



# 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)

### ANNUAL RESULT FOR THE YEAR ENDED 31 DECEMBER 2003

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual result of Sky Hawk Computer Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

Revenue from external customers

#### CONSOLIDATED INCOME STATEMENT

	NOTES	2003 HK\$'000	2002 Restated HK\$'000
Turnover	3	109,440	130,369
Cost of sales		(77,127)	(117,239)
Gross profit		32,313	13,130
Other revenue		2,449	3,049
Distribution costs		(11,328)	(20,249)
Provision for doubtful debts		(16,783)	(30,662)
Administrative expenses		(14,636)	(16,600)
Loss from operations		(7,985)	(51,332)
Finance costs		(279)	(520)
Loss before taxation		(8,264)	(51,852)
Taxation	5	(1,272)	1,854
Loss attributable to shareholders		(9,536)	(49,998)
Dividend	6	—	—
Loss per share			
Basic	7	(2.3 cents)	(12.2 cents)

Notes:

#### 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 17 January 2002.

#### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policies.

##### Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) — Income Taxes. The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future.

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result of this change in policy, the retained profits at 1 January 2002 have been increased by HK\$40,000, which is the cumulative effect of the change in policy on the results for the periods prior to 1 January 2002. The effect of the change is a decrease in profit for the year ended 31 December 2003 of HK\$582,000 (2002: increase in profit of HK\$1,854,000).

The financial effect of the adoption of the revised accounting policies described above is summarized below:

	Retained profits HK\$'000
Balance at 1 January 2003	
As originally stated	63,900
Recognition of deferred tax assets	1,894
As restated	65,794

#### 3. TURNOVER

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

#### 4. 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 on the basis of 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, but participates in four major principal economic environments, namely, Europe, Asia Pacific, North America and South Africa.

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

	Group 2003 HK\$'000	2002 HK\$'000
Europe	36,591	34,538
Asia Pacific	47,107	43,928
North America	24,927	46,981
South Africa	815	4,922
	<u>109,440</u>	<u>130,369</u>

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.

#### 5. TAXATION

The amount of income tax charged/(credited) to the consolidated income statement represents:

	Group 2003 HK\$'000	2002 HK\$'000
Current taxation		
— Hong Kong	—	—
— Outside Hong Kong	690	—
	690	—
Deferred taxation		
— charge/(credit) for the year	582	(1,854)
	<u>1,272</u>	<u>(1,854)</u>

No provisions have been made for Hong Kong Profits Tax as the Group did not have profits assessable in Hong Kong for the years ended 31 December 2003 and 2002.

Income taxes outside Hong Kong are calculated at the rates prevailing in the respective jurisdictions.

#### 6. DIVIDEND

No dividend was paid or proposed during 2003, nor has any dividend been declared since the balance sheet date.

#### 7. LOSS PER SHARE

The calculation of basic earnings per share is based on the Group's loss attributable to shareholders for the year of HK\$9,536,000 (2002 restated: loss of HK\$49,998,000) and the weighted average of 415,000,000 (2002: 409,136,986) ordinary shares in issue during the year.

There were no potential ordinary shares in issue during both years ended 31 December 2003 and 2002.

#### 8. POST BALANCE SHEET EVENT

On 13 February 2004, the Company entered into a subscription agreement, pursuant to which an investor has agreed to subscribe for and the Company has agreed to allot and issue 80 million new shares at a subscription price of approximately HK\$0.118 per subscription share. The net proceeds of the subscription of about HK\$9.2 million are intended to be used as to approximately HK\$6.2 million for expanding sales and marketing capacity of the Group and the remaining amount of approximately HK\$3 million as general working capital.

#### REVIEW

Since its successful listing, the Group experienced an all-out product and business restructuring. The results of the transformation of customers' pattern and all-out production open book management restructure have gradually manifested in the second half of 2003. In regard of sales and marketing, the Group had accomplished the followings during the year: it halted the production of all medium-to-low-end computer peripherals and shifted the focus to the research and development production, and sales to high-end profitable products, re-positioned itself to the sales of high grade aluminum alloy computer chassis, phased out distributors who failed to accommodate our sales plan, developed high-end products with sizable prestigious manufacturers; at the same time, the Group continued to develop its customer base for OEM/ODM products by collaborating with DIY market brands manufacturers and motherboard and barebone system manufacturers. As of present, there are already 12 successful projects under process. Products were produced and shipments were made continuously. The Group achieved manifested results and would continue its efforts in developing more potential and reputable clients for more sales orders. It further demonstrates our firm commitment to its operating management strategies.

#### Operating results

For the year ended 31 December 2003, the Group recorded a turnover and net loss of approximately HK\$109 million and HK\$9.5 million respectively, representing a decrease of 16% and 81% as compared to the previous year. Loss per share were 2.3 Hong Kong cents (2002: 12.2 Hong Kong cents). The gross profit margin of the Group was increased from 10% last year to 30% this year. The loss attributable to shareholders amounted to approximately HK\$9.5 million.

#### Business review

During the year under review, despite the high profit margin of high-end products, the turnover decreased due to the stagnant volume of sales orders. In addition, under the circumstances that the administrative and sales expenses were not effectively and promptly controlled, the profit gained by products of high profit margin was eroded by those expenses. The major source of revenue was from computer peripherals. PC peripherals, networking products and computer accessories constituted 82%, 15% and 3% of the Group's turnover respectively.

#### PC Peripherals

Compared with the sales ratio of 71% in 2002, the sales ratio of PC peripherals increased for 13% to approximately HK\$105 million, representing a 96% of the Group's turnover. The sales orders of products mainly came from OEM customers. Its profit margin increased by 10%. Given the gradual recovery of the global economy in the second half of the year, several renowned motherboard manufacturers commenced production of their new R&D products early this year and cooperated with the Group in engaging mass production and product launch.

Taking advantage of the mutual development, it is anticipated that the demand for PC products would grow steadily and will lead to the consolidation of the Group's position as a manufacturer of aluminum alloy PC peripherals.

#### *Networking Products*

As the market conditions for networking products have been deteriorating and the profit margin has declined significantly, the Group's production of such products decreased by 90%. Its turnover amounted to approximately HK\$3.07 million.

#### *Computer Accessories*

The unit profit of computer accessories was unsatisfactory and therefore its production was either partially reduced or ceased. The Group sold products mainly from its stocks, with turnover of approximately HK\$10.8 million.

#### *Geographical Analysis*

The global market economy transformed and the Group has shifted to take orders from OEM/ODM customers. The contribution of OEM/ODM business represented 19.8% of the Group's turnover. It was mainly attributable to the stable customer base of the Group, including sizable motherboard manufacturers from Taiwan, namely VIA, EXPO, I WILL, FREE TECH, JETWAY, and DIY brands, namely ANTEC, ENERMAX AND GLOBAL WIN. The turnover arising from the markets of in Asia-Pacific, North America and Europe accounted for approximately 43%, 22.7% and 33.4% respectively of the Group's total turnover for year ended 31 December 2003, contributing a steady number of orders and profits for the Group.

#### *Research and Development Direction and Product Strategy*

In regard to the development of OEM/ODM, the main-line products remained to be aluminum alloy cases. The Group's R & D team endeavours to cope with diverse product model requirements of customers. The objective of the R & D team is to finish products with market potentials and is able to meet the expectation of customers in the shortest possible development procedures and timeframe in order to be benefited from the win-win situation with customers.

#### **FUTURE DEVELOPMENT**

In view of the insufficient sales volume of high-end products to meet the production capacity in 2004, the Group has formulated a new proposal to develop the least-cost iron computer case and power supply pack in late March 2004. Such proposal was to gain business by quantity and the processing fee arising thereof would be used for the payment of administrative and sales expenses. Thus the remaining production capacity could be utilized due to the inadequate orders of high-end aluminum alloy case. As such, the Company will be able to develop high-end aluminum alloy products and cultivate a customer base without expanding the production facilities. The growth of orders for aluminum alloy products is comparatively slow and yet the profit for such products are high.

For OEM/ODM business, it is anticipated that the cooperation with SUPERMICRO, ASUS, DIXONS, NEC, PACKBELL would commence shortly in the first half of 2004. In the 2004 CeBit Computer Exhibition in Germany, the Group displayed its unparalleled new product series of IPC, BTX, KVM, etc.. The Group took advantage of the exhibition to expand its sales network and achieve a higher performance in terms of turnover.

It is also anticipated that the production plant would be relocated to the newly-built site (a single-storey industrial factory built in accordance with the Group's actual operation needs) in Shenzhen Industrial Area within the Shenzhen Processing and Export Region in mid-June 2004. Its floor area is 30,000 square meter and the building area is 20,000 square meter.

The production structure of the Group is a highly self-sufficient one-stop operation with various different production procedures and facilities. However, the procedures and facilities are interrelated and there existed conflicts and difficulties in management and execution. To set up a subsidiary (a new and independent factory) consisting of the punching department and plastics, cutting, modeling and NC prototype departments in order to separate management and production component supply would solve the problem. The factory is also single-storey and would commence production mid-March.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2003, the Group's working capital requirements were mainly financed by internal cash flow and banking facilities. As at 31 December 2003, the current assets of the Group was approximately HK\$103 million, of which cash and bank deposits amounted to approximately HK\$2.5 million, inventories of approximately HK\$52 million and a trade receivable amounted to approximately HK\$45 million. Short-term bank loan and overdrafts was of approximately HK\$7 million, all repayable within one year or on demand. Bank loans were subject to fixed interest rates ranging from 2.3% to 5.3%. The Group's banking facilities are secured by a property of the Group. The gearing ratio (borrowings to shareholders' fund) was 6.8% (as at 31 December 2002: 10.8%).

#### **FOREIGN CURRENCY EXPOSURE**

Most of the Group's cash and bank deposits were held in US dollars, Renminbi and Hong Kong dollars. The Group's loans were denominated in US dollars and Renminbi in order to avoid exposure arising from foreign currency fluctuations. During the relevant period, the exchange rates of US dollars and Renminbi in relation to Hong Kong dollars were stable. The Group was not subject to any significant exposure relating to exchange rates risk and it will remain cautious in financial management.

#### **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities at 31 December 2003.

#### **EMPLOYMENT AND REMUNERATION POLICY**

As at 31 December 2003, the Group had approximately 800 employees in the PRC (including Hong Kong and Taiwan) and overseas. During the year, the remuneration for the employees amounted to approximately HK\$12 million. 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 PRC, the Group has also provided them with various training and development programs.

#### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 21 June 2004 to 24 June 2004 both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for attending the annual general meeting to be held on 24 June 2004, all transfer documents accompanied by the relevant share certificates must be lodged with Hong Kong branch share registrar and transfer office, Hong Kong Branch Registrars Limited/Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 18 June 2004.

#### **PURCHASES, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES**

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

#### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

#### **DETAILED INFORMATION PUBLISHED ON THE WEBSITE OF THE STOCK EXCHANGE**

The detailed information as stipulated in paragraph 45(1), Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

#### **APPRECIATION**

On behalf of the Board, I would like to take this opportunity to thank the management and all staff members for their valuable contribution during the year. I would also like to express my sincere appreciation of the support from our shareholders, business partners and customers.

**Wang Chia Chin**  
Chairman