



SKY HAWK COMPUTER GROUP HOLDINGS LIMITED
天鷹電腦集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 01129

UNAUDITED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

The Board of Directors ("Directors") of Sky Hawk Computer Group Holdings Limited ("Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30th June, 2004 together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004
(Expressed in Hong Kong dollars)

		Six months ended	
		30th June,	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Note</i>	\$'000	\$'000
Turnover	1	30,163	57,160
Cost of sales		(20,869)	(42,090)
		9,294	15,070
Other revenue	2	412	1,347
Distribution costs		(4,669)	(6,979)
Administrative expenses		(1,978)	(3,563)
Profit from operations		3,059	5,875
Finance costs		(107)	(239)
Profit before taxation	3	2,952	5,636
Taxation	4	—	—
Profit attributable to shareholders		2,952	5,636
Dividends	5	—	—
Earnings per share			
Basic	6	0.6 cents	1.4 cents

Notes:

1. **Turnover**
 Turnover represents amounts received and receivable for goods sold during the year, less returns and discounts.

2. **Other revenue**

		Six months ended	
		30th June,	
		2004	2003
		(Unaudited)	(Unaudited)
		\$'000	\$'000
Interest income		3	23
Net gain/(loss) on disposal of fixed assets		48	(47)
Net trading exchange gain		—	224
Gains on disposal of scrap materials		361	1,147
		412	1,347

3. **Profit before taxation**

Profit before taxation is arrived at after charging:

		Six months ended	
		30th June,	
		2004	2003
		(Unaudited)	(Unaudited)
		\$'000	\$'000
(a) Finance costs:			
Interest on bank loans and overdrafts		107	239
(b) Other items:			
Cost of inventories		20,869	42,090
Depreciation of property, plant and equipment		3,632	5,596
Operating lease rentals in respect of properties		1,684	2,793
Research and development costs		1,026	1,278
Staff costs			
— Wages, salaries and benefits		3,835	7,279
— Defined contributions retirement scheme contribution		76	186

4. **Taxation**

Tax on the profits of subsidiaries operating elsewhere, if any, has been calculated at the rates of tax prevailing in their respective jurisdictions for financial reporting purposes.

During the period, no provisions for Taiwan income tax, PRC income tax and Hong Kong profits tax have been made as the Group sustained a loss or no estimated profit for Taiwan, PRC and Hong Kong tax purposes.

No provisions for deferred tax have been made as the effect of all temporary differences is immaterial at the respective balance sheet dates.

5. **Dividends**

The Directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2004 (Six months ended 30th June, 2003: nil).

6. **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$2,952,000 (2003: profit \$5,636,000) and the weighted average of 474,780,220 shares (2003: 415,000,000) ordinary shares in issue during the period, being the shares that would have been in issue throughout the period.

There were no potential dilutive shares in issue for both periods.

7. **Segment information**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) *Business segment*

Throughout the year, the Group has been operating in a single business segment, i.e. the manufacturing and sale of computer peripherals.

(b) *Geographical segments*

In presenting information based on geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

The Group's business is managed on a worldwide basis, with a focus in four major principal economic zones, namely, Europe, Asia Pacific, North America and South Africa.

All segment assets and capital expenditures are in the Greater China area (including the PRC, Hong Kong and Taiwan).

Revenue from external customers

	Six months ended	
	30th June,	
	2004	2003
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Europe	5,681	24,720
Asia Pacific	8,295	17,280
North America	16,187	14,711
South Africa	—	449
	30,163	57,160

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given to the profit contributions from the above geographical locations.

RESULTS

For the six months ended 30th June, 2004, the Group recorded a turnover of approximately HK\$30.16 million, representing a decrease of 47.2% as compared with HK\$57.16 million for the same period of last year. Profit for the Group attributable to shareholders for the corresponding period was dropped by approximately HK\$2.68 million (for the corresponding period of 2003 increased by HK\$1.76 million). Basic and diluted earnings per share for the half year period amounted to 0.6 Hong Kong cents (the six months of ended 30 June, 2003: 1.4 Hong Kong cents).

BUSINESS

Although the global economy showed a sign of slight and steady recovery, the overall aggregate business environment is still full of challenge. The Group has proactively made effort to develop new products in order to gain a higher profit margin. During the period under review, the Group successfully entered into cooperation agreements with various renowned motherboard manufacturers, and began to make shipments in the first half of 2004. As most of the OEM/ODM productions take longer time for development and tests, the relevant sales will be reflected in the results of the second half of 2004.

Although the turnover decreased as compared with the corresponding period of last year, the strengthened cost control, efficient use of production resources and the growth in the relatively more profitable OEM/ODM business of the Group maintained the overall gross profit margin same as the corresponding period of last year.

PC Peripherals

For the first half of 2004, orders for peripherals such as aluminum alloy computer chassis, multi-media speakers and power supply pack products mainly came from OEM customers and distribution agents, and the production capacity of these products represented approximately 60% and 40% of the total turnover. The overall pricing of self-developed brands of personal computer peripherals also fell slightly. Sales for the first half of the year decreased by 47.2% as a result of a general drop in turnover caused by computer manufacturers of DIY market dumping the market with low profit margin and price chassis. For the period, our profit margin was 38.6% (2003: 28.9%).

Networking Products

For the first half of the year, the sales of the networking products amounted to approximately 2% of the turnover of the Group, representing a decrease of 25% due to the decrease of orders and the unsatisfactory unit profit, while gross profit margin was 39% (2003: 24%).

Computer Accessories

Following the cease of production of computer accessories at the end of last year, the Group gradually sold the remaining small quantity of inventories and recorded sales of approximately HK\$6.9 million.

Geographical Analysis

As the Internet develops tremendously and the living standard and the demand for computer products also varies. Our major OEM/ODM customers were large scale motherboard manufacturers from Taiwan and distribution agents in Europe and US. For the first half of 2004, North America, Europe, and Asia Pacific accounted for 53.7%, 18.8% and 27.5% of the Group's sales respectively.

Distribution and Administration Expenses

The Group's administration policies on labour retrenchment, cost reduction and market expansion have attained a satisfactory result. As a result, the total of distribution costs and administration expenses dropped by 36.9% as compared with the corresponding period of last year.

PROSPECTS

The Board of the Company is optimistic towards the production of computer products and will closely scrutinise and keep pace with the development of family PC networking. We will continue to develop and improve personal computer products with mini standard systems and power supply pack products. Thus, our computer products will no longer be restricted by space, making family life more enjoyable and office work more convenient and may achieve the purpose of audio-visual entertainment. As a result, the profitability of the Group is likely to increase.

In respect of sales, the Group will, by improving the overall operating efficiency and training, and through the division of business and regional markets, expand its sales channel, increase profitability, enhance production line management, improve operating efficiency, streamline the structure of our business divisions and adopt cost control policies so as to ensure that the Company will enjoy future market growth and have better performance.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2004, the Group had cash and bank balances of approximately HK\$5.59 million and net current assets of approximately HK\$64.17 million. The Group has consistently maintained a solid working capital base during the period under review. As at 30th June, 2004, the current liabilities of the Group were approximately HK\$39.45 million whilst the Group had outstanding borrowings of approximately HK\$4.06 million. The Group's banking facilities are secured by certain properties of the Group. The gearing ratio (total liabilities to total assets) was 25.4% (as at 31st December, 2003: 28.78%).

USE OF PROCEEDS

The net proceeds from the placing of 80,000,000 shares of the Company in February 2004 amounted to approximately HK\$9.2 million. As at 30th June, 2004, the Group has utilised approximately HK\$6.2 million in sales development and research and development, and approximately HK\$3 million for working capital respectively. The use of proceeds was in line with the disclosure made in the press announcement of the placing of existing shares and subscription of new shares of the Company advertised in the Standard and Hong Kong Economic Times dated 16th February, 2004.

CONTINGENT LIABILITIES

As at 30th June, 2004, the Group did not have any contingent liabilities.

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2004, the Group had approximately 700 employees in the PRC (including Hong Kong and Taiwan) and overseas. During the period under review, the remuneration for the employees amounted to approximately HK\$3.84 million. In order to maintain our competitiveness, the salary and bonus of the staff are based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme and a share option scheme for its staff in Hong Kong, Taiwan and the PRC, the Group has also provided them with various training and development programs.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed with the Directors internal control, auditing and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30th June, 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the six months ended 30th June, 2004 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed Interim Results Announcement containing all the information in respect of the Company required by paragraphs 46(1) to (6) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
Wang Chia Chin
Chairman

Hong Kong, 17th September, 2004