

Report of the Auditors

TO THE SHAREHOLDERS OF THE SUN'S GROUP LIMITED

(Provisional Liquidators Appointed)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 15 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

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

1. Access to incomplete accounting books and records and representations from the existing board of directors and management

As more fully explained in Note 3 to the financial statements, there were several changes to the board of directors of the company on 30th June 2004 and after the Provisional Liquidators were appointed. The present board of directors of the company is unable to warrant that all transactions entered into in the name of the company and its subsidiaries from 1st January, 2004 to 30th June, 2004 have been appropriately included in the financial statements. Likewise, due to the change of management during the year, we could not hold discussions with past management. Furthermore, prior year's accounting books and records maintained by the past management of the company and its subsidiaries ("the Group") were incomplete. We are, therefore, unable to ascertain the following:

(a) Opening balances and comparative figures

We were appointed as auditors of the Group on 17th May, 2005, Statement of Auditing Standards 450 "Opening Balances and Comparatives" issued by the HKICPA requires that the auditors to obtain sufficient audit evidence that opening balances do not contain misstatements which materially affect the current year's financial statements. We are therefore required to satisfy ourselves as to the fairness of the figures brought forward as at 1st January, 2004 and the comparative figures included in the financial statements. However, due to the abovementioned reasons as stated in the preceding paragraph, we are therefore unable to satisfy ourselves that the figures brought forward as at 1st January, 2004 and the comparative figures in these financial statements do not contain misstatements which might materially affect the current year's financial statements.

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(b) *Transactions from 1st January, 2004 to 30th June, 2004*

We are unable to ascertain the completeness of transactions entered into in the name of the Group during the period from 1st January, 2004 to 30th June, 2004 as recorded in the books and records.

As explained in note 3 to the financial statements, 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\$2,731,000
- cost of sales of HK\$0
- other operating income of HK\$177,000
- administrative expenses of HK\$14,245,000
- finance costs of HK\$38,187,000
- income tax expense of HK\$136,000
- trade receivables of HK\$1,291,000
- prepayment and deposits of HK\$46,000
- trade payables of HK\$28,606,000
- accrued liabilities and other payables of HK\$29,435,000 (including accrued liabilities of HK\$4,569,000 in the balance sheet of the Company)
- deferred income and deposits from customers of HK\$8,437,000

(c) *Related party transactions*

We were unable to assess the completeness and fairness of related party disclosures in respect of the period from 1st January, 2004 to 30th June, 2004 as disclosed in Note 36 to the financial statements.

(d) *Commitments and contingent liabilities*

We could not ascertain the completeness of commitments entered into in the name of the Group during the period from 1st January, 2004 to 30th June, 2004 and the existence of contingent liabilities that past management is aware of during the year. There are no alternative audit procedures that we could adopt to satisfy ourselves on the completeness and fairness of these items and amounts as disclosed in Note 32 to the financial statements.

2. We have been unable to obtain sufficient direct confirmations or other documentary evidence from the Group's bankers, loan providers, finance lease creditors, shareholders, former director, director and related companies in respect of amounts due to them in the amount of HK\$300,545,000, HK\$18,985,000, HK\$0, HK\$33,415,000, HK\$135,121,000, HK\$0, and HK\$31,000, respectively, included in the consolidated balance sheet as at 31st December, 2004. The amount due to shareholders and directors of HK\$33,415,000 and HK\$0, respectively, is also included in the balance sheet of the Company at the same date. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

Any adjustments that might have been found to be necessary in respect of the point mentioned above would have a consequential impact on the group's and company's shareholders' deficit, respectively, as at 31st December, 2004 and their profit for the year then ended, and the related disclosures thereof in the financial statements.

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

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS OF PREPARATION

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that a restructuring agreement (the “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, whereby, the Investor would become the controlling shareholder of the Company. The proposed financial restructuring involves cash injection by the Investor of new equity in the total sum of HK\$10.0 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 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. The financial statements do not include any adjustments that would result from a failure to complete the financial restructuring or to obtain other funding. However, in view of the extent of the uncertainty relating to the completion of the Restructuring Arrangement, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

QUALIFICATION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

The investment properties of the Group are stated at their open market values at 31st December, 2002 as determined by an independent qualified valuer. This is not in accordance with Statement of Standard Accounting Practice No. 13 “Accounting for investment properties” which require that such properties should be stated at current open market value. In the absence of a valuation being made of the Group’s investment properties as at 31st December, 2004, it is not practicable to quantify the effects of this departure.

DISCLAIMER OPINION

Because of the significance of the possible effects of the limitations of scope in evidence available to us as mentioned in the sections of ‘Basis of opinion’ section and the “Fundamental uncertainty relating to the going concern basis of preparation” as stated above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company’s and the Group’s affairs as at 31st December, 2004 and of the profit and cash flows of the group for the year then ended and as to whether or not the financial statements have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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In respect alone of the limitations on our work as set out above relating to the period from 1st January, 2004 to 30th June, 2004 in the “Basis of opinion” section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books and records had been kept.

Patrick Ng & Company
Certified Public Accountants

Hong Kong, 29th July, 2005