

Chairman's Statement



Mr. Wang Chia Chin
Chairman and Executive Director

TO OUR SHAREHOLDERS

For and on behalf of the board ("Board") of directors of Sky Hawk Computer Group Holdings Limited ("Company"), I am pleased to present the annual results of the Company and its subsidiaries ("Sky Hawk" or the "Group") for the year ended 31 December 2002.

Looking back on our development in recent years, Year 2002 was the most difficult and challenging year for Sky Hawk, and it was also a year in which Sky Hawk achieved all-out business restructuring. After sluggish development for many years without any substantial increase in demand, the computer industry has been shrinking as a result of global recession. However, the number of parts and components manufacturers has been increasing rapidly because of the industry's low entry barrier. In particular, mainland enterprises which benefit under the government's preferential foreign exchange policies have been scrambling for shares in the middle to low-level market by offering products of extremely low grade, resulting in an excess of supply over demand, and it is even necessary to quote prices below cost before an order can be received.

As such, with the permission of the Board, the senior management of the Group carried out a historic business restructuring exercise to switch the Group to the research and development, production and marketing of high-grade aluminium alloy PC periphery products. Substantial investment was made to further advance the high-grade aluminium alloy machines developed in 2001, aiming to make the product the supreme among other high-end products. At the same time, the Group aims to shorten the gap with its competitors and endeavours to become a top supplier in the market. For this historical business restructuring, the Group has laid down three important strategies:

- (1) To cease taking orders for production and sale of iron chassis and other low-price periphery computer products.

The primary objective of this strategy is to ensure the high quality of the high-grade aluminium alloy chassis and periphery



products by forestalling any confusion because of the different QC standards. Secondly it is to extract the Group from being involved in the cut-throat price war. Furthermore it is to establish a new image for the Group as a manufacturer of high-end computer products. After a year's of all-out implementation of this strategy, the Company's image has been raised. We have successfully changed our customer base from import wholesalers of the CLONE market to internationally renowned enterprises. Our product quality has been greatly enhanced and surpassed

our competitors substantially. Also, we have successfully applied for registration of patents in various countries for our innovations, making it impossible for our competitors to surpass or plagiarise, hence minimizing competition and establishing leading position. However, as a result of the restructuring there was a decrease in our sales of medium to low-level products, which accounted for 60% of our turnover in the past, and turnover for 2002 declined substantially by 53%. This is the heavy price to pay by the Group for the business restructuring.

- (2) To develop a customer base for regional brands and internationally famous brands for high-grade OEM/ODM aluminium alloy products.

In 2001, we successfully obtained OEM orders from SHUTTLE and CGE, China. As

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the products sold were not our main-line ones, these orders made no significant contribution to the turnover in 2002. However, this direction was definitely an avenue to enhance the Company's image and procure stable orders. Consequently, the Company determined to continue with this approach. In 2002, the Company was appointed as the OEM/ODM project contractors of VIA (the world's third largest CPU and CHIPSET manufacturer), JETWAY, and FREETECH. As OEM/ODM projects usually require a long period from commencement, trial to production, results could only be reflected in the first quarter of 2003. However, the VIA project has attracted other main board manufacturers, such as BIOSTAR, CHINTECH, SOLTEK, with new OEM proposals. It is envisaged

that the result will be much more reflected in the second quarter of 2003.

- (3) To develop a regional agent and distributor of high-end products, to phase out and cancel orders with existing distributors failing to restructure their business in tandem with us, and to build up a new marketing network gradually.

As at late March 2003, there were 130 distributors around the world distributing our products on the basis of a single product for a single region. This arrangement has gained the approval and

support of our agents since it can avoid price competition among agents selling the same product in the same locality. The number of agents in a country is determined on size of the market, so that sufficient market demands exist for the agents to make full marketing efforts. The situation of selling the same product to too many customers in Japan in 2001, resulting in agents withdrawing because of very low or no profit margin, would not be repeated. For former distributing agents, no order for middle and low-end products would be taken if they could not promote our high-end products. As a result, sales of high-end products has increased gradually, whilst the sales of the middle and low-end products was declining, leading to a decrease in performance for 2002 by 40%.

Our firm commitment to the aforesaid strategies, our efforts in repositioning and our historic business transformation have achieved preliminary fruition, although this also caused a substantial fall in results for Year 2002. It is envisaged that performance will turn better in the second quarter of 2003. Given the follow-up orders from the OEM/ODM customers and our new distributors worldwide, and the enhanced quality of our customers, the Board and management of Sky Hawk have every confidence for the future. With the new customer base and our strength in research and development, we are ready to grasp future business opportunities and expand the Group's business further.

CONCLUSION

In conclusion, I would like to thank our customers, suppliers, bankers, investors and business partners for their continued trust and support. I would also like to extend my thanks to all our staff for their hard work and significant contribution to the Group in the past year. We are determined to pursue growth in the future, and aim at bringing better returns for our shareholders.

Wang Chia Chin

Chairman

Sky Hawk Computer Group Holdings Limited

Hong Kong, 22 May 2003