014	1,890,083	1,332,983
Interests in associates	(36)	17	—	127,060	—	—	—	—	2,620,215	1,865,088	2,620,179	1,992,165	—	—	2,620,179	1,992,165
Interests in jointly-controlled entities	(1,855)	711	85,299	—	—	—	—	—	979,544	653,823	1,062,988	654,534	—	—	1,062,988	654,534
Unallocated assets											68,903	33,633	—	—	68,903	33,633
Total assets											5,641,208	3,937,301	945	76,014	5,642,153	4,013,315
Segment liabilities	47,634	19,892	84,202	1,992	10,676	9,977	9,375	9,816	278,516	204,785	430,403	246,462	1,943	2,098	432,346	248,560
Unallocated liabilities											214,454	139,866	—	—	214,454	139,866
Total liabilities											644,857	386,328	1,943	2,098	646,800	388,426
Other segment information:																
Depreciation	2,369	202	147	—	225	231	161	155	2,020	953	4,922	1,541	4,221	4,602	9,143	6,143
Impairment of film rights	—	—	5,000	39,000	—	—	—	—	—	—	5,000	39,000	—	—	5,000	39,000
Amortisation of film rights	—	—	15,851	14,442	—	—	—	—	—	—	15,851	14,442	—	—	15,851	14,442
Amortisation of film products	—	—	41,377	—	—	—	—	—	—	—	41,377	—	—	—	41,377	—
Amortisation of music catalogs	1,555	—	—	—	—	—	—	—	—	—	1,555	—	—	—	1,555	—
Write-off of bad debts	—	—	—	—	—	425	27	2	—	—	27	427	—	3	27	430
Provision for doubtful debts	—	—	—	—	—	—	—	88	—	—	—	88	—	—	—	88
Provision for other receivable	—	—	5,000	—	—	—	—	—	—	—	5,000	—	—	—	5,000	—
Write-back of provision for doubtful debts	—	—	25	—	—	—	—	—	168	168	193	168	—	—	193	168
Provision for advances to artistes	20,143	—	—	—	—	—	—	—	—	—	20,143	—	—	—	20,143	—
Provision for indemnity	—	—	—	—	—	—	—	—	25,000	—	25,000	—	—	—	25,000	—
Impairment of films under production	—	—	18,160	—	—	—	—	—	—	—	18,160	—	—	—	18,160	—
Provision for inventories	—	—	711	—	—	—	4	423	—	—	715	423	—	—	715	423
Impairment of items of property, plant and equipment	—	—	—	—	—	—	—	—	—	—	—	—	6,079	—	6,079	—
Impairment of goodwill arising from acquisition of a jointly-controlled entity	3,500	—	—	—	—	—	—	—	—	—	3,500	—	—	—	3,500	—
Provision for amounts due from jointly-controlled entities	763	2,113	—	—	—	—	—	—	—	—	763	2,113	—	—	763	2,113
Additions of property, plant and equipment	10,766	1,072	179	—	—	358	58	273	6,688	186,182	17,691	187,885	42	579	17,733	188,464
Additions of film rights	—	—	26,047	—	—	—	—	—	—	—	26,047	—	—	—	26,047	—
Additions of films under production	—	—	35,958	—	—	—	—	—	—	—	35,958	—	—	—	35,958	—
Additions of music catalogs	63,200	—	—	—	—	—	—	—	—	—	63,200	—	—	—	63,200	—

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st December, 2007 and 2006.

	Hong Kong		Mainland China (including Macau)		Other		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	178,523	107,547	66,360	42,692	47,027	—	291,910	150,239
Attributable to a discontinued operation	(2,130)	(1,301)	—	—	—	—	(2,130)	(1,301)
Revenue from continuing operations	176,393	106,246	66,360	42,692	47,027	—	289,780	148,938
Other segment information:								
Segment assets	4,514,030	3,300,490	1,058,783	679,192	437	—	5,573,250	3,979,682
Unallocated assets							68,903	33,633
Total assets							5,642,153	4,013,315
Additions of property, plant and equipment	17,665	2,917	68	185,547	—	—	17,733	188,464
Additions of film rights	26,047	—	—	—	—	—	26,047	—
Additions of films under production	35,958	—	—	—	—	—	35,958	—
Additions of music catalogs	63,200	—	—	—	—	—	63,200	—

Notes to Financial Statements

31st December, 2007

5. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year.

(A) Transactions with related parties

		Group	
		2007	2006
	Notes	HK$'000	HK$'000
Associates:			
Distribution and licence fee income	(i)	65	209
Distribution commission expenses	(ii)	1,191	3,030
Rental expense	(iii)	2,865	1,665
Jointly-controlled entity:			
Consultancy and production service fee	(iv)	2,200	2,200
Related companies:			
Advertising income (a)	(v)	967	10,142

(a) The related companies are subsidiaries of Lai Fung Holdings Limited ("Lai Fung"), of which certain directors of the Company are also directors and key management personnel of Lai Fung.

Notes:

(i) The distribution and licence fee income was charged to an associate on contract terms.

(ii) The distribution commissions were charged at a rate of 5% or 15% on the gross licence fee income.

(iii) The rental expense was charged with reference to market rates.

(iv) The consultancy and production service fee was charged on a basis mutually agreed by the respective parties.

(v) The advertising income received from the related companies was charged with reference to market rates.

(B) Compensation of key management personnel of the Group:

	2007	2006
	HK$'000	HK$'000
Short term employee benefits	37,958	25,554
Post-employment benefits	343	365
Share-based payments	4,034	5,402
Total compensation paid to key management personnel	42,335	31,321

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

6. TURNOVER AND OTHER REVENUE

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

		Group	
		2007	2006
	Notes	HK$'000	HK$'000
Turnover			
Advertising agency income		**31,112**	31,017
Entertainment event income		**110,141**	64,365
Sale of products		**30,661**	20,764
Album sales, licence income and distribution commission income from music publishing and licensing		**18,235**	20,446
Artiste management fee income		**9,073**	5,053
Distribution and licence fee income from film products and film rights		**90,558**	7,293
Attributable to continuing operations reported in the consolidated income statement		**289,780**	148,938
Television subscription fee income and television airtime sales attributable to a discontinued operation	12	**2,130**	1,301
		291,910	150,239
Other revenue			
Bank interest income		**49,078**	13,889
Interest income on a loan receivable		**9,664**	151
Others		**4,016**	4,588
Attributable to continuing operations reported in the consolidated income statement		**62,758**	18,628
Other revenue attributable to a discontinued operation	12	**43**	—
		62,801	18,628
		354,711	168,867

7. PROFIT BEFORE TAX

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

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Cost of film rights and license rights		86,540	16,497
Cost of artiste management services, advertising agency services, and services for entertainment events provided		154,779	89,292
Cost of inventories sold		15,360	10,086
Total cost of sales		256,679	115,875
Employee benefit expense (including directors' emoluments (note 9)):			
Wages and salaries *** @		110,968	87,520
Equity-settled share option expense		8,588	9,929
Pension scheme contributions ### @		2,380	1,911
		121,936	99,360
Amortisation of prepaid land lease payments	14	—	2,250
Capitalised in construction in progress		—	(2,250)
		—	—
Auditors' remuneration		3,260	1,490
Depreciation ***@	14	9,143	6,143
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events ##		4,576	3,996
Others		7,787	7,060
Contingent rents incurred for entertainment events ##		17,281	10,961
Total operating lease payments		29,644	22,017

7. PROFIT BEFORE TAX (continued)

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

		Group	
		2007	2006
	Notes	HK$'000	HK$'000
Gain on deemed disposal of an associate *	21	—	(20,985)
Impairment of film rights **	17	5,000	39,000
Impairment of films under production #	25	18,160	—
Gain on the sale of equity investments at fair value through profit or loss *		(1,270)	(1,927)
Gain on disposal of available-for-sale investments *		(1,834)	—
Amortisation of film rights #	17	15,851	14,442
Amortisation of film products #	18	41,377	—
Amortisation of music catalogs #	19	1,555	—
Fair value losses on equity investments at fair value through profit or loss **		3,341	2
Loss on disposal of items of property, plant and equipment **		190	25
Share of net income from entertainment events organised by other co-investors*		(1,396)	(1,102)
Impairment of items of property, plant and equipment @	14	6,079	—
Impairment of goodwill arising from acquisition of a jointly-controlled entity **	20	3,500	—
Write-off of bad debts **		27	430
Provision for advances to artistes #		20,143	—
Provision for doubtful debts **		—	88
Provision for other receivable **		5,000	—
Write-back of provision for doubtful debts *		(193)	(168)
Provision for inventories #		715	423
Foreign exchange differences, net		(2,243)	4
Provision for indemnity **	30	25,000	—

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

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

*** Wages and salaries of HK$7,357,000 (2006: HK$7,202,000) and a depreciation charge of HK$2,293,000 (2006: HK$2,317,000) are included in "Cost of sales" on the face of the consolidated income statement.

\# These items are included in "Cost of sales" on the face of the consolidated income statement.

\## These items are included in "Cost of sales" on the face of the consolidated income statement. The contingent rents are charged based on certain percentages of the gross ticket proceeds collected in respect of the entertainment events.

\### At 31st December, 2007, the Group had no forfeited contributions from the pension scheme available to reduce its contributions to the pension scheme in future years (2006: Nil).

@ The disclosures presented in this note include those amounts charged in respect of the discontinued operation, further details of which are set out in note 12 to the financial statements.

8. FINANCE COSTS

	Group 2007 HK$'000	Group 2006 HK$'000
Interest on other borrowings wholly repayable within five years	8,539	9,022
Interest on promissory notes	219	—
Interest on finance leases	16	14
Refinancing charges of bank borrowings	180	301
	8,954	9,337

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	Group 2007 HK$'000	Group 2006 HK$'000
Fees	1,480	880
Other emoluments:		
Basic salaries, housing and other allowances, and benefits in kind	36,478	24,674
Employee share option benefits	4,034	5,402
Pension scheme contributions	343	365
	40,855	30,441
	42,335	31,321

During the year ended 31st December, 2006, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 36 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 current year has been included in the above directors' remuneration disclosures.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

(i) Independent non-executive directors

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

	2007 HK$'000	2006 HK$'000
Alfred Donald Yap	440	240
Low Chee Keong	440	240
Tong Ka Wing, Carl	600	400
	1,480	880

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(ii) Executive and non-executive directors

	Fees HK$'000	Basic salaries, housing and other allowances, and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Executive directors:					
Lee Po On (resigned on 22nd January, 2007)	—	2,371	—	5	2,376
Lam Kin Ngok, Peter	—	16,000	2,017	—	18,017
Cheung Wing Sum, Ambrose	—	5,260	2,017	185	7,462
Liu Ngai Wing	—	3,730	—	100	3,830
Low Kit Leong	—	6,458	—	7	6,465
Leung Churk Yin, Jeanny	—	959	—	4	963
	—	34,778	4,034	301	39,113
Non-executive directors:					
Lam Kin Ming	—	—	—	—	—
Tam Wai Chu, Maria	—	800	—	30	830
U Po Chu	—	—	—	—	—
Lien Jown Jing, Vincent	—	900	—	12	912
	—	1,700	—	42	1,742
	—	36,478	4,034	343	40,855

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

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

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

During the year ended 31st December, 2007, HK$5,000,000 was paid to Mr. Low Kit Leong as inducement for joining the Group. The amount was included in his basic salaries, housing and other allowances and benefits in kind presented above.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid employees during the year included four (2006: three) directors, the details of whose emoluments are set out above. Details of the remuneration of the remaining one (2006: two) non-director, highest paid employees for the year are as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Salaries, allowances and benefits in kind	**2,032**	5,161
Employee share option benefits	**2,536**	1,828
Pension scheme contributions	**6**	24
	4,574	7,013

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

	Group Number of employees 2007	Group Number of employees 2006
HK$2,500,001 — HK$3,000,000	—	1
HK$4,000,001 — HK$4,500,000	—	1
HK$4,500,001 — HK$5,000,000	1	—
	1	2

During the year ended 31st December, 2006, share options were granted to one non-director, highest paid employee in respect of his services to the Group, further details of which are included in note 36 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 current year has been included in the above non-director, highest paid employees' remuneration disclosures.

Notes to Financial Statements

10. TAX

No provision for Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong for both years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	HK$'000
Provision for tax for the year:		
Hong Kong	—	—
Elsewhere	**18**	—
	18	—
Prior years' overprovision:		
Hong Kong	—	(379)
Total tax charge/(credit) for the year attributable to continuing operations reported in the consolidated income statement	**18**	(379)

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

	2007		2006	
	HK$'000	**%**	HK$'000	%
Profit before tax	888,542		1,149,689	
Tax at the statutory tax rate	**155,495**	**17.5**	201,196	17.5
Adjustments in respect of current tax of previous periods	—	—	(379)	—
Profits and losses attributable to jointly-controlled entities and associates	**(107,700)**	**(12.1)**	(62,297)	(5.4)
Income not subject to tax	**(100,648)**	**(11.3)**	(175,202)	(15.2)
Expenses not deductible for tax	**35,986**	**4.0**	25,790	2.2
Estimated tax losses utilised from previous periods	**(408)**	—	—	—
Estimated tax losses not recognised	**17,293**	**1.9**	10,513	0.9
Tax charge/(credit) at the Group's effective rate	**18**	—	(379)	—

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December, 2007 includes a profit of HK$365,154,000 (2006: HK$717,161,000) which has been dealt with in the financial statements of the Company (note 37).

12. DISCONTINUED OPERATION

During the year, the Group ceased the satellite television business in order to align the Group's business strategy and to focus resources on the continuing businesses.

The results of the satellite television business for both years are presented below:

	2007 HK$'000	2006 HK$'000
Turnover	2,130	1,301
Other revenue	43	—
Cost of sales	(19,606)	(19,445)
Other expenses	(18,394)	(12,780)
Loss before tax from the discontinued operation	(35,827)	(30,924)
Tax	—	—
Loss for the year from the discontinued operation	(35,827)	(30,924)

The net cash flows incurred by the discontinued operation for the years are as follows:

	2007 HK$'000	2006 HK$'000
Operating activities	(29,227)	(43,765)
Investing activities	(19)	(581)
Financing activities	27,867	45,772
Net cash inflow/(outflow)	(1,379)	1,426
Loss per share:		
Basic, from the discontinued operation	HK$4.36 cents	HK$3.86 cents
Diluted, from the discontinued operation	N/A	N/A

The calculation of basic loss per share from the discontinued operation is based on:

	2007	2006
Loss attributable to ordinary equity holders of the parent from the discontinued operation	HK$35,827,000	HK$30,924,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	821,029,971	801,941,105

Diluted loss per share amounts for the years ended 31st December, 2007 and 2006 from the discontinued operation have not been disclosed as the share options outstanding had an anti-dilutive effect on the basic loss per share for these years.

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

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

The calculations of basic and diluted earnings per share are based on:

	2007 HK$'000	2006 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**931,537**	1,180,992
From a discontinued operation	**(35,827)**	(30,924)
	895,710	1,150,068

	Number of shares 2007	 2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**821,029,971**	801,941,105
Effect of dilution — weighted average number of ordinary shares:		
Share options	**7,169,913**	8,271,195
	828,199,884	810,212,300

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Construction in progress HK$'000	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Broadcast operations and engineering equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost:									
At 1st January, 2006		126,976	75,000	26,697	4,908	25,225	1,925	15,215	275,946
Additions		185,228	—	1,332	1,231	381	—	292	188,464
Disposals		—	—	(30)	(4)	—	—	(4)	(38)
Disposal of subsidiaries	39	(312,204)	—	(445)	(462)	—	(330)	(83)	(313,524)
Exchange realignment		—	—	7	21	—	12	41	81
At 31st December, 2006 and 1st January, 2007		—	75,000	27,561	5,694	25,606	1,607	15,461	150,929
Additions		—	—	9,193	1,688	—	6,292	560	17,733
Acquisition of subsidiaries	38	—	—	1,887	1,818	—	—	1,752	5,457
Disposals		—	—	(301)	(896)	—	(48)	(990)	(2,235)
Exchange realignment		—	—	25	66	—	24	94	209
At 31st December, 2007		—	75,000	38,365	8,370	25,606	7,875	16,877	172,093
Accumulated depreciation and impairment:									
At 1st January, 2006		—	8,708	25,610	3,733	15,200	829	14,153	68,233
Provided during the year	7	—	1,935	873	432	2,272	309	322	6,143
Disposals		—	—	(7)	(3)	—	—	(3)	(13)
Disposal of subsidiaries	39	—	—	(263)	(318)	—	(150)	(66)	(797)
Exchange realignment		—	—	2	17	—	10	24	53
At 31st December, 2006 and 1st January, 2007		—	10,643	26,215	3,861	17,472	998	14,430	73,619
Provided during the year	7	—	1,935	2,388	790	2,234	1,373	423	9,143
Acquisition of subsidiaries	38	—	—	1,870	1,445	—	—	1,561	4,876
Disposals		—	—	(151)	(821)	—	(44)	(925)	(1,941)
Impairment	7	—	—	—	88	5,900	—	91	6,079
Exchange realignment		—	—	8	45	—	22	62	137
At 31st December, 2007		**—**	**12,578**	**30,330**	**5,408**	**25,606**	**2,349**	**15,642**	**91,913**
Net book value:									
At 31st December, 2007		**—**	**62,422**	**8,035**	**2,962**	**—**	**5,526**	**1,235**	**80,180**
At 31st December, 2006		—	64,357	1,346	1,833	8,134	609	1,031	77,310

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Included in construction in progress are prepaid land lease payments, the movements of which during the year ended 31st December, 2006 are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Cost:		
At 1st January	—	29,892
Additions	—	184,053
Disposal of subsidiaries	—	(213,945)
At 31st December	—	—
Accumulated amortisation:		
At 1st January	—	3,559
Amortisation during the year — note 7	—	2,250
Disposal of subsidiaries	—	(5,809)
At 31st December	—	—
Net book value:		
At 31st December	—	—

The Group's land and buildings are situated in Hong Kong, held under medium term leases and are pledged to secure general banking facilities granted to the Group (note 33).

The net book value of the Group's assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2007 amounted to HK$303,000 (2006: HK$172,000).

As detailed in note 12 to the financial statements, the satellite television business was discontinued during the year. The directors considered that the property, plant and equipment, which were solely used in this business segment, were impaired. Accordingly, an impairment loss of HK$6,079,000 was charged to the consolidated income statement during the year.

15. GOODWILL

Group

	Notes	HK$'000
Cost and carrying amount at 1st January, 2006, 31st December, 2006 and 1st January, 2007, net of accumulated impairment		—
Acquisition of a subsidiary	38	21,917
Transfer from an associate	21	13,285
Cost and carrying amount at 31st December, 2007		35,202

Impairment testing of goodwill

Goodwill acquired through business combination and transfer from an associate has been allocated to film production and distribution cash-generating units (the "FPDCGU"), which is a reportable segment, for impairment testing.

The recoverable amount of the FPDCGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period without an aggressive growth rate approved by senior management. The discount rate applied to the cash flow projections is 12%.

Key assumptions were used in the value in use calculation of the FPDCGU for 31st December, 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budget gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years, increased for expected efficiency improvement, and expected market development.

Discount rates — The discount rate used is before tax.

16. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**998,000**	998,000
Amounts due from subsidiaries	**3,914,269**	3,901,625
Amounts due to subsidiaries	**—**	(457,524)
	4,912,269	4,442,101
Impairment #	**(2,205,996)**	(2,065,577)
	2,706,273	2,376,524

An impairment loss was recognised during the year ended 31st December, 2007 due to sustained loss making conditions of those subsidiaries.

As at 31st December, 2007, the above impairment included impairment provision of HK$1,208,296,000 (2006: HK$1,067,877,000) for amounts due from subsidiaries. Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	2007 HK$'000	2006 HK$'000
At 1st January	**1,067,877**	872,893
Impairment loss recognised	**140,419**	194,984
At 31st December	**1,208,296**	1,067,877

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

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

16. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries as at 31st December, 2007 are as follows:

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective percentage of capital held by Company	Group	Principal activities
Accuremark Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Trading of securities
Bignews Associates Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Distribution and licence of albums
East Asia Entertainment Limited	Hong Kong	HK$2 Ordinary	—	100	Entertainment activity production
East Asia Films Distribution Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Investment in and licensing of film rights
East Asia Music (Holdings) Limited	Hong Kong	HK$10,000 Ordinary	—	100	Music production and distribution
East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)")	British Virgin Islands/ Hong Kong	US$300 Ordinary	—	66.67	Investment holding
eSun.com Limited	Hong Kong	HK$2 Ordinary	—	100	Investment in and licensing of film rights
eSun High-Tech Limited	Hong Kong	HK$2 Ordinary	—	100	Investment in and licensing of film rights
Glynhill International Limited	Hong Kong	HK$912,623,351 Ordinary	100	100	Investment holding

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16. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective percentage of capital held by Company	Group	Principal activities
Guangzhou Beautifirm Cosmetic Limited * ##	People's Republic of China/ 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 Group Limited ("MAEG")	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
Media Asia Group Limited	Hong Kong	HK$2 Ordinary	—	100	Investment holding and provision of management services

16. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective percentage of capital held by Company	Group	Principal activities
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
Rich & Famous Talent Management Group Limited	Hong Kong	HK$100 Ordinary	—	75	Provision of artiste management services
Skymaster International Inc. ("Skymaster")	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Investment holding
Vision Communications Limited	Hong Kong	HK$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited * ###	People's Republic of China/ Mainland China	HK$3,000,000#	—	90	Provision of advertising agency services
Zimba International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Investment holding

The amounts stated represent the paid-up capital.

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

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

* Not audited by Ernst & Young Hong Kong or other member firm of Ernst & Young global network.

16. INTERESTS IN SUBSIDIARIES (continued)

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

Notes:

(a) As at 31st December, 2006, Skymaster held a 37.33% equity interest in MAEG, a company listed on the Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System (the "SGX-SESDAQ"). MAEG is engaged in the production of films and video format products. On 27th April, 2007, Skymaster made (i) a voluntary cash offer to acquire all the issued ordinary shares of HK$0.10 each in the capital of MAEG, other than those already owned, controlled or agreed to be acquired directly or indirectly by Skymaster, at a cash consideration of SG$0.265 (equivalent to approximately HK$1.35) per offer share (the "Offer"), and (ii) the privatisation of MAEG upon completion of the Offer. The Offer and the privatisation constituted very substantial acquisitions and a connected transaction under the Listing Rules, and was subject to the approval of the Company's shareholders. Such approval was obtained pursuant to a resolution passed at a special general meeting of the Company held on 26th April, 2007.

On 11th June, 2007, the Group announced that the Offer had closed. Upon closing, valid acceptances under the Offer had been received in respect of 146,652,848 offer shares, which when taken together with 89,591,568 shares already held by Skymaster, represented approximately 98.44% of the entire issued share capital of MAEG.

On 28th June, 2007, a notice was given by Skymaster, being the registered holder of not less than 95% of the entire issued shares of MAEG, for a compulsory acquisition to acquire all the shares from remaining shareholders of MAEG at a price of SG$0.265 per share in cash and on the same terms and condition as the Offer. Upon completion of the compulsory acquisition on 6th August, 2007, MAEG became a wholly-owned subsidiary of the Group and was delisted from the SGX-SESDAQ. The aggregate purchase consideration for the Offer was in the form of cash of HK$203,956,000. Further details of the Offer are set out in note 38 to the financial statements and the Company's circular dated 4th April, 2007.

(b) On 9th January, 2007, Boom Faith Limited ("Boom Faith"), a wholly-owned subsidiary of the Group, entered into a share purchase agreement with CapitaLand Integrated Resorts Pte. Ltd. ("CapitaLand"), an independent third party, with the consent from New Cotai, LLC (as detailed in (c) below). Pursuant to the share purchase agreement, Boom Faith agreed to sell one-third of the equity interest in EAST (Holdings) to CapitaLand for a cash consideration of HK$658,757,000. The principal asset of EAST (Holdings) is its investment in Cyber One, which, through its direct and indirect interests in East Asia-Televisão Satélite, Limitada ("EAST"), holds a piece of land in Macau to be developed into a retail complex, hotels, a television studio, a concert hall and a convention and exhibition centre (collectively, the "Macao Studio City').

The transaction, which constituted a discloseable transaction under the Listing Rules, was completed on 12th March, 2007. Upon completion, the Group recognised a gain on disposal of a partial interest in a subsidiary of HK$499,969,000 to the consolidated income statement. Further details are set out in the Company's circular dated 1st February, 2007.

On 12th March, 2007, Boom Faith , CapitaLand and EAST (Holdings) entered into a deed of assignment pursuant to which Boom Faith assigned a shareholder loan of HK$156,000,000, being one-third of the principal amount owed by EAST (Holdings) to Boom Faith, to CapitaLand for a consideration equivalent to its carrying amount.

Pursuant to the assignment, Boom Faith, CapitaLand and EAST (Holdings) covenant that the principal amount owing on the shareholder loan to Boom Faith and CapitaLand shall be repaid at the sole discretion of EAST (Holdings). The shareholder loan is used to invest in preferred shares of Cyber One to be issued. In the opinion of the Company's directors, the shareholder loan is considered as a quasi-capital contribution to EAST (Holdings) for its investment in Cyber One. As at 31st December, 2007, a sum of HK$272,860,000 (including the portion assigned by Boom Faith) of the shareholder loan was advanced by CapitaLand to EAST (Holdings).

In connection with this transaction, the Company, Boom Faith (collectively, the "Covenantors") entered into a tax deed covenant (the "Tax Covenant") with CapitaLand and its holding company on 12th March, 2007. Pursuant to the Tax Covenant, the Covenantors severally covenanted with CapitaLand and its holding company against any tax liability resulting from events occurring prior to the completion of the disposal.

(c) On 8th April, 2006, the Company, EAST (Holdings), a then wholly-owned subsidiary of the Group, and New Cotai, LLC ("New Cotai"), an independent third party, entered into a conditional share purchase agreement (the "Agreement"). Pursuant to the Agreement, EAST (Holdings) agreed to sell and New Cotai agreed to purchase 40 ordinary shares of US$1 each in the capital of Cyber One, which represented a 40% equity interest in Cyber One, for a cash consideration of HK$1,317,514,000.

16. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(c) (continued)

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

On the completion date, the Group recognised a gain on disposal of subsidiaries of HK$974,556,000 (note 39(a)). The gain was recognised to the consolidated income statement for the year ended 31st December, 2006. Upon the completion of the disposal, the Group's remaining 60% equity interest in Cyber One was equity accounted for as a jointly-controlled entity of the Group. Further details of the disposal are set out in note 39(a) to the financial statements and the Company's circular dated 30th May, 2006.

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

17. FILM RIGHTS

	Notes	Group HK$'000
Cost:		
At 1st January, 2006, 31st December, 2006, and 1st January, 2007		200,246
Additions during the year		26,047
Acquisition of a subsidiary	38	118
At 31st December, 2007		226,411
Accumulated amortisation and impairment:		
At 1st January, 2006		13,059
Provided during the year	7	14,442
Impairment during the year	7	39,000
At 31st December, 2006 and 1st January, 2007		66,501
Provided during the year	7	15,851
Impairment during the year	7	5,000
At 31st December, 2007		87,352
Net book value:		
At 31st December, 2007		139,059
At 31st December, 2006		133,745

At 31st December, 2007, film rights of the Group represented all rights, titles and interests in 130 films and the licensed rights of certain films with an aggregate carrying value of HK$138,945,000 (2006: HK$133,631,000) and the television rights to another two films for a period of 10.5 years with an aggregate carrying value of HK$114,000 (2006: HK$114,000).

During the year, the directors reassessed the recoverable amount of the film rights and based on which an impairment loss of HK$5,000,000 was recognised in the consolidated income statement. The estimated recoverable amount 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 12%.

In prior year, the directors assessed the recoverable amount of the film rights, by reference to the valuation on the film rights as at 31st December, 2006 (the "Valuation") performed by Grant Sherman Appraisal Limited (the "Valuer"), an independent firm of professional valuers. An impairment loss of HK$39,000,000 was recognised in the consolidated income statement during the year ended 31st December, 2006. The Valuation was based on the present value of the 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 12.3%.

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18. FILM PRODUCTS

	Notes	Group HK$'000
Cost:		
At 1st January, 2006, 31st December, 2006 and 1st January, 2007		—
Acquisition of a subsidiary	38	75,965
Transfer from films under production	25	24,957
At 31st December, 2007		100,922
Accumulated amortisation:		
At 1st January, 2006, 31st December, 2006 and 1st January, 2007		—
Provided during the year and balance as at 31st December, 2007	7	41,377
Net book value:		
At 31st December, 2007		59,545
At 31st December, 2006		—

19. MUSIC CATALOGS

	Note	Group HK$'000
Cost:		
At 1st January, 2006, 31st December, 2006 and 1st January, 2007		—
Additions during the year and balance as at 31st December, 2007		63,200
Accumulated amortisation:		
At 1st January, 2006, 31st December, 2006 and 1st January, 2007		—
Provided during the year and balance as at 31st December, 2007	7	1,555
Net book value:		
At 31st December, 2007		61,645
At 31st December, 2006		—

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Note	Group 2007 HK$'000	2006 HK$'000
Share of net assets		**141,809**	173,966
Goodwill arising from acquisition		**3,500**	3,500
Impairment for goodwill	7	**(3,500)**	—
		141,809	177,466
Amounts due from jointly-controlled entities		**846,650**	492,153
Amount due to a jointly-controlled entity		**(2,465)**	(2,000)
		985,994	667,619
Provision for amounts due from jointly-controlled entities		**(13,848)**	(13,085)
		972,146	654,534
Amounts due from a jointly-controlled entity — current portion		**90,842**	—

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$22,479,000 (2006: HK$20,479,000) which bears interest at 1% above the prime rate quoted by the Hongkong and Shanghai Banking Corporation Limited (the "HSBC prime rate") per annum. The carrying amounts of the amounts due from/and to jointly-controlled entities approximate their fair values.

Particulars of the jointly-controlled entities as at 31st December, 2007 are as follows:

Name of company	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Bestwood Enterprises Limited	Ordinary share of HK$1 each	Hong Kong	60**	50	60**	Provision of management services
Clot Media Division Limited *	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Music production and distribution and provision of artiste management services

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities as at 31st December, 2007 are as follows: (continued)

Name of company	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Cyber Neighbour Limited #	Ordinary share of US$1 each	British Virgin Islands	60**	50	60**	Investment holding
Cyber One Agents Limited #	Ordinary share of US$1 each	British Virgin Islands	60**	50	60**	Investment holding
East Asia Record Production Company Limited *	Ordinary share of HK$1 each	Hong Kong	50	50	50	Music production and distribution
East Asia-Televisão Por Satélite, Limitada #	Registered capital of MOP 6,000,000 quota	Macau	60**	50	60**	Investment and development in a piece of land in Macau
Much Entertainment Limited *	Ordinary share of HK$1 each	Hong Kong	50	50	50	Provision of concert production services
TalentAid International Limited *	Ordinary shares of US$1 each	British Virgin Islands	50	50	50	Film production
The Artiste Campus International Limited	Ordinary share of HK$1 each	Hong Kong	50	50	50	Provision of agency services to artistes

The interests in jointly-controlled entities are indirectly held by the Company.

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

** The relevant disclosures represented the proportions of ownership interests and profit sharing of these jointly-controlled entities held by a 66.67%-owned subsidiary.

As detailed in note 16(c), the Group disposed of 40% equity interests in these companies which were then accounted for as jointly-controlled entities in 2006.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**491,573**	461,924
Non-current assets	**613,935**	213,174
Current liabilities	**(963,699)**	(501,130)
Non-current liabilities	**—**	(2)
Net assets	**141,809**	173,966
Share of the jointly-controlled entities' results:		
Turnover	**49,853**	13,076
Other revenue	**15,855**	1,665
Total expenses	**(97,855)**	(23,104)
Tax	**—**	—
Loss after tax	**(32,147)**	(8,363)

21. INTERESTS IN ASSOCIATES

	Group	
	2007 HK$'000	2006 HK$'000
Share of net assets	**2,618,460**	1,977,282
Goodwill arising on acquisition (note 15)	**—**	13,285
	2,618,460	1,990,567
Amounts due from associates	**1,719**	1,598
	2,620,179	1,992,165

As detailed in note 16(a) to the financial statements during the year, the group acquired the remaining 62.67% equity interests in MAEG, previously an associate of the Group.

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

21. INTERESTS IN ASSOCIATES (continued)

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

The market values of the listed shares of certain associates at 31st December, 2007 and at the date of approval of these financial statements were approximately HK$1,175,200,000 (2006: HK$1,533,217,000) and HK$634,400,000 (2006: HK$1,518,511,000), respectively.

Details of the principal associate as at 31st December, 2007 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 Sun Development Company Limited ("LSD")	Ordinary shares of HK$0.01 each	Hong Kong	36.72	Property development

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

LSD and its subsidiaries (the "LSD Group") has a financial year ending 31st July. The consolidated financial statements of the LSD Group are adjusted for material transactions between its year end date and 31st December.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts/financial statements:

	2007 HK$'000	2006 HK$'000
Assets	**9,842,918**	8,138,372
Liabilities	**(3,289,526)**	(3,512,620)
Turnover	**909,026**	980,255
Profit	**1,546,946**	555,613

The above financial information includes, among others, (a) assets and liabilities of the LSD Group as at 31st July, 2007 and 2006; and (b) turnover and profit of the LSD Group for the years ended 31st July, 2007 and 2006 as extracted from the published financial statements of the LSD Group.

21. INTERESTS IN ASSOCIATES (continued)

At 31st July, 2007, the LSD Group has provided guarantees to banks in connection with facilities granted to its associates which amounted to approximately HK$1,231,000 (31st July, 2006: HK$232,300,000).

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

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investments, at fair value	**—**	33,033
Unlisted equity investments, at cost	**51,631**	1,671
	51,631	34,704

In the prior year, the fair value loss of the Group's available-for-sale investments recognised directly in equity amounted to HK$1,727,000, which was removed from equity and recognised in the income statement for the year upon disposal of the available-for-sale investments.

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

The fair values of unlisted available-for-sale investments were the estimated amounts that the Group would receive upon the derecognition of investments at the balance sheet date, taking into account the current market conditions and the current credit worthiness of the counterparties. The directors believed that the estimated fair values resulting from this valuation technique, which were recorded in the consolidated balance sheet, with the related changes in fair values recorded in the consolidated equity, were reasonable, and that they were the most appropriate values at the balance sheet date.

As at 31st December, 2007, unlisted equity investments of the Group with carrying amounts of HK$51,631,000 (2006: HK$1,671,000) were stated at cost because the variability in the range of reasonable fair value estimate was so significant that the directors were of the opinion that their fair values could not be measured reliably. The Group does not intend to dispose of them in the near future.

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23. INVENTORIES

	Group 2007 HK$'000	Group 2006 HK$'000
Raw materials	1,576	1,630
Work in progress	175	550
Finished goods	2,879	1,158
	4,630	3,338

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2007 HK$'000	Group 2006 HK$'000
Listed equity investments in Hong Kong, at market value	17,806	20

The above equity instruments as at 31st December, 2007 and 2006 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$18,501,000.

25. FILMS UNDER PRODUCTION

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
At 1st January		—	—
Acquisition of a subsidiary	38	40,719	—
Additions during the year		35,958	—
Transfer to film products	18	(24,957)	—
Impairment	7	(18,160)	—
At 31st December		33,560	—

26. LOAN RECEIVABLES

		Group	
		2007	2006
	Notes	HK$'000	HK$'000
Loan receivable A	(i)	33,607	128,151
Loan receivable B	(ii)	17,000	—
		50,607	128,151

Notes:

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

During the year, the Borrower requested for a loan repayment extension which is subject to approval by the Group at its discretion. In consideration for the loan extension request, the Borrower has procured additional security arrangements as back-up for the outstanding balance including (a) an additional personal guarantee from an independent third party and (b) an equity charge over a 15% interest in a corporation owned by the Borrower with a carrying value being assessed by the directors to be in excess of the outstanding balance as at 31st December, 2007.

As at 31st December, 2007, the outstanding principal balance was reduced to HK$31,146,000 plus an accrued interest of HK$2,461,000 through partial settlements made by the Borrower during the year. The principal amount is interest-bearing at 6% over the HSBC prime rate per annum and is repayable on demand by the Group. Subsequent to the balance sheet date, further settlement of HK$24,180,000 was received. In the opinion of the directors, no provision of the above loan receivables is considered necessary.

(ii) Loan receivable B represented a loan of HK$17 million granted by the Group to an independent third party during the year. The balance is interest-free and repayable on or before 31st May, 2008. The loan was granted in connection with a potential joint venture arrangement with an independent third party. The borrower has assigned the entire economic interests and benefits in certain TV dramas under production to the Group in connection with the loan receivable.

The carrying amounts of the loan receivables approximate their fair values.

27. DEBTORS

	Group	
	2007	2006
	HK$'000	HK$'000
Trade debtors	53,683	28,875
Impairment	(2,752)	(1,893)
	50,931	26,982

27. DEBTORS (continued)

Trade debtors include receivables for advertising, sales of products, licensing income and distribution commission from music publishing, film products and film rights. Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade debtors based on the dates when goods are delivered or the services are provided, net of provision for doubtful debts, as at the respective balance sheet dates is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Trade debtors:		
Less than 30 days	**28,004**	13,787
31 — 60 days	**7,734**	7,022
61 — 90 days	**1,607**	2,806
Over 90 days	**13,586**	3,367
	50,931	26,982

Included in trade debtors are amount due from the Group's associates of HK$Nil (2006: HK$3,631,000) and due from related companies of HK$130,000 (2006: HK$929,000). 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.

27. DEBTORS (continued)

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

	Group 2007 HK$'000	Group 2006 HK$'000
At 1st January	1,893	1,738
Provision for doubtful debts (note 7)	—	88
Acquisition of a subsidiary	715	—
Exchange realignment	144	67
At 31st December	2,752	1,893

Included in the above provision for impairment of trade debtors is a provision for individually impaired trade debtors of HK$2,752,000 (2006: HK$1,893,000) with a gross carrying amount of HK$2,752,000 (2006: HK$1,893,000). The individually impaired trade debtors related to customers that were in default in settlements and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade debtors that are not considered to be impaired is as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Neither past due nor impaired	42,397	18,504
Less than 3 months past due	5,268	6,627
More than 3 months past due	3,266	1,851
	50,931	26,982

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.

28. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Deposits, prepayments and advances for artiste management, music production and film production	128,299	52,502	—	—
Other deposits, prepayments and other receivables	119,440	48,410	11,135	11,346
	247,739	100,912	11,135	11,346
Portion classified as current portion	(164,331)	(90,864)	(11,135)	(11,346)
Non-current portion	83,408	10,048	—	—

Included in the advances for artistes management and other receivables is a provision of HK$25,143,000 during the year and as at 31st December, 2007 (2006: Nil).

The carrying amounts approximate their fair values.

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

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	—	—
Provision for advances to artistes and an other receivable (note 7)	25,143	—
At 31st December	25,143	—

Included in the above provision for advances and other receivables is a provision for individually impaired receivables of HK$25,143,000 with a gross carrying amount of HK$34,699,000. The individually impaired receivables and advances relate to receivables that were not expected to be recovered.

29. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**97,666**	45,469	**435**	10,082
Time deposits	**1,028,351**	815,985	**808,765**	631,375
	1,126,017	861,454	**809,200**	641,457

At 31st December, 2007, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$11,539,000 (2006: HK$6,362,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. 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.

30. CREDITORS, ACCRUALS AND PROVISION

An aged analysis of the trade creditors prepared based on the dates of receipt of the goods and services purchased as at the respective balance sheet dates is as follows:

		Group	
		2007	2006
	Note	**HK$'000**	HK$'000
Trade creditors:			
Less than 30 days		**7,000**	4,753
31 — 60 days		**4,399**	2,005
61 — 90 days		**1,511**	1,584
Over 90 days		**2,390**	2,620
		15,300	10,962
Other creditors and accruals		**393,835**	239,290
Provision	(i)	**25,000**	—
		434,135	250,252

30. CREDITORS, ACCRUALS AND PROVISION (continued)

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

(i) In connection with a reorganisation agreement between LSD and the Company in June 2000, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. ("GIGC") to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China. GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the "Land") on which the golf club is situated, which showed unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000. The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use right certificates, and all other relevant documents for the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK$25,000,000.

As at the date of this report, the land use rights referred to above had not been obtained by GIGC. The directors considered it probable that the Group would be requested to fulfill its obligation under the indemnity to be incurred by GIGC in obtaining the land use right certificates after referencing to the prevailing property market situation in Mainland China. A full provision for the indemnity amount of HK$25,000,000 was recognised in the financial statements for the year ended 31st December, 2007.

31. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment. These leases are classified as finance leases and have remaining lease terms of approximately four years.

At 31st December, 2007, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2007 HK$'000	Minimum lease payments 2006 HK$'000	Present value of minimum lease payments 2007 HK$'000	Present value of minimum lease payments 2006 HK$'000
Amounts payable:				
Within one year	70	42	65	31
In the second year	70	42	68	34
In the third to fifth years, inclusive	127	73	126	68
Total minimum finance lease payments	267	157	259	133
Future finance charges	(8)	(24)		
Total net finance lease payables	259	133		
Portion classified as current liabilities	(65)	(31)		
Non-current portion	194	102		

32. PROMISSORY NOTES

	Effective interest rate (%) 2007	Effective interest rate (%) 2006	Maturity 2007	Maturity 2006	Group and Company 2007 HK$'000	Group and Company 2006 HK$'000
Current	—	—	2008	—	10,000	—
Non-current	—	—	2009	—	20,000	—
	3.5	—	2010	—	30,219	—
					50,219	—
					60,219	—

32. PROMISSORY NOTES (continued)

(a) During the year, the Company issued two promissory notes with principal amounts of HK$10,000,000 and HK$30,000,000 to an independent third party as part of the consideration payable for the acquisition of a number of music catalogs.

(b) During the year, the Company issued a promissory note with a principal amount of HK$20,000,000 to another independent third party as part of the consideration payable for the procurement of the recording services of an artiste.

The carrying amounts of the Group's promissory notes approximate their fair values.

33. INTEREST-BEARING OTHER BORROWINGS

	Effective interest rate (%)		Maturity		Group and Company	
	2007	2006	**2007**	2006	**2007**	2006
					HK$'000	HK$'000
Non-current						
Other borrowings — unsecured	**6.75-7.75**	7.75	**Not repayable within one year**	Not repayable within one year	**143,939**	135,399

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Analysed into:		
Other borrowings repayable in the second year	**143,939**	135,399

The Group's available banking facilities, which were not utilised as at 31st December, 2007, are secured by fixed charges over the Group's land and buildings with an aggregate net book value at the balance sheet date of HK$62,422,000 (2006: HK$64,357,000) (note 14).

The unsecured other borrowings as at 31st December, 2007 and 2006 were amounts due to Mr. Lim Por Yen which were interest-free except for an amount of HK$112,938,000 bearing interest at the HSBC prime rate per annum. On 18th February, 2005, Mr. Lim Por Yen passed away. On 31st December, 2007, 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 the balance sheet date.

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

34. DEFERRED TAX ASSETS/(LIABILITIES)

Movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

		Group Tax losses	
	Note	**2007 HK$'000**	2006 HK$'000
At 1st January		—	—
Acquisition of a subsidiary	38	434	—
At 31st December		434	—

Deferred tax liabilities

		Group Film products and film rights	
	Note	**2007 HK$'000**	2006 HK$'000
At 1st January		—	—
Acquisition of a subsidiary	38	44	—
At 31st December		44	—

The Group has tax losses arising in Hong Kong of HK$812,967,000 (2006: HK$746,466,000) 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.

At 31st December, 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

Notes to Financial Statements

35. SHARE CAPITAL

Shares

	2007		2006	
	Number of shares '000	**Nominal value HK$'000**	Number of shares '000	Nominal value HK$'000
Authorised:				
Ordinary shares of HK$0.50 each	**2,000,000**	**1,000,000**	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**827,155**	**413,577**	819,703	409,851

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

	Notes	**Number of ordinary shares** '000	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1st January, 2006		745,185	372,592	3,001,935	3,374,527
Issue of shares	(a)	74,518	37,259	394,945	432,204
Share issue expenses	(a)	—	—	(6,711)	(6,711)
At 31st December, 2006 and 1st January, 2007		819,703	409,851	3,390,169	3,800,020
Issue of shares	(b)	7,452	3,726	26,081	29,807
Release from share option reserve upon exercise of share options	(b)	—	—	3,593	3,593
At 31st December, 2007		827,155	413,577	3,419,843	3,833,420

Notes:

(a) On 15th March, 2006, the Company entered into a placing agreement with placing agents pursuant to which a total of 74,518,000 new ordinary shares of the Company were issued and allotted to not less than six institutional investors for cash at a subscription price of HK$5.80 per share (the "Placement"). The Placement was completed on 29th March, 2006. Proceeds of approximately HK$425 million, after deduction of share issue expenses of HK$6.7 million, were used to finance the development project in Macau and as general working capital of the Group.

(b) During the year, subscription rights attaching to 7,451,848 share options granted under the Company's share option scheme (the "Share Option Scheme") were exercised at a subscription price of HK$4.00 per share (note 36). Total cash consideration of approximately HK$29,807,000 was received and 7,451,848 shares of HK$0.5 each were issued. The share option reserve of HK$3,593,000 (note 37) was released to the share premium account.

(c) In March 2008, the Company proposed a rights issue of one rights share for every two existing shares held at a subscription price of HK$2.50 per rights share. Further details are set out in note 44 to the financial statements.

35. SHARE CAPITAL (continued)

Share options

Details of the Company's Share Option Scheme and the share options issued under the scheme are included in note 36 to the financial statements.

36. SHARE OPTION SCHEME

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 23rd December, 2005 (the "Adoption Date") and became effective on 5th January, 2006 and unless otherwise cancelled or amended, will remain in force for 10 years from the latter date. The principal terms of the Share Option Scheme are:

(a) The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue on the Adoption Date unless the 10% limit has been refreshed on shareholders' approval. The maximum number of shares issuable under share options granted to each Participant in the Share Option Scheme within any 12-month period must not exceed to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(b) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

(c) The offer of a grant of share options may be accepted within 28 days from the date of offer, to be accompanied by payment of a consideration of HK$1 in total by the grantee. The exercise period of the share options granted (the "Option Period") is determinable by the board of directors in its absolute discretion.

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

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

36. SHARE OPTION SCHEME (continued)

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

	2007		2006	
	Weighted average exercise price HK$ Per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1st January	4.469	29,807	—	—
Granted during the year	—	—	4.469	29,807
Exercise during the year	4.000	(7,452)	—	—
At 31st December	4.625	22,355	4.469	29,807

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.368 (2006: Nil).

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follow:

2007

Number of options '000	**Exercise price * HK$ per share**	**Exercise period**
5,589	4.25	1-1-08 to 31-12-08
1,863	4.50	1-1-08 to 31-12-08
5,589	4.50	1-1-09 to 31-12-09
1,863	5.00	1-1-09 to 31-12-09
5,589	4.75	1-1-10 to 31-12-10
1,862	5.50	1-1-10 to 31-12-10
22,355		

36. SHARE OPTION SCHEME (continued)

2006

Number of options '000	Exercise price * HK$ per share	Exercise period
7,452	4.00	1-1-07 to 31-12-07
5,589	4.25	1-1-08 to 31-12-08
1,863	4.50	1-1-08 to 31-12-08
5,589	4.50	1-1-09 to 31-12-09
1,863	5.00	1-1-09 to 31-12-09
5,589	4.75	1-1-10 to 31-12-10
1,862	5.50	1-1-10 to 31-12-10
29,807		

* 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.

The fair values of the share options granted on 14th February, 2006 and 24th February, 2006 were HK$4,364,000 (HK$0.59 each) and HK$19,485,000 (HK$0.87 each) respectively, of which the Group recognised a share option expense of HK$8,588,000 (2006: HK$9,929,000) during the year ended 31st December, 2007.

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

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

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

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

36. SHARE OPTION SCHEME (continued)

At the balance sheet date, the Company had 22,355,000 share options outstanding under the Share Option Scheme which represented approximately 2.7% of the Company's shares in issue as at that dates. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 22,355,000 additional ordinary shares of the Company and additional share capital and share premium of HK$11,178,000 and share premium of HK$92,217,000 (before issue expenses), respectively.

Subsequent to the balance sheet date, a total of 9,800,000 share options were granted to certain directors of the Company on 20th February, 2008. These share options will be vested separately in tranches during the exercise periods of one calendar year commencing from 1st May, 2008, three calendar years commencing from 1st January, 2009 and ending on 31st December, 2011, and three calendar years commencing from 31st May, 2008 and ending on 30th May, 2011, at an exercise price from HK$5.62 to HK$6.62 per share. The closing price of the Company's shares at the date of grant was HK$3.93 per share on 20th February, 2008.

At the date of approval of these financial statements, the Company had 32,155,000 share options outstanding under the Share Option Scheme, which represented approximately 3.9% of the Company's shares in issue at that date.

37. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2006		3,001,935	891,289	—	53,453	(2,275,215)	1,671,462
Exchange realignment		—	—	—	—	817	817
Changes in fair value of available-for-sale investments		—	—	—	(1,727)	—	(1,727)
Total income and expense for the year recognised directly in equity		—	—	—	(1,727)	817	(910)
Profit for the year		—	—	—	—	1,150,068	1,150,068
Total income and expense for the year		—	—	—	(1,727)	1,150,885	1,149,158
Issue of shares	35	394,945	—	—	—	—	394,945
Share issue expenses	35	(6,711)	—	—	—	—	(6,711)
Equity-settled share option arrangements	36	—	—	9,929	—	—	9,929
Share of reserve movements of associates		—	—	1,644	(622)	—	1,022
Release upon deemed disposal of an associate		—	—	(78)	(4,963)	78	(4,963)
At 31st December, 2006 and 1st January, 2007		3,390,169	891,289	11,495	46,141	(1,124,252)	3,214,842
Exchange realignment		—	—	—	—	1,964	1,964
Total income and expense for the year recognised directly in equity		—	—	—	—	1,964	1,964
Profit for the year		—	—	—	—	895,710	895,710
Total income and expense for the year		—	—	—	—	897,674	897,674
Issue of shares upon exercise of share options	35(b)	29,674	—	(3,593)	—	—	26,081
Equity-settled share option arrangements	36	—	—	8,588	—	—	8,588
Share of reserve movements of associates		—	—	4,001	102,667	61	106,729
Release upon disposal of available-for-sale investments		—	—	—	1,727	—	1,727
At 31st December, 2007		3,419,843	891,289	20,491	150,535	(226,517)	4,255,641

37. RESERVES (continued)

Group (continued)

	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Retained by:						
Company and subsidiaries	3,419,843	891,289	14,924	—	(1,479,908)	2,846,148
Jointly-controlled entities	—	—	—	—	(55,819)	(55,819)
Associates	—	—	5,567	150,535	1,309,210	1,465,312
At 31st December, 2007	3,419,843	891,289	20,491	150,535	(226,517)	4,255,641
Company and subsidiaries	3,390,169	891,289	9,929	(1,727)	(1,747,673)	2,541,987
Jointly-controlled entities	—	—	—	—	(19,409)	(19,409)
Associates	—	—	1,566	47,868	642,830	692,264
At 31st December, 2006	3,390,169	891,289	11,495	46,141	(1,124,252)	3,214,842

Included in the debit balance of accumulated losses as at 31st December, 2007 are accumulated credit balances in respect of exchange realignment of HK$22,750,000 (2006: HK$20,786,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.

37. RESERVES (continued)

Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2006		3,001,935	845,455	—	(2,480,929)	1,366,461
Issue of shares	35	394,945	—	—	—	394,945
Share issue expenses	35	(6,711)	—	—	—	(6,711)
Equity-settled share option arrangements	36	—	—	9,929	—	9,929
Profit for the year	11	—	—	—	717,161	717,161
At 31st December, 2006 and 31st January, 2007		3,390,169	845,455	9,929	(1,763,768)	2,481,785
Issue of shares upon exercise of share options	35(b)	29,674	—	(3,593)	—	26,081
Equity-settled share option arrangements	36	—	—	8,588	—	8,588
Profit for the year	11	—	—	—	365,154	365,154
At 31st December, 2007		3,419,843	845,455	14,924	(1,398,614)	2,881,608

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

38. BUSINESS COMBINATION

As further detailed in note 16(a) to the financial statements, the Group acquired an additional 62.67% equity interest in MAEG. After this, MAEG became a wholly-owned subsidiary of the Group.

The fair values and the carrying amounts of the identifiable assets and liabilities of MAEG as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair values and carrying amounts** HK$'000
Property, plant and equipment	14	581
Interests in jointly-controlled entities		(10)
Deferred tax assets	34	434
Film rights	17	118
Film products	18	75,965
Films under production	25	40,719
Due from a jointly-controlled entity		88,834
Debtors		27,210
Deposit and other receivables		36,836
Other current assets		4,281
Cash and bank balances		113,652
Trade payables		(413)
Other payable and accruals		(88,979)
Deferred tax liabilities	34	(44)
Tax payable		(5,113)
Other current liabilities		(4,230)
Minority Interests		631
		290,472
Transfer from an interest in an associate		(108,433)
Goodwill on acquisition	15	21,917
Consideration		203,956

38. BUSINESS COMBINATION (continued)

As analysis of the net outflow of cash and cash equivalents in respect of the acquisition of MAEG is as follows:

	HK$'000
Cash consideration	(203,956)
Cash and bank balances acquired	113,652
Net outflow of cash and cash equivalents in respect of the acquisition of MAEG	(90,304)

Since its acquisition, MAEG contributed HK$84,088,000 to the Group's turnover and a loss of HK$13,716,000 to the consolidated profit of the Group for the year ended 31st December, 2007.

Had the combination taken place at the beginning of the year, the turnover from the continuing operations of the Group and the profit of the Group for the year would have been HK$331,660,000 and HK$879,310,000, respectively.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) **Disposal of subsidiaries**

Details of the disposal of subsidiaries are included in note 16(c) to the financial statements.

	Notes	**2007 HK$'000**	2006 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	—	312,727
Cash and bank balances		—	345
Debtors and deposits		—	3,548
Creditors and accruals		—	(43)
		—	316,577
Expenses incurred for the disposal and accrued liabilities		—	216,327
Gain on disposal of subsidiaries	16(c)	—	974,556
		—	1,507,460
Satisfied by:			
Cash		—	1,317,514
Interest in a jointly-controlled entity		—	189,946
		—	1,507,460

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) **Disposal of subsidiaries (continued)**

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

	2007 HK$'000	2006 HK$'000
Cash consideration	—	1,317,514
Cash and bank balances disposed of	—	(345)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	1,317,169

(b) **Major non-cash transactions**

(i) During the year, the Group issued three promissory notes of HK$60,000,000 in aggregate as part of the consideration payable in respect of the acquisition of certain music catalogs and the procurement of the recording services of an artiste (note 32).

(ii) During the year, 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$161,000 (2006: Nil).

40. COMMITMENTS

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

	2007 HK$'000	2006 HK$'000
Commitments in respect of:		
Acquisition of land and buildings	9,457	12,159
Acquisition of leasehold improvements	134	3,084
Contribution to an available-for-sale investment	43,660	—
	53,251	15,243
Commitments in respect of capital contributions payable to a jointly-controlled entity	116,940	466,338
	170,191	481,581

40. COMMITMENTS (continued)

(a) (continued)

On 14th November, 2007, the Company announced that on 9th November, 2007, the Company, EAST (Holdings), a subsidiary of the Company, Cyber One, a jointly-controlled entity of the Group, New Cotai, amongst other parties, entered into a memorandum of understanding (the "MOU") concerning various aspects of the Macao Studio City project. Pursuant to the MOU amongst other things, EAST (Holdings) and New Cotai, being shareholders of Cyber One, agreed to increase shareholders' contribution to Cyber One, on a several basis, to US$500 million, subject to the approval of the Company's shareholders and further negotiation of definitive documents to reflect and expand upon matters agreed in the MOU. EAST (Holdings)'s aggregate capital commitment for the Macao Studio City project will increase to US$300 million, being 60% of US$500 million.

As at 31st December, 2007, EAST (Holdings) has already contributed funding of US$105 million to Cyber One, with the remaining US$15 million funding commitment (equivalent to approximately HK$117 million) included in the "Commitments in respect of capital contributions payable to a jointly-controlled entity" as disclosed above.

On the condition that the definitive documents are settled and entered into, and the relevant terms are approved by the Company's shareholders, EAST (Holdings)'s outstanding funding commitment to Cyber One will further be increased by US$180 million (equivalent to approximately HK$1,404 million), being 60% of the additional capital of US$300 million. As at the balance sheet date and the date of this report, the parties have yet to finalise the long term definitive documentation envisaged by the MOU. Until the definitive documents can be agreed and the approval of the Company's shareholders are obtained, the obligation on the Company's subsidiary, EAST (Holdings), to make the additional funding contributions of US$180 million (i.e. 60% of the US$300 million) to Cyber One as envisaged by the MOU, has yet to become legally-binding.

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

	2007 HK$'000	2006 HK$'000
Contracted, but not provided for	305,981	397,433
Authorised, but not contracted for	5,451,210	—
	5,757,191	397,433

40. COMMITMENTS (continued)

(b) As at 31st December, 2007, the Group leased certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years (2006: one to two years).

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

	2007	2006
	HK$'000	HK$'000
Within one year	**5,319**	2,847
In the second to fifth years, inclusive	**4,024**	877
	9,343	3,724

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

41. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD (note (i))	**—**	25,000	**—**	25,000
Guarantee given to a supplier in connection with credit facilities given to a subsidiary	**—**	—	**2,000**	2,000
Guarantee given to a bank in respect of bank facilities granted to a subsidiary (note (ii))	**—**	—	**150,000**	150,000
	—	25,000	**152,000**	177,000

Notes:

(i) The amount has been recognised as a liability during the year. Further details are set out in note 30 to the financial statements.

(ii) As at 31st December, 2007, the banking facilities granted to a subsidiary was not utilised.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007 — **Group**

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interests in jointly-controlled entities (note 20)	—	832,802	—	832,802
Interests in associates (note 21)	—	1,719	—	1,719
Available-for-sale investments	—	—	51,631	51,631
Debtors	—	50,931	—	50,931
Financial assets included in deposits, prepayments and other receivables	—	689	—	689
Equity investments at fair value through profit or loss	17,806	—	—	17,806
Due from a jointly-controlled entity	—	90,842	—	90,842
Loan receivables	—	50,607	—	50,607
Cash and cash equivalents	—	1,126,017	—	1,126,017
	17,806	2,153,607	51,631	2,223,044

Financial liabilities

	Financial liabilities at amortised cost HK$'000	Total HK$'000
Interests in jointly-controlled entities (note 20)	2,465	2,465
Creditors	15,300	15,300
Finance lease payables	259	259
Interest-bearing other borrowings	143,939	143,939
Promissory notes	60,219	60,219
	222,182	222,182

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

2006 Group

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interests in jointly-controlled entities (note 20)	—	479,068	—	479,068
Interests in associates (note 21)	—	1,598	—	1,598
Available-for-sale investments	—	—	34,704	34,704
Debtors	—	26,982	—	26,982
Financial assets included in deposits, prepayments and other receivables	—	574	—	574
Equity investments at fair value through profit or loss	20	—	—	20
Loans receivables	—	128,151	—	128,151
Cash and cash equivalents	—	861,454	—	861,454
	20	1,497,827	34,704	1,532,551

Financial liabilities

	Financial liabilities at amortised cost HK$'000	Total HK$'000
Interests in jointly-controlled entities (note 20)	2,000	2,000
Creditors	10,962	10,962
Finance lease payables	133	133
Interest-bearing other borrowings	135,399	135,399
	148,494	148,494

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

	Company	
Financial assets	**2007**	2006
	Loans and receivables	Loans and receivables
	HK$'000	HK$'000
Due from subsidiaries	**2,705,973**	2,833,748
Financial assets included in deposits, prepayments and other receivables	**582**	314
Cash and cash equivalents	**809,200**	641,457
	3,515,755	3,475,519

Financial liabilities	**2007**	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Due to subsidiaries	**—**	457,524
Interest-bearing other borrowings	**143,939**	135,399
Promissory notes	**60,219**	—
	204,158	592,923

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing other borrowings, finance leases, promissory notes 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.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 receivables and borrowings) and the Group's and the Company's equity.

	Group			Company	
	Decrease in interest rate (in percentage)	Decrease in profit before tax HK$'000	Decrease in equity HK$'000	Decrease in interest rate (in percentage)	Decrease in equity HK$'000
2007					
Time deposits, loan receivables and borrowings denominated in Hong Kong dollar	**0.5%**	**4,733**	**4,733**	**0.5%**	**3,479**
2006					
Time deposits, loan receivables and borrowings denominated in Hong Kong dollar	0.5%	4,155	4,155	0.5%	2,592

Foreign currency risk

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

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 balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase in RMB rate	Increase in equity
	%	HK$'000
2007		
If Hong Kong dollar weakens against RMB	**10**	**1,512**
2006		
If Hong Kong dollar weakens against RMB	10	489

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 financial assets, amounts due from associates and jointly-controlled entities, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 41 to the financial statements.

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 27 and 28 to the financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Due to a jointly-controlled entity	2,465	—	—	—	2,465
Trade creditors	8,300	7,000	—	—	15,300
Finance lease payables	—	—	65	194	259
Interest-bearing other borrowings	—	—	—	143,939	143,939
Promissory notes	—	—	—	60,219	60,219
	10,765	7,000	65	204,352	222,182

	2006				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Due to a jointly-controlled entity	—	—	2,000	—	2,000
Trade creditors	6,209	4,753	—	—	10,962
Finance lease payables	—	—	31	102	133
Interest-bearing other borrowings	—	—	—	135,399	135,399
	6,209	4,753	2,031	135,501	148,494

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2007				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing other borrowings	—	—	—	143,939	143,939
Promissory notes	—	—	—	60,219	60,219
	—	—	—	204,158	204,158

	2006				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Due to subsidiaries	457,524	—	—	—	457,524
Interest-bearing other borrowings	—	—	—	135,399	135,399
	457,524	—	—	135,399	592,923

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31st December, 2007 and 31st December, 2006.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using current ratio, which is current assets divided by current liabilities. The Group's policy is to keep the current ratio at an optimal level. Current assets includes inventories, equity investments at fair value through profit or loss, films under production, an amount due from a jointly-controlled entity, loan receivables, debtors, deposits, prepayments and other receivables, and cash and cash equivalents. Current liabilities include creditors, accruals and provision, tax payable, finance lease payables and promissory notes. The current ratio as at the balance sheet date, together with the comparative information as at 31st December, 2006, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Inventories	**4,630**	3,338
Equity investments at fair value through profit or loss	**17,806**	20
Films under production	**33,560**	—
Due from a jointly-controlled entity	**90,842**	—
Loan receivables	**50,607**	128,151
Debtors	**50,931**	26,982
Deposits, prepayments and other receivables	**164,331**	90,864
Cash and cash equivalents	**1,126,017**	861,454
Total current assets	**1,538,724**	1,110,809
Creditors, accruals and provision	**434,135**	250,252
Tax payable	**8,204**	2,642
Finance lease payables	**65**	31
Promissory notes	**10,000**	—
Total current liabilities	**452,404**	252,925
Net current assets	**1,086,320**	857,884
Current ratio	**3.40**	4.39

44. POST BALANCE SHEET EVENTS

(a) On 20th February, 2008, a total of 9,800,000 share options were granted to certain directors of the Company, as further detailed in note 36 to the financial statements.

(b) On 7th March, 2008, the Company proposed a rights issue of one rights share for every two existing shares held by members on the register of members on 25th April, 2008 at a subscription price of HK$2.50 per rights share (the "Rights Issue"), resulting in issue of not less than 413,577,388 and not more than 414,508,868 rights shares.

The estimated net proceeds of the Rights Issue would be approximately HK$1,013 million. The Rights Issue is not and has never been conditional upon finalising the definitive documents for the Macao Studio City project and, as previously announced, the Company wishes to have sufficient capital available for the Macao Studio City project, however the project evolves, and otherwise for its general working capital purpose. Further details of the Rights Issue are set out in the Company's announcement dated 7th March, 2008.

45. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been added to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

As further explained in note 4 to the financial statements, the film production and distribution segment, and the media and entertainment segment are reclassified as two separate business segments. Accordingly, the comparative amounts for the media and entertainment segment were separately reclassified to conform to the current year's presentation.

In addition, the comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 12). Certain amounts included in the consolidated balance sheet for the year ended 31st December, 2006 have been reclassified to conform with the current year's presentation. In the opinion of the directors, this classification would better reflect the financial results of the Group.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11th April, 2008.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at Salon 6, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 22nd May, 2008 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31st December, 2007;

2. To re-elect retiring Directors and to fix the Directors' remuneration;

3. To appoint Auditors and to authorise the Directors to fix their remuneration; and

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT**:

   (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares of the Company, and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of ordinary shares in the Company upon exercise of rights of subscription or conversion under the terms of any of the securities which are convertible into shares of the Company; or (iii) an issue of shares of the Company as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iv) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue to eligible participants under such scheme or arrangement of shares of the Company or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution,

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the Members of the Company in general meeting; or

(iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Bye-laws of the Company to be held; and

"Rights Issue" means an offer of shares of the Company open for a period fixed by the Directors to the holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 11th April, 2008

Notes:

(a) A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote in his stead in accordance with the Company's Bye-laws. A proxy need not be a Member of the Company.

(b) 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 thereof, must be deposited with the Company's Registrars in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude Members from attending and voting in person at the Annual General Meeting or at any adjourned meeting should they so wish.

Notice of Annual General Meeting

(c) Where there are joint holders of any share in the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(d) Concerning item 2 of this Notice, Ms. Leung Churk Yin, Jeanny was appointed an executive director and chief executive officer with effect from 1st September, 2007 and Mr. Low Kit Leong was appointed an executive director with effect from 1st June, 2007. In accordance with Bye-law 86(2) of the Company, Ms. Leung and Mr. Low will retire at the forthcoming Annual General Meeting, and, being eligible, offer themselves for re-election. In accordance with Bye-Law 87 of the Company, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Liu Ngai Wing will retire by rotation at the forthcoming Annual General Meeting. Being eligible, Mr. Lam Kin Ngok, Peter and Madam U Po Chu offer themselves for re-election. Mr. Liu Ngai Wing has indicated that he shall not be offering himself for re-election at the forthcoming Annual General Meeting. Details of the above Directors are set out in the "Biographical Details of Directors and Senior Management" section of the Annual Report 2007 of the Company. Save as otherwise disclosed in the Annual Report 2007, for the purposes of the re-election of the above Directors, there is no information which requires to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

(e) Item 4 of this Notice relates to the granting of a general mandate to the Directors of the Company to issue new shares of up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the proposed resolution. The Company has no immediate plan to issue such new shares.

(f) In accordance with the Company's Bye-laws, at any general meeting of members of the Company, a resolution shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

(i) the Chairman of the Meeting; or

(ii) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.