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 address of the registered office and principal place of business of the Company are located at 5/F, Tien Chu Commercial Building, 173-174 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company. At 31st December, 2005, the Company's subsidiaries (which together with the Company are collectively referred to as "the Group") were principally engaged in property management and property investment and development.

On 17th June, 2004, the Company was placed into provisional liquidation.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Group.

2. NET REALISATION 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 approximately of HK$574 million and deficiency of shareholders' funds of approximately HK$571 million as at 31st December, 2005.

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. The proposed financial restructuring involves cash injection by the Investor and the placees of new equity of approximately HK$200 million in which the amount of HK$10 million will be used to settle the creditors of the Company and The Sun's Group (H.K.) Limited (Provisional Liquidators Appointed) ("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 schemes 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.

On 18th April, 2005, schemes of arrangement for the Company and SGHK, a wholly owned subsidiary of the Company were duly passed in the meetings of scheme creditors by the majority prescribed by section 166 of the Companies Ordinance, conditionally upon, among other things, the approvals of all relevant transaction for the restructuring by the respective shareholders of the Company and the resumption in trading of the shares of the Company (the "Resumption Proposal").

Following the passing of the respective creditors' schemes of arrangement by the requisite majorities of creditors of both the Company and SGHK on 18th April, 2005, all liabilities of the Company and SGHK, incurred on or before the date of appointment of the Provisional Liquidators will be fully eliminated upon the fulfillment of those conditions set out in the Restructuring Agreement.

2. NET REALISATION BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

The directors of the Company believe that if the resumption proposal is not successfully implemented, there is a strong likelihood that the Company will be delisted and wound up. Accordingly, the financial statements have been prepared on net realisation basis.

On 21st May, 2005, a subsidiary of the Group entered into a sale and purchase agreement to acquire a company incorporated in Hong Kong at the consideration of HK$77,010,000. The company owns an investment property in Hong Kong with book value of approximately HK$74,789,000 at 31st December, 2005. As at 31st December 2005, a deposit of HK$2,000,000 was paid by Mastermind Assets Management Limited and the acquisition has not yet been completed. The completion of the acquisition of the company is conditional on the approvals from the shareholders of the Company at the Special General Meeting and the Court if deemed necessary. The outstanding consideration of HK$75,010,000 is not provided in the financial statements.

On 18th November, 2005, a subsidiary of the Group, the Investor, the Provisional Liquidators and the Company entered into an agreement to acquire another company incorporated in Hong Kong at a nominal cash consideration of HK$1. The company owns three investment properties in The People's Republic of China. The completion of the acquisition of the company is conditional on the approvals from the Independent shareholders of the Company at the Special General Meeting and all conditions for resumption of trading in the shares of the Company are fulfilled. The outstanding consideration of HK$1 is not provided in the financial statements.

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	
Mr. Lui Po San, Anthony	Ceased to act on 15th February, 2005

ii) Other changes in management

Other changes in management during the year included the appointment of the Group's financial controller and company secretary in January 2006.

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.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under Statement of Standard Accounting Practice ("SSAP") 13 "Investment Properties" issued by HKICPA were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January 2005 onwards. The adoption of HKAS 40 has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK (SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The adoption of HK (SIC) Interpretation 21 has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial assets and financial liabilities other than debt and equity securities (Continued)

fair value through profit or loss" or "loans and receivables". Financial liabilities are generally classified as "other financial liabilities". The application of HKAS 32 and 39 has had no material impact on how financial instruments of the Group are presented for current and prior accounting years.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st January 2006.
[3] Effective for annual periods beginning on or after 1st December 2005.

5. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by The Companies Ordinance. The principal accounting policies are summarized below:

a) Basis of measurement:

The consolidated financial statements have been prepared on net realisation basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values.

b) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

5. PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Associates:

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

d) Turnover and revenue recognition:

Turnover represents (i) rental income from leasing of investment properties; and (ii) revenue from property management.

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) Rental income from investment properties is recognized on a straight-line basis over the terms of the leases.

ii) Property management income is recognized when the related services are rendered.

e) 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.

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.

5. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) Taxation: (Continued)

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.

f) Employee benefits:

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.

g) Investment properties:

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

h) 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.

i) 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.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 5, management has made the following judgement that has significant effect on the amounts recognized in the financial statements. 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 also discussed below.

Impairment loss on trade receivables

The policy for provision of bad or doubtful trade receivables of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank borrowings and loans, trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to bank borrowings and loans (see Note 19 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Liquidity risk

The Group is expected to be exposed to minimal liquidity risk subject to successful implementation of the Restructuring Agreement as mentioned in Note 2 to the financial statements.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the Group will periodically review the ageing of the trade debtors to ensure that follow-up action is taken to recover long overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

8. TURNOVER AND REVENUES

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2005	2004
	HK$'000	*HK$'000*
Building management income	**2,606**	2,002
Property rental income	**120**	729
Total Turnover	**2,726**	2,731
Others	**54**	177
Total revenues	**2,780**	2,908

9. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation in the consolidated income statement was determined after charging and crediting the following items, other than revenues disclosed in Note 8.

	2005	2004
	HK$'000	*HK$'000*
Charging:		
Interest on:		
Bank borrowings wholly repayable within five years	–	38,187
Staff costs (including directors' emoluments)	**279**	1,636
Operating lease rentals – land and buildings	**136**	1,305
Fixed assets written off	–	268
Impairment loss on trade receivables	**1,444**	–
Depreciation of properties and equipment		
– Leased assets	–	213
Auditors' remuneration	**505**	300
Crediting:–		
Rental income from investment properties less outgoings	**120**	729

10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The emoluments paid or payable to each of the 3 (2004: 9) directors were as follows:

As at 31st December, 2005

	Pang Ho Chuen, Lawrence *HK$'000*	Chan Wai Hung *HK$'000*	Lui Po San, Anthony *HK$'000*	**Total 2005** ***HK$'000***
Fees				
Other emoluments				
Salaries and other benefits	0	0	0	**0**
Contributions to retirement benefits scheme	0	0	0	**0**
Total emoluments	0	0	0	**0**

As at 31st December, 2004

	Pang Ho Chuen, Lawrence *HK$'000*	Lui Po San, Anthony *HK$'000*	Liu Xiu Juan, Lucy *HK$'000*	Chiang Ho Wai *HK$'000*	He Hui Min *HK$'000*
Fees					
Other emoluments					
Salaries and other benefits	0	0	90	0	334
Contributions to retirement benefits scheme	0	0	3	0	0
Total emoluments	0	0	93	0	334

	Mao Zhi Rong *HK$'000*	Wei Wu *HK$'000*	Wei De Zhong *HK$'000*	Zhu Jing *HK$'000*	**Total 2004** ***HK$'000***
Fees					
Other emoluments					
Salaries and other benefits	0	600	0	0	**1,024**
Contributions to retirement benefits scheme	0	0	0	0	**3**
Total emoluments	0	600	0	0	**1,027**

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

Details of emoluments of the two (2004: 5) highest paid individuals (including directors and other employees) are:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries and allowances	**262**	1,504
Accommodation allowances	–	34
Retirement scheme contributions	**17**	18
Termination payment and compensation	–	419
	279	1,975

Their emoluments were within the following bands:

	2005	2004
HK$nil to HK$1,000,000	**2**	5
HK$3,000,001 to HK$3,500,000	–	–
	2	5

11. TAXATION

A reconciliation of the tax expenses applicable to (loss)/profit before taxation 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:

	2005		2004	
	HK$'000	***%***	*HK$'000*	*%*
(Loss)/Profit before taxation	**(9,502)**		99,925	
Tax at the statutory tax rate	**(1,663)**	**17.50**	17,487	17.50
Under-provision in previous years	**151**		–	
Tax losses not recognised as deferred tax assets	**1,984**		9,055	
Income not subject to tax	–		(26,406)	
Tax charge for the year	**472**		136	

11. 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, 2005, 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:

	2005 ***HK$'000***	2004 *HK$'000*
Hong Kong profits tax		
Provision for current year	**(321)**	(136)
Under provision in prior year	**(151)**	–
	(472)	(136)

The Company is exempt from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at 17.5 % (2004:17.5 %) 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.

12. (LOSS)/EARNING PER SHARE

The calculation of basic (loss)/earning per share for the year ended 31st December, 2005 was based on the consolidated loss attributable to shareholders of approximately HK$9,974,000 (2004: Profit of approximately HK$99,789,000) and on the number of approximately 22,407,692,000 ordinary shares (2004: 22,407,692,000 ordinary shares) in issue during the year.

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

13. PROPERTIES AND EQUIPMENT

Movements of properties and equipment were:

	Furniture and office equipment *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Cost:			
At 1st January, 2004	518	2,026	2,544
Disposals	–	(2,026)	(2,026)
Written off	(518)	–	(518)
At 31st December, 2004 and at 31st December, 2005	–	–	–
Accumulated depreciation/impairment loss:			
At 1st January, 2004	250	1,192	1,442
Provision for the year	–	213	213
Disposals	–	(1,405)	(1,405)
Written off	(250)	–	(250)
At 31st December, 2004 and at 31st December, 2005	–	–	–
Carrying value:			
At 31st December, 2005	–	–	–
At 31st December, 2004	–	–	–

The net book value of the Group's properties and equipment held under finance leases included in motor vehicles at 31st December, 2004 amounted to approximately HK$834,000 (2005: Nil).

14. INVESTMENT PROPERTIES

Movements of investment properties were:

	2005 ***HK$'000***	2004 *HK$'000*
Balance as at 1st January	**500**	137,100
Disposals	**–**	(136,600)
	500	500
Add: Increase in fair value of an investment property	**700**	–
Balance as at 31st December	**1,200**	500

14. INVESTMENT PROPERTIES (Continued)

An investment property of the Group is situated in Hong Kong and held under medium term lease.

Investment properties are stated at fair value at 31st December, 2005 as determined by Messrs. Memfus Wong Surveyors Limited, independent qualified valuers. Messrs. Memfus Wong Surveyors Limited are members of The Hong Kong Institute of Surveyors, have appropriate qualification and recent experiences in the valuation of a property in the relevant location. The valuation which conforms with the International Valuation Standards is arrived at by reference to market evidence of transaction prices for similar properties.

A licence agreement dated 1st April, 2005 for the installation of Radio Station and Antennae on the Roof and Premises of the property was duly entered into between a subsidiary of the Company and an independent third party for a term of two years from 1st April, 2005 to 31st March, 2007. Either party shall terminate the licence by giving to the other party a three-month written notice.

Details of the investment properties held under operating leases to earn rental or for capital appreciation purposes as at 31st December, 2005 are as follows:

Location	**Group's interest**	**Existing use**
The external wall of Pearl Oriental Tower, No.225 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong	100%	Commercial

15. DEVELOPMENT PROPERTIES

Movements of development properties were:

	2005 ***HK$'000***	2004 *HK$'000*
Beginning of year	–	550,451
Disposals	–	(550,451)
End of year	–	–

16. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

On 21st May, 2005, a subsidiary of the Group entered into a sale and purchase agreement to acquire a company incorporated in Hong Kong at the consideration of HK$77,010,000. The company owns an investment property in Hong Kong with book value of approximately HK$74,789,000 at 31st December, 2005. As at 31st December 2005, a deposit of HK$2,000,000 was paid by Mastermind Assets Management Limited and the acquisition has not yet been completed. The completion of the acquisition of the company is conditional on the approvals from the shareholders of the Company at the Special General Meeting and the Court if deemed necessary.

17. TRADE RECEIVABLES

The credit terms of trade receivables ranges from 7 days to 30 days, after which interest ranging from 1% to 5% above the best lending rate can be charged on default of repayment.

	2005	2004
	HK$'000	*HK$'000*
0-30 days	**27**	122
31-60 days	**20**	145
61-90 days	**20**	122
Over 90 days	**1,707**	902
	1,774	1,291
Provision for bad or doubtful trade receivables	**(1,444)**	–
	330	1,291

The fair value of the Group's trade and other receivables at 31st December, 2005 approximates to the corresponding carrying amount.

18. TRADE PAYABLES

The Group's trade payables of HK$28,606,000 (2004: HK$28,606,000) are all aged over 12 months.

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

19. SHORT-TERM BANK BORROWINGS

Details of short-term bank borrowings are:

	2005	2004
	HK$'000	*HK$'000*
Overdraft	**14,134**	14,134
Short-term loans	**286,411**	286,411
	300,545	300,545

Short-term bank borrowings bear interest at rates ranging from 10.5% to 15.125% per annum (2004: 10.5% to 15.125% per annum).

The Group's borrowings are dominated in Hong Kong Dollar. Due to the liquidity situation, the Group has defaulted on repayment of principal and interest on its bank borrowings, totaling approximately HK$300,545,000 (2004: HK$300,545,000).

20. LOANS PAYABLES

The loans payable of approximately HK$20,985,000 (2004: HK$18,985,000) are unsecured, bear interest at rates ranging from prime rate minus 1% per annum to 1 % per month and are repayable within the next twelve months.

The fair value of the Group's loans payables at 31st December, 2005 was approximate to the corresponding carrying amount.

21. SHARE CAPITAL

Movements in share capital was:

	2005		2004	
	Number of shares	**Nominal value**	Number of share	Nominal value
	'000	***HK$'000***	*'000*	*HK$'000*
Authorized (ordinary shares of HK$0.001 (2004: HK$0.001) each):				
Beginning and 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 (2004: HK$0.001) each)				
Beginning and end of year	**22,407,692**	**22,408**	22,407,692	22,408

22. 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:

a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the grant date;

b) 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

c) 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, 2005. The 2002 Share Option Scheme will expire on 13th November, 2012.

23. RESERVES

Movements of reserves were:

	2005 **Share premium** ***HK$'000***	**2005** **Capital reserve** ***HK$'000***	**2005** **Total** ***HK$'000***	2004 Total *HK$'000*
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	**722,854**	**1,026**	**723,880**	723,880

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.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

Major non-cash transaction

During the year ended 31st December, 2005, the Group entered into a contract to acquire a company incorporated in Hong Kong. As a result, the Group was obliged to pay a deposit in a total sum of approximately HK$2,000,000, which was settled by Mastermind Assets Management Limited. Subsequently, the Group has a capital commitment of approximately HK$75,010,000 (See note 26a).

25. SEGMENT INFORMATION

a) Primary segment

		2005	
	Property Management *HK$'000*	Property Investment and development *HK$'000*	Total *HK$'000*
Total Turnover	**2,606**	**120**	**2,726**
Operating results			
Segment result	**436**	**(9,938)**	**(9,502)**
Taxation			**(472)**
Loss for the year			**9,974**
Other information:			
Assets:			
Segment assets	**348**	**3,246**	**3,594**
Bank balances and cash			**3,483**
Total assets			**7,077**
Liabilities:			
Segment liabilities	**(296)**	**(76,528)**	**(76,824)**
Unallocated corporate liabilities			**(490,097)**
Taxation			**(11,102)**
Total liabilities			**(578,023)**
Impairment loss on trade receivables	**1,444**	–	**1,444**

25. SEGMENT INFORMATION (Continued)

a) Primary segment (Continued)

		2004 (restated)	
	Property Management *HK$'000*	Property Investment and development *HK$'000*	Total *HK$'000*
Total Turnover	2,002	729	2,731
Operating results			
Segment result	825	138,874	139,699
Unallocated corporate expenses			(1,587)
Finance Cost			(38,187)
Taxation			(136)
Profit after taxation but before minority interests			99,789
Other information:			
Assets:			
Segment assets	1,291	546	1,837
Bank balances and cash			2,880
Total assets			4,717
Liabilities:			
Segment liabilities	(538)	(65,940)	(66,478)
Unallocated corporate liabilities			(488,097)
Taxation			(11,114)
Total liabilities			(565,689)
Fixed assets written off	–	268	268
Depreciation	–	213	213

b) Geographical segment

No geographical segment analysis is presented as over 90% of the Group's turnover and segment assets are situated in Hong Kong.

26. COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital commitments

As at 31st December, 2005, capital commitments incurred by the Group in relation to acquisition of a company incorporated in Hong Kong amounted to approximately HK$75,010,000 (2004: Nil). Please refer to Note 16 to the financial statements for more details. The completion of the acquisition of the company is conditional on the approvals from the shareholders of the Company at the Special General Meeting and the Court if deemed necessary. The capital commitments are not provided in the financial statements.

b) Operating lease commitments

The Group had certain operating lease commitments at 31st December, 2005 in a sum of HK$64,250 in respect of rented premises under various non-cancelable operating lease agreements extending to May 2006. However, this amount is insignificant.

c) Contingent liabilities

At 31st December, 2004 and 2005 the Group had no significant contingent liabilities.

27. OPERATING LEASE ARRANGEMENT

The Group let out certain investment properties for terms of one to three years. As at 31st December, 2004 and 2005, the amounts of total future minimum lease receivable under non-cancelable operating lease are insignificant.

28. OUTSTANDING LITIGATION/SUBSEQUENT EVENTS

Subsequent to 31st December, 2005, the Group recorded the following major outstanding litigations.

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 Stock Exchange of Hong Kong Limited.

ii) 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. On 25 February, 2005, a judgement has been granted against He Hui Min. The action against Proper Invest Group Limited was dismissed on 23rd March, 2006.

29. RELATED PARTY TRANSACTIONS

There were no related party transactions during the year. The following are outstanding balances related to transactions in prior years:

a) China Sun's Group Limited being a substantial shareholder, advanced to the Group a total of approximately HK$22,905,000 (2004: HK$22,905,000), which is unsecured and bears interest at Hong Kong prime lending rate.

b) As at 31st December, 2005, the amount due to a former director of the Company of approximately HK$82,530,000 (2004: HK$82,530,000) represented short-term advances from Mr. Wei Wu, a director of the Company up to 2nd March, 2004, 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, 2005, no interest was accrued.

c) As at 31st December, 2005, the amount due to a former director of the Company of approximately HK$52,591,000 (2004: HK$52,591,000) 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, 2005 (2004: HK$10,510,000).

d) The outstanding balances with related companies were unsecured, non-interest bearing and had no predetermined repayment terms.

e) Compensation of key management personnel:

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	–	1,538
Post-employment benefits	–	18
Other long-term benefits	–	419
	–	1,975

As no remuneration committee was set up during the year ended 31st December, 2005, the remuneration of the directors and key executives is determined by the Board of Directors of the Company, having regard to their performance of individuals and market trend.

30. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2005 is set out below:

	2005	2004
	HK$'000	*HK$'000*
Non-current Assets		
Interests in subsidiaries	**1,313**	1,303
Current Assets		
Bank balances and cash	**30**	34
Current Liabilities		
Short-term bank borrowings	**(300,545)**	–
Accrued liabilities and other payables	**(15,051)**	(4,569)
Due to shareholders	**(33,415)**	(33,415)
Due to a former director	**(82,530)**	(25,067)
Loans payable	**(4,708)**	–
Total Current Liabilities	**(436,249)**	(63,051)
Net Current Liabilities	**(436,219)**	(63,017)
Total Assets less Current Liabilities	**(434,906)**	(61,714)
Represented by:		
Capital and Reserves		
Share capital	**22,408**	22,408
Share premium	**722,854**	722,854
Contributed surplus	**160,670**	160,670
Accumulated Deficit	**(1,340,838)**	(967,646)
Shareholders' Deficiency	**(434,906)**	(61,714)

Note: The increase of accrued liabilities and other payables in a sum of approximately HK$10,082,000 is mainly due to the submission of notice of claim forms from creditors of the Company to the Provisional Liquidators of the Company before the Provisional Liquidators convened a Scheme Meeting for the creditors of the Company. Those amounts were not previously included in the books and records of the Company.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31st December, 2005, 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
City Joint Investments 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	Dormant
Goodjoin Limited	British Virgin Islands	US$1	100	Investment holding
Goldkey Industries Limited	Hong Kong	HK$10,000	100	Dormant
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
Lucky Rainbow Limited	Hong Kong	HK$2	100	Dormant
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

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held %	Principal activities
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	Dormant
The Sun's Group (HK) Limited	Hong Kong	Ordinary HK$10,000 Deferred HK$20,000,000(i)	100	Investment holding
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	Dormant
Super Delight Enterprises Limited	British Virgin Islands/ Hong Kong	US$200	100	Dormant
Terrific Hit Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	Dormant
Unimax Investments Limited	British Virgin Islands/ Hong Kong	US$2	100	Dormant
Union Growth Group Limited	British Virgin Islands	US$1	100	Investment holding

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held %	Principal activities
Win Chance Limited	British Virgin Islands/ Hong Kong	US$2	100	Dormant
Win Oriental Investment Limited	Hong Kong	HK$2	100	Dormant

Note:

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, 2005.

32. PARTICULARS OF PRINCIPAL ASSOCIATES

Interests in associates consisted of:

	2005 *HK$'000*	2004 *HK$'000*
Unlisted shares, at cost	**4**	4
Share of post-acquisition profits	**–**	–
	4	4
Advances from associates	**169,098**	169,098
	169,102	169,102
Less: Impairment loss	**(169,102)**	(169,102)
	–	–

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

32. PARTICULARS OF PRINCIPAL ASSOCIATES (Continued)

Details of the associates as at 31st December, 2005, 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

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 26th June, 2006.