

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business of the Company is located at 5/F, Tien Chu Commercial Building, 173-174 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company. At 30th June, 2006, 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.

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

### 2. BASIS OF PREPARATION

(a) The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

(b) 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\$575 million and deficiency of shareholders' funds of approximately HK\$572 million as at 30th June, 2006.

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 places 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.

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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. On 25th June, 2006, the Court granted orders to sanction the Schemes.

On 1st August, 2006 at the special general meeting, the shareholders approved the relevant transactions for the implementation of the restructuring proposal.

On 20th September, 2006, the petition lodged against the Company on 11th April, 2003 was dismissed and the Provisional Liquidators were discharged respectively. Accordingly, the Company has successfully emerged from provisional liquidation.

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.

### 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005 except as described below.

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In the current interim period, 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 HKICPA that are effective for accounting periods beginning on or after 1st January, 2006 for the preparation of the condensed consolidated financial statements. The application of the new HKFRSs has had no material effect on how the Group’s results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006

#### 4. SEGMENT INFORMATION

For management purposes, the Group is currently engaged in business of property management and property investment and development. These businesses are the basis on which the Group reports its primary segment information.

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Business segments for the period are as follows:

	<b>For the six months ended 30th June, 2006</b>		
	<b>Property management HK\$'000</b>	<b>Property investment and development HK\$'000</b>	<b>Total HK\$'000</b>
<b>Turnover-External</b>	<b>838</b>	<b>60</b>	<b>898</b>
<b>Operating results</b>			
Segment result	<b>334</b>	<b>(12)</b>	<b>322</b>
Unallocated expenses			<b>(1,124)</b>
Unallocated income			<b>3</b>
Loss before tax			<b>(799)</b>
Income tax expenses			<b>(59)</b>
Loss for the period attributable to the shareholders of the Company			<b>(858)</b>

	<b>For the six months ended 30th June, 2005</b>		
	<b>Property management HK\$'000</b>	<b>Property investment and development HK\$'000</b>	<b>Total HK\$'000</b>
<b>Turnover-External</b>	<b>805</b>	<b>60</b>	<b>865</b>
<b>Operating results</b>			
Segment result	<b>375</b>	<b>(66)</b>	<b>309</b>
Income tax expenses			<b>(66)</b>
Profit for the period attributable to the shareholders of the Company			<b>243</b>

*Note:* (1) No geographical analysis is shown as all the principal activities of the Group are carried out in Hong Kong.

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### 5. (LOSS)/PROFIT BEFORE TAX

(Loss)/Profit before tax has been arrived at after charging:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs	<u><b>(200)</b></u>	<u>(226)</u>

### 6. INCOME TAX EXPENSES

Taxation in the condensed consolidated income statement consisted of:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax:		
Provision for current period	<u><b>(59)</b></u>	<u>(66)</u>

The company is exempt from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at 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.

### 7. (LOSS)/EARNING PER SHARE – BASIC

The calculation of basic (loss)/earning per share attributable to the shareholders of the Company is based on the following data:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the period attributable to shareholders of the Company	<u><b>(858)</b></u>	<u>243</u>
Number of ordinary shares issued for the purpose of basic (loss)/earning per share	<u><b>22,407,691,598</b></u>	<u>22,407,691,598</u>

No diluted earning per share is presented as all share options were lapsed as at 30th June, 2006 (2005: all anti-dilutive).

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### 8. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2006 (2005: Nil).

### 9. TRADE RECEIVABLES

The average credit period 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.

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

	<b>30th June, 2006 HK\$'000</b>	31st December, 2005 HK\$'000
0 to 1 month	146	27
1 to 2 months	69	20
2 to 3 months	58	20
Over 3 months	<u>1,350</u>	<u>1,707</u>
	<b>1,623</b>	1,774
Provision for bad or doubtful trade receivables	<u>(1,448)</u>	<u>(1,444)</u>
	<b><u>175</u></b>	<b><u>330</u></b>

The directors consider that the fair value of the Group's trade receivables at 30th June, 2006 approximates to the corresponding carrying amount.

### 10. TRADE PAYABLES

The Group's trade payables of HK\$28,606,000 (2005: HK\$28,606,000) are all aged over 12 months. The directors consider that the fair value of the Group's trade payables at 30th June, 2006 approximates to the corresponding carrying amount.

### 11. SHARE CAPITAL

Ordinary shares of HK\$0.001 each *HK\$'000*

*Authorised:*

<u>2,000,000,000,000</u>	shares at 1st January, 2006 and 30th June, 2006	<u>2,000,000</u>
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*Issued and fully paid:*

<u>22,407,691,598</u>	shares at 1st January, 2006 and 30th June, 2006	<u>22,408</u>
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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 12. COMMITMENTS AND CONTINGENT LIABILITIES

#### i) Capital commitments

As at 30th June, 2006, capital commitments incurred by the Group in relation to acquisition of a company incorporated in Hong Kong amounted to approximately HK\$75,010,000. 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.

#### ii) Contingent liabilities

There is no contingent liabilities relating to the corporate guarantee given by the company in respect of bank facilities of its subsidiaries as at 30th June, 2006 (2005: Nil).

### 13. SUBSEQUENT EVENTS

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. On 20th September, 2006, the petition lodged against the Company on 11th April, 2003 was dismissed.

### 14. RELATED PARTY TRANSACTIONS

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

- (a) China Sun's Group Limited became a substantial shareholder by acquiring a substantial stake from Mr. Wong Kwan and subsequently advanced to the group a total of approximately HK\$22,905,000 (31st December, 2005: HK\$22,905,000), which is unsecured and bears interest at Hong Kong prime lending rate.
- (b) The outstanding balances with related companies were unsecured, non-interest bearing and had no predetermined repayment terms.

### 15. DIRECTORS' EMOLUMENTS

No emoluments had been paid or payable to the directors during the period of 2006 and 2005.