

# 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, 2005.

## RESTRUCTURING OF THE GROUP

As a result of the Group's financial position, Provisional Liquidators were appointed on 17th June 2004. The progress of the restructuring of the Group refers to the Note 2 to the financial statements.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are property management and property investment and development. Particulars of the Company's principal subsidiaries are shown under Note 31 to 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.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 12 to 40.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated deficit of approximately HK\$1,317,234,000 at 31st December, 2005 be carried forward.

## FIXED ASSETS

An investment property owned by a subsidiary of the Group was revalued at HK\$1.2 million. The increase in fair value of an investment property amounted to HK\$0.7 million, which has been recognized directly to the profits and loss account for the year ended 31st December, 2005 in accordance with Hong Kong Accounting Standard 40.

Details of movements in properties and equipment, investment properties and development properties during the year are set out in Notes 13, 14, and 15, respectively, to the financial statements.

## SHARE CAPITAL

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

## RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group during the year are set out in Note 23 to 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 14 of this annual report.

As at 31st December, 2005, the Company's reserve was of approximately HK\$160,670,000 (2004: HK\$160,670,000) (subject to provisions under the Companies Act 1981 of Bermuda) were available for distribution to the Company's shareholders.

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.

## DIRECTORS

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

### Executive directors

Mr. Pang Ho Chuen, Lawrence

Mr. Chan Wai Hung

*(Chairman and Chief Executive Officer)*

Mr. Lui Po San, Anthony

Appointed on 15th February, 2005

Ceased to act on 15th February, 2005

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' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTEREST IN SHARES

As at 31st December, 2005, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors.

## SHARE OPTION

Details of the share option scheme are set out in Note 22 to the financial statements.

# Report of the Directors

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## 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, 2005 and up to the date of this report.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

As at 31st December, 2005, 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.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the following entities (not being a director or chief executive of the Company) had long position in the issued share capital of the Company recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

### Long positions

Name	Note	Number of issued shares	Percentage holding
China Sun's Group Limited		4,012,000,000	17.90%
Mr. Wei Wu	1	4,012,000,000	17.90%
Mr. Chiang Ho Wai	2	4,012,000,000	17.90%
On Fat Limited		2,068,615,266	9.23%
Lu Jiping	3	2,068,615,266	9.23%
Charcon Assets Limited		2,061,300,782	9.20%
Mr. Wong Kwan	4	2,098,149,504	9.36%

Note:

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.
3. According to the individual substantial shareholder notice filed by Lu Jiping on 14 April 2003, On Fat Limited was controlled as to 100% by Lu Jiping. Accordingly, Lu Jiping was deemed to be interested in the 2,068,615,266 shares held by On Fat Limited.
4. Charcon Assets Limited is 100% controlled by Wong Kwan. Accordingly, Wong Kwan was deemed to be interested in the 2,061,300,782 shares held by Charcon Assets Limited. In addition to 36,848,722 shares directly held by Wong Kwan, Wong Kwan held a total interest of 2,098,149,504 shares.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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, and 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. As a result, the Company is in breach of Rule 3.19 (the “INED Requirement”).

## EMOLUMENT POLICY

No remuneration committee was set up to determine the emolument policy of the Group. However, the emolument policy of the employees of the Group is decided by the Board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board, having regard to the Company’s operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in Note 22 to 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, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

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

## SUBSEQUENT BALANCE SHEET EVENTS

As at 31st December, 2005, there was no subsequent event for the Group.

## SUBSIDIARIES AND ASSOCIATES

During the year under review, certain subsidiary of the Group has entered into agreements to acquire two companies, both of which are incorporated in Hong Kong, which owned an investment property in Hong Kong and three properties in The People’s Republic of China. Please refer to Note 2 to the financial statements for more details.

Particulars of the Company’s subsidiaries and associates are set out in Notes 31 and 32 to the financial statements.

## AUDITORS

Li, Tang, Chen & Co., the auditors of the Company for the year ended 31st December, 2002, have resigned during the year 2005. Accordingly, Patrick Ng & Co. was 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.

ON BEHALF OF THE BOARD

**Chan Wai Hung**  
*Chairman*

Hong Kong, 26th June, 2006