

## 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, 2001.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. During the year ended 31st December, 2001, the Company's subsidiaries and associates were principally engaged in property investment and development, financial services, telecommunications and internet businesses. Subsequent to the year end, the Group ceased its telecommunications and internet businesses.

The Group's turnover by principal activity and by geographical location, together with their respective contributions to profit (loss) after taxation for the year ended 31st December, 2001 is analysed as follows:

14

	Turnover	Profit (Loss)
	<i>HK\$'000</i>	<i>after taxation</i>
		<i>HK\$'000</i>
a. By principal activity –		
Property investment and development	292,085	(628,396)
Hotel operations	940	(14,690)
Financial services	7,461	(29,059)
Telecommunications services	159,938	(7,203)
Internet services	14,982	9,383
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	475,406	(669,965)
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*Report of the Directors (Cont'd)*

**PRINCIPAL ACTIVITIES (Cont'd)**

	Turnover HK\$'000
b. By geographical location –	
Hong Kong	316,859
United States of America	63,443
Canada	90,627
Mainland China	4,477
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	475,406
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No analysis of loss after taxation by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

**MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2001, the five largest customers accounted for approximately 58.27% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 21.38% of the Group's total purchases. In addition, the largest customer accounted for approximately 48.38% of the Group's turnover while the largest supplier to the Group accounted for approximately 8.55% of the Group's total purchases.

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

*Report of the Directors (Cont'd)***RESULTS AND APPROPRIATIONS**

Details of the Group's results for the year ended 31st December, 2001 are set out in the consolidated income statement on page 26 of this annual report.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated deficit of approximately HK\$2,252,049,000 at 31st December, 2001 be carried forward.

**SHARE CAPITAL**

Details of movements in share capital of the Company are set out in Note 27 to the accompanying financial statements.

**RESERVES AND ACCUMULATED DEFICIT**

Movements in reserves of the Group and the Company during the year are set out in Note 29 to the accompanying financial statements. Movements in accumulated deficit of the Group during the year are set out in the consolidated income statement on page 26 of this annual report.

As at 31st December, 2001, the Company's reserves of approximately HK\$160,670,000 (subject to provisions under the Companies Act 1981 of Bermuda) were available for distribution to the Company's shareholders.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

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, 2001 and up to the date of this report.

**PRE-EMPTIVE RIGHTS**

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

**SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's subsidiaries and associates are set out in Notes 16 and 17 to the accompanying financial statements.

*Report of the Directors (Cont'd)*

**PROPERTIES AND EQUIPMENT, INVESTMENT PROPERTIES AND DEVELOPMENT PROPERTIES**

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 accompanying financial statements.

**INTEREST CAPITALISED**

During the year ended 31st December, 2001, the Group capitalised interest expenses of approximately HK\$84,890,000 under development properties.

**BANK BORROWINGS**

Particulars of bank borrowings as at 31st December, 2001 are set out in Notes 21 and 24 to the accompanying financial statements.

**RETIREMENT SCHEMES**

Details of the retirement schemes are set out in Note 34 to the accompanying financial statements.

**SUBSEQUENT EVENTS**

Details of subsequent events are set out in Note 36 to the accompanying financial statements.

**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

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

**Executive directors**

Mr. Wei Wu	(Appointed on 29th January, 2002)
Mr. Qian Yong Wai	(Appointed on 29th January, 2002)
Mr. He Hui Min	(Appointed on 29th January, 2002)
Mr. Siu King Nin, Peter	(Appointed on 22nd October, 2001)
Mr. Wong Kwan	(Resigned on 29th January, 2002)
Mr. Yuen Hon Ming, Edwin	(Resigned on 20th October, 2001)
Mr. Wong Wai Hay	(Resigned on 29th January, 2002)

*Report of the Directors (Cont'd)*

**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)**

**Non-executive director**

Mr. Wei De Zhong	(Appointed on 29th January, 2002)
Mr. Chiang Ho Wai	(Appointed on 29th January, 2002)
Ms. Tsui Yan Ting, Jennifer	(Resigned on 20th April, 2001)

**Independent non-executive directors**

Mr. Leung Tze Hang, David	(Appointed on 19th October, 2001)
Mr. Lai Si Ming	(Appointed on 9th May, 2002)
Mr. Wen, Carson	(Resigned on 19th October, 2001)
Mr. Wong Yau Kuen	(Resigned on 29th January, 2002)

In accordance with clause 86(2) of the Company's Bye-laws, Messrs Wei Wu, Qian Yong Wai, He Hui Min, Wei De Zhong, Chiang Ho Wai and Lai Si Ming shall hold office until the forthcoming annual general meeting and will retire and, being eligible, will offer themselves for re-election. Messrs Siu King Nin, Peter and Leung Tze Hang, David 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.

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).

*Report of the Directors (Cont'd)*

**DIRECTORS' INTERESTS IN SHARES**

As at 31st December, 2001, 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:

(i) **The Company**

Name	Note(s)	Number of shares	Percentage of shares outstanding
Mr. Wong Kwan	<i>a &amp; b</i>	6,731,659,112	50.17%

*Notes:*

- a. Charcon Assets Limited held 6,694,810,390 shares of the Company. The entire issued share capital of Charcon Assets Limited is beneficially owned by Mr. Wong Kwan. These interests of Mr. Wong Kwan in such shares are accordingly "corporate interests" as described in Practice Note 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
- b. Mr. Wong Kwan held 36,848,722 shares of the Company. These interests of Mr. Wong Kwan are "personal interests" as described in Practice Note 5 of the Listing Rules.

(ii) **Subsidiary – Pearl Glorious Investment Limited**

Mr. Wong Kwan held 198 non-voting deferred shares at par value of HK\$100,000 each in Pearl Glorious Investment Limited, which are subject to an option granted to Pearl Oriental (B.V.I.) Limited to purchase the said non-voting deferred shares for a consideration of HK\$1 each, exercisable within a period of ten years from 23rd September, 1993.

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, 2001.

*Report of the Directors (Cont'd)*

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE**

On 30th December, 1993, the Company adopted a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company. Details of the scheme are set out in Note 28 to the accompanying financial statements. As at 31st December, 2001, Mr. Wong Kwan were granted share options to subscribe for 25,000,000 shares respectively in the Company at HK\$0.234 per share exercisable during the period from 1st July, 2000 to 30th June, 2002.

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' INTERESTS IN CONTRACTS**

No 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, 2001, the following entities (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
Charcon Assets Limited	6,694,810,390	49.89%

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, 2001.

*Report of the Directors (Cont'd)***MANAGEMENT CONTRACTS**

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

**CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice 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 are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws.

**AUDIT COMMITTEE**

In line with the requirements set by The Stock Exchange of Hong Kong Limited, the Group set up its audit committee in June 1999. The committee consists of two independent non-executive directors, Mr. Leung Tze Hang, David as Chairman and Mr. Wong Yau Kuen as member. Subsequent to the resignation of Mr. Wong Yau Kuen as independent non-executive director, Mr. Lai Si Ming was appointed independent non-executive Director on 9th May, 2002. The scope of the audit committee's responsibilities is defined and approved by the Directors in relation to various internal control and audit matters with a view to further improving our corporate governance.

**SUMMARY OF FINANCIAL INFORMATION**

A summary of the Group's financial information for the last five financial years is set out on page 4 of this annual report.

*Report of the Directors (Cont'd)*

**AUDITORS**

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co, which do not seek re-appointment upon their retirement at the forthcoming annual general meeting. A resolution for the appointment of PricewaterhouseCoopers as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

**Wei Wu**

*Chairman*

Hong Kong, 17th May, 2002.