

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

1. ORGANISATION AND PRINCIPAL ACTIVITIES

The Sun's Group Limited ("the Company") was incorporated in Bermuda on 9th July, 1993 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited since January 1994.

The Company is an investment holding company. During the year ended 31st December, 2003, the Company's subsidiaries (which together with the company are collectively referred to as "the Group") were principally engaged in property management, property investment and development and financial services. The Group is discontinuing its financial service due to non renewal of money lender licence.

On 17th June, 2004, the Company was placed into provisional liquidation as stated in note 34(b)(i).

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of HK\$798.5 million and deficiency of shareholders' funds of approximately HK\$660.8 million as at 31st December, 2003.

A conditional agreement ("Restructuring Agreement") for the proposed restructuring of the Group was entered into on 23rd March, 2005, with Mastermind Assets Management Limited (the "Investor") and the provisional liquidators (the "Provisional Liquidators"), whereby, the Investor would become the controlling shareholder of the Company. Further details of the Restructuring Agreements are disclosed in note 34(b)(vi). The proposed financial restructuring involves cash injection by the Investor of new equity in the total sum of HK\$10 million to settle the creditors of the Company and The Sun's Group (H.K.) Limited ("SGHK"), a wholly owned subsidiary of the Company, resulting in a reduction of the Group's indebtedness. Conditional on the completion of the Restructuring Agreement, the Company shall transfer the entire share capital of the subsidiaries, other than SGHK, The Sun's Corporate (B.V.I.) Limited, The Sun's (B.V.I.) Limited and The Sun's Property Management Limited (herein after collectively referred to as "Restructured Companies") to the scheme administrator or their nominees for the sum of HK\$1.

The Restructuring Agreement with the Investor is, however, dependent upon scheme of arrangement for the restructuring of the Group's indebtedness being accepted by the majority of each class of the Company's and SGHK's creditors and the re-listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Restructuring Agreement is also condition upon the relevant approvals being obtained from the High Court of Hong Kong, the Supreme Court of Bermuda, the Hong Kong regulatory authorities, including the Stock Exchange and the Securities and Futures Commission, and from the shareholders.

The financial statements have been prepared on a going concern basis on the basis that the proposed financial restructuring will be successfully completed, and that, following the financial restructuring, the Group will continue to meet in full its financial obligations as they fall due for the foreseeable future.

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3. CHANGES TO THE BOARD OF DIRECTORS AND MANAGEMENT

The Company recorded the following changes in directors and management during the year and after Provisional Liquidators appointed:

(i) Changes in the board of directors

Name	Details of changes
Executive directors	
Mr. Chan Wai Hung	Appointed on 15th February, 2005
Mr. Pang Ho Chuen, Lawrence	Appointed on 30th June, 2004
Mr. Lui Po San, Anthony	Appointed on 30th June, 2004 and ceased to act on 15th February, 2005
Ms. Liu Xiu Juan	Appointed on 2nd March, 2004 and resigned on 30th June, 2004
Mr. Chiang Ho Wai	Resigned on 2nd March, 2004
Mr. He Hui Min	Resigned on 30th June, 2004
Mr. Wei Wu (Chairman and Chief Executive Officer)	Resigned as executive director, chairman and chief executive officer on 2nd March, 2004
Non-executive director	
Mr. Siu King Nin, Peter	Resigned on 28th February 2003
Mr. Wei De Zhong	Resigned on 2nd March, 2004
Independent non-executive directors	
Dr. Mao Zhi Rong	Appointed on 5th March, 2003 and resigned on 21st June, 2004
Dr. Zhu Jing	Appointed on 5th March, 2003 and resigned on 21st June, 2004
Mr. Kwan Man Fai, Kelvin	Resigned on 28th February, 2003
Mr. Lai Si Ming	Resigned on 4th March, 2003

(ii) Other changes in management

Other changes in management during the year included the appointment of the Group's financial controller in December 2002 and his position was replaced by a new financial controller in November 2004 who resigned as the post of financial controller in July 2005. As a consequence, the management is actively seeking for candidates to fill the vacancy of the financial controller.

Up to the date of this report, all the independent Non-Executive directors of the Company had resigned and as a result, it is in breach of Listing Rule 3.19 which requires the company listed on or before 31st March, 2004 should have at least three independent Non-Executive directors by 30th September, 2004.

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the above changes to the board of directors and management, no representations as to the completeness of the books and records of the group during the period from 1st January 2003 to 31st December, 2003 could be given by the present board of directors although care has been taken in the preparation of the financial statements to mitigate the effects of the incomplete records. Notwithstanding the foregoing, the present board of directors have, in the assessment of the Group's assets and liabilities, taken such steps as they considered practicable, to establish these assets and liabilities based on the information of which they are aware and have made provisions and adjustments as they considered appropriate in the preparation of the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

3. CHANGES TO THE BOARD OF DIRECTORS AND MANAGEMENT (Continued)

(ii) Other changes in management (Continued)

The current directors have used their best endeavor to relocate all the financial and business records of the Group. However, as most the former accounting personnel and all former directors had left the Group on or before their appointments, the current directors were unable to relocate and provide the auditors with sufficient information for audit purposes.

(a) The current directors have been unable to satisfy themselves that the following amounts included in the financial statements have been completely and accurately recorded by the Group:

- turnover of HK\$11,050,000
- cost of sales of HK\$4,508,000
- other operating income of HK\$38,000
- administrative expenses of HK\$20,630,000
- finance costs of HK\$75,049,000
- income tax expense of HK\$144,000
- trade receivables of HK\$97,510,000
- prepayment and deposits of HK\$759,000
- trade payables of HK\$32,599,000
- accrued liabilities and other payables of HK\$23,995,000 (including accrued liabilities of HK\$4,280,000 in the balance sheet of the Company)
- deferred income and deposits from customers of HK\$8,971,000

(b) Related party transactions

The current directors were unable to assess the completeness and fairness of related party disclosures in respect of the period from 1st January, 2003 to 31st December, 2003 as disclosed in Note 35 to the financial statements.

(c) Commitments and contingent liabilities

The current directors could not ascertain the completeness of commitments entered into the name of the Group during the period from 1st January, 2003 to 31st December, 2003 and the existence of contingent liabilities that past management is aware of during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

4. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, except investment properties were not carrying at valuation at the balance sheet date as required by SSAP 13 “Accounting for investment properties” and the disclosure requirements of the Hong Kong Companies Ordinance. Principal accounting policies are summarized below:

(a) Basis of measurement:

The financial statements have been prepared on the historical cost basis as modified by stating investment properties at open market value.

(b) Adoption of new/revised Statements of Standard Accounting Practice:

In the current year, the Group has adopted, for the first time, the revised SSAP 12 “Income taxes”, which is one of the Hong Kong Financial Reporting Standards (“HKFRS”) issued by HKICPA. The terms of HKFRS is inclusive of SSAPs and Interpretations approved by HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. liability was recognized in respect of timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results of the current or prior accounting years.

(c) Basis of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiaries (together “the Group”) together with the Group’s share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The result of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(d) Subsidiaries:

A subsidiary is a company over which the Group can exercise control, which is normally evidence when the Group has the power to govern its financial and operating policies so as to benefit from its activities. In the company’s financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

Notes to the Consolidated Financial Statements

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4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Associates:

An associate is a company over which the Group has sufficient influence, but not control or joint control, over its financial and operating policy decisions. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognize the Group's share of the post-acquisition results of associates, distributions received from associates, other necessary alterations in the Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of associates, amortisation of the difference between the cost of investment and the Group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (goodwill), and any impairment loss. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

(f) Turnover and revenue recognition:

Turnover represents (i) the contracted value for sale of properties; (ii) rental income from leasing of investment properties; (iii) revenue from property management; and (iv) fees for the provision of telecommunications services and internet services.

Revenue is recognized when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the group. Revenue is recognized on the following bases:

- (i) Sales of properties is recognized upon completion of the sales contract. Payments received from purchases prior to completion are recorded as deposits from customers.
- (ii) Rental income from investment properties is recognized on a straight-line basis over the terms of the leases.
- (iii) Property management income is recognized when the related services are rendered.
- (iv) Revenue from the provision of telecommunications services and internet services is recognized when the related services are rendered. Deposits or advance payments from customers prior to provision of services are recorded as deferred income.

(g) Taxation:

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Taxation: (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(h) Employee benefits:

(i) Retirement benefits scheme:

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

(ii) Share options scheme:

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date or which lapse, are deleted from the register of outstanding options.

(i) Borrowing costs:

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Properties and equipment and depreciation:

Properties and equipment are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of properties and equipment which will increase their future economic benefits are capitalized, while expenditures on maintenance and repairs are expenses as incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2% (lease term)
Buildings	4%
Operating equipment	33% to 50%
Furniture and office equipment	15% to 30%
Motor vehicles	20% to 30%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from properties and equipment.

Gains and losses on disposal of properties and equipment are recognized in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

(k) Investment properties:

Investment properties are interests in leasehold land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers in 2002. However, no independent valuation on investment properties are carried out in 2003. All changes in value of investment properties insufficient to cover a deficit on a portfolio basis, in which case the net deficit is recognized as an expense in the income statement. When an investment property is disposed of, previously recognized revaluation surpluses, if any, are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost or the then carrying value of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

(l) Development properties:

Development properties include interests in leasehold land and buildings under development, and are stated at cost less any impairment loss. The cost of development and construction expenditures includes, borrowing costs directly attributable to construction of such properties and other direct costs. No depreciation is provided for development properties.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Loans receivable:

Loans to customers together with accrued interest are stated in the balance sheet after deducting specific and general provisions for possible loan losses. Specific provisions are made against the outstanding balance of loans where, in the opinion of management, recovery is doubtful. General provisions relate to exposures not specifically identified but known from experience to exist in the current portfolio. The provisions made are based on estimates made by management and are reviewed periodically. Adjustments are made when considered necessary.

(n) Completed properties for sale:

Completed properties for sale are stated at the lower of cost and net realizable value. Net realizable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions, less selling and marketing expenses.

(o) Cash and cash equivalents:

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally with 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 sheet, 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.

(p) Impairment of assets:

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognized in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Reversal of impairment losses recognized in a prior year is recorded when there is an indication that the losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Provisions and contingencies:

A provision is recognized when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

(r) Operating leases:

Operating leases represent those leases under which substantially all the rewards and risks of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

(s) Foreign currency translation:

Translations in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation are dealt with as movements in cumulative translation adjustments.

(t) Related parties:

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

5. DISCONTINUING OPERATIONS

On 29th January, 2002, the Group disposed of certain subsidiaries engaged mainly in the telecommunications and internet businesses. Thereafter, the group ceased its telecommunication and internet businesses, the results of which are presented as discontinuing operations in the consolidated income statement for the year ended 31st December, 2003.

During 2003, the Group ceased to have the money lender license. Thereafter, the Group ceased its financial services business, the results of which are presented as discontinuing operations in the consolidated income statement for the year ended 31st December, 2003.

The results of the discontinuing operations were:

	Money Lending		Telecommunications and internet services	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	–	–	–	6,666
Cost of sales	(4,022)	(22,373)	–	(3,579)
Gross (loss)/profit	(4,022)	(22,373)	–	3,087
Other revenue	–	–	–	3
Selling and marketing expenses	–	–	–	(39)
General and administrative expenses	–	–	–	(9,833)
Loss from operations	(4,022)	(22,373)	–	(6,782)
Gain on disposal of subsidiaries	–	–	–	24,755
Finance costs	–	–	–	(3,218)
Profit after taxation but before minority interests	(4,022)	(22,373)	–	14,755
Minority interests	–	–	–	206
(Loss)/profit attributable to shareholders	(4,022)	(22,373)	–	14,961

The carrying amounts of the total assets and liabilities of money lending business relating to the discontinuing operations on 31st December, 2003 are as follows:

	Money Lending		Telecommunications and internet services	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Total assets	86	149	–	–
Total liabilities	(173,416)	(222,994)	–	–
Net liabilities	(173,330)	(222,845)	–	–

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

6. TURNOVER AND REVENUES

Analysis of turnover and revenue in the consolidated income statements is as follow:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Continuing operations:		
Building management income	2,443	2,822
Property investment and development	8,607	10,413
	11,050	13,235
Discontinuing operations:		
Telecommunications services	–	6,661
Internet services	–	5
	–	6,666
Total Turnover	11,050	19,901
Net gain on disposal of properties and equipment	–	466
Interest income from bank deposits	–	24
Others	38	404
Total other revenues	38	894
Total revenues	11,088	20,795

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

7. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging and crediting the following items, other than revenues disclosed in Note 6.

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charging:		
Interest on:		
Bank borrowings wholly repayable within five years	78,054	135,280
Short-term advances from a former director	–	3,066
Short-term advances from a director	–	918
Short-term advances from shareholders	–	1,370
Loan payable	724	3,428
	78,778	144,062
Less:		
Amounts included in cost of sales	–	(22,574)
Amounts capitalized in relation to development properties	(3,729)	(90,552)
	75,049	30,936
Staff costs (including directors' emoluments)	6,714	11,935
Operating lease rentals – land and buildings	505	375
Provision for bad and doubtful trade receivables	–	130
Bad debts written off	5,507	986
Fixed assets written off	3,762	–
Depreciation of properties and equipment		
– Owned assets	2,608	4,802
– Leased assets	543	455
Auditors' remuneration	430	1,303
Crediting:		
Rental income from investment properties less outgoings	8,101	8,231

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8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors emoluments are:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees for:		
Executive directors	2,400	2,070
Independence non-executive directors	–	50
Other emoluments:		
Salaries and other benefits	–	1,415
Accommodation allowances	723	375
Contributions to retirement benefits schemes	12	13
Compensation for loss of office	–	300
Total emoluments	3,135	4,223

The emoluments of the directors were within the following bands:

	2003	2002
Executive Directors		
HK\$ nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$ 3,000,001 to HK\$3,500,000	1	–
	3	5
Non-executive directors/independent non-executive directors		
HK\$ nil to HK\$1,000,000	6	1
	9	6

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(b) Details of emoluments of the five highest paid individuals (including directors and other employees) are:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries and allowances	4,446	4,543
Accommodation allowances	723	–
Retirement scheme contributions	54	36
Compensation for loss of office	–	300
	5,223	4,879

The highest (2002: three) paid individual was a director of the company, whose emolument is included in Note 8(a).

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	2003	2002
HK\$ nil to HK\$1,000,000	4	3
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$ 3,000,001 to HK\$3,500,000	1	–
	5	5

9. TAXATION

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

	2003		2002	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
TAX				
Loss before tax	(92,884)		(806,693)	
Tax at the statutory tax rate	(16,255)	17.50	(129,071)	16.00
Over provision in prior years	76		4,493	
Tax losses not recognised as deferred tax assets	16,323		118,386	
Tax charge for the year	144		(6,192)	

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9. TAXATION (Continued)

The Company has tax losses arising in Hong Kong that are available indefinitely for offsetting against future profits of the Company. Deferred tax assets have not been recognised in respect of these losses as the Company has been loss-making for some time.

At 31st December, 2003, there is no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associate as the Group has no liability to additional tax should such amounts be remitted.

Taxation in the consolidated income statement consisted of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong profits tax		
Provision for current year	(220)	(119)
Write-back of over-provision in prior year	76	4,493
Deferred tax		
Write-back of over-provision in prior year	–	1,818
	(144)	6,192

The Company is exempt from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at 17.5% (2002: 16%) on the assessable profits arising in or deriving from Hong Kong. No overseas taxation was provided as the subsidiaries operating overseas had no taxable income during the year.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately HK\$20,777,000 (2002: HK\$270,780,000) dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2003 was based on the consolidated loss attributable to shareholders of approximately HK\$93,028,000 (2002: HK\$800,295,000) and on the number of approximately 22,407,692,000 shares (2002: 16,398,893,000 shares) in issue during the year.

No diluted loss per share has been presented as there is no potential ordinary shares in issue during the year.

Notes to the Consolidated Financial Statements

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12. PROPERTIES AND EQUIPMENT

a) Movements of properties and equipment (consolidated) were:

	Leasehold land and buildings HK\$'000	Operating equipment HK\$'000	2003 Furniture and office equipment HK\$'000	Motor Vehicles HK\$'000	Total HK\$'000	2002 Total HK\$'000
Cost:						
Beginning of year	79,687	4,185	9,619	2,026	95,517	170,433
Attributable to disposal of subsidiaries	–	–	–	–	–	(75,240)
Additions	–	–	219	–	219	6,264
Disposals	(79,687)	–	–	–	(79,687)	(5,940)
Written off	–	(4,185)	(9,320)	–	(13,505)	–
Balance c/f	–	–	518	2,026	2,544	95,517
Accumulated depreciation/impairment loss:						
Beginning of year	39,887	3,448	4,890	649	48,874	80,596
Provision for the year	953	–	1,655	543	3,151	5,257
Attributable to disposal of subsidiaries	–	–	–	–	–	(64,248)
Disposals	(40,840)	–	–	–	(40,840)	(5,906)
Written off	–	(3,448)	(6,295)	–	(9,743)	33,175
End of year	–	–	250	1,192	1,442	48,874
Net book value:						
End of year	–	–	268	834	1,102	46,643
Beginning of year	39,800	737	4,729	1,377	46,643	89,837

The net book value of the Group's properties and equipment held under finance leases included in motor vehicles at 31st December, 2003 amounted to approximately HK\$834,000 (2002: HK\$1,377,000).

(b) Leasehold land and buildings:

The geographical location and tenure of title of land and buildings are analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Hong Kong		
– long-term leases	–	39,800

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

13. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Beginning of year	220,200	368,800
Disposals	(83,100)	(4,800)
Deficit on valuation	–	(143,800)
	137,100	220,200

The geographical location and tenure of title of investment properties are analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong		
– long-term leases	87,100	170,200
– medium-term leases	50,000	50,000
	137,100	220,200

Investment properties are stated at open market value at 31st December, 2002 as determined by Chesterton Petty Limited, independent qualified valuers. No valuation of the investment properties is carried out as at 31st December, 2003, which is not in accordance with Statement of Standard Accounting Practice No. 13 “Accounting for investment properties”. All the investment properties are mortgaged as collateral for the Group’s banking facilities.

Details of the investment properties as at 31st December, 2003 are as follows:

Location	Group’s interest	Existing use
Flat Roof on 4th Floor, 9th, 13th, 22nd and, 23rd Floor, Roof and Upper Roof and External Walls of The Sun’s Group Centre, No. 200 Gloucester Road, Wan Chai, Hong Kong.	100%	Commercial
2nd, 3rd, 8th, 9th, 10th, 11th, 13th, 14th, 17th and 18th Floor Pearl Oriental Tower, No.225 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong	100%	Commercial

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For the year ended 31st December, 2003

14. DEVELOPMENT PROPERTIES

Movements of development properties (consolidated) were:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Beginning of year	530,000	970,000
Additions	20,451	173,146
Impairment loss, representing deficit on valuation	–	(613,146)
End of year	550,451	530,000
Classified under:		
Current assets	550,451	530,000

Development properties are classified as current assets in cases where the Group intends and has specific plans to dispose of the properties; otherwise they are classified as non-current assets.

The geographical location and tenure of development properties are analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong		
– long-term leases	341,144	330,000
– medium-term leases	209,307	200,000
	550,451	530,000

All the development properties are mortgaged as collateral for the Group's banking facilities.

Details of the development properties as at 31st December, 2003 are as follows:

Name/location	Group's interest	Stage of construction	Expected completion date	Expected use	Gross floor areas (square meters)
Pearl Grand Parc & Hotel Nos.304-314 Des Voeux Road West. Sai Ying Pun, Hong Kong *	100%	In process of conversion into hotel property	No certain date	Hotel	14,405
Skyhigh, 10 Pollock Path The Peak, Hong Kong +	100%	Construction work suspended	No certain date	Residential	2,034

* The hotel was disposed of in June 2004, details please refer to note 34b (iv).

+ The property was disposed of in April 2004, details please refer to note 34b (ii).

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For the year ended 31st December, 2003

15. INTERESTS IN SUBSIDIARIES

In the Company's balance sheet, interests in subsidiaries consisted of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	295,570	295,570
Due from subsidiaries	3,091,002	3,074,567
Due to subsidiaries	(14,289)	(3,617)
	3,372,283	3,366,520
Less: Impairment loss	(3,370,137)	(3,370,137)
	2,146	(3,617)

All outstanding balances with subsidiaries were unsecured, non-interest bearing and without pre-determined repayment terms.

Details of the principal subsidiaries as at 31st December, 2003, all held indirectly by the company except The Sun's Corporate (B.V.I.) Limited were:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held %	Principal activities
Ample Property Limited	British Virgin Islands	US\$1	100	Investment holding
Charter Enterprises (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
Crown Score Investment Limited	Hong Kong	HK\$10,000	100	Investment holding
Fair Capital Properties Limited	Hong Kong	HK\$10,000	100	Property investment
Goodjoin Limited	British Virgin Islands	US\$1	100	Investment holding
Goldkey Industries Limited	Hong Kong	HK\$10,000	100	Property investment
Halmaro Enterprises Limited	Hong Kong	"A" Share HK\$200	100	Property investment
Honour General International Limited	Hong Kong	HK\$10,000	100	Investment holding
Jade Capital Industrial Limited	Hong Kong	HK\$30,000,000	100	Investment holding
Lucky Ocean International Limited	Hong Kong	HK\$2	100	Dormant

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held %	Principal activities
Lucky Rainbow Limited	Hong Kong	HK\$2	100	Property development
Magic Link Services Corporation	British Virgin Islands	US\$1	100	Investment holding
Margaux Finance Limited	Hong Kong	HK\$100,000,000	100	Investment holding
The Sun's Capital & Marketing (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
The Sun's Development (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
The Sun's International Development (HK) Limited	Hong Kong	HK\$2	100	Property investment and development
The Sun's Group (HK) Limited	Hong Kong	Ordinary HK\$10,000 Deferred HK\$20,000,000(i)	100	Investment holding, property investment project management and consultancy
Prime Victory Limited	British Virgin Islands	US\$1	100	Investment holding
The Sun's Corporate (B.V.I.) Limited	British Virgin Islands	US\$10,000	100	Investment holding
The Sun's International Hotels Limited	Hong Kong	HK\$1,000,000	100	Investment holding
The Sun's International Hotels (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
The Sun's (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
The Sun's Property Management Limited	Hong Kong	HK\$2	100	Property management services
Rossmore Profits Limited	British Virgin Islands	US\$1	100	Investment holding
Simple World Limited	British Virgin Islands	US\$1	100	Investment holding
Silver Industries Limited	Hong Kong	HK\$10,000	100	Property investment

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held %	Principal activities
Super Delight Enterprises Limited	British Virgin Islands/ Hong Kong	US\$200	100	Property investment and development
Terrific Hit Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Property investment
Unimax Investments Limited	British Virgin Islands/ Hong Kong	US\$2	100	Property investment
Union Growth Group Limited	British Virgin Islands	US\$1	100	Investment holding
Win Chance Limited	British Virgin Islands/ Hong Kong	US\$2	100	Property investment
Win Oriental Investment Limited	Hong Kong	HK\$2	100	Property investment

Note:

- i) The non-voting deferred shares shall entitle the holders to a fixed non-cumulative dividend at the rate of Hong Kong 1 cent in respect of any one non-voting deferred share per annum for any financial year of the Company in respect of which the audited net profits of the Company available for dividend exceed HK\$1,000,000,000; on a winding-up the holders of the non-voting deferred shares shall be entitled out of the surplus assets of the Company to a return of the capital paid up on the non-voting deferred shares held by them respectively after a total sum of HK\$100,000,000,000 has been distributed in such winding-up in respect of each of the ordinary shares of the company.

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Company directors and management, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would in the opinion of the Company's directors and management, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2003.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

16. INTERESTS IN ASSOCIATES

Interests in associates (consolidated) consisted of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	4	4
Advances to associates	169,098	169,098
	169,102	169,102
Less: Impairment and allowances	(169,102)	(169,102)
	–	–

All outstanding balances with associates were unsecured, non-interest bearing and without pre-determined repayments terms.

Details of the associates as at 31st December, 2003, all held indirectly by the Company were:

Name	Place of incorporation/ operations	Percentage of equity Interest held	Principal activities
Rich Lord International Limited	Hong Kong	25%	Dormant
China Joy Investments Limited	Hong Kong	20%	Dormant

17. LOANS AND OTHER RECEIVABLES

Details of loans and other receivables are:

	Consolidated		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unsecured loans receivable				
from money lending activities	348,134	348,134	–	461
Less: Provision for doubtful loans receivable	(348,134)	(348,134)	–	–
	–	–	–	461

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

18. COMPLETED PROPERTIES FOR SALE

Movements of completed properties for sale are:

	Consolidated	
	2003 HK\$'000	2002 HK\$'000
Beginning of year	480	480
Disposals	(480)	–
End of year	–	480

All completed properties for sale are located in Hong Kong held under medium-term leases and mortgage as collateral for the Group's banking facilities.

19. TRADE RECEIVABLES

Included in trade receivables is an amount of approximately HK\$95,594,000 (2002: Nil) arisen from the disposal of leasehold land and buildings and investment properties during the year ended 31 December 2003.

The aging analysis of trade receivables (consolidated) is as follows:

	2003	2002
	HK\$'000	HK\$'000
0 to under 1 month	17,004	681
1 to under 2 months	79,108	327
2 to under 3 months	140	51
Over 3 months	1,258	691
	97,510	1,750
Less: Provision for bad and doubtful trade receivables	–	(179)
	97,510	1,571

20. BANK BALANCES AND CASH

	Consolidated		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank balances and cash	1,674	1,957	75	998

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For the year ended 31st December, 2003

21. SHORT-TERM BANK BORROWINGS

Details of short-term bank borrowings are:

	Consolidated	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Overdraft	14,134	14,134
Short-term loans	1,170,678	109,904
Long-term loans, current portion	–	836,817
Accrued interest payable	–	177,185
	1,184,812	1,138,040

Details of long-term bank loans are:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amount repayable within a period		
– not exceeding one year	–	393,503
– more than one year but not exceeding two years	–	48,697
– more than two years but not exceeding five years	–	151,281
– more than five years	–	243,336
	–	836,817
Less: Amounts repayable within one year included under short-term bank borrowings	–	(393,503)
Amounts included under short-term bank borrowings as a result of default in repayment	–	(443,314)
	–	–

Short-term bank borrowings (excluding the current portion of long-term loans) bear interest at rates ranging from 10.5% to 15.125% per annum (2002: 10.5% to 15.125% per annum).

22. LOANS PAYABLES

The loans payables of approximately HK\$18,985,000 (2002: HK\$18,261,000) are unsecured, bear interest at rates ranging from prime rate minus 1% per annum to 1% per month and is repayable within the next twelve months.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

23. TRADE PAYABLES

The following is an aged analysis of trade payables (consolidated) at the reporting date:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 to under 1 month	–	6,217
1 to under 2 months	–	142
2 to under 3 months	–	1,025
3 to under 12 months	638	5,132
Over 12 months	31,961	22,097
	32,599	34,613

24. OBLIGATION UNDER FINANCE LEASE

Commitments under finance lease (consolidated) are:

	Minimum lease payments		Present value of minimum lease payments	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amounts payable within one year	431	512	353	440
Amounts payable in the second to fifth years inclusive	554	1,018	498	879
Total minimum lease payments	985	1,530	851	1,319
Future finance charges	(134)	(211)	–	–
Present value of minimum lease payments	851	1,319	851	1,319
Current portion of obligation under finance lease			(353)	(440)
Non-Current portion of obligation under finance lease			498	879

It is the Group's policy to lease its motor vehicles under finance lease. The average lease term is three to five years. The average effective borrowing rate ranges from approximately 2.9% to 5.5%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

25. SHARE CAPITAL

Movements in share capital was:

	2003		2002	
	Number of Shares '000	Nominal value HK\$'000	Number of share '000	Nominal value HK\$'000
Authorized (ordinary shares of HK\$0.001 (2002: HK\$0.001) each):				
Beginning of year	2,000,000,000	2,000,000	20,000,000	2,000,000
Cancellation of unissued share capital	–	–	(6,581,960)	(658,196)
Increase in authorized share capital	–	–	1,986,581,960	1,986,582
Capital reduction	–	–	–	(1,328,386)
End of year	2,000,000,000	2,000,000	2,000,000,000	2,000,000
Issued and fully paid (ordinary shares of HK\$0.001 (2002: HK\$0.001) each):				
Beginning of year	22,407,692	22,408	13,418,040	1,341,804
Capital reduction	–	–	–	(1,328,386)
Issue of shares	–	–	8,989,652	8,990
End of year	22,407,692	22,408	22,407,692	22,408

26. SHARE OPTION

Pursuant to an ordinary resolution passed on 14th November, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the “2002 Share Option Scheme”).

2002 Share Option Scheme

The 2002 Share Option Scheme was adopted by the Company on 14th November, 2002. Under the 2002 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be determined by the board of directors of the company and shall be at least the highest of:

- the closing price of the shares as stated in the Stock Exchange’s daily quotations sheets on the grant date;
- the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the grant date; and
- the normal value of a share on the grant date.

and subject to the compliance with the requirements for share option schemes under the listing rules.

No options have been granted under the 2002 Share Option Scheme since its adoption and 31st December, 2003. The 2002 Share Option Scheme will expire on 13th November, 2012.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

27. RESERVES

Movements of reserves were:

	2003			2002	
	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>	Total <i>HK\$'000</i>
Consolidated					
Beginning of year	722,854	–	1,026	723,880	965,656
Disposal of subsidiaries	–	–	–	–	1,244
Capital reduction	–	–	–	–	(409,937)
Premium arising from issuance of shares, net of expenses	–	–	–	–	166,917
End of year	722,854	–	1,026	723,880	723,880
Company					
Beginning of year	722,854	160,670	–	883,524	1,126,544
Capital reduction	–	–	–	–	(409,937)
Premium arising from issuance of shares, net of expenses	–	–	–	–	166,917
End of year	722,854	160,670	–	883,524	883,524

Under the Companies Act 1981 of Bermuda (as amended) contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realizable value of its assets would thereby be less than the aggregate to its liabilities and its issued share capital and share premium account.

Apart from the above, the Company had no distributable reserves as at 31st December, 2002 and 2003.

28. ACCUMULATED DEFICIT

Accumulated deficit consisted of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Company	(966,182)	(945,405)
Subsidiaries	(440,867)	(368,616)
	(1,407,049)	(1,314,021)

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For the year ended 31st December, 2003

29. NOTE ON THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year ended 31st December, 2003, the creditor banks had entered into sale and purchase agreements in respect of the sale of a mortgaged leasehold land and buildings with net book values of HK\$38,847,000 and some of the mortgaged investment properties with net book values of HK\$83,100,000 at disposal date. The sale considerations for the leasehold land and buildings and the investment properties were HK\$44,150,000 and HK\$87,598,000 respectively. The sale considerations were used to offset part of the group's bank borrowings which were in default.

As at 31st December, 2003, the amount due to a former director of the Company of approximately HK\$52,591,000 (2002: HK\$51,985,000) represented short-term advances from Mr. Wong Kwan (a director of the company up to 29th January, 2002), together with accrued interest. Such an amount was unsecured, bore interest at Hong Kong prime lending rate and had no predetermined repayment terms. During the year ended 31st December, 2003, accrued interest amounted to approximately HK\$606,000 (2002: HK\$3,066,000).

As part of the conditions for sale of Mr. Wong Kwan's interest in the Company to China Sun's Group Limited, Mr. Wong Kwan waived certain amounts owing to him by the Group of approximately HK\$48,000,000.

Notes to the Consolidated Financial Statements

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30. SEGMENT INFORMATION

(a) Primary segment

	2003							Total HK\$'000
	Property Management HK\$'000	Property Investment and development HK\$'000	Financial Services HK\$'000	Telecom- munication services HK\$'000	Internet Services HK\$'000	Hotel Operation HK\$'000	Eliminations HK\$'000	
	Turnover							
External	2,443	8,607	-	-	-	-	-	11,050
Inter-segment	-	2,848	-	-	-	-	(2,848)	-
Total Turnover	2,443	11,455	-	-	-	-	(2,848)	11,050
Operating results								
Segment result	1,336	(10,832)	(4,022)	-	-	-	-	(13,518)
Unallocated corporate expenses								(4,317)
Finance Cost								(75,049)
Share of loss associates								-
Taxation								(144)
Loss after taxation but before minority interests								(93,028)
Other information:								
Assets:								
Segment assets	1,984	786,526	86	-	-	-	-	788,596
Liabilities:								
Segment liabilities	(511)	(1,275,430)	(173,416)	-	-	-	-	(1,449,357)
Capital expenditures	-	20,670	-	-	-	-	-	20,670
Depreciation	-	3,151	-	-	-	-	-	3,151

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For the year ended 31st December, 2003

30. SEGMENT INFORMATION (Continued)

(a) Primary segment (Continued)

	2002							Total HK\$ '000
	Property Management HK\$ '000	Property Investment and development HK\$ '000	Financial Services HK\$ '000	Telecom- munication services HK\$ '000	Internet Services HK\$ '000	Hotel Operation HK\$ '000	Eliminations HK\$ '000	
Turnover								
External	2,822	10,413	–	6,661	5	–	–	19,901
Inter-segment	–	5,125	–	–	–	–	(5,125)	–
Total Turnover	2,822	15,538	–	6,661	5	–	(5,125)	19,901
Operating results								
Segment result	(942)	(758,568)	(22,373)	10,839	7,288	(3,372)		(767,128)
Unallocated corporate expenses								(8,629)
Finance Cost								(30,936)
Share of loss associates								–
Taxation								6,192
Loss after taxation but before minority interests								(800,501)
Other information:								
Assets:								
Segment assets	168	801,438	149	–	–	–		801,755
Unallocated assets								1,624
								803,379
Liabilities:								
Segment liabilities	(129)	(1,033,147)	(222,994)	–	–	–		(1,256,270)
Unallocated liabilities								(114,842)
								(1,371,112)
Capital expenditures	–	88,857	–	–	–	–		88,857
Depreciation	–	3,157	41	2,059	–	–		5,257
Non-cash expenditures other than depreciation	–	790,121	–	–	–	–		790,121

Notes to the Consolidated Financial Statements

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30. SEGMENT INFORMATION (Continued)

(b) Secondary segment

	2003				Total HK\$'000
	Hong Kong HK\$'000	North America HK\$'000	Mainland China HK\$'000	Unallocated HK\$'000	
Turnover	11,050	–	–	–	11,050
Assets	788,596	–	–	–	788,596
Capital Expenditure	20,670	–	–	–	20,670

	2002				Total HK\$'000
	Hong Kong HK\$'000	North America HK\$'000	Mainland China HK\$'000	Unallocated HK\$'000	
Turnover	13,235	6,661	5	–	19,901
Assets	801,755	–	–	1,624	803,379
Capital Expenditure	88,857	–	–	–	88,857

31. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

Capital commitments not provided for in the financial statements, which are authorized and contracted for before the suspension of the construction of the development properties amount to HK\$35,607,000 at 31st December, 2002. During the year 2003, no significant additional capital commitments noted.

(b) Operating lease commitments

The Group had certain operating lease commitments at 31st December, 2003 in respect of rented premises under various non-cancelled operating lease agreements extending to March 2004. However, these amounts are insignificant.

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31. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(c) Contingent liabilities

The contingent liabilities relating to the corporate guarantee given by the company in respect of bank facilities of its subsidiaries for amount are as follows:

	Consolidated		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Corporate guarantees given by the company in respect of banking facilities of its subsidiaries	–	–	(795,482)	(927,230)

32. OPERATING LEASE ARRANGEMENT

The Group let out certain investment properties for terms of one to three years. As 31st December, 2002 and 2003, the amounts of total future minimum lease receivable under non-cancellable operating lease are insignificant.

33. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2003, the Group had aggregate banking facilities of approximately HK\$1,184,812,000 (2002: HK\$1,138,040,000) from several banks for overdrafts and loans, which were fully utilized.

These facilities were secured by:

- (i) Mortgages of the Group's leasehold land and buildings, investment properties, development properties and completes properties for sale with an aggregate net book value of approximately HK\$687,051,000 (2002: HK\$790,080,000);
- (ii) Assignment of rental income generated by certain of the group's investment properties;
- (iii) Assignment of sales proceeds received from sales of leasehold land and buildings and investment properties; and
- (iv) Corporate guarantees provided by the Company.

Due to the liquidity situation, the Group has defaulted on repayment of principal and interest on its bank borrowings, totaling approximately HK\$1,184,812,000 as at 31st December, 2003. The Group's bankers have demanded immediate repayment of substantially all of the Group's bank borrowings and in some cases appointed receivers to obtain possession of certain properties which have been mortgaged to the banks as collateral for the bank borrowings. In certain cases, the creditor banks have applied the rental receipts from the investment properties to offset part of the Group's short-term bank borrowings which are in default.

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34. OUTSTANDING LITIGATION/SUBSEQUENT EVENTS

Subsequent to 31st December, 2003, the Group recorded the following major outstanding litigations and post balance sheet events:

(a) Outstanding litigations:

- (i) On 24th April, 2003, the Company had reported to the public the litigations brought against the Group as the former director Mr. Wong Kwan made winding up petitions against the Company and requested the suspension of the trading of its shares in the Hong Kong Stock Exchange.
- (ii) On 31st July, 2003, a subsidiary had filed writs against their former directors, Mr. Wong Kwan and Mr. Siu King Nin, Peter seeking compensation from them in connection with their alleged breach of fiduciary duties during the period they acted as directors of the subsidiary. The total compensation claimed amounted to HK\$268 million. The case was dismissed on 6th May, 2005.
- (iii) On 26th September, 2003, a subsidiary had filed writs against their former directors, Mr. Wong Kwan and Mr. Yuen Hon Ming, Edwin seeking compensation from them in connection with their alleged breach of fiduciary duties during the period they acted as directors of the subsidiary. The total compensation claimed amounted to approximately HK\$300 million. This case was dismissed on 24th January, 2005.
- (iv) On 4th November, 2004, two subsidiaries had jointly filed writs against Proper Invest Group Limited and He Hui Min, a director of the subsidiaries who subsequently resigned on 30th June 2004, seeking compensation from them in connection with disposal of advertisement board, signage, naming right and a car park space at a total consideration of HK\$2.3 million which was alleged to be below market value.

(b) Other subsequent events:

- (i) Messrs. Lai Kar Yan (Derek) and Joseph K.C. Lo, both of Deloitte Touche Tohmatsu, were appointed as joint and several provisional liquidators of The Sun's Group Limited ("Provisional Liquidators") by virtue of an order dated 17th June, 2004 granted by the Court of First Instance of the High Court of Hong Kong ("Court Order").
- (ii) The construction work of the Group's major development property at the Peak ("the Skyhigh") held by one of the subsidiaries was received by the mortgage bank. In April 2004, the Skyhigh was sold by tender sale at the consideration of HK\$320,000,000 for the settlement of bank loan.
- (iii) The creditor banks have taken possession of a substantial portion of the group's properties and have applied the rental receipts from the investment properties to offset part of the group's short-term bank borrowings which are in default.
- (iv) On 27th January, 2004, Joint and Several Receivers and Managers were appointed for the hotel development in Western District. The hotel was sold in June 2004 at a gross interest of HK\$350,000,000 to settle the bank loan.

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For the year ended 31st December, 2003

34. OUTSTANDING LITIGATION/SUBSEQUENT EVENTS (Continued)

(b) Other subsequent events: (Continued)

- (v) It is noted that creditors bank had entered into a sale and purchase agreements in respect of the sale of mortgaged investment properties in 2004 and the details as follows:

Properties location	Gross Sale Consideration: <i>HK\$'000</i>
The Sun's Group Centre, 200 Gloucester Road, Wan Chai, Hong Kong	
1. 23rd Floor	30,280
2. 22nd Floor	26,500
3. 9th Floor	26,300
4. 13th Floor	25,900
Pearl Oriental Tower, 225 Nathan Road, Kowloon, Hong Kong	
5. 9th, 11th and 13th Floors	15,100
6. 8th, 10th and 17th Floors	15,080
7. 2nd Floor	8,200
8. 3rd Floor	8,200
9. 18th Floor	5,080
10. 14th Floor	5,000
	165,640

- (vi) On 23rd March, 2005, the Company entered into the Restructuring Agreement with the Investors, which involves, inter alia, the followings:
- i. Subscription of new shares: The Investors will subscribe for new shares in the Company, representing approximately 94.7% of its enlarged share capital for an aggregate consideration of HK\$10 million. The consideration will be satisfied by injection of cash to the Company and SGHK to fund the payments to the creditors of the Company and SGHK in accordance with the scheme of arrangements of the Company and SGHK;
 - ii. The restructuring of the Group's indebtedness: The Group's indebtedness will be restructured such that it will be repaid to each class of the creditors of the Company and SGHK on a pro-rata basis. Creditors with preferential claims shall be discharged out of the scheme fund in priority to distribution to the other creditors with non-preferential claims; and
 - iii. Transfer of interest in subsidiaries, other than the Restructured Companies: On the completion of the Restructuring Agreement, the Company shall transfer the entire share capital of the subsidiaries, other than the Restructured Companies to the scheme administrator or their nominees for the sum of HK\$1.

The Restructuring Agreement is conditional upon the relevant approvals being obtained from the High Court of Hong Kong, the Supreme Court of Bermuda, the Hong Kong regulatory authorities including the Stock Exchange the Securities and Future Commission, and from the shareholders.

Notes to the Consolidated Financial Statements

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35. RELATED PARTY TRANSACTIONS

Significant transactions and balances with related parties are summarized as follows:

- (a) China Sun's Group Limited being a substantial shareholder, advanced to the Group a total of approximately HK\$22,905,000 (2002: HK\$22,727,000), which is unsecured and bears interest at Hong Kong prime lending rate.
- (b) As at 31st December, 2003, the amount due to a director of the Company of approximately HK\$82,129,000 (2002: HK\$51,829,000) represented short-term advances from Mr. Wei Wu, a director of the Company, together with accrued interest. Such amount was unsecured, bore interest at Hong Kong prime lending rate and had no predetermined repayment terms. During the year ended 31st December, 2003, no significant interest calculated.
- (c) As at 31st December, 2003, the amount due to a former director of the Company of approximately HK\$52,591,000 (2002: HK\$51,985,000) represented short-term advances from Mr. Wong Kwan (a director of the Company up to 29th January, 2002 and an existing shareholder of the Company), together with accrued interest. Such amount was unsecured, bore interest at Hong Kong prime lending rate and had no predetermined repayment terms. Charcon Assets Limited, a shareholder of the Company and a company owned by Mr. Wong Kwan, advanced to the Group of HK\$10,000,000 in January 2002 which is unsecured and bears interest at Hong Kong prime lending rate. The total amount of principal together with accrued interest thereon was HK\$10,510,000 as at 31st December, 2003 (2002: HK\$10,472,000).
- (d) The outstanding balances with related companies were unsecured, non-interest bearing and had no predetermined repayment terms.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 29th July, 2005.