天鷹電腦集團控股有限公司
SKY HAWK COMPUTER GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Interim Report 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:

Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2003
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2003 $'000	Six months ended 30 June 2002 $'000
Turnover	2	57,160	75,337
Cost of sales		(42,090)	(55,665)
		15,070	19,672
Other net income/(expense)	3	1,347	(1,237)
Distribution costs		(6,979)	(8,188)
Administrative expenses		(3,563)	(6,130)
Profit from operations		5,875	4,117
Finance costs	4	(239)	(237)
Profit from ordinary activities before taxation	4	5,636	3,880
Taxation	5	—	—
Profit attributable to shareholders		5,636	3,880
Final dividend proposed after the balance sheet date	6	—	—
Earnings per share			
Basic	7	1.4 cents	1.0 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.

The notes on pages 5 to 14 form part of this interim financial report.

Condensed consolidated balance sheet (unaudited)

At 30 June 2003
(Expressed in Hong Kong dollars)

	Note	At 30 June 2003 $'000	At 31 December 2002 $'000
Non-current assets			
Fixed assets		39,366	44,943
Construction in progress		7,571	4,873
		46,937	49,816
Current assets			
Inventories	8	44,944	44,394
Trade and other receivables	9	60,771	63,871
Cash and cash equivalents		3,418	15,890
		109,133	124,155
Current liabilities			
Secured bank loans	10	4,206	12,324
Trade and other payables	11	25,732	39,555
Tax payable		8,276	9,872
		38,214	61,751
Total assets less current liabilities		70,919	62,404
NET ASSETS		117,856	112,220
CAPITAL AND RESERVES			
Share capital	12	41,500	41,500
Reserves	13	76,356	70,720
		117,856	112,220

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2003

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Statutory reserve fund	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2003	41,500	6,592	228	63,900	112,220
Profit for the period	—	—	—	5,636	5,636
At 30 June 2003	41,500	6,592	228	69,536	117,856

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2003

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	$'000	$'000
Net cash (outflow) from operating activities	(8,502)	(28,377)
Net cash used in investing activities	(3,731)	(5,849)
Net cash (used in)/provided by financing activities	(239)	43,220
(Decrease)/increase in cash and cash equivalents	(12,472)	8,994
Cash and cash equivalents at 1 January	15,890	7,155
Cash and cash equivalents at 30 June	3,418	16,149
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	3,418	16,149

Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1. BASIS OF PRESENTATION

The interim financial report is unaudited, but has been reviewed by the Company's Audit Committee. The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"). These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 May 2003.

In preparing these condensed interim accounts, the accounting policies and methods of computation adopted for the annual accounts for the year ended 31 December 2002 were consistently applied, provided that upon adoption of Statement of Standard Accounting Practice ("SSAP") No. 35 "Accounting for Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income taxes" issued by the HKSA, the Group has amended certain accounting policies in compliance with the requirements of the revised SSAPs issued by the HKSA.

The note on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

2. 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
	57,160	75,337	15,070	19,672
Operating expenses			(9,195)	(15,555)
			5,875	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.

3. OTHER NET (EXPENSE)/INCOME

	Six months ended 30 June	
	2003 $'000	2002 $'000
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
	1,347	(1,237)

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	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

5. 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:

(i) 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.

(ii) 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.

5. TAXATION (Cont'd)

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

6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of $5,636,000 (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.

8. INVENTORIES

	At 30 June 2003 $'000	At 31 December 2002 $'000
Raw materials	31,281	23,253
Work in progress	8,405	14,304
Finished goods	5,258	6,837
	44,944	44,394

Inventories were stated after charging a general provision, which was made in order to state these inventories at the lower of their cost and estimated net realisable value.

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivables (net of provisions for bad and doubtful debts) with the following aging analysis:

	At 30 June 2003 $'000	At 31 December 2002 $'000
Current	35,004	30,052
1 to 3 months	12,376	19,319
More than 3 months but less than 12 months	4,032	11,045
Total trade receivables	51,412	60,416
Deposits, prepayments and other receivables	9,359	3,455
	60,771	63,871

Credit terms granted by the Group to customers generally range from one to six months.

10. SECURED BANK LOANS

	At 30 June 2003 $'000	At 31 December 2002 $'000
Secured bank borrowings		
— Short term loans	942	2,885
— Trust receipt loans	3,264	9,439
	4,206	12,324

All the bank loans are repayable within one year.

10. SECURED BANK LOANS (Cont'd)

As at 30 June 2003, the bank borrowings of the Group were secured as follows:

(i) inventories released under the trust receipt loans;

(ii) mortgages over certain properties of the Group; and

(iii) personal guarantees issued by the controlling shareholders and a director.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors with the following aging analysis:

	At 30 June 2003 $'000	At 31 December 2002 $'000
Due within 1 month or on demand	208	9,074
Due after 1 month but within 3 months	3,981	13,070
Due after 3 months but within 6 months	11,513	5,771
Due after 6 months but within 1 year	—	—
Total trade payables	15,702	27,915
Accrued expenses and other payables	10,030	11,640
	25,732	39,555

The credit terms obtained by the Group range from one to six months.

12. SHARE CAPITAL

Issued and fully paid ($0.10 each)

	No. of shares ('000)	$'000
At 1 January 2003	415,000	41,500
At 30 June 2003	415,000	41,500

13. RESERVES

	Share premium $'000	Statutory reserve fund $'000	Retained profits $'000	Total $'000
At 1 January 2003	6,592	228	63,900	70,720
Profit for the period	—	—	5,636	5,636
At 30 June 2003	6,592	228	69,536	76,356

14. COMMITMENTS

Operating lease commitments

As at 30 June 2003, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2003 $'000	At 31 December 2002 $'000
Within 1 year	3,707	5,646
After 1 year but within 5 years	9,715	20,025
	13,422	25,671

15. 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.

15. SEGMENTAL REPORTING (Cont'd)

While managing its business on a worldwide basis, the Group focuses its operating activities on 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	2002
	$'000	$'000
Europe	24,720	20,088
Asia Pacific	17,280	25,372
North America	14,717	25,047
South Africa	443	4,830
	57,160	75,337

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.

16. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the board of Directors on 18 September 2003.

Management discussion and analysis

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^2. 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%).

INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003.

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 form 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.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the "**SF Ordinance**") which had been notified to the Company and The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions in which they were deemed or taken to have under such provisions of the SF Ordinance) or which were required pursuant to section 352 of the SF Ordinance, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Company/Name of associated corporation	Capacity	Number and class of shares/securities
Wang Chia Chin	The Company	(i) beneficial owner	117,151,000 ordinary shares of HK$0.1 each
		(ii) interest of spouse *(Note 1)*	126,252,000 ordinary shares of HK$0.1 each
	Eagle Lord Development Limited	beneficial owner	4,920 non-voting deferred shares of HK$1 each

Name of Director	Company/Name of associated corporation	Capacity	Number and class of shares/securities
Wang Chia Chun	The Company	beneficial owner	27,700,000 ordinary shares of HK$0.1 each
	Eagle Lord Development Limited	beneficial owner	980 non-voting deferred shares of HK$1 each
Chen Fang Yu	The Company	(i) beneficial owner	3,436,000 ordinary shares of HK$0.1 each
		(ii) interest of spouse *(Note 2)*	580,000 ordinary shares of HK$0.1 each
Chen Ho Fa	The Company	beneficial owner	2,804,000 ordinary shares of HK$0.1 each

Notes:

1. These shares are held by Ms Ko Su Mei, wife of Mr Wang Chia Chin.

2. These share are held by Ms Wang Li Hui, wife of Mr Chen Fang Yu.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests in shares" above, at no time during the period under review were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests or short positions of every person, other than the Directors and the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SF Ordinance were as follows:

Name	Number of Shares	Capacity		Approximate percentage of the Company's issued share capital
Ko So Mei	125,160,000	(i)	beneficial owner	30.16%
	117,151,000 *(Note)*	(ii)	interest of spouse *(Note)*	28.23%
				58.39%

Note: These 117,151,000 Shares were held and beneficially owned by Mr Wang Chia Chin, the spouse of Ms Ko Su Mei. Ms Ko Su Mei is taken to be interested in these 117,151,000 Shares by virtue of the SF Ordinance.

Save as disclosed above, no person had notified the Company that he/she/it has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance as at 30 June 2003.

SHARE OPTIONS

The Company operates a share option scheme ("Share Option Scheme"), which was conditionally adopted on 28 December 2001, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Share Option Scheme became effective on 17 January 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

During the period under review, no options were granted under the Share Option Scheme.

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 Listing Rules.

By order of the Board
Wang Chia Chin
Chairman

Hong Kong, 19 September, 2003