



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)

Unaudited Interim Results Announcement For the six months ended 30 June, 2002

The Board of Directors of Sky Hawk Computer Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group" or "Sky Hawk") for the six months ended June 30, 2002 together with the comparative figures for the corresponding period last year, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2002 (Expressed in Hong Kong dollars)

		Six months ended 30 June,	
	Note	2002	2001
		\$'000	\$'000
Turnover			
Cost of sales	1	75,337	114,695
		(55,665)	(87,637)
		19,672	27,058
Other net (expense)/income	2	(1,237)	1,047
Distribution costs		(8,188)	(8,112)
Administrative expenses		(6,130)	(5,556)
		4,117	14,437
Profit from operations			
Finance costs	3	(237)	(773)
		3,880	13,664
Profit from ordinary activities before taxation			
Taxation	4	—	(1,250)
		3,880	12,414
Profit attributable to shareholders			
		3,880	12,414
		—	2,905
Final dividend proposed after the balance sheet date	5		
		—	2,905
Earnings per share			
Basic	6	1.0 cents	4.1 cents

No separate statement of recognised gains and losses has been prepared as the net profit for the period would be the only component of this statement.

Notes:

1. **Turnover**
An analysis of the Group's turnover and contribution to its profit from operations by products category is as follows:

	Group's turnover		Contribution to profit	
	Six months ended 30 June, 2002 \$'000	2001 \$'000	from operations Six months ended 30 June, 2002 \$'000	2001 \$'000
Personal computer peripherals	54,918	86,895	10,979	16,567
Networking products	15,795	24,845	6,891	9,752
Computer accessories	4,624	2,955	1,802	739
	75,337	114,695	19,672	27,058
Operating expenses			(15,555)	(12,621)
			4,117	14,437

Pursuant to the relevant of the People's Republic of China ("PRC") tax regulations, the Group's subsidiary in the PRC is predominately engaged in export sales and is exempted from value added tax which is levied at 17% of the sales value less any input value added tax incurred by the subsidiary.

	Six months ended 30 June,	
	2002 \$'000	2001 \$'000
Interest income	133	37
Net (loss)/gain on disposal of fixed assets	(1,234)	69
Net exchange (loss)/gain	(650)	157
Gains on disposal of scrap materials	514	784
	(1,237)	1,047

3. **Profit from ordinary activities before taxation**
Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June,	
	2002 \$'000	2001 \$'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	237	773
(b) Other items:		
Cost of inventories*	55,665	87,637
Depreciation*	6,059	4,560
Operating lease charges in respect of properties*	2,625	2,671
Provision for doubtful debts	—	1,034
Research and development costs	1,509	—
Staff costs*		
— wages, salaries and benefits	9,328	11,233
— contributions to retirement scheme	258	304
	11,233	12,414

* Cost of inventories includes \$12,835,000 (2001: \$14,121,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

	Six months ended 30 June,	
	2002 \$'000	2001 \$'000
Provision for tax for the period:		
— Taiwan income tax	—	507
— PRC income tax	—	743
	—	1,250

No provision has been made for Hong Kong profits tax as the Group did not have profits assessable to Hong Kong profits tax for both periods presented.

No provision for Taiwan income tax and PRC income tax has been made as the Group sustained a loss for Taiwan and PRC tax purposes during the period.

No provision for deferred tax has been made as the effect of all timing differences is immaterial for the respective periods.

5. **Dividends**
Pursuant to the shareholders' approval at the Annual General Meeting held on 17 June, 2002, a final dividend of 30.7 cents (2001: 30.7 cents) per share totalling \$2,905,000 in respect of the year ended 31 December, 2001 was paid on 2 July, 2002.

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

6. **Earnings per share**
The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$3,880,000 (2001: \$12,414,000) and the weighted average of 403,176,796 (2001: 300,000,000) ordinary shares in issue during the period, being the shares that would have been in issue throughout the period on the assumption that the Reorganisation as set out in the section headed "Resolutions of all shareholders of the Company passed on 28 December, 2001" in the Appendix V to the Prospectus was complete on 1 January, 2001.

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

7. **Segmental reporting**
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 period, 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 on the basis of geographical segments, segment revenue is based on the geographical location of customers.

The Group's business is managed on a worldwide basis, but participates in four major principal economic environments: Europe, Asia Pacific, North America and South Africa. In Europe, the customers are mainly from Spain, Germany, France, Austria, and Italy. In Asia Pacific, the customers are mainly from Japan, Korea, and Australia. And in North America, the customers are mainly from the United States of America.

	Six months ended 30 June,	
	2002 \$'000	2001 \$'000
Europe	20,088	46,403
Asia Pacific	25,372	34,602
North America	25,047	26,384
South Africa	4,830	7,306
	75,337	114,695

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

RESULTS

For the six months ended June 30, 2002, the Group recorded a turnover of approximately HK\$75.3 million, as compared to HK\$114.7 million in the same period last year. Profit attributable to shareholders was decreased by 68.7% to approximately HK\$3.9 million. Earnings per share were 1.0 HK cents.

Despite the fall in the turnover, the overall gross profit margin gained approximately three percentage point to 26.1%, reflecting the increased share of higher margin products as well as tighter controls on direct costs.

PC Peripherals

For the period under review, sales of PC peripherals decreased by 36.8%, as compared with the same period of 2001. The decrease in sales was due to the Group's decision of ceasing to take orders of iron PC peripheral from March 2002. Moreover, gross profit contributed by this product category recorded a decrease, but to a less extent than that of turnover, of 33.7%. However, the gross profit margin slightly rose to 20.0% (2001: 19.1%) due to the continuous effort of cost controls.

Networking Products

For the first six months of 2002, sales of networking products accounted for similar share of turnover as in the same period of 2001 at about 21%. Moreover, the decrease in turnover by 36.4% was due to the change in customers' behaviour in ordering power supply for network systems. Although gross profit contributed by this product category also decreased by 29.3%, the gross profit margin rose to 43.6% (2001: 39.3%) due to overall improvement of margin in IPC and server chassis, both iron and aluminium.

Computer Accessories

Since computer accessories are offered by Sky Hawk as complementary products to meet its customers' comprehensive needs, this product category does not constitute a major source of revenue for the Group. Its share of overall turnover was 6.1% in the period under review.

Geographical Analysis

For the period under review, Asia Pacific had become the largest market for the Group at 33.7% because the Japanese market was more ready to accept the Group's aluminium products. North America ranked the second at 33.2% while Europe followed as the third at 26.7% due to the Group's above-mentioned decision on iron PC products. South Africa showed a stable share of sales as compared with the same period last year.

Distribution and Administration Expenses

Despite the fall in the staff salary by 17%, the total distribution and administration expenses rose by 5% as compared with the same period last year. It was mainly due to the increased R&D and marketing effort.

BUSINESS REVIEW

The lower turnover and profit levels were due to the fact that the Group has been transforming its business to focus on medium to premium products by phasing out the manufacture of iron PC products with an emphasis on aluminium alloyed products in order to capture higher margins. The Group intentionally took no orders for iron PC products from March 2002 in order to facilitate the growing demand of aluminium products. Meanwhile, there were growing orders and project cases for aluminium alloyed products, and most of which were on OEM/ODM basis that takes greater development effort and longer cycle to conclude the sales. Therefore, the resulting turnover will be reflected in the second half of the year. Additionally, because of the seasonal nature of the industry, the Group's turnover for the first half of the year is usually lower than the second half one.

The Group's continuing effort in infusing aluminium alloy into the manufacturing of computer products had attracted renowned OEM/ODM clients that laid a solid foundation for the Group's future development. In the first six months of the year, the outstanding OEM/ODM cases from the late 2001, including those for Shuttle Inc, a renowned Taiwan-based motherboard manufacturer had been finalized and delivery of orders commenced from April. This trend is expected to contribute to a significant share of the Group's turnover eventually.

During the period under review, the Group's sales arising from new OEM/ODM business amounted to HK\$1.3 million, representing 1.7% of the total turnover.

Furthermore, through its participation in the Computex Taipei 2002 in June, the Group reached cooperation agreements with a number of new sales agents. These newly appointed agents included Liata in Canada, UTT in Russia, A-Top and Fudin in the United States; Premier and Jet in Germany; iCute, Enermax and Green Choice in Taiwan; and BCN, Westan and Anyware in Australia. The Group had also appointed new sales agents in Hong Kong including Eurone Group, Genteelord International Limited and 099 Power.

Meanwhile, the R&D professionals of Sky Hawk have devoted lots of efforts in accelerating the development and production of new products to capture the evolving market needs. In the first six months of the year, the innovative products included high-end aluminium alloyed barebone systems MPC 2200/2201, Hot key and OSD KVM switch, Gigabit ethernet switches NET 1003 which have earned recognitions from the end users.

With regard to the products using the Group's own brandnames, which include SKY HAWK, EAGLE, SKY LINK and MEGA POWER, stable returns were generated for the Group during the period under review.

PROSPECTS

Looking ahead, Sky Hawk's experienced management team will continue their effort to complete the business transformation process by early 2003. This transformation has begun to show its benefits recently as the Group announced a series of cooperations with new OEM clients and sales agents worldwide.

A number of system integration companies and computer manufacturers in the United States, such as Pacific Magtron International Corp. and Everin America Inc., have already placed their first batch of PC chassis orders to the Group. Moreover, two more Taiwan-based motherboard manufacturers and a PRC computer manufacturer are concluding their product specifications with our engineers for the Group's barebone systems and PC chassis, which include the VMC 7288 and MPC series, and the first batch of orders is expected to be delivered in the second half of the year. With these contracts received from OEM clients and agents, it is estimated that the Group will supply 50,000 units of aluminium alloyed chassis per month by the end of the year.

Through the cooperation with various sales agents, Sky Hawk has taken a significant step forward to channel its sophisticated aluminium-alloyed products through the agents' extensive distribution networks. This not only helps the Group to stay ahead of its competitors, but also extends the Group's brand-name to the worldwide markets, facilitating the Group's growth in the future. Apart from the names mentioned above, some more sales agents also showed strong interest in Sky Hawk's products, and discussions are underway in Europe and Asia Pacific. Riding on these achievements, the Group will continue to expand its client base and network of agents, with major effort put in the markets with great potential for premium class of products.

Besides, Sky Hawk will continue to reinforce its R&D capabilities in order to capture the market trend and changing technologies. The new products developed by the R&D professionals to be launched in the second half of this year are expected to include VMC 7288, PSR 4609D7 and PSR 4616B7, IP sharing gateway, Network Attach System (NAS) and Home Gate Router (SOHO Router).

Although the Group is cutting off the production of iron-based products due to its lower profit margin, the sales side will still be kept. The Group is planning to implement a sub-contracting mechanism to handle sales orders for these lower profit margin products by the end of 2002 or early 2003, thus to increase turnover without utilising the Group's own production capacity. Also from the end of 2002, the Group will begin to outsource certain parts of the manufacturing processes in order to further control the total costs of components.

Good foundation for the future growth have been laid in most of our functional areas for Sky Hawk to become a market leader in the manufacturing of premium computer products. Continuous growth in profitability is expected to be gained from excellent R&D capabilities and products, extensive distribution networks and growing OEM/ODM client base in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June, 2002, the Group had cash and bank balances of a total amount of approximately HK\$16.1 million and net current assets of approximately HK\$164.2 million. The Group has consistently maintained a solid working capital base during the period under review. As at 30 June, 2002, the current liabilities of the Group was approximately HK\$44.4 million whilst the Group had outstanding borrowings of approximately HK\$8.3 million. The Group's banking facilities are secured by certain properties of the Group. The gearing ratio (total liabilities to total assets) was 20.9% (at 31 December, 2001: 40.5%).

USE OF PROCEEDS

The net proceeds from the placing and public offer of the Company amounted to approximately HK\$45 million. As at 30 June 2002, the Group has utilised a total of approximately HK\$29 million of the proceeds. Approximately HK\$11.1 million, HK\$5.8 million, HK\$1.5 million and HK\$10.6 million had been applied towards sales development, research & development, production facility and working capital expenses respectively. The remaining proceeds are placed in interest-bearing deposits with licensed banks in Hong Kong. The use of proceeds was in line with the disclosure made in the prospectus of the Company dated 8 January 2002.

CONTINGENT LIABILITIES

As at 30 June, 2002, the Group did not have any contingent liabilities.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June, 2002, the Group had 1,364 employees in the PRC (including Hong Kong and Taiwan) and overseas. In order to maintain 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 options 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 interim results of the Group for the period under review has not been audited. The audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the six months ended 30 June, 2002 with the Code of Best Practice as set out in Appendix 14 of The Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

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 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board
Wang Chia Chin
Chairman

Hong Kong, 17 September, 2002