On behalf of the board of directors of the Company, we hereby present the operating results of Sunny Global Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 30 September 2003.

FINANCIAL RESULTS

Turnover of the Group for the year ended 30 September 2003 was approximately HK$297.3 million, representing a decrease of approximately 31.4% as compared to that of the previous year. The Group recorded a loss attributable to shareholders amounted to approximately HK$4.2 million, compared with an attributable profit of approximately HK$34.3 million in the previous year.

BUSINESS REVIEW

The Group is principally engaged in the design, manufacture and sale of a wide range of leisure and athletic footwear. The Group's products are manufactured under its own design and are either sold on an ODM basis, i.e. without designated brand names or labeled with the customers' brand names, or under the Group's own brand name "Nymis", which has over 10 years' history in the PRC.

It was a very challenging and difficult year for the Group. The results of the Group were adversely affected as a result of the outbreak of the Severe Acute Respiratory Syndrome (the "SARS") as well as the war between the US and Iraq. Travel plans to and from the PRC were suspended during the outbreak period which slow down the product development and merchandising process. Sales to the European market decreased by approximately 33.8% and constituted approximately 77.6% of the Group's total turnover. The US market accounted for approximately 6.9% of the Group's total turnover, representing about 39.5% decrease as compared with the previous year. Sales to the PRC market increased by approximately 42.8% and accounted for approximately 5.8% of the Group's total turnover. The remaining 9.8% of sales was shared between Asia, Australia and South America, representing about 25.8% decrease as compared with the previous year.

Gross profit of the Group dropped significantly from approximately 11.3% to 6.8% as a result of the keen competition from competitors that the Group faced a great pressure on the price of its products. The consumption willingness of the ultimate customers was further affected by the outbreak of SARS in the second half of the financial year.

Distribution costs of the Group increased by approximately 374.3% as a result of putting more resources to promote its products to existing and potential customers, to strengthen its relationship with the customers, to obtain valuable information on customers' requirements and the prevalent market trend, and to explore new markets and business opportunities within the footwear industry.

In response to the market changes and the keen competition within the footwear industry, the Group diversified its existing business by expanding into information technology business through acquisition of the entire issued share capital of Chinaway Network Technology Limited ("Chinaway") on 30 September 2003.

Chinaway is principally engaged in the provision of system integration services and the development of information technology infrastructure network for school projects in the PRC. It commenced its service provision in Guizhou Province and engaged subcontractors to provide the required services to the customers. Progress and development of the projects is closely monitored by the management of Chinaway in order to provide high quality services to the customers.

FINANCIAL REVIEW

Liquidity and financial resources

The gearing ratio of the Group as at 30 September 2003 was 0.05 (2002: 0.04) which was calculated based on the Group's total borrowings of approximately HK$3.3 million (2002: HK$3.1 million) and the shareholders' funds of approximately HK$71.9 million (2002: HK$75.5 million).

As at 30 September 2003, the Group had cash and bank balances of approximately HK$48.8 million (2002: HK$44.9 million), which together with the available banking facilities, are considered sufficient to provide adequate liquidity and capital resources for the Group's ongoing operating requirements.

As at 30 September 2003, the Group's net current assets and current ratio were approximately HK$25.1 million (2002: HK$59.0 million) and 1.3 (2002: 2.0) respectively.

Treasury policy

The Group generally finances its operations with internally generated cash flows and short-term loans. As at 30 September 2003, the Group's short-term loans of approximately HK$3.1 million (2002: HK$3.1 million) were interest bearing at fixed rates and were denominated in Renminbi. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditure.

Pledge of assets and contingent liabilities

As at 30 September 2003, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$2.8 million (2002: HK$3.2 million) have been pledged to a bank for securing bank loan granted to the Group.

The Group had no significant contingent liabilities as at 30 September 2003 (2002: Nil).

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 relatively stable during the year 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.

Application of proceeds from new issue

The Group raised approximately HK$24.0 million net of related expenses from the issue of 60 million shares in connection with the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 July 2002. For the year ended 30 September 2003, the Group had applied part of the listing proceeds as follows:–

(i) approximately HK$7.0 million paid as deposit for the expansion of the Group's production facilities;

(ii) approximately HK$5.0 million for marketing and promotion of the Group's products;

(iii) approximately HK$4.0 million for strengthening the Group's product design and development capability and development of new products;

(iv) approximately HK$3.0 million for the establishment of the Group's distribution network in the PRC; and

(v) approximately HK$4.0 million as additional general working capital for the Group.

The balance of the proceeds of about HK$1.0 million has been placed on short-term interest-bearing deposits with banks.

Staff and remuneration policy

The Group determines staff remuneration in accordance with market terms and individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 30 September 2003, the Group employed approximately 740 employees.

The Company maintains a share option scheme (the "Scheme"), pursuant to which share options are granted to selected directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group.

During the year, 12 million option shares were granted and exercised under the Scheme at an average exercise price of HK$0.435 per ordinary share with cash proceeds of approximately HK$5.2 million generated to the Company.

OUTLOOK

In the year ahead, the global atmosphere of the footwear industry will remain highly competitive and challenging. Expansion of the production capacity in the PRC will continue by constructing new factory premises adjacent to the existing production facilities and acquiring additional machinery and equipment for production.

Diversification into the information technology business has broadened the income base of the Group, and will benefit the Group financially through profit contribution. The Group will focus on providing high quality system integration services and complete solutions in developing information technology infrastructure network for school projects in the PRC. As it is the trend that schools in the PRC will be equipped with computer network, the directors expect that the demand for the services offered by Chinaway will increase substantially in the coming few years. The Group will expand the services provision region from Guizhou Province to other provinces such as Guangdong, Hainan, Xinjiang Uygur, Heilongjiang and Liaoning. The Group will also actively look into any business opportunities through strategic acquisition to enhance its information technology business operation and e-education projects.

Looking forward, the Group will be very cautious in allocating its resources and will keep on exploring other suitable business opportunities and diversify its investment to other potential industries with favourable investment return and good prospect.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation and gratitude to all staff for their support, hard work and dedication over the year. I would like to express our sincere thanks to our shareholders, investors and customers for their continued encouragement and strong support to the Group.

Lee Man Fa
Chairman

Hong Kong, 15 January 2004