Sunny Global Holdings Limited

新怡環球控股有限公司

(incorporated in Bermuda with limited liability)

2005

Interim Report

INTERIM RESULTS

The board of directors (the "Board") of Sunny Global Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 March 2005 together with comparative figures for the corresponding period in 2004.

CONSOLIDATED INCOME STATEMENT

		For the six months ended 31 March	
		2005	**2004**
		(Unaudited)	*(Unaudited)*
	Notes	*HK$'000*	*HK$'000*
Turnover	3	32,026	102,193
Cost of sales		(31,292)	(120,888)
Gross profit/(loss)		734	(18,695)
Other revenue		24	43
Administrative expenses		(9,821)	(9,074)
Distribution costs		(308)	(3,297)
Operating loss		(9,371)	(31,023)
Finance costs		(146)	(88)
Loss before taxation	4	(9,517)	(31,111)
Taxation	5	—	—
Loss after taxation		(9,517)	(31,111)
Profit on disposal of subsidiaries	3	—	20,534
Loss before minority interests		(9,517)	(10,577)
Minority interests		200	—
Loss for the period		(9,317)	(10,577)
		HK cents	*HK cents*
Loss per share - Basic	7	(0.9)	(2.6)

CONSOLIDATED BALANCE SHEET

	Notes	31 March 2005 (Unaudited) HK$'000	30 September 2004 (Audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	11,812	10,607
Goodwill	9	45,848	26,305
		57,660	36,912
Current assets			
Inventories		5,064	2,838
Trade receivables, other receivables and deposits	10	52,802	49,633
Cash at banks		28,325	54,920
		86,191	107,391
Current liabilities			
Short term loans		4,811	3,113
Obligations under a finance lease		73	125
Trade and other payables	11	35,195	28,636
		40,079	31,874
Net current assets		46,112	75,517
Total assets less current liabilities		103,772	112,429
Minority interests		736	—
Non-current liabilities			
Obligations under a finance lease		—	10
Net assets		103,036	112,419
CAPITAL AND RESERVES			
Share capital	12	103,000	103,000
Reserves		36	9,419
Shareholders' funds		103,036	112,419

CONDENSED CONSOLIDATED CASHFLOW STATEMENT

	For the six months ended 31 March	
	2005	**2004**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Net cash used in operating activities	(1,385)	(47,667)
Net cash (used in)/from investing activities	(26,847)	14,947
Net cash from/(used in) financing activities	1,637	(63)
Net decrease in cash at banks	(26,595)	(32,783)
Cash at bank at 1 October	54,920	48,809
Cash at bank at 31 March	28,325	16,026

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Assets revaluation reserve	Merger reserve	Exchange reserve	Statutory reserve fund	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2003	41,200	4,020	1,333	8,390	(138)	290	16,850	71,945
Issue of new shares by way of rights issue	61,800	—	—	—	—	—	—	61,800
Share issue expenses	—	(646)	—	—	—	—	—	(646)
Disposal of land and buildings	—	—	(220)	—	—	—	220	—
Revaluation surplus on land and buildings	—	—	498	—	—	—	—	498
Exchange difference	—	—	—	—	159	3	128	290
Loss attributable to shareholders	—	—	—	—	—	—	(21,468)	(21,468)
At 30 September 2004 and 1 October 2004	103,000	3,374	1,611	8,390	21	293	(4,270)	112,419
Exchange difference	—	—	—	—	(66)	—	—	(66)
Loss for the period	—	—	—	—	—	—	(9,317)	(9,317)
At 31 March 2005	103,000	3,374	1,611	8,390	(45)	293	(13,587)	103,036

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements (“interim financial statements”) are unaudited and have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and complied with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 30 September 2004.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2004.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively, the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005 and would therefore be effective for the Group’s financial statements for the year ending 30 September 2006. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SEGMENT INFORMATION

The analysis of segment revenue and results by geographical segment is based on the countries in which the customers are located. An analysis of the Group's segment revenue and results for the six months ended 31 March 2005 and 2004 by geographical segment is as follows:

	Europe	The People's Republic of China (the "PRC")	United States of America	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Segment revenue:					
Sales to external customers	**—**	**11,268**	**—**	**20,758**	**32,026**
Segment results	**—**	**(1,176)**	**—**	**(8,242)**	**(9,418)**
Bank interest income					**47**
Finance costs					**(146)**
Loss before taxation					**(9,517)**
Taxation					**—**
Loss before minority interests					**(9,517)**
Minority interests					**200**
Loss for the period					**(9,317)**
2004					
Segment revenue:					
Sales to external customers	71,916	13,386	6,540	10,351	102,193
Segment results	(22,191)	(3,663)	(2,018)	(3,194)	(31,066)
Bank interest income					43
Finance costs					(88)
Loss before taxation					(31,111)
Taxation					—
Loss after taxation					(31,111)
Gain on disposal of subsidiaries *(Note)*					20,534
Loss for the period					(10,577)

Note: During the period, the Group had entered into agreements with independent third parties for the disposal of two subsidiaries and recorded an aggregate gain of approximately HK$20.5 million.

The following table presents revenue, results and certain assets and liabilities information for the Group's business segments for the period ended 31 March 2005 and 2004:

	Information technology business		Leisure and athletic footwear		Total	
	2005 *HK$'000*	**2004** *HK$'000*	**2005** *HK$'000*	**2004** *HK$'000*	**2005** *HK$'000*	**2004** *HK$'000*
By principal activity:						
Revenue	21,105	3,039	10,921	99,154	32,026	102,193
Segment results	(8,329)	(195)	(1,089)	(30,871)	(9,418)	(31,066)
Bank interest income					47	43
Finance costs					(146)	(88)
Loss before taxation					(9,517)	(31,111)
Taxation					—	—
					(9,517)	(31,111)
Gain on disposal of subsidiaries					—	20,534
Loss before minority interests					(9,517)	(10,577)
Minority interests					200	—
Loss for the period					(9,317)	(10,577)

	As at 31 March 2005 *HK$'000*	**As at 30 September 2004** *HK$'000*	**As at 31 March 2005** *HK$'000*	**As at 30 September 2004** *HK$'000*	**As at 31 March 2005** *HK$'000*	**As at 30 September 2004** *HK$'000*
Segment assets	109,421	24,005	33,879	120,298	143,300	144,303
Segment liabilities	23,412	15,425	16,116	16,459	39,528	31,884

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 31 March	
	2005	**2004**
	HK$'000	*HK$'000*
Depreciation	610	719
Amortisation	5,825	3,288
Loss on disposal of fixed assets	41	—

5. TAXATION

No Hong Kong profits tax and overseas income tax has been provided in the financial statements as the Group did not derive any assessable profit or income for the period.

No provision for deferred tax has been made in the financial statements as there are no material temporary differences.

6. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the six months ended 31 March 2005 (six months ended 31 March 2004: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the period of HK$9,317,000 (2004: HK$10,577,000) and on 1,030,000,000 (2004: weighted average of 412,000,000) ordinary shares in issue during the period.

The weighted average number of shares used to calculate the loss per share for the six months ended 31 March 2004 included the additional 12,000,000 shares issued upon the exercise of share options granted to certain employees of the Group during the period from 30 May 2003 to 23 June 2003.

No diluted loss per share is presented as there were no potential ordinary shares in issue.

8. PROPERTY, PLANT AND EQUIPMENT

	Group
	(Unaudited)
	HK$'000
Cost or valuation	
At 1 October 2004	13,974
Additions	1,856
Disposal	(409)
At 31 March 2005	15,421
Accumulated depreciation	
At 1 October 2004	3,367
Charge for the period	610
Written back on disposal	(368)
At 31 March 2005	3,609
Net book value	
At 31 March 2005	11,812
At 30 September 2004	10,607

9. GOODWILL

	As at 31 March 2005 *(Unaudited)* *HK$'000*	**As at 30 September 2004** *(Audited)* *HK$'000*
Carrying value at 1 October	26,305	32,882
Acquisition of subsidiaries	25,368	—
Charge for the period/year	(5,825)	(6,577)
	45,848	26,305

Goodwill is amortised on a straight-line basis over its estimated useful life of five years.

10. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

The Group's policy is to allow an average credit period of 30 to 60 days to its trade customers in footwear business and of 1 to 2 years to its customers in the information technology business.

The ageing analysis of the trade receivables is as follows:

	As at 31 March 2005 *(Unaudited)* *HK$'000*	**As at 30 September 2004** *(Audited)* *HK$'000*
0-30 days	21,166	20,126
31-60 days	431	38
61-90 days	383	296
91-180 days	361	543
Over 180 days	4,147	901
Trade receivables	26,488	21,904
Other receivables and deposits	26,314	27,729
	52,802	49,633

11. TRADE AND OTHER PAYABLES

The ageing analysis of the trade payables is as follows:

	As at 31 March 2005 *(Unaudited)* *HK$'000*	**As at 30 September 2004** *(Audited)* *HK$'000*
0-30 days	20,019	13,740
31-60 days	32	1,479
61-90 days	20	597
91-180 days	135	646
Over 180 days	674	851
Trade payables	20,880	17,313
Other payables	14,315	11,323
	35,195	28,636

12. SHARE CAPITAL

	As at 31 March 2005 (Unaudited) HK$'000	As at 30 September 2004 (Audited) HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	500,000	500,000
Issued and fully paid:		
1,030,000,000 (2004: 1,030,000,000) ordinary shares of HK$0.10 each	103,000	103,000

13. Post Balance Sheet Event

On 31 March 2005, Fortress Ocean Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with Jade Paradise Limited for the disposal of the entire issued share capital of, and a shareholder's loan due from, Kaitai United Company Limited (the so-called "Kaitai Group") at an aggregate consideration of HK$12,892,087. The condition precedents of the Agreement were completed on 31 May 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating and Financial Review

During the period under review, the Group recorded a turnover of approximately HK$32.0 million, representing a decrease of around 69% as compared to the previous period of HK$102.2 million. It is attributable to the implementation of a prudent strategy in marketing effort under the footwear business division regarding the volatility of raw materials and shortage of skillful labors.

In response to the adverse situation in the footwear business, the Group has been diversifying into the information technology ("IT") business since the last financial year. For the six months period ended 31 March 2005, there was an approximately 6 folds growth of turnover in the IT segment while this business section was underlying an around 66% of the Group's turnover.

The following table provides analysis of the Group's revenue by geographical market and business segmentation:

	For the six months ended 31 March 2005		For the six months ended 31 March 2004		Percentage of change Yr. to Yr.
	HK$'000	*%*	*HK$'000*	*%*	*%*
Footwear Business					
Europe	—	—	71,916	73	—
United States of America	—	—	6,540	7	—
the PRC	10,783	99	10,347	10	4
Others	138	1	10,351	10	(99)
Sub-total	10,921	100	99,154	100	(89)
IT Business					
Hong Kong & the PRC	21,105		3,039		600
TOTAL	32,026		102,193		(69)

Throughout the period, the gross profit margin recovered from (42.5)% to 2.3% in reflection of the implementation of a tighten policy in acquiring footwear trading business with an acceptable rate of return and the contribution from the IT division.

Due to the decline in sales volumes of the footwear business and the growth in the selling and general administration costs in the IT business stream regarding the diversification of the revenue sources, the net profit margin gave a figure of negative 29%. However, approximately 63.5% of the operating expenses (i.e. HK$6.4 million) was non-cash expenditure items whereas they represented depreciation and amortization of both tangible and intangible assets including those newly acquired subsidiaries.

The Group has recorded a loss attributable to shareholders amounted to approximately HK$9.3 million or a loss of HK$0.9 cent per share because of implementing a conservative strategy in the footwear business and the expansion of the IT business division.

New Business

As disclosed in the latest annual report, the Group has acquired two IT companies, Excel Star Technology Limited and Popular Asset Limited during this period.

Outlook

As disclosed, the Group is encountering envisaged challenges in the near future.

Regarding the footwear business, the industry is still undergoing a tough period under such an adverse market sentiment. It is expected that the volatility of crude oil at high level price retains an expensive raw material costs for manufacturing and production. Along with the overheating economy in the PRC, shortage of skillful labors and upsurge in labors cost is anticipated to be a major factor to jeopardize the profit margin of the Group in the medium term. As a result, the Group resolved to dispose the manufacturing arm, Kaitai Group, of the Group after the balance sheet date in order to attain a cost-effective structure. With respect to the recent trade disputes on export between Europe and the PRC as well as the keen competition among the industry, the Group will inevitably continue the implementation of conservative strategy to slow down its marketing effort until certainty and a tighten policy in acquiring footwear trading transactions with an acceptable rate of return. The Group will closely monitor and from time to time review it strategies in implementing for the footwear business to cope with the market sentiment.

Regarding the IT business, the division is still undergoing its development stage while the Group will take more effort to establish a solid IT business platform so that it will ultimately generate stable revenue to the Group. Meanwhile, the management will review the existing IT portfolio and monitor the cost structure for expansion periodically while implementing suitable strategy to allocate the resources. Given the potential of the IT market in the PRC and Hong Kong, the Group will implement an inorganic growth strategy in actively exploring any business opportunities with good prospect to enhance the IT business operation. The management is vigorously identifying any potential acquisitions for the Group. If any of the investment is materialized, the Company will make appropriate disclosure and/or obtain shareholders' approval in accordance to the provisions of the Listing Rules.

The Group will be very cautious in allocating its resources and will keep on exploring other suitable business opportunities and diversifying its investment to other potential industries with favorable investment return and prospect.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group maintained cash and bank balances of approximately HK$28.3 million (30 September 2004: HK$54.9 million) and total borrowings of approximately HK$4.9 million (30 September 2004: HK$3.2 million) that are repayable within one year. Post-balance sheet date of the six months ended 31 March 2005, the Group has disposed the Kaitai Group whereas the amount of borrowings are expected to be reduced substantially.

The gearing ratio of the Group as of 31 March 2005 was 4.7% (30 September 2004: 2.8%) stemming from the Group's total borrowings of approximately HK$4.9 million (30 September 2004: HK$3.2 million) and the shareholders' fund of approximately HK$103.0 million (30 September 2004: HK$112.4 million). The gearing ratio was increased from 2.8% to 4.7% as a result mainly of the loss for the period of HK$9.3 million. However, the gearing ratio is expected to be further improved after the disposal of the Kaitai Group.

As of 31 March 2005, the Group's working capital (i.e. net current assets) and current ratio were approximately HK$46.1 million (30 September 2004: HK$75.5 million) and 2.2x (30 September 2004: 3.4x) respectively. With respect to the quality of the current assets, over 32.8% of the current assets are cash at bank.

The cash and bank balances are considered sufficient to provide adequate liquidity and capital resources for the Group's operating requirements.

TREASURY POLICY

The Group generally finances its operations with internally generated cash flows and short-term loans. As at 31 March 2005, all of the Group's short-term loans of approximately HK$4.8 million (30 September 2004: HK$3.1 million) were interest bearing at fixed rates and were denominated in Renminbi. The total indebtedness was accounted for 3.3% (30 September 2004: 2.7%) of the total assets. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditure.

FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in US dollars and Renminbi. Exchange rates between these currencies with Hong Kong dollars were pegged with fixed rate and relatively stable during the period under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 March 2005, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$1.9 million (30 September 2004: HK$1.9 million) have been pledged to a bank for securing bank loan granted to the Group.

The Group had no significant contingent liabilities as at 31 March 2005 (30 September 2004: Nil).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 31 March 2005.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 12 June 2002. During the period, no share option was granted or exercised under the Scheme.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL

As at 31 March 2005, the interests and short positions of the directors and chief executive 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 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, were as follows:

Long positions in the shares of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Mr. Lee Man Fa	Corporate	302,500,000	29.37%

Note: The 302,500,000 shares referred to above comprise 196,792,000 shares and 105,708,000 shares held by Info Fortune Holdings Limited and Rainbow Bridge Group Limited respectively, both of which are wholly owned by Mr. Lee Man Fa.

Save as disclosed above, as at 31 March 2005, none of the directors nor their associates (as defined under the Listing Rules) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDER

As at 31 March 2005, according to the register of interests required to be kept by the Company under Section 336 of the SFO, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Info Fortune Holdings Limited	Beneficial owner *(Note)*	196,792,000	19.11%
Rainbow Bridge Group Limited	Beneficial owner *(Note)*	105,708,000	10.26%
Grandtech Management Limited	Beneficial owner	160,544,458	15.59%
Win Power Limited	Beneficial owner	151,060,000	14.67%

Note: Both Info Fortune Holdings Limited and Rainbow Bridge Group Limited are wholly owned by Mr. Lee Man Fa.

Save as disclosed above, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO at 31 March 2005.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (in force prior to 1 January 2005) set out in Appendix 14 of the Listing Rules throughout the six months ended 31 March 2005, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code of Best Practice, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry of all directors, confirmed that all directors have complied with the required standard of dealings set out therein throughout the six months ended 31 March 2005.

AUDIT COMMITTEE

The Company has established an Audit Committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. The Audit Committee comprises three members namely Mr. Leung Sai Cheong, Mr. Liu Kwok Wah and Mr. Wong Chi Chung, the independent non-executive directors of the Company.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed with management in respect to the financial reporting matters, including a review of the unaudited interim accounts of the Group for the period, who are of the opinion that such statements comply with the applicable accounting standards and the Listing Rules and that adequate disclosure have been made.

On behalf of the Board
Lee Man Fa
Chairman

Hong Kong, 28 June 2005