



# 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, 2003

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" or "Sky Hawk") for the six months ended 30 June, 2003 together with the comparative figures for the corresponding period last year as follows:

#### CONSOLIDATED INCOME STATEMENT (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE, 2003 (Expressed in Hong Kong dollars)

		Six months ended 30 June,	
	Note	2003 \$'000	2002 \$'000
<b>Turnover</b>	1	<b>57,160</b>	75,337
Cost of sales		(42,090)	(55,665)
		<b>15,070</b>	19,672
Other net (expense)/income	2	1,347	(1,237)
Distribution costs		(6,979)	(8,188)
Administrative expenses		(3,563)	(6,130)
		<b>5,875</b>	4,117
<b>Profit from operations</b>		<b>5,875</b>	4,117
Finance costs	3	(239)	(237)
		<b>5,636</b>	3,880
<b>Profit from ordinary activities before taxation</b>	3	<b>5,636</b>	3,880
Taxation	4	—	—
		<b>5,636</b>	3,880
<b>Profit attributable to shareholders</b>		<b>5,636</b>	3,880
<b>Final dividend proposed after the balance sheet date</b>	5	<b>—</b>	—
<b>Earnings per share</b>		<b>1.4 cents</b>	1.0 cents
Basic	6	1.4 cents	1.0 cents

No separate consolidated 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 Six months ended 30 June,		Contribution to profit from operations Six months ended 30 June,	
	2003 (\$'000)	2002 (\$'000)	2003 (\$'000)	2002 (\$'000)
Personal computer peripherals	40,830	54,918	11,788	10,979
Networking products	15,563	15,795	3,052	6,891
Computer accessories	767	4,624	230	1,802
	<b>57,160</b>	<b>75,337</b>	<b>15,070</b>	19,672
Operating expenses			(9,195)	(15,555)
			<b>5,875</b>	4,117

Pursuant to the relevant tax regulations of the People's Republic of China ("PRC"), the Group's subsidiary in the PRC is principally 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,	
	2003 (\$'000)	2002 (\$'000)
<b>2. Other net (expense)/income</b>		
Interest income	23	133
Net (loss)/gain on disposal of fixed assets	(47)	(1,234)
Net exchange (loss)/gain	224	(650)
Gains on disposal of scrap materials	1,147	514
	<b>1,347</b>	(1,237)

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

	Six months ended 30 June,	
	2003 (\$'000)	2002 (\$'000)
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	239	237
(b) Other items:		
Cost of inventories	42,090	55,665
Depreciation	5,596	6,059
Operating lease charges in respect of properties	2,793	2,625
Provision for doubtful debts	—	—
Research and development costs	1,278	1,509
Staff costs		
— wages, salaries and benefits	7,279	9,328
— contributions to retirement scheme	186	258

**4. Taxation**  
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 Hong Kong profit tax has been made as the Group did not have any profits assessable to Hong Kong profit 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. Interim dividends**  
The board of Directors do not recommend the payment of any interim dividend for the six months ended 30 June, 2003.

**6. Earnings per share**  
The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$56.36 million (2002: profit \$3,880,000) and the weighted average of 415,000,000 shares (2002: 403,176,796) 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. 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 it can more accurately reflect the Group's decisions on operating and financial matters.

#### (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.

While managing its business on a worldwide basis, the Group focuses its operating activities in four major economic zones, namely 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.

#### Revenue from external customers

	Six months ended 30 June,	
	2003 (\$'000)	2002 (\$'000)
Europe	24,720	20,088
Asia Pacific	17,280	25,372
North America	14,717	25,047
South Africa	443	4,830
	<b>57,160</b>	<b>75,337</b>

There is no major discrepancy 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 30 June, 2003, the Group recorded a turnover of HK\$57.16 million as compared with HK\$75.33 million for the same period of last year. Profit attributable to shareholders increased by 45.3% (approximately HK\$1.76 million). Earnings per share were 1.4 HK cents. Despite the global impact of the SARS outbreak and the Iraq war in the first half of the year, the overall business environment is still challenging. The Group has proactively made effort to develop new products in order to gain a higher profit margin. During the year, the Group successfully entered into cooperation agreements with various renowned motherboard manufacturers, and began to make shipments in the first half of 2003. As most of the OEM/ODM productions take longer time for development and tests, the relevant sales will be presented in the results of the second half of 2003.

Although the turnover decreased as compared with the same 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. It will be reflected in the turnover improvement in the second half year, which is in line with our perseverance in achieving higher performance.

#### BUSINESS REVIEW

##### PC Peripherals

For the first half of 2003, the Group further launched a range of peripherals, including aluminum alloy computer chassis with functionality front panels, multi-media speakers and power supply pack products etc. This clearly reflects the worldwide demand from the "Do-It-Yourself" ("DIY") computer users. There is also an increase in the market share of the aluminum alloy computer products. Despite the fall of market product prices, sales of the personal computer peripherals for the first half of the year only fell slightly by 1.5%. Gross profit margin recorded an increase of 8.9% (2002: 20%) as a result of cost control to a certain extent.

##### Networking Products

For the first half of the year, the sales of the networking products accounted for approximately 27.2% of the turnover of the Group, representing an increase of 6.2%, while gross profit margin fell to 19.6% (2002: 43.6%) due to the price reduction.

##### Computer Accessories

Currently, market demand for the quality of personal computers has greatly increased the complementary functions of peripheral accessories, which are also equipped to provide audio-visual enjoyment. Although this product category does not constitute a major source of revenue of the Group, the pertinent sales of the multi-function computer product mix accounted for 1.3% of the turnover during the year under review.

##### Geographical Analysis

Following two years of business transformation and the customers' considerably adjusted requirements for the products developed by the Group, there was a stable stream of incoming new orders. For the first half of 2003, North America, Europe and Asia Pacific respectively accounted for 25.7%, 43.2% and 30.2% of the Group's sales. Through the efforts of the Group on exploring the PRC market, the market share of Europe recorded an increase of 16.2% as compared with last year. The market positioning and the sales strategies of the Company are beginning to stabilise.

##### 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 26% as compared with the same period of last year.

#### PROSPECTS

Although the global economy has yet to make a rapid recovery, the management of the Group firmly believes that computer products remain to be necessities for social life and instruments for enterprises worldwide. With technologically-advanced products constantly emerging, product quality and functionalities keep ever rising. To this end, the Group has adopted a management approach to set up a forward-looking research and development ("R&D") team that possesses strong capability of scientific research and development. This R&D team comprises various design departments for electronic software and hardware, power supply products, system structure and outward appearance, and R&D department for materials science, with a view to distinguishing its products from other similar products in the market to gain a larger market share and higher profitability.

In order to meet the stringent requirements of OEM/ODM clients on product quality, the Group has instructed the quality control unit to implement its quality control policy by taking systematic control over the operation and quality standards for all products. By so doing, the Group and its clients are both benefited from a win-win situation.

The Group has also adopted a prudent yet proactive cost control strategy that the Group halted the production of certain medium-to-low-end unprofitable products and purchased them directly from suppliers instead. Certain production units without economies of scale and actual profits were also dissolved and outsourced. The total number of employees will thus be trimmed down to 600. As a result of the dissolution, some units have terminated the lease contracts since September 2003 and the remaining floor area currently used amounts to 35,000m<sup>2</sup>. The cost of administration and sales of the Group is expected to decrease by at least HK\$500,000 each month thereafter. Owing to the enhancement of training for management team members and the pass rate to increase effective output, profit will rise with a substantially lowered operation cost.

To further expand and boost its business development, the Group has established an OEM/ODM steering team to strive for more large-scale OEM/ODM clients. Good results have been yielded — major computer motherboard companies such as MSI, VIA, EPOX, I WILL, FREETECH, JETWAY, SHUTTLE and major DIY market brands such as ANTEC, ENERMAX and GLOBAL WIN have all become the Group's OEM clients. Products are now delivered to these clients one after another. The Group is set to benefit from a considerable results in the second half of the year.

The Group endeavours to expand its business into the DIY market. To achieve better result, the Group has stopped its cooperation with the former seven agents and adopted such a policy that an exclusive agent is assigned to a particular product model and several agents are assigned in a market region as there are usually various product categories in one region. The Group has also set up representative offices in the United States of America and Germany where more than 30 distributors are sought. The Group intends to sell products to major computer centres, chained sales and on-line shops through direct sales by branch offices in the United States of America and the United Kingdom.

By forming a strong R&D team, the Group ensures that its quality control system is implemented to secure a niche in the high-end market. Meanwhile, it will also control costs, improve production efficiency and provide its sales team with proactive training. For the OEM/ODM business, the Group is eager to enlarge its client base and cooperate with more major regional agents in the DIY market. The Group will, through its branch offices, provide services to chained computer sales group by way of wholesaling for higher efficiency, better results and greater profitability.

Under the business expansion in the OEM/ODM, DIY market and chained distribution and wholesaling, together with its cost control policy and the successful research and development of new niche products, the Group is expected to achieve substantial profit growth in 2003.

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June, 2003, the Group had cash and bank balances of approximately HK\$3.42 million and net current assets of approximately HK\$109.13 million. The Group has consistently maintained a solid working capital base during the period under review. As at 30 June, 2003, the current liabilities of the Group was approximately HK\$38.21 million whilst the Group had outstanding borrowings of approximately HK\$4.2 million. The Group's banking facilities are secured by certain properties of the Group. The gearing ratio (total liabilities to total assets) was 24.5% (as at 31 December, 2002: 20.9%).

#### 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, 2003, the Group has utilised a total of approximately HK\$45 million of the proceeds. Approximately HK\$19.03 million, HK\$15.9 million, HK\$4.87 million and HK\$5.2 million had been applied towards sales development, research and development, production facilities and working capital respectively. 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, 2003, the Group did not have any contingent liabilities.

#### EMPLOYMENT AND REMUNERATION POLICY

As at 30 June, 2003, the Group had a total of 1,026 employees in the PRC (including Hong Kong and Taiwan) and overseas. 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 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 Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements for the six months ended 30 June, 2003 with the Directors.

#### COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the six months ended 30 June, 2003 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, 19 September, 2003