SkyHawk

天鷹電腦集團

SKY HAWK COMPUTER GROUP HOLDINGS LIMITED

天鷹電腦集團控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1129)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board of the directors (the "Board") of Sky Hawk Computer Group Holdings Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005. These interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*
Turnover	2	**33,477**	24,096
Cost of sales		**(21,219)**	(14,955)
Gross profit		**12,258**	9,141
Other operating income		**1,365**	131
Selling and distribution costs		**(6,119)**	(2,811)
Administrative expenses		**(28,628)**	(6,127)
Finance costs		**(306)**	(118)
(Loss)/profit before taxation	4	**(21,430)**	216
Taxation	5	**–**	–
(Loss)/profit for the period		**(21,430)**	216
Attributable to:			
Equity holders of the parent		**(21,185)**	216
Minority interests		**(245)**	–
		(21,430)	216
(Loss)/earnings per share	6		
Basic		**HK (2.35) cents**	HK 0.04 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
Non-current Assets			
Property, plant and equipment		**20,177**	20,991
Intangible assets		**16,163**	2,160
		36,340	23,151
Current Assets			
Inventories	7	**56,962**	43,979
Trade and other receivables	8	**38,939**	48,635
Tax recoverable		**148**	165
Bank balances and cash		**4,972**	4,491
		101,021	97,270
Current Liabilities			
Trade and other payables	9	**31,746**	27,775
Tax payables		**10,461**	10,497
Obligations under finance leases (within 1 year)		**239**	239
Bank borrowings	10	**10,129**	3,898
		52,575	42,409
Net Current Assets		**48,446**	54,861
Assets classified as held for sale		**–**	1,081
		48,446	55,942
Total Assets Less Current Liabilities		**84,786**	79,093
Capital and Reserves			
Share capital	11	**98,450**	73,450
Reserves		**(15,794)**	3,149
Equity attributable to equity holders of the parent		**82,656**	76,599
Minority interests		**1,715**	1,960
Total Equity		**84,371**	78,559
Non-current Liability			
Obligations under finance leases (over 1 year)		**415**	534
		84,786	79,093

NOTES:

1. **Basis of preparation and principal accounting policies**

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2005.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, interpretations and amendments that have been issued but are not yet effective at 30 June 2006. The directors of the Company anticipate that the application of these new standards, interpretations and amendments will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st March 2006.
[3] Effective for annual periods beginning on or after 1st May 2006.
[4] Effective for annual periods beginning on or after 1st June 2006.

2. **Turnover**

Turnover represents the net amounts received and receivable for computer peripherals sold and trading of watches and accessories by the Group to outside customers, less returns and discounts.

An analysis of the Group's turnover is as follows:

	Six months ended 30 June 2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*
Production and sales of computer peripherals	**15,390**	21,000
Trading of watches and accessories	**17,267**	–
Others	**820**	3,096
	33,477	24,096

3. **Segment information**

(a) ***Business segments:***

For management purposes, the Group is currently organised into two operating divisions – production and sales of computer peripherals and trading of watches and accessories. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(a) Production and sales of computer peripherals; and

(b) Trading of watches and accessories.

Segment information about these businesses is presented below:
For the six months ended 30 June (unaudited)

	Production and sales of computer peripherals 2006 *HK$'000*	2005 *HK$'000*	Trading of watches and accessories 2006 *HK$'000*	2005 *HK$'000*	Others 2006 *HK$'000*	2005 *HK$'000*	Total 2006 *HK$'000*	2005 *HK$'000*
Sales to external customers	**15,390**	21,000	**17,267**	–	**820**	3,096	**33,477**	24,096
Segment results	**(16,664)**	393	**714**	–	**22**	11	**(15,928)**	404
Unallocated corporate income							**1,365**	131
Unallocated corporate expenses							**(6,561)**	(201)
Finance costs							**(306)**	(118)
(Loss)/profit before taxation							**(21,430)**	216
Taxation							**–**	–
(Loss)/profit for the period							**(21,430)**	216

(b) ***Geographical segments:***

The Group's operations are located in the PRC and Hong Kong. The Group's trading of watches and accessories division is located in Hong Kong. Production and sales of computer peripherals are carried out in the PRC.

An analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services is as follows:

	Six months ended 30 June 2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*
Europe	**1,649**	4,083
Asia Pacific	**20,198**	5,478
North America	**11,630**	14,535
	33,477	24,096

4. **(Loss)/profit before taxation**

(Loss)/profit before taxation has been arrived at after charging:

	Six months ended 30 June 2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*
Amortisation of intangible assets included in administrative expenses	**700**	350
Allowance for inventories	**15,382**	–
Cost of inventories recognised as expense	**17,782**	12,596
Depreciation of property, plant and equipment	**2,357**	3,807
Loss on disposal of investments held for trading	**1,200**	–
Minimum lease payments under operating leases:		
Factory premises, plant and staff quarters	**2,192**	1,645
Research and development costs	**138**	63
Staff costs including directors' emoluments		
– Wages, salaries and other benefits	**3,580**	2,818
– Defined contributions retirement scheme	**94**	160
Total staff costs	**3,674**	2,978
and after crediting:		
Interest income	**42**	6
Gain on disposal of property, plant and equipment	**1,013**	–

5. **Taxation**

No Hong Kong profits tax is provided as the Group did not have estimated assessable profits for the six months ended 30 June 2006 (2005: Nil).

6. **(Loss)/earnings per share**

The calculation of basic loss per share for the current period is based on the loss for the period attributable to equity holders of the parent of approximately HK$21,185,000 (2005: profit of HK$216,000), and the weighted average of 902,555,556 (2005: 514,800,000) ordinary shares in issue throughout the period.

No diluted loss or earnings per share has been presented as there were no potential ordinary shares in issue in both periods.

7. **Inventories**

	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
Raw materials	**37,542**	24,031
Work in progress	**8,128**	10,713
Finished goods	**26,674**	9,235
	72,344	43,979
Less: allowance for obsolete and slow-moving inventories	**(15,382)**	–
	56,962	43,979

8. **Trade and other receivables**

	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
Trade receivables	**22,309**	30,401
Other receivables	**16,154**	12,234
Deposit paid	**476**	6,000
	38,939	48,635

The Group allows an average credit period of 30 days to 180 days given to the customers.

An aged analysis of trade receivables at the balance sheet dates, based on invoice date, and net of impairment losses is as follows:

	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
0-30 days	**1,230**	2,811
31-90 days	**13,113**	15,877
91-180 days	**2,063**	1,722
Over 180 days	**5,903**	9,991
	22,309	30,401

The fair values of trade and other receivables at 30 June 2006 approximate to their corresponding carrying amounts.

9. **Trade and other payables**

	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
Trade payables	**21,158**	20,148
Other payables	**10,588**	7,627
	31,746	27,775

An aged analysis of trade payables at the balance sheet dates, based on payment due date is as follows:

	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
0-30 days	**9,273**	10,190
31-90 days	**3,991**	7,034
91-180 days	**2,411**	2,124
Over 180 days	**5,483**	800
	21,158	20,148

The fair values of trade and other payables at 30 June 2006 approximate to their corresponding carrying amounts.

10. **Bank borrowings**

	At 30 June 2006 (unaudited) *HK$'000*	At 31 December 2005 (audited) *HK$'000*
Secured bank borrowings repayable within one year	**10,129**	3,898

The bank borrowings were secured by land and buildings of the Group, guarantees of the Company and personal guarantees of a director.

11. **Share capital**

	At 30 June 2006		At 31 December 2005	
	Number of shares *million*	**Amount *HK$'000***	Number of shares *million*	Amount *HK$'000*
Authorised capital:				
Ordinary shares of HK$0.1 each	**4,000**	**400,000**	4,000	400,000
Issued and fully paid capital:				
At 1 January	**734.5**	**73,450**	495.0	49,500
Issue of shares by way of private placement *(Note)*	**250.0**	**25,000**	198.0	19,800
Exercise of share options	**–**	**–**	41.5	4,150
At end of period/year	**984.5**	**98,450**	734.5	73,450

Note: On 2 February 2006, a total of 250,000,000 new shares of HK$0.1 each was issued to certain directors of the Company and other independent placees at the placing price of HK$0.11 per share, pursuant to the placing agreement dated 20 December 2005 and made between the Company and a placing agent.

FINANCIAL RESULTS

The consolidated turnover of the Group for the six months ended 30 June 2006 was approximately HK$33,477,000, representing an increase of approximately 39%, as compared to approximately HK$24,096,000 for the corresponding period of last year. Notwithstanding the growth in turnover, the increase was not sufficient to offset the significant surge in operating expenses.

During the six months ended 30 June 2006, the Group's turnover was principally contributed by (i) the computer peripherals business and (ii) the TechnoMarine watch sales and distribution business, which accounted for approximately 46% and 52% respectively of the Group's turnover for such period.

For the six months ended 30 June 2006, the Group recorded a loss of approximately HK$21,430,000 in contrast to a profit of approximately HK$216,000 in the last corresponding period.

Computer Peripherals

For the first six months of 2006, turnover contributed by the sales of computer peripherals amounted to approximately HK$15,390,000 representing a decrease of approximately 27%, as compared to HK$21,000,000 for the corresponding period of last year.

As to geographical segment analysis, North America, Asia Pacific and Europe are still the Group's primary markets. Sales of computer peripherals to North America, Asia Pacific and Europe for the six months ended 30 June 2006 decreased by 20%, 61% and 60% respectively over the last corresponding period.

TechnoMarine Watches

For the first six months of 2006, the turnover contributed from this business segment was approximately HK$17,267,000, which accounted for approximately 52% of the Group's turnover during the period.

Operating Expenses

Selling and distribution costs for the six months ended 30 June 2006 increased by approximately 118% to approximately HK$6,119,000 as compared to that of approximately HK$2,811,000 for the six months ended 30 June 2005. Such increase was in line with the increase in turnover, and attributable to advertising expenses and staff cost in relation to promotion of the TechnoMarine watch business of the Group.

Besides, the administrative expenses for the six months ended 30 June 2006 increased by approximately 367% to approximately HK$28,628,000 as compared to that of approximately HK$6,127,000 for the six months ended 30 June 2005. Such increase was mainly due to the provision of approximately HK$15,382,000 for obsolete and slow-moving stocks and also attributable to (i) the relocation of the Group's factory; (ii) write off/loss on disposal of assembling facilities, plant and equipment during the relocation; and (iii) increase in head count and professional fees for the reinforcement of internal control.

Financial costs for the six months ended 30 June 2006 increased by approximately 159% to approximately HK$306,000 as compared to that of approximately HK$118,000 for the six months ended 30 June 2005. Such increase was attributable to the increase in the Group's average bank borrowings.

BUSINESS REVIEW

Computer Peripherals

The Group continued to face surging price of raw materials and intense competition in the personal computer peripherals market during the first six months of 2006. The cost of sales poses a severe challenge to our Group and remains our Group's major area of concern.

The increase of oil price and commodities price has added pressure to the costs of operation. During the first six months of 2006, the price of personal computer casings' primary raw material - like imported aluminum and plastic – rocketed to a very high level. To compete with other competitors who do not employ imported raw materials, the Group experienced severe price pressure, which in turn squeezed the Group's profit despite the Group's efforts to deploy a more streamlined and costs-effective production and operational management system.

TechnoMarine Watches

The Group had made efforts to expand its distribution channels in order to capture the growth of luxurious watch retail business in the Asia Pacific region and broaden the future income of the Group. The turnover contributed by the business accounted more than half of the total turnover of the Group for the six months ended 30 June 2006, and the business had recorded a small profit over the period.

To further develop the business, the Group adopted a number of development strategies to expand its market presence during the period under review.

The current distribution and retail network of the TechnoMarine brand of luxurious watches and accessories has spanned to Asia Pacific countries/cities.

PROSPECT

Computer Peripherals

As far as the period under review is concerned, the computer peripherals business had raised the management's concern, not only that the business had ceased to be the main contributor to the Group's revenue but also that its profitability had yielded to increasingly ferocious market competition and surging prices of raw materials. The interim results had called for a review of the operational and management strategies, as well as marketing initiatives.

On the cost and expenditure management front, the Group will continue to exercise stringent measures to reduce operating expenses, including its established recycling practice to reduce the Group's reliance on imported raw materials. As to marketing initiatives, the Group will put more focus on identifying and developing business opportunities in China, which is considered to be a fast-emerging market with great economic potential for the business.

In order to improve the performance of the business and to maintain the Group's competitive edge, the Board is in the process of evaluating the merits of outsourcing or sub-contracting the production procedures so that the Group could maintain a tight reign on production cost and product quality as well as streamline the production process.

TechnoMarine Watches

Since the appointment as the exclusive distributor of TechnoMarine watches in the Asia Pacific region effective from January 2006, the Group has put increasing efforts in expanding its market both locally and via various channels in the Asia Pacific region. The prospect of this business segment is positive and promising.

To further build up the Group's presence in the Asia Pacific market, more TechnoMarine image stores will be opened in the near future. For instance, an additional image store will be opened in October 2006. To enhance the profit margin, the Board also intends to enhance and to review the Group's distributing agents and the control system performance.

The Board is confident that the diversification into the watch distribution business will enhance the earning base of the Group which in turn will maximize the shareholders' return in the future.

New Business Opportunities

The Board is presently conducting an overall review of the Group's operations and financial position for the purpose of formulating business plans and strategies for the future business development of the Group. The Board is analyzing the market situation and identifying potential business opportunities which could add good value to the business of the Group and bring synergy to its strategic plan.

All in all, the Group has met some short term increase of costs and net loss. Like all other industries, the Group's performance may be affected by external economic and political factors beyond its control, such as the continuous appreciation of the Renminbi currency and the recent rapid increase in oil price. To face the challenge, the Group will continue to develop its existing businesses while looking for any new business opportunities so as to broaden the income base and to improve the profitability.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group's cash on hand amounted to approximately HK$4,972,000, net current assets of approximately HK$48,446,000 and total liabilities of approximately HK$52,990,000. The current ratio (being the ratio of current assets to current liabilities) of the Group was 52% (31 December 2005: 44%). Total bank borrowings of the Group amounted to approximately HK$10,129,000, which consisted of short term bank borrowings. The interest rates on the bank borrowings ranged from 4% to 8%. The Group's banking facilities are secured by certain properties of the Group and guarantees of the Company. The gearing ratio (being the ratio of total bank borrowings to total equity) was 12% (31 December 2005: 5%).

The net proceeds from the placing of 250,000,000 shares of the Company on 2 February 2006 amounted to approximately HK$27,000,000. During the period under review, the proceeds had been all utilized by the Group in paying up the exclusive distribution license fee and the purchase of the stock of TechnoMarine watches. The use of proceeds was in line with the disclosure made in the Company's announcement dated 22 December 2005 in respect of the placing of new shares of the Company.

CAPITAL STRUCTURE

The capital of the Company comprises only ordinary shares. Details of movements in the share capital of the Company during the six months ended 30 June 2006 are set out in note 11 to the condensed consolidated financial statements.

CHARGES ON GROUP ASSETS

As at 30 June 2006, the Group has pledged land and buildings having a net book value of approximately HK$4,464,000 (31 December 2005: HK$4,593,000) to secure general banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost denominated in US dollars, HK dollars and Renminbi. Foreign exchange exposure of the Group is minimal as long as the policy of the Government of HKSAR to link the HK dollars to the US dollars remains in effect.

CONTINGENT LIABILITIES

The Company has given corporate guarantees a bank in respect of general banking facilities granted to subsidiaries amounting to approximately HK$6,000,000.

Save as disclosed above, the Group did not have any other significant contingent liabilities as at 30 June 2006.

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed in this announcement, during the six months ended 30 June 2006, the Group had no significant investments and material acquisitions or disposal of subsidiaries and associated companies.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2006, the Group had a total of 302 employees, 276 of whom were employed in mainland China and 26 in Hong Kong, Taiwan and overseas.

The Group implements remuneration policy, bonus and share options schemes with reference to the performance of the Group and individual employee. The Group also provides benefits such as insurance, medical and provident funds to employees.

DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2006, the Group has applied the principles and complied with the code provisions prescribed in the recently promulgated Code on Corporate Governance Practices ("CG Code") set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviations from Code Provisions A.2.1 and A.4.1 which are explained in the following relevant paragraphs:

1. According to the code provision A.2.1 of the CG Code, the roles of the Chairman and the Chief Executive Officer (the "CEO") should be separated and should not be performed by the same individual. The Company does not have any officer with the title CEO. At present, the duties of a CEO are undertaken by Mr. Wang Chia Chin ("Mr. Wang"). Mr. Wang also is the founder and Chairman of the Company. Mr. Wang has over 18 years of experience in the computer peripherals manufacturing and distribution industry and is responsible for the strategic planning, overall business development and distribution business of the Group. The Board considered that, due to the nature and extent of the Group's operations, Mr. Wang is the most appropriate chief executive of the Company because he particularly has the in-depth knowledge and experience in the computer peripherals manufacturing and distributing industry.

2. According to the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term of service. However, independent non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement in rotation at the annual general meeting of the Company according to the articles of association of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting that the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securitied transactions by directors adopted by the Company during the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the condensed consolidated financial statements of the Group for the six months ended 30 June 2006.

The Audit Committee comprises Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Lee Hung Sang, all being the independent non-executive directors of the Company.

REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in accordance with the requirements of the CG Code. The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for remuneration of all directors and senior management of the Group and reviews the terms of the directors' service contract.

PURCHASES, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

By order of the Board
Wang Chia Chin
Chairman

Hong Kong, 22 September 2006

As at the date of this announcement, the Board comprises Mr. Wang Chia Chin, Mr. Wu Chi Lok, Mr. Wong Chong Fai, William, Mr. Luk Chi Shing, Mr. Sze Chun Ning, Vincent and Mr. Shi De Mao, all being the executive directors and Mr. Chang Kin Man, Mr. Lee Hung Sang and Mr. Wu Tak Lung, all being the independent non-executive directors.