

Report of the Directors ■■■■

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, 2006.

RESTRUCTURING OF THE GROUP

Provisional Liquidators who were appointed on 17th June, 2004 were discharged on 20th September, 2006.

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. On 20th October, 2006, following the completion of the Restructuring Proposal including the Capital Reorganisation, the Subscription, the Creditors' Schemes, the Acquisition, the Placing and the Group Reorganisation, the shares of the Company resumed trading in the Stock Exchange.

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, hotel investment and operation and securities investment and trading. Particulars of the Company's principal subsidiaries are shown under Note 34 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 16 to 51.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated deficit of approximately HK\$17.2 million at 31st December, 2006 be carried forward.

PROPERTY, PLANT AND EQUIPMENT

A hotel, previously classified as investment property owned by a subsidiary of the Company was revalued at HK\$77 million. The increase in fair value of investment properties amounted to HK\$2.2 million, which has been recognised directly to the consolidated income statement for the year ended 31st December, 2006 in accordance with Hong Kong Accounting Standard 40.

Details of movements in property and equipment, investment properties and land use rights during the year are set out in Notes 17, 18 and 19 respectively, to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Company during the year are set out in Note 28 to the consolidated financial statements.

RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group during the year are set out in Note 30 to the consolidated 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 19 of this annual report.

DIRECTORS

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

Executive directors

Mr. Lee Sammy Sean (<i>Chairman</i>)	(Appointed on 13th October, 2006)
Mr. Chan Wai Hung	
Mr. Mo Ka Yin, Kenneth	(Appointed on 13th October, 2006)
Mr. Pang Ho Chuen, Lawrence	

Independent non-executive directors

Mr. Chan Chi Shing, Paul	(Appointed on 13th October, 2006)
Mr. Kwee Chong Kok, Michael	(Appointed on 13th October, 2006)
Mr. Lo Wai Keung, Peter	(Appointed on 13th October, 2006)

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

The terms of office of independent non-executive directors are subject to the retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

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

SHARE OPTION SCHEME

Details of the share option scheme are set out in Note 29 to the consolidated financial statements.

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, 2006 and up to the date of this report.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

As at 31st December, 2006, 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.

DIRECTOR'S INTEREST IN SHARES

As at 31st December, 2006, the interests and short positions of the directors of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained 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, were as follows:

Long positions in shares of the Company

Name of director	Number of issued shares	Percentage holding
Lee Sammy Sean	148,069,224	66.08%

Note: These shares were held by Mastermind Assets Management Limited, whose entire issued share capital of which is beneficially owned by Mr. Lee Sammy Sean.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2006, 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 SFO.

Long positions in shares of the Company

Name of shareholder	Number of issued shares	Percentage holding
Mastermind Assets Management Limited	148,069,224	66.08%

Note: These shares were held by Mastermind Assets Management Limited, whose entire issued share capital of which is beneficially owned by Mr. Lee Sammy Sean.

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, 2006.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company were appointed on 13th October, 2006 namely Mr. Chan Chi Shing, Paul, Mr. Kwee Chong Kok, Michael and Mr. Lo Wai Keung, Peter.

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors are independent to the Company.

CONNECTED TRANSACTIONS

Subscription Agreement

Pursuant to a subscription agreement dated 23rd March, 2005 (as amended by the Supplemental Subscription Agreement on 29th May, 2006) entered into between the Company and Mastermind Assets Management Limited ("Mastermind"), a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is beneficially owned by Mr. Lee Sammy Sean, a director of the Company, Mastermind agreed to subscribe for, and the Company agreed to allot and issue shares to Mastermind on completion of the subscription subject to the terms and conditions contained therein.

As disclosed in the announcement on 17th October, 2006, all the conditions precedent to the subscription agreement have been fulfilled, and completion of the subscription took place on 13th October, 2006. Accordingly, Mastermind has subscribed for a total of 148,069,224 Adjusted Shares at a total subscription price of approximately HK\$148.0 million.

Placing Agreement

Pursuant to the placing agreement dated 29th May, 2006 entered into between the Company, Tai Fook Securities Company Limited ("Independent Placing Agent") and Mastermind Assets Management Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is beneficially owned by Mr. Lee Sammy Sean, a director of the Company, the Independent Placing Agent agreed to place of the Adjusted Shares and Mastermind agreed to underwrite the Adjusted Shares.

As disclosed in the announcement on 17th October, 2006, all the conditions precedent to the placing agreement have been fulfilled, and completion of the placing took place on 13th October, 2006. Accordingly, the Independent Placing Agent has placed a total of 53,600,000 Adjusted Shares to the independent placees at a total placing price of approximately HK\$53.6 million. The amount received by the Company is total placing price net of commissions, fees and expenses in relation to the Placing.

Kingfund Acquisition

On 18th November, 2005, City Joint Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company, Mastermind Assets Management Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is beneficially owned by Mr. Lee Sammy Sean, a director of the Company, the Provisional Liquidators of the Company and the Company entered into a conditional acquisition agreement ("Kingfund Acquisition") to acquire the share capital of Kingfund Corporation Limited, a company incorporated in Hong Kong with limited liability at a nominal cash consideration of HK\$1. It is an investment holding company. It has entered into the Provisional Agreements and the Pre-Sale Contracts for the acquisition of three residential properties in Mainland China.

As disclosed in the announcement on 17th October, 2006, the Kingfund Acquisition has been approved from the Independent Shareholders of the Company at the Special General Meeting held on 1st August, 2006, and all conditions for resumption of trading in shares of the Company have been fulfilled. The Kingfund Acquisition has been completed.

EMPLOYEES AND EMOLUMENT POLICY

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.

A Remuneration Committee is set up for reviewing the emolument policy and structure for all remuneration of the executive directors of the Company, having regard to the Group's operating results, duties and responsibilities, and individual performance. The emolument policy of the independent non-executive directors is decided by the board of directors with reference to their duties and responsibilities with the Company. The remuneration of all directors is reviewed on an annual basis.

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 29 to the consolidated financial statements.

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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

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

SUBSIDIARIES

During the year under review, certain subsidiary of the Group has acquired 100% interest of two companies, both of which are incorporated in Hong Kong, which owned a hotel property in Hong Kong and properties situated in Mainland China respectively. Please refer to Note 31 to the consolidated financial statements for more details.

Particulars of the Company's subsidiaries are set out in Note 34 to the consolidated financial statements.

AUDITORS

The accompanying financial statements have been audited by Patrick Ng & Company 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

Lee Sammy Sean

Chairman

Hong Kong, 25th April, 2007