

# Directors' Report

The directors ("Directors") of Fortune Sun (China) Holdings Limited ("Company") present their report and the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2006.

## CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 28 January 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the Group's reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Company became the holding company of the Group on 10 June 2006. Details of the Reorganisation are set out in Appendix V to the Company's prospectus dated 23 June 2006 (the "Prospectus").

The shares of the Company were listed on the Main Board of the Stock Exchange on 5 July 2006 ("Listing Date").

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 19 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 33 of this report.

On 24 April 2007, the Directors resolved to recommend to shareholders of the Company a declaration of a final dividend of HK\$2.4 cents per share, totalling HK\$4,800,000 (equivalent to approximately RMB4,747,000) for the year ended 31 December 2006. The final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting ("2006 Annual General Meeting") of the Company. The final dividend will be payable in or about August 2007 to shareholders of the Company whose names appear on the register of members of the Company on 13 June 2007.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 11 June 2007 to Wednesday, 13 June 2007 (both days inclusive) during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend for the year ended 31 December 2006 and attending and voting at the 2006 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Friday, 8 June 2007.

## **INVESTMENT PROPERTIES**

Details of the investment properties of the Group are set out in notes 16 and 17 to the consolidated financial statements as well as the section headed “Summary of Major Properties” of this report.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements of the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## **SHARE CAPITAL**

Details of movements in share capital of the Company during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

## **RESERVES**

Details of movements in reserves of the Company and the Group are set out in the statement of changes in equity of the Group and the Company and note 29 to the consolidated financial statements.

## **DISTRIBUTABLE RESERVES**

Under section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the articles of association of the Company, and no distribution may be paid to shareholders out of the Company's share premium unless the Company shall be able to pay its debt as they fall due in the ordinary course of business. As at 31 December 2006, the directors consider the Company's reserves available for distribution amounted to approximately RMB46,044,000.

## DIRECTORS

The Directors during the year and up to the date of this report were:

### Executive Directors

Mr. Chiang Chen Feng (Chairman) (appointed on 28 February 2003)

Ms. Chang Hsiu Hua (appointed on 6 March 2004)

Mr. Han Lin (appointed on 7 June 2006)

### Non-executive Director

Ms. Lin Chien Ju (appointed on 6 March 2003)

### Independent non-executive Directors

Mr. Ng Wai Hung (appointed on 7 June 2006)

Mr. Cui Shi Wei (appointed on 7 June 2006)

Dr. Cheng Chi Pang (appointed on 7 June 2006)

In accordance with the Company's articles of association, the office of all the Directors will end at the 2006 Annual General Meeting and, being eligible, will offer themselves for re-election at the 2006 Annual General Meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 1 June 2006 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of service contract until terminated by either party giving to the other not less than three months' advance written notice of termination.

Each of the non-executive Director and the independent non-executive Directors has been appointed for a term of one year commencing from 10 June 2006 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment subject to retirement by rotation and re-election at annual general meetings of the Company and until terminated by not less than 3 months' notice in writing served by either the Company or the respective Director.

Save as disclosed above, none of the Directors proposed for re-election at the 2006 Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (except for statutory compensation).

## Use of proceeds from the Company's initial public offering

The net proceeds from the successful issue of new shares ("New Issue") of the Company at its listing on the Main Board of the Stock Exchange on the Listing Date amounted to approximately HK\$44.7 million (equivalent to approximately RMB45.9 million on 5 July 2006). These proceeds were applied during the year in accordance with the proposed applications as set out in the Prospectus as follows:

<b>Proposed usage</b>	<b>Net proceeds</b> <i>RMB</i>	<b>Utilised Amount</b> <i>RMB</i>	<b>Balance as at 31 December 2006</b> <i>RMB</i>
Expansion of market market share in the PRC	28.1 million	3.2 million	24.9 million
Strengthening research capability and employee training, and upgrading of internet-linked management information system	6.4 million	0.1 million	6.3 million
Penetration into the market of unsold units of primary residential properties	4.4 million	Nil	4.4 million
Promoting corporate image and brand name	2.6 million	0.5 million	2.1 million
General working capital	4.4 million	2.3 million	2.1 million

As at 31 December 2006, the remaining balance of the net proceeds was deposited in the authorised financial institutions in Hong Kong and the PRC and will be used in the manner as disclosed in the Prospectus.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Directors	Company/ name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate of percentage shareholding
Mr. Chiang Chen Feng ("Mr. Chiang")	The Company	Interest of a controlled Corporation (Note 2)	67,820,850 Shares (L)	33.9104%
	The Company	Beneficial owner and interest of spouse (Note 3)	1,300,000 Shares (L)	0.6324% (Note 8)
Ms. Lin Chien Ju ("Ms. Lin")	The Company	Interest of a controlled Corporation (Note 4)	36,352,050 Shares (L)	18.1760%
Mr. Han Lin ("Mr. Han ")	The Company	Beneficial owner	7,051,801 Shares (L)	3.5259%
		Beneficial owner (Note 5)	750,000 Shares (L)	0.3649% (Note 8)
Ms. Chang Hsiu Hua ("Ms Chang")	The Company	Interest of spouse (Note 6)	67,820,850 Shares (L)	33.9104%
	The Company	Beneficial owner and interest of spouse (Note 7)	1,300,000 Shares (L)	0.6324% (Note 8)

*Notes:*

1. The letter "L" denotes the Director's long position in the share of the Company and/or the relevant associated corporation.
2. These shares were registered in the name of Active Star Investment Limited ("Active Star"), the entire issued capital of which was owned by Mr. Chiang. Mr. Chiang is also the sole director of Active Star. Mr. Chiang was deemed to be interested in all the shares in which Active Star was interested by virtue of the SFO.
3. The long position of Mr. Chiang in these 1,300,000 shares comprised the 750,000 options and 550,000 options granted to him and his wife, Ms. Chang, respectively by the Company under the Pre-IPO Share Option Scheme. Mr. Chiang was regarded as interested in all the options in which Ms. Chang was interested by virtue of the Model Code.
4. These shares were registered in the name of Upwell Assets Corporation ("Upwell Assets"), the entire issued capital of which was owned by Ms. Lin. Ms. Lin is also one of the directors of Upwell Assets. Ms. Lin was deemed to be interested in all the shares in which Upwell Assets was interested by virtue of the SFO.
5. The long position of Mr. Han in these 750,000 shares comprised the 750,000 options granted to him by the Company under the Pre-IPO Share Option Scheme.
6. Ms. Chang was regarded as interested in all the shares referred to in note (2) above, in which Mr. Chiang, her husband, was interested by virtue of the Model Code.
7. The long position of Ms. Chang in these 1,300,000 shares comprised the 550,000 options and 750,000 options granted to her and her husband, Mr. Chiang, respectively by the Company under the Pre-IPO Share Option Scheme. Ms. Chang was regarded as interested in all the options in which Mr. Chiang was interested by virtue of the Model Code.
8. These percentages are calculated on the basis of 205,550,000 shares of the Company in issue as at 31 December 2006, assuming that all the then outstanding options granted under the Pre-IPO Share Option Scheme had been exercised as at that date.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2006, the interest or short position of the person (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of shares held (Note 1)	Approximate of percentage shareholding
Active Star	Beneficial owner (Note 2)	67,820,850 Shares (L)	33.9104%
Upwell Assets	Beneficial owner (Note 3)	36,352,050 Shares (L)	18.1760%
Honorway Nominees Limited	Beneficial owner (Note 4)	16,248,300 Shares (L)	8.1242%
Mr. Ho Hau Chong, Norman	Interest of a controlled corporation (Note 4)	16,248,300 Shares (L)	8.1242%
Ms. Yvette Therese Ma	Interest of spouse (Note 5)	16,248,300 Shares (L)	8.1242%
Mr. Ho Hau Hay, Hamilton	Interest of a controlled Corporation (Note 4)	16,248,300 Shares (L)	8.1242%
Ms. Sharon Young	Interest of spouse (Note 6)	16,248,300 Shares (L)	8.1242%
Honorway Investments Limited	Interest of a controlled Corporation (Note 4)	16,248,300 Shares (L)	8.1242%
Forever Sky Group Limited	Beneficial Owner	11,810,000 Shares (L)	5.9050%
Ms. Hsieh Hsiu-Mei	Interest in a controlled corporation (Note 7)	11,810,000 Shares (L)	5.9050%
Mr. Chu Yao-Jen	Interest of spouse (Note 8)	11,810,000 Shares (L)	5.9050%

*Notes:*

1. The letter "L" denotes the shareholders' long position in the Shares or underlying Shares of the Company.
2. These Shares were registered in the name of Active Star, the entire issued share capital of which was owned by Mr. Chiang. Mr. Chiang was deemed to be interested in all the Shares in which Active Star is interested by virtue of the SFO.
3. These Shares were registered in the name of Upwell Assets, the entire issued share capital of which was owned by Ms. Lin. Ms. Lin was deemed to be interested in all the Shares in which Upwell Assets is interested by virtue of the SFO.
4. These Share were registered in the name of Honorway, which was controlled by Honorway Investments Limited, which was in turn controlled by Mr. Ho Hau Chong, Norman and his brother, Mr. Ho Hau Hay, Hamilton. Mr. Ho Hau Chong, Norman, Mr. Ho Hau Hay, Hamilton and Honorway Investments Limited were deemed to be interested in all the Shares in which Honorway is interested by virtue of the SFO.
5. Ms. Yvette Therese Ma is the wife of Mr. Ho Hau Chong, Norman and she was deemed to be interested in all the Shares in which Mr. Ho Hau Chong, Norman was interested by virtue of the SFO.
6. Ms. Sharon Young is the wife of Mr. Ho Hau Hay, Hamilton and she was deemed to be interested in all the Shares in which Mr. Ho Hau Hay, Hamilton was interested by virtue of the SFO.
7. These Shares were registered in the name of Forever Sky Group Limited, which was controlled by Ms. Hsieh Hsiu-Mei. Ms. Hsieh was deemed to be interested in all the Shares in which Forever Sky Group Limited is interested by virtue of the SFO.
8. Mr. Chu Yao-Jen is the husband of Ms. Hsieh Hsiu-Mei and he was deemed to be interested in all the Shares in which Ms. Hsieh is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2006, no person, other than the directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, had an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.



## SHARE OPTION SCHEMES

The Pre-IPO Share Option Scheme was adopted pursuant to a written resolution passed by all shareholders of the Company on 10 June 2006. The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain directors, senior management, employees, consultants and advisers of the Group to the growth and development of the Group and the Listing.

For the year ended 31 December 2006, options to subscribe for an aggregate of 6 million Shares had been granted by the Company to the eligible participants under the Pre-IPO Share Option Scheme and no option had been exercised but an aggregate of 450,000 options lapsed during the said year. Details of the options granted under the Pre-IPO Share Option Scheme during the year from 10 June 2006 (being the date of adoption of the Pre-IPO Share Option Scheme) to 31 December 2006 were as follows:

Name/ category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of shares subject to options		
				granted as at 10 June 2006	lapsed/ exercise during the period	outstanding as at 31 December 2006
<b>The Directors</b>						
Mr. Chiang Chen Feng	10 June 2006	0.795	5 July 2007 - 4 July 2016	750,000	—	750,000
Mr. Han Lin	10 June 2006	0.795	5 July 2007 - 4 July 2016	750,000	—	750,000
Ms. Chang Hsiu Hua	10 June 2006	0.795	5 July 2007 - 4 July 2016	550,000	—	550,000
<b>Others</b>						
Certain employees of the Group	10 June 2006	0.795	5 July 2007 - 4 July 2016	3,950,000	450,000	3,500,000

In addition, the Share Option Scheme was also adopted pursuant to the written resolutions passed by all shareholders of the Company on 10 June 2006. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Eligible participants of the Share Option Scheme include, among others, the Group's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons that provide research, development or other technological support to the Group, the Group's shareholders and the advisers or consultants of the Group. The Share Option Scheme will remain in force for a period of 10 years commencing from 10 June 2006.

The maximum number of unexercised options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 30% of the Shares in issue at any time. The maximum number of Shares issuable under the options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting.

Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million within any 12-month period are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of options may be accepted within 21 days from the date of offer of grant of the option, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the options granted is determinable by the Directors, which period may commence from the date of the offer for grant of the options is made, and shall end in any event not later than 10 years from the date on which the offer for the grant of the options subject to the provisions for early termination thereof. There is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The exercise price of the options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotation sheets on the date of the offer for grant of the options; and (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer for grant of the options; and (iii) the nominal value of the Shares.

For the year ended 31 December 2006, no option had been granted under the Share Option Scheme.

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

Save as disclosed in the paragraph headed "Share Option Schemes" above, at no time during the year were there rights to acquire benefits by means of the acquisition of Shares in or debenture of the Company granted to any Directors or their respective spouse or minor children (natural or adopted), or were such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## **TAX RELIEF AND EXEMPTION**

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

## **PURCHASE, SALES AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

Since the Listing Date, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year under review.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly subsisted at the year-end or at any time during the year.

## **CORPORATE GOVERNANCE**

The Company's corporate governance principles and practices are set out in the section headed "Corporate Governance Report" on pages 14 to 18 of this report.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate turnover attributable to the Group's largest customer and five largest customers accounted for approximately 25% and 58% of the Group's total turnover for the year respectively.

The aggregate purchase attributable to the Group's largest supplier and five largest suppliers accounted for approximately 19% and 40% of the Group's total purchases of the year respectively.

None of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

## **PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the latest practicable date prior to the issue of this report.

## AUDITORS

The consolidated financial statements were audited by Baker Tilly Hong Kong Limited- Certified Public Accountants who will retire and, being eligible, offer themselves for re-appointment at the 2006 Annual General Meeting.

A resolution will be submitted to the 2006 Annual General Meeting to re-appoint them as auditors of the Company.

On behalf of the Board

**Fortune Sun (China) Holdings Limited**

**Mr. Chiang Chen Feng**

*Chairman*

Hong Kong, 24 April 2007