

# Report of the Directors

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The Directors have the pleasure of presenting their annual report together with the audited financial statements of The Sun's Group Limited (the "Company") and its subsidiaries (together "the Group") for the year ended 31st December, 2003.

## **DELAY IN PUBLICATION OF ANNUAL RESULTS AND DISPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003**

Due to various litigations against the Group and prolonged suspension of shares trading on the Stock Exchange, most of the responsible officers had left the Group. The Company had not been able to announce its audited results for the financial year ended 31st December, 2003 and dispatch the Annual Reports within the due date as required by the Rules Governing the Listing of Securities (the "Listing Rules").

The Directors would like to draw the attention of the public that the audited Final Results of the Group for the year ended 31st December 2003 had been prepared and signed off by the Board of Directors and the auditors on 29th July, 2005 but announced on 22nd February, 2006.

The delay in publication of the Annual Results and the dispatch of the Annual Report constitute breaches of the Rule 13.46(2) and 13.49(1) of the Listing Rules by the Company.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are property management, property investment and development and financial services businesses. Particulars of the Company's principal subsidiaries are shown under Note 15 on the financial statements.

The Group has been experiencing financial difficulties; the Group defaulted on the scheduled repayment of certain bank loans and received notices of various lawsuits against the Group. Due to shortage of fund to maintain the operation, the Group's business activities have been significantly reduced.

## **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st December, 2003 is set out in Note 30 on the financial statements.

## **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31st December, 2003 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 15 to 54.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated deficit of approximately HK\$1,407,049,000 at 31st December, 2003 be carried forward.

## **NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES**

Due to the failure to obtain access to the books and records of certain subsidiaries and the resignation of the major management personnel during the shares suspension period, the Directors do not have sufficient data available to compile the Annual Report so as to comply with Appendix 16 "Disclosure of financial information" of the Listing Rules. The following information has been omitted from the Annual Report:

1. Connected transactions and continuing connected transactions with the connected persons as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules;
2. A separate Corporate Governance Report containing the information required under Appendix 23 of the Listing Rules; and
3. The information on the Group's major suppliers and customers.

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## **NON-COMPLIANCE OF CHAPTER 3 “AUTHORISED REPRESENTATIVES AND DIRECTORS” OF THE LISTING RULES**

Up to the date of this report, no qualified accountant has been appointed. As a result, the Company is in breach of Rule 3.24 (the “Qualified Accountant Requirement”). In addition, no company secretary has been appointed. As a consequence, the management is actively seeking for candidates to fill the vacancies of both financial controller and company secretary.

## **SUMMARY OF FINANCIAL INFORMATION**

A summary of the Group’s financial information for the last five financial years is set out on page 56 of this annual report.

## **FIXED ASSETS**

Details of movements in properties and equipment, investment properties and development properties during the year are set out in Notes 12, 13, and 14, respectively, on the financial statements.

## **SHARE CAPITAL**

There were no movements in either the Company’s authorized or issued share capital during the year.

## **SHARE OPTION**

Details of the share option scheme are set out in Note 26 on the financial statements.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company’s Bye-laws or the laws in Bermuda.

## **INTEREST CAPITALISED**

During the year ended 31st December, 2003, the Group capitalized interest expenses of approximately HK\$3,729,000 (Note 7) under development properties.

## **BANK BORROWINGS**

Particulars of bank borrowings as at 31st December, 2003 are set out in Note 21 on the financial statements.

## **RETIREMENT BENEFIT SCHEMES**

Details of the retirement benefit schemes are set out in Note 4(h)(i) on the financial statements.

## **RELATED PARTY TRANSACTIONS**

Details of related party transactions are set out in Note 35 on the financial statements.

## RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group and the Company during the year are set out in Note 27 on the financial statements.

Movements in accumulated deficit of the Group during the year are set out in the consolidated statement of changes in equity on page 17 of this annual report.

As at 31st December, 2003, the Company's reserve of approximately HK\$160,670,000 (2002: HK\$160,670,000) (subject to provisions under the Companies Act 1981 of Bermuda) was available for distribution to the Company's shareholders.

## DIRECTORS

The directors who held office during the year up to the date of this report are:

### Executive directors

Mr. Pang Ho Chuen, Lawrence <i>(Chairman and Chief Executive Officer)</i>	Appointed on 30th June, 2004
Mr. Chan Wai Hung	Appointed on 15th February, 2005
Mr. Lui Po San, Anthony	Appointed on 30th June, 2004 and ceased to act on 15th February, 2005
Mr. Wei Wu <i>(Chairman and Chief Executive Officer)</i>	Resigned as executive director, chairman and chief executive officer on 2nd March, 2004
Mr. He Hui Min	Resigned on 30th June, 2004
Mr. Chiang Ho Wai	Resigned on 2nd March, 2004
Ms. Liu Xiu Juan	Appointed on 2nd March, 2004 and resigned on 30th June, 2004

### Non-executive director

Mr. Wei De Zhong	Resigned on 2nd March, 2004
Mr. Siu King Nin, Peter	Resigned on 28th February, 2003

### 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. Lai Si Ming	Resigned on 4th March, 2003
Mr. Kwan Man Fai, Kelvin	Resigned on 28th February, 2003

In accordance with clause 86(2) of the Company's Bye-laws, Messrs. Pang Ho Chuen, Lawrence and Chan Wai Hung shall hold office until the forthcoming annual general meeting and will retire and, being eligible, will offer themselves for re-election. Messrs. Pang Ho Chuen, Lawrence and Chan Wai Hung will retire by rotation in accordance with clause 87 of the Company's Bye-laws and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' BIOGRAPHIES

Brief biographical details in respect of the directors of the Company are set out on page 4 of the Annual Report.

## EMOLUMENTS OF DIRECTORS

Details of the emoluments of the Directors and of the five highest paid individuals in the Group are set out in Note 8 on the financial statements.

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## DIRECTORS' SERVICE CONTRACT

None of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2003 and up to the date of this report.

## SUBSTANTIAL SHAREHOLDER

As at 31st December, 2003, the following entity (not being a director or chief executive of the Company) had or was deemed to have interests, being 10% or more in the issued share capital of the Company recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of issued shares	Percentage holding
China Sun's Group Limited	4,012,000,000	17.90%

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2003.

## DIRECTORS' INTEREST IN SHARES

As at 31st December, 2003 the directors of the Company had the following beneficial interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Note	Number of shares		Total
		Corporate interest	Personal interest	
Mr. Wei Wu	1	4,012,000,000	—	4,012,000,000
Mr. Chiang Ho Wai	2	4,012,000,000	—	4,012,000,000

Notes:

1. The Corporate Interest of the shares are held by China Sun's Group Limited (China Sun's), formerly known as China Wanan Group Limited, in which 30% is held by Gold Pin Holding Inc. and 20% is held by Fudi Venture Limited, both of which Mr. Wei Wu are the sole beneficial owner.
2. The Corporate Interest of the shares are held by China Sun's, in which 50% was held by Essential Rise Holding Limited, of which Mr. Chiang Ho Wai is the beneficial owner.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2003.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

On 14th November, 2002, the Company adopted a new share option scheme, under which it may 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 to subscribe for shares in the Company. Details of the scheme are set out in Note 26 on the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## **DIRECTORS' INTEREST IN CONTRACTS**

As at 31st December, 2003, there is no other contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's subsidiaries and associates are set out in Notes 15 and 16 on the financial statements.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Directors, the Company had complied with the Code On Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year covered by this annual report, except that the non-executive directors of the Company were not appointed for specific terms as required by paragraph A.4.1 of the Code. However, the non-executive directors were subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws.

## **SUBSEQUENT BALANCE SHEET EVENT**

Details of subsequent events are set out in Note 34 on the financial statements.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

Trading in the Shares of the Company has been suspended since 24th April, 2003 and the Directors are of the opinion that since the date of shares trading suspension, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules is not applicable.

## **SUFFICIENCY OF PUBLIC FLOAT**

Up to the date of this annual report, with the trading in the shares of the Company remaining in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

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## AUDIT COMMITTEE

The Company had set up its Audit Committee in June 1999 with written terms of reference in accordance with the requirements of the Stock Exchange and such committee comprised two independent non-executive directors of the Company. The Audit Committee acted in an advisory capacity and made recommendations to the board. Due to the severe financial difficulties of the Group and the prolonged suspension in trading of the shares of the Company on the Stock Exchange, all the Independent Non-Executive Directors of the Company had resigned afterwards. Up to the date of this report the Company is unable to appoint the minimum number of persons to be its Independent Non-Executive Directors and Audit Committee members. As a result, the Company is in breach of Rule 3.19 (the “INED Requirement”) and Rule 3.21 (the “Audit Committee Requirement”) of the Listing Rules.

## AUDITORS

Li, Tang, Chen & Co, the auditors of the Company for the year ended 31st December, 2002, had resigned during the year 2005. Accordingly, Patrick Ng & Co. were appointed as auditors of the Company on 17th May, 2005.

The accompanying financial statements have been audited by Patrick Ng & Co. who will retire and a resolution for their appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

**Pang Ho Chuen, Lawrence**  
*Chairman*

Hong Kong, 29th July, 2005