



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)

Skylink

Mega Power

OEM

ODM

Skyhawk

Eagle

INTERIM REPORT 2004

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”) for the six months ended 30th June, 2004 together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th June, 2004

(Expressed in Hong Kong dollars)

		Six months ended 30th June,	
		2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
Turnover	3	30,163	57,160
Cost of sales		(20,869)	(42,090)
Other revenue	5	9,294	15,070
Distribution costs		412	1,347
Administrative expenses		(4,669)	(6,979)
		(1,978)	(3,563)
Profit from operations		3,059	5,875
Finance costs		(107)	(239)
Profit before taxation	6	2,952	5,636
Taxation	7	—	—
Profit attributable to shareholders		2,952	5,636
Dividends	8	—	—
Earnings per share			
Basic	9	0.6 cents	1.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2004

(Expressed in Hong Kong dollars)

	Note	At 30th June, 2004 (Unaudited) \$'000	At 31st December, 2003 (Audited) \$'000
Non-current assets			
Property, plant and equipment		50,144	41,116
Deferred tax assets		1,312	1,312
		51,456	42,428
Current assets			
Inventories	10	41,044	51,833
Trade receivables	11	52,768	45,706
Prepayments, deposits and other receivables		4,215	2,800
Bank balances and cash		5,591	2,562
		103,618	102,901
Current liabilities			
Bank loans and overdrafts	12	4,055	7,056
Trade payables	13	19,414	14,815
Other payables and accruals		5,516	9,490
Tax payable		10,466	10,466
		39,451	41,827
Net current assets		64,167	61,074
		115,623	103,502
Capital and reserves			
Share capital	14	49,500	41,500
Reserves	15	66,123	62,002
		115,623	103,502

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June, 2004

(Expressed in Hong Kong dollars)

	Six months ended 30th June, 2004 (Unaudited)					
	Share capital	Share premium	Statutory reserve fund	Translation reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1st January, 2004	41,500	6,592	228	(1,076)	56,258	103,502
Shares issued at premium	8,000	1,169	—	—	—	9,169
Profit for the period	—	—	—	—	2,952	2,952
At 30th June, 2004	49,500	7,761	228	(1,076)	59,210	115,623

	Six months ended 30th June, 2003 (Unaudited)					
	Share capital	Share premium	Statutory reserve fund	Translation reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1st January, 2003	41,500	6,592	228	—	63,900	112,220
Profit for the period	—	—	—	—	5,636	5,636
At 30th June, 2003	41,500	6,592	228	—	69,536	117,856

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June, 2004

(Expressed in Hong Kong dollars)

	Six months ended 30th June,	
	2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
Net cash generated from/(used in) operating activities	9,628	(8,502)
Net cash used in investing activities	(12,660)	(3,731)
Net cash generated from/(used in) financing activities	6,061	(239)
Increase/(decrease) in cash and cash equivalents	3,029	(12,472)
Cash and cash equivalents at 1st January	2,562	15,890
Cash and cash equivalents at 30th June	5,591	3,418
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	5,591	3,418

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

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 17th January 2002.

2. Principal accounting policies

The unaudited condensed interim financial statements are prepared under the historical cost convention and in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 – Interim Financial Reporting Issued by the Hong Kong Institute of Certified Public Accountants.

The condensed interim financial statements should be read in conjunctions with the 2003 annual financial statements.

The accounting policies adopted in preparing these condensed interim accounts are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2003.

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 based on 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, with a focus in four major principal economic zones, namely, Europe, Asia Pacific, North America and South Africa.

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

Revenue from external customers

	Six months ended 30th June, the Group	
	2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
Europe	5,681	24,720
Asia Pacific	8,295	17,280
North America	16,187	14,711
South Africa	-	449
	30,163	57,160

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

5. Other revenue

	Six months ended 30th June,	
	2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
Interest income	3	23
Net gain/(loss) on disposal of fixed assets	48	(47)
Net trading exchange gain	–	224
Gains on disposal of scrap materials	361	1,147
	412	1,347

6. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30th June,	
	2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
(a) Finance costs:		
Interest on bank loans and overdrafts	107	239
(b) Other items:		
Cost of inventories	20,869	42,090
Depreciation of property, plant and equipment	3,632	5,596
Operating lease rentals in respect of properties	1,684	2,793
Research and development costs	1,026	1,278
Staff costs		
– Wages, salaries and benefits	3,835	7,279
– Defined contribution retirement scheme contribution	76	186

7. Taxation

Tax on the profits of subsidiaries operating elsewhere, if any, has been calculated at the rates of tax prevailing in their respective jurisdictions for financial reporting purposes.

During the period, no provisions for Taiwan income tax, PRC income tax and Hong Kong profits tax have been made as the Group sustained a loss or no estimated profit for Taiwan, PRC and Hong Kong tax purposes.

No provisions for deferred tax have been made as the effect of all temporary differences is immaterial at the respective balance sheet dates.

8. Dividends

The Directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2004 (Six months ended 30th June, 2003: nil).

9. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$2,952,000 (2003: profit \$5,636,000) and the weighted average of 474,780,220 shares (2003: 415,000,000) 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.

10. Inventories

	At 30th June, 2004 (Unaudited) \$'000	At 31st December, 2003 (Audited) \$'000
Raw materials	21,107	26,813
Work in progress	16,864	18,864
Finished goods	3,073	6,156
	41,044	51,833

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

11. Trade receivables

The Group normally allows credit terms ranging from one to six months to its customers.

An aging analysis of the trade receivables is as follows:

	At 30th June, 2004 (Unaudited) \$'000	At 31st December, 2003 (Audited) \$'000
Current	7,961	28,700
1 to 3 months	14,959	5,430
More than 3 months but less than 12 months	29,848	7,362
Over 1 year	–	4,214
	<hr/> 52,768	<hr/> 45,706

12. Bank loans and overdrafts

	At 30th June, 2004 (Unaudited) \$'000	At 31st December, 2003 (Audited) \$'000
Secured bank overdrafts	–	317
Bank loans		
– Secured	4,055	4,865
– Unsecured	–	1,874
	<hr/> 4,055	<hr/> 7,056

All the bank loans and overdrafts are either repayable within one year or repayable on demand.

As at 30th June, 2004, 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.

13. Trade payables

An aging analysis of the trade payables is as follows:

	At 30th June, 2004 (Unaudited) \$'000	At 31st December, 2003 (Audited) \$'000
Due within 1 month or on demand	586	4,345
Due after 1 month but within 3 months	10,013	5,111
Due after 3 months but within 6 months	8,815	3,854
Due after 6 months but within 1 year	–	1,505
Total trade payables	19,414	14,815

14. Share capital

	16th February, 2004	
	No. of shares <i>million</i>	Amount \$'000
Authorised Ordinary shares of \$0.10 each	4,000	400,000
At the beginning of period	415	41,500
Placing of existing shares and subscription of new shares	80	8,000
At the end of the period	495	49,500

The Company operates a share option scheme (the "Scheme"), which became effective on 17th January, 2002 under which the directors of the Company may grant options to eligible employees or persons, including directors of any company in the Group, to subscribe for shares of the Company.

Upon payment of a nominal consideration of \$1 per option, it may be exercised at any time during the exercisable period, which is determined by the directors of the Company and may commence from the date of acceptance but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination under the Scheme. The exercise price is determined by the directors of the Company, and shall not be less than the highest of:

- i. the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day;
- ii. the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and
- iii. the nominal value of the share.

The maximum number of shares in respect of which options may be granted under the Scheme may not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme.

Up to the end of the period, no option was granted or agreed to be granted under the scheme.

15. Reserves

The amounts of the Group's reserves and the movements therein for the period ended 30th June, 2004 and 2003 are presented on the consolidated statement of changes in equity on page 3 of the financial statements.

In accordance with the relevant PRC laws applicable to enterprises with foreign investment, the Company's subsidiaries in the PRC are required to transfer at least 10% of its annual net profit, as determined under PRC accounting rules and regulations to the statutory reserve fund until the reserve balance reaches 50% of the registered capital of the respective subsidiaries. This reserve can be used to convert into paid in capital and to offset previous years' losses, if any.

16. Operating lease commitments

As at 30th June, 2004, the total future minimum lease payments under non-cancellable operating leases falling were due as follows:

	At 30th June, 2004 (Unaudited) \$'000	At 31st December, 2003 (Audited) \$'000
Within one year	3,368	2,905
In the second to fifth years, inclusive	5,382	6,589
	8,750	9,494

REVIEW

RESULTS

For the six months ended 30th June, 2004, the Group recorded a turnover of approximately HK\$30.16 million, representing a decrease of 47.2% as compared with HK\$57.16 million for the corresponding period of last year. Profit for the Group attributable to shareholders for the corresponding period was dropped by approximately HK\$2.68 million (for the corresponding period of 2003 increased by HK\$1.76 million). Basic and diluted earnings per share for the half year period amounted to 0.6 Hong Kong cents (the six months ended 30 June 2003: 1.4 Hong Kong cents).

BUSINESS

Although the global economy showed a sign of slight and steady recovery in the globe, the overall aggregate business environment is still full of challenge. The Group has proactively made effort to develop new products in order to gain a higher profit margin. During the period under review, the Group successfully entered into cooperation agreements with various renowned motherboard manufacturers, and began to make shipments in the first half of 2004. As most of the OEM/ODM productions take longer time for development and tests, the relevant sales will be reflected in the results of the second half of 2004.

Although the turnover decreased as compared with the corresponding 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.

PC Peripherals

For the first half of 2004, orders for peripherals such as aluminum alloy computer chassis, multi-media speakers and power supply pack products mainly came from OEM customers and distribution agents, and the production capacity of these products represented approximately 60% and 40% of the total turnover. The overall pricing of self-developed brands of personal computer peripherals also fell slightly. Sales for the first half of the year decreased by 47.2% as a result of a general drop in turnover caused by computer manufacturers of DIY market dumping the market with low profit margin and price chassis. For the period, our profit margin was 38.6% (2003: 28.9%).

Networking Products

For the first half of the year, the sales of the networking products amounted for approximately 2% of the turnover of the Group, representing a decrease of 25% due to the decrease of orders and the unsatisfactory unit profit, while gross profit margin was 39% (2003: 24%).

Computer Accessories

Following the cease of production of computer accessories at the end of last year, the Group gradually sold the remaining small quantity of inventories and recorded sales of approximately HK\$6.9 million.

Geographical Analysis

As the Internet develops tremendously and the living standard improves and the demand for computer products also varies. Our major OEM/OMD customers were large scale motherboard manufacturers from Taiwan and distribution agents in Europe and US. For the first half of 2004, North America, Europe, and Asia Pacific accounted for 53.7%, 18.8% and 27.5% of the Group's sales respectively.

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 36.9% as compared with the corresponding period of last year.

PROSPECTS

The Board of the Company is optimistic towards the production of computer products and will closely scrutinise and keep pace with the development of family PC networking. We will continue to develop and improve personal computer products with mini standard systems and power supply pack products. Thus, our computer products will no longer be restricted by space, making family life more enjoyable and office work more convenient, and may achieve the purpose of audio-visual entertainment. As a result, the profitability of the Group is likely to increase.

In respect of sales, the Group will, by improving the overall operating efficiency and training, and through the division of business and regional markets, expand its sales channel, increase profitability, enhance production line management, improve operating efficiency, streamline the structure of our business divisions and adopt cost control policies so as to ensure that the Company will enjoy future market growth and have better performance.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2004, the Group had cash and bank balances of approximately HK\$5.59 million and net current assets of approximately HK\$64.17 million. The Group has consistently maintained a solid working capital base during the period under review. As at 30th June, 2004, the current liabilities of the Group were approximately HK\$39.45 million whilst the Group had outstanding borrowings of approximately HK\$4.06 million. The Group's banking facilities are secured by certain properties of the Group. The gearing ratio (total liabilities to total assets) was 25.4% (as at 31st December, 2003: 28.78%).

USE OF PROCEEDS

The net proceeds from the placing of 80,000,000 shares of the Company in February 2004 amounted to approximately HK\$9.2 million. As at 30th June, 2004, the Group has utilised of approximately HK\$6.2 million in sales development and research and development, and of approximately HK\$3 million for working capital respectively. The use of proceeds was in line with the disclosure made in the press announcement of the placing of existing shares and subscription of new shares of the Company advertised in The Standard and the Hong Kong Economic Times dated 16th February, 2004.

CONTINGENT LIABILITIES

As at 30th June, 2004, the Group did not have any contingent liabilities.

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2004, the Group had approximately 700 employees in the PRC (including Hong Kong and Taiwan) and overseas. During the period under review, the remuneration for the employees amounted to approximately HK\$3.84 million. 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 option scheme for its staff in Hong Kong, Taiwan and the PRC, the Group has also provided them with various training and development programs.

EXCHANGE RISK

As the Group's operations are principally in sales in overseas market and all assets and liabilities are denominated either in US dollars, HK dollars or Renminbi, the directors believe that the operations of the Group are not subject to significant foreign exchange risk.

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 30th June, 2004, 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 (Note 3)
Wang Chia Chin	The Company	(i) beneficial owner	117,151,000 ordinary shares of HK\$0.1 each (L)
		(ii) interest of spouse (Note 1)	126,252,000 ordinary shares of HK\$0.1 each (L)
	Eagle Lord Development Limited	beneficial owner	4,920 non-voting deferred shares of HK\$1 each (L)
Chen Fang Yu	The Company	(i) beneficial owner	3,436,000 ordinary shares of HK\$0.1 each (L)
		(ii) interest of spouse (Note 2)	580,000 ordinary shares of HK\$0.1 each (L)
Chen Ho Fa	The Company	beneficial owner	2,804,000 ordinary shares of HK\$0.1 each (L)

Notes:

1. These shares are held by Ms Ko Su Mei, wife of Mr. Wang Chia Chin.
2. These shares are held by Ms Wang Li Hui, wife of Mr. Chen Fang Yu.
3. The letter “L” denotes the person’s long position in the relevant shares.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “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 30th June, 2004, 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 (L) (<i>Note 1</i>)	(i) beneficial owner	25.28%
	117,151,000 (<i>Note 2</i>) (L) (<i>Note 1</i>)	(ii) interest of spouse	23.67%
Wang Chia Chun	27,700,000	beneficial owner	5.56%
Ko Kin Hang	26,764,000	beneficial owner	5.40%

Notes:

1. The letter “L” denotes the person’s long position in the relevant shares.
2. 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 30th June, 2004.

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”), which was conditionally adopted on 28th December, 2001, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Scheme became effective on 17th 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 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 with the Directors internal control, auditing and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30th June, 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the six months ended 30th June, 2004 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, 17th September, 2004