

SKYNET (INTERNATIONAL GROUP)  
HOLDINGS LIMITED



INTERIM REPORT  
For the six months ended 30 September 2002

**RESULTS**

The board (“Board”) of directors (“Directors”) of Skynet (International Group) Holdings Limited (“Company”) announces the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 September 2002. The interim results of the Group for the six months ended 30 September 2002 are unaudited and have been reviewed by the Company’s audit committee and auditors.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 September 2002*

|   |                | <b>Six months ended</b> |                 |
|---|----------------|-------------------------|-----------------|
|   |                | <b>30 September</b>     |                 |
|   |                | <b>2002</b>             | 2001            |
|   |                | <b>(unaudited)</b>      | (unaudited)     |
|   | <i>Notes</i>   | <b>HK\$'000</b>         | <b>HK\$'000</b> |
| Turnover  | 3              | <b>42,764</b>           | 27,569          |
| Cost of sales   |                | <b>(50,193)</b>         | (27,944)        |
| Gross loss  |                | <b>(7,429)</b>          | (375)           |
| Other operating income  |                | <b>1,429</b>            | 2,956           |
| Selling expenses  |                | <b>(15)</b>             | (411)           |
| Administrative expenses   |                | <b>(9,615)</b>          | (63,815)        |
| Allowance for bad and doubtful debts  |                | <b>(1,942)</b>          | –               |
| Loss on disposal of property, plant and equipment                                     |                | <b>(5,627)</b>          | –               |
| Loss from operations  |                | <b>(23,199)</b>         | (61,645)        |
| Finance costs   |                | <b>(1,371)</b>          | (1,938)         |
| Provision for guarantee to repay redemption sum of<br>a subsidiary’s preferred shares | <i>13(iii)</i> | <b>(93,600)</b>         | –               |
| Loss on disposal of subsidiaries  |                | –                       | (2,866)         |
| Gain on deemed partial disposal of an associate                                       |                | –                       | 6,872           |
| Impairment loss recognised on goodwill  |                | –                       | (5,879)         |
| Share of results of associates  |                | <b>(415)</b>            | (19,685)        |
| Loss before taxation  | 4              | <b>(118,585)</b>        | (85,141)        |
| Taxation credit   | 5              | –                       | 1,033           |
| Loss before minority interests  |                | <b>(118,585)</b>        | (84,108)        |
| Minority interests  |                | <b>3,396</b>            | 10,069          |
| Net loss for the period   |                | <b>(115,189)</b>        | (74,039)        |
| Loss per share  | 6              |                         |                 |
| Basic and diluted   |                | <b>(2.56) cents</b>     | (1.76) cents    |

**CONDENSED CONSOLIDATED BALANCE SHEET**

*At 30 September 2002*

|   | <i>Notes</i> | <b>30 September<br/>2002<br/>(unaudited)<br/>HK\$'000</b> | 31 March<br>2002<br>(audited)<br>HK\$'000 |
|---|--------------|---|---|
| <b>Non-Current Assets</b>   |              |   |   |
| Property, plant and equipment   | 7            | <b>21,137</b>   | 30,413                                    |
| Interests in associates   |              | –   | 415                                       |
|   |              | <u><b>21,137</b></u>                                      | <u>30,828</u>                             |
| <b>Current Assets</b>   |              |   |   |
| Inventories   |              | <b>5,000</b>  | 13,017                                    |
| Trade debtors   | 8            | <b>413</b>  | 2,146                                     |
| Other debtors, deposits and prepayments   |              | <b>8,209</b>  | 1,208                                     |
| Taxation recoverable  |              | <b>126</b>  | 348                                       |
| Bank balances and cash  |              | <b>12,227</b>   | 10,608                                    |
|   |              | <u><b>25,975</b></u>                                      | <u>27,327</u>                             |
| <b>Current Liabilities</b>  |              |   |   |
| Bills payable and import loans  |              | <b>2,159</b>  | 2,159                                     |
| Trade creditors   | 9            | <b>1,000</b>  | 1,000                                     |
| Other creditors and accruals  |              | <b>31,138</b>   | 17,319                                    |
| Taxation payable  |              | <b>131</b>  | 131                                       |
| Amounts due to associates   |              | <b>862</b>  | 868                                       |
| Provision for guarantee to repay redemption sum of<br>a subsidiary's preferred shares | 13(iii)      | <b>93,600</b>   | –   |
| Short-term unsecured bank loan  |              | <b>20,000</b>   | 21,200                                    |
| Bank overdraft  |              | <b>10,630</b>   | 9,231                                     |
|   |              | <u><b>159,520</b></u>                                     | <u>51,908</u>                             |
| <b>Net Current Liabilities</b>  |              | <u><b>(133,545)</b></u>                                   | <u>(24,581)</u>                           |
|   |              | <u><b>(112,408)</b></u>                                   | <u>6,247</u>                              |
| <b>Capital and Reserves</b>   |              |   |   |
| Share capital   |              | <b>90,142</b>   | 90,142                                    |
| Reserves  | 10           | <b>(213,457)</b>  | (98,198)                                  |
|   |              | <u><b>(123,315)</b></u>                                   | <u>(8,056)</u>                            |
| <b>Minority Interests</b>   |              | <u><b>10,907</b></u>                                      | <u>14,303</u>                             |
|   |              | <u><b>(112,408)</b></u>                                   | <u>6,247</u>                              |

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**

*For the six months ended 30 September 2002*

|  | <b>Six months ended</b> |                    |
|--|-------------------------|--------------------|
|  | <b>30 September</b>     |                    |
|  | <b>2002</b>             | <b>2001</b>        |
|  | <b>(unaudited)</b>      | <b>(unaudited)</b> |
|  | <b>HK\$'000</b>         | <b>HK\$'000</b>    |
| Exchange adjustment not recognised in the income statement | <b>(70)</b>             | <b>75</b>          |
| Net loss for the period                                    | <b>(115,189)</b>        | <b>(74,039)</b>    |
| Net recognised losses                                      | <b>(115,259)</b>        | <b>(73,964)</b>    |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30 September 2002*

|  | <b>Six months ended</b> |             |
|--|-------------------------|-------------|
|  | <b>30 September</b>     |             |
|  | <b>2002</b>             | 2001        |
|  | <b>(unaudited)</b>      | (unaudited) |
|  | <b>HK\$'000</b>         | HK\$'000    |
| Net cash from (used in) operating activities                 | <b>745</b>              | (11,550)    |
| Net cash from investing activities                           | <b>745</b>              | 14,670      |
| Net cash used in financing activities                        | <b>(1,200)</b>          | –           |
|  | <hr/>                   | <hr/>       |
| Net increase in cash and cash equivalents                    | <b>290</b>              | 3,120       |
| Cash and cash equivalents at beginning of the period         | <b>1,377</b>            | (841)       |
| Effect of foreign exchange rate changes                      | <b>(70)</b>             | 75          |
|  | <hr/>                   | <hr/>       |
| Cash and cash equivalents at end of the period               | <b>1,597</b>            | 2,354       |
|  | <hr/> <hr/>             | <hr/> <hr/> |
| <b>Analysis of the balances of cash and cash equivalents</b> |                         |             |
| Cash and cash equivalents as previously reported             |                         | (20,146)    |
| Effect of reclassification of short-term unsecured bank loan |                         | 22,500      |
|  |                         | <hr/>       |
| Cash and cash equivalents as restated                        |                         | 2,354       |
|  |                         | <hr/> <hr/> |
| Being:   |                         |             |
| Bank balances and cash                                       | <b>12,227</b>           | 11,402      |
| Bank overdraft   | <b>(10,630)</b>         | (9,048)     |
|  | <hr/>                   | <hr/>       |
|  | <b>1,597</b>            | 2,354       |
|  | <hr/> <hr/>             | <hr/> <hr/> |

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 30 September 2002*

### **1. Basis of preparation**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

In preparing the interim financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$133,545,000 as at 30 September 2002. The Group was in breach of a covenant in respect of certain bank borrowings of approximately HK\$32,789,000 as at 30 September 2002, which were repayable on demand. On 2 December 2002, the Group has successfully negotiated with the bank for restructuring of such borrowings and the outstanding balance has been fully settled. In addition, a winding up petition was served on the Company by Lombard Asian Private Investment Company LDC (“Lombard”) on 24 October 2002 (Note 13(iii)) alleging that the Group failed to cause Skynet Limited (“Skynet”), one of its subsidiaries, to pay the redemption sum of HK\$93.6 million for the convertible cumulative redeemable participative preferred shares of Skynet held by Lombard. Against this background, the Group is actively seeking potential investors to obtain new funding. Provided that the Group can obtain sufficient funding from new investors, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the interim financial statements have been prepared on a going concern basis.

### **2. Principal accounting policies**

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2002, except as disclosed below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the condensed consolidated cash flow statement, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

#### *Foreign currencies*

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

**2. Principal accounting policies** (continued)

*Cash flow statements*

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings namely operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

**3. Segment information**

*Business segments*

For management purposes, the Group is currently organised into three main operating divisions, namely wholesaling, installation services and IT services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Wholesaling – wholesaling of marble and granite products and marble fittings
- Installation services – provision of installation services for marble and granite products
- IT services – provision of IT services

Segment information about these businesses for the six months ended 30 September 2002 and 2001 is presented below.

Income statement for the six months ended 30 September 2002:

|                       | <b>Wholesaling<br/>(unaudited)<br/>HK\$'000</b> | <b>Installation<br/>services<br/>(unaudited)<br/>HK\$'000</b> | <b>IT<br/>services<br/>(unaudited)<br/>HK\$'000</b> | <b>Eliminations<br/>(unaudited)<br/>HK\$'000</b> | <b>Consolidated<br/>(unaudited)<br/>HK\$'000</b> |
|-----------------------|---|---|---|--|--|
| <b>REVENUE</b>        |   |   |   |  |  |
| External sales        | <u>1,609</u>                                    | <u>41,155</u>   | <u>–</u>  | <u>–</u>   | <u>42,764</u>                                    |
| <b>SEGMENT RESULT</b> |   |   |   |  |  |
| Loss from operations  | <u>(12,598)</u>                                 | <u>(1,137)</u>  | <u>(9,464)</u>                                      | <u>–</u>   | <u>(23,199)</u>                                  |

**3. Segment information** (continued)

*Business segments* (continued)

Income statement for the six months ended 30 September 2001:

|   | Wholesaling<br>(unaudited)<br><i>HK\$'000</i> | Installation<br>services<br>(unaudited)<br><i>HK\$'000</i> | IT<br>services<br>(unaudited)<br><i>HK\$'000</i> | Eliminations<br>(unaudited)<br><i>HK\$'000</i> | Consolidated<br>(unaudited)<br><i>HK\$'000</i> |
|---|---|--|--|--|--|
| REVENUE   |   |  |  |  |  |
| External sales  | 8,191   | 15,940   | 3,438  | –  | 27,569   |
| Inter-segment sales   | <u>1,175</u>                                  | <u>–</u>   | <u>–</u>   | <u>(1,175)</u>                                 | <u>–</u>                                       |
| Total revenue   | <u><u>9,366</u></u>                           | <u><u>15,940</u></u>                                       | <u><u>3,438</u></u>                              | <u><u>(1,175)</u></u>                          | <u><u>27,569</u></u>                           |
| Inter-segment sales are charged at prevailing market rates. |   |  |  |  |  |
| SEGMENT RESULT  |   |  |  |  |  |
| Loss from operations  | <u>(53,614)</u>                               | <u>(1,547)</u>   | <u>(6,484)</u>                                   | <u>–</u>                                       | <u>(61,645)</u>                                |

**4. Loss before taxation**

| Six months ended<br>30 September |                 |
|----------------------------------|-----------------|
| 2002                             | 2001            |
| (unaudited)                      | (unaudited)     |
| <i>HK\$'000</i>                  | <i>HK\$'000</i> |

Loss before taxation has been arrived at after charging:

|                        |                     |              |
|------------------------|---------------------|--------------|
| Depreciation           | <b>3,104</b>        | 5,244        |
| Interest on borrowings | <u><b>1,371</b></u> | <u>1,938</u> |

**5. Taxation credit**

| Six months ended<br>30 September |                 |
|----------------------------------|-----------------|
| 2002                             | 2001            |
| (unaudited)                      | (unaudited)     |
| <i>HK\$'000</i>                  | <i>HK\$'000</i> |

The credit comprises:

The Company and subsidiaries  
Income tax for the prior periods

Hong Kong

|  |          |              |
|--|----------|--------------|
|  | <u>–</u> | <u>1,033</u> |
|--|----------|--------------|



**5. Taxation credit (continued)**

No provision for Hong Kong Profits Tax has been made in the interim financial statements as the Group had no assessable profit during the current period.

Hong Kong Profits Tax in 2001 was calculated at 16% of the estimated profits for the prior period.

**6. Loss per share**

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$115,189,000 (2001: HK\$74,039,000) and the weighted average number of 4,507,099,957 (2001: 4,212,017,987) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the Company's share options as their exercise price was higher than the average market price for shares for both six months ended 30 September 2002 and 2001.

**7. Movements in property, plant and equipment**

During the period, the Group disposed of property, plant and equipment with a carrying amount of approximately HK\$6,172,000.

**8. Trade debtors**

The Group does not define a fixed credit policy.

The following is an aged analysis of trade debtors at the reporting date:

|                | <b>30 September<br/>2002<br/>(unaudited)<br/>HK\$'000</b> | 31 March<br>2002<br>(audited)<br>HK\$'000 |
|----------------|---|---|
| Within 60 days | <b>100</b>  | 2,025                                     |
| 61 – 90 days   | <b>100</b>  | –   |
| Over 90 days   | <b>213</b>  | 121                                       |
|                | <hr/> <b>413</b> <hr/>                                    | <hr/> 2,146 <hr/>                         |

9. Trade creditors

The following is an aged analysis of trade creditors at the reporting date:

|              | <b>30 September<br/>2002<br/>(unaudited)<br/>HK\$'000</b> | 31 March<br>2002<br>(audited)<br>HK\$'000 |
|--------------|---|---|
| Over 90 days | <b><u>1,000</u></b>                                       | <u>1,000</u>                              |

10. Reserves

|  | <b>Exchange<br/>reserve<br/>HK\$'000</b> | <b>Share<br/>premium<br/>account<br/>HK\$'000</b> | <b>Contributed<br/>surplus<br/>HK\$'000</b> | <b>Capital<br/>redemption<br/>reserve<br/>HK\$'000</b> | <b>Accumulated<br/>losses<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|--|--|---|---|--|--|---------------------------|
| At 1 April 2001  | 1,020                                    | 479,443   | 180,801                                     | 255  | (580,154)                                  | 81,365                    |
| Shares issued at premium                                   | –  | 9,200   | –   | –  | –  | 9,200                     |
| Net loss for the period                                    | –  | –   | –   | –  | (74,039)                                   | (74,039)                  |
| Exchange differences on translation of overseas subsidiary | 75                                       | –   | –   | –  | –  | 75                        |
| At 30 September 2001                                       | 1,095                                    | 488,643   | 180,801                                     | 255  | (654,193)                                  | 16,601                    |
| Net loss for the period                                    | –  | –   | –   | –  | (116,402)                                  | (116,402)                 |
| Exchange differences on translation of overseas subsidiary | 1,620                                    | –   | –   | –  | –  | 1,620                     |
| Share of reserve of associate                              | (17)                                     | –   | –   | –  | –  | (17)                      |
| At 31 March 2002   | 2,698                                    | 488,643   | 180,801                                     | 255  | (770,595)                                  | (98,198)                  |
| Net loss for the period                                    | –  | –   | –   | –  | (115,189)                                  | (115,189)                 |
| Exchange differences on translation of overseas subsidiary | (70)                                     | –   | –   | –  | –  | (70)                      |
| <b>At 30 September 2002</b>                                | <b><u>2,628</u></b>                      | <b><u>488,643</u></b>                             | <b><u>180,801</u></b>                       | <b><u>255</u></b>                                      | <b><u>(885,784)</u></b>                    | <b><u>(213,457)</u></b>   |

**11. Contingent liabilities**

|  | <b>30 September<br/>2002<br/>(unaudited)<br/>HK\$'000</b> | 31 March<br>2002<br>(audited)<br>HK\$'000 |
|--|---|---|
| Outstanding performance bonds in respect of contract works | <b>17,380</b>   | 18,480                                    |
| Other corporate guarantee (in lieu of rental payment)      | <b>978</b>  | 978                                       |
|  | <b><u>18,358</u></b>                                      | <u>19,458</u>                             |

**12. Capital commitments**

|  | <b>30 September<br/>2002<br/>(unaudited)<br/>HK\$'000</b> | 31 March<br>2002<br>(audited)<br>HK\$'000 |
|--|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | –   | 454                                       |

**13. Post balance sheet events**

- (i) On 16 August 2002, a sale and purchase agreement was entered into for the disposal of 100% equity interests in two subsidiaries, namely Dongguan Companion Marble Factory Co., Ltd. and Dongguan Youlian Building Material Co., Ltd. at a consideration of HK\$24 million. The transaction was completed on 25 October 2002. Details of the transaction are set out in the Company's circular dated 30 September 2002.
- (ii) On 19 October 2002, the Company and certain of its subsidiaries received letters from a bank demanding repayment of the outstanding principal and interest in the aggregate amount of approximately HK\$31.7 million and US\$0.1 million. On 22 October 2002, HK\$8.3 million was repaid to the bank. On 2 December 2002, the Group has successfully negotiated with the bank for restructuring of such borrowings and the outstanding balance has been fully settled.
- (iii) On 24 October 2002, a winding up petition ("Petition") was served on the Company by Lombard alleging the failure of the Company to cause Skynet to pay the redemption amount of HK\$93.6 million for the convertible cumulative redeemable participative preferred shares of Skynet held by Lombard. The Petition was scheduled to be heard on 18 December 2002. On 30 October 2002, Lombard informed the Company that it would seek leave to withdraw the Petition filed against the Company and served another winding up petition ("New Petition") alleging the same on the Company. The New Petition is scheduled to be heard on 15 January 2003. In the opinion of the directors after consulting with legal advisor, the Company is prepared to vigorously defend such petition. The amount of HK\$93.6 million has been fully provided in the financial statements.

## 德勤·關黃陳方會計師行

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**Deloitte  
Touche  
Tohmatsu**

### INDEPENDENT REVIEW REPORT

#### TO THE BOARD OF DIRECTORS OF SKYNET (INTERNATIONAL GROUP) HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

#### Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 10.

#### Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

#### Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### Fundamental uncertainty relating to the going concern basis

In arriving at our review conclusion, we have considered the adequacy of disclosures in note 1 to the interim financial report concerning the going concern status of the Group and which explains that a winding up petition has been served on the Company and that the Group is actively seeking potential new investors. Provided that sufficient new funding can be obtained, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The interim financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available.

We consider that appropriate disclosures have been made in respect of the above fundamental uncertainty. However, in view of the extent of the uncertainty relating to the availability of future funding, we disclaim our review conclusion as a result of the fundamental uncertainty described in above.

#### Inability to reach a review conclusion

Because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 September 2002.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 13 December 2002

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: HK\$Nil per share).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review**

For the six months ended 30 September 2002, the Group recorded a consolidated turnover of HK\$42.8 million, of which HK\$1.6 million was attributable to the wholesale of marble and granite products and HK\$41.2 million was attributable to the provision of installation services for marble and granite products. Net loss for the period was HK\$115.2 million.

The first half of the financial year 2002/2003 continued to be under the impact of the persistent global economic downturn. Hampered by the sagging performance of the global economy, the local operating environment has not shown any sign of an upturn. Deflationary pressure persisted and unemployment rate remained at high levels, dampening consumption and investment sentiments. The construction industry was stagnant, resulting in intense competition and further decline in prices. Facing these challenges, the Group has streamlined its operations and adopted stringent cost control measures such as a reduction of workforce and overhead expenses. The Group also sought to reinforce its financial position by entering into a sale and purchase agreement on 16 August 2002 for the disposal of the entire registered capitals of Dongguan Companion Marble Factory Co., Ltd. and Dongguan Youlian Building Material Co., Ltd. (two wholly owned subsidiaries of the Company principally engaged in the processing of marble and granite products in the People's Republic of China) and the shareholders' loans due from such companies to the Group in the aggregate principal amount of HK\$51.8 million for a total cash consideration of HK\$24 million. Completion of such disposal took place on 25 October 2002. In addition, the Group outsourced its contracts for the installation of marble and granite products to an independent sub-contractor to minimize operating costs. Administrative expenses decreased by 84.9% to HK\$9.6 million, which was attributable to, inter alia, the implementation of cost control measures. During the period, the Group sold its obsolete marble and granite stock with a loss of HK\$7.5 million.

Following the worldwide slump of the technology sector, the business environment of the local Internet industry remained harsh and unfavourable. Share of loss of an associate for the period was HK\$0.4 million, which was attributable to the loss of an associate that invested in the website [www.hkstock.com.hk](http://www.hkstock.com.hk). Facing the shrinking Internet industry, the Group closed its Internet operations, resulting in a loss on disposal of property, plant and equipment of HK\$5.6 million.

Full provision was made for accounts receivable which had been overdue for more than six months. An allowance for bad and doubtful debts of HK\$1.9 million was made during the period.

On 24 October 2002, the Petition was served on the Company by Lombard. It was alleged in the Petition that Skynet, an approximately 64.9% subsidiary of the Company, was in breach of a shareholders' agreement dated 17 July 2000 entered into by, among others, Lombard and Skynet, and as a result of such breach, Lombard would be entitled to demand the early redemption of the convertible cumulative redeemable participative preferred shares of Skynet held by Lombard. It was further alleged that the Company had failed to cause Skynet to pay the redemption amount of HK\$93.6 million. The Petition is scheduled to be heard on 18 December 2002. On 30 October 2002, Lombard informed the Company that it would seek leave to withdraw the Petition and served the New Petition alleging the same on the Company. The New Petition is scheduled to be heard on 15 January 2003. The Company is seeking legal advice on this and will oppose such petition. The Company is also actively seeking potential investors to obtain new fundings. However, taking a prudent approach, a provision of HK\$93.6 million was made during the period.

### **Liquidity and financial resources**

As at 30 September 2002, the Group had net current liabilities of HK\$133.5 million (31 March 2002: net current liabilities of HK\$24.6 million) and a current ratio of 0.2 (31 March 2002: 0.5). Cash and bank balances as at 30 September 2002 were HK\$12.2 million (31 March 2002: HK\$10.6 million). No calculation of gearing ratio as at 30 September 2002 and 31 March 2002 was made as there was a deficiency of shareholders' funds.

As at 30 September 2002, the Group's short term unsecured bank loan amounted to HK\$20.0 million (31 March 2002: HK\$21.2 million), bank overdraft amounted to HK\$10.6 million (31 March 2002: HK\$9.2 million) and bills payable and import loans amounted to HK\$2.2 million (31 March 2002: HK\$2.2 million). All these borrowings were interest bearing and carried floating interest rates. Borrowings were denominated in Hong Kong dollars and United States dollars while cash and cash equivalents were mainly held in Hong Kong dollars. The Group had no significant exposure to foreign exchange rate fluctuations.

The Group was in breach of a covenant in respect of certain bank borrowings of HK\$32.8 million as at 30 September 2002. On 2 December 2002, the Group successfully negotiated with the bank for restructuring of the borrowings and fully settled the outstanding balance.

On 24 October 2002 and 30 October 2002, winding up petitions were served on the Company by Lombard, details of which are set out in the sub-paragraph headed "Business review" above.

### **Contingent liabilities**

As at 30 September 2002, the Group's contingent liabilities were HK\$18.4 million (31 March 2002: HK\$19.5 million), representing outstanding performance bonds in respect of contract works of HK\$17.4 million (31 March 2002: HK\$18.5 million) and other corporate guarantee in lieu of rental payment of HK\$1.0 million (31 March 2002: HK\$1.0 million).

**Employees and remuneration policies**

The Group had approximately 100 employees as at 30 September 2002. The Group's remuneration policies are in line with prevailing market practices and are formulated on the basis of the performance and the experience of the employees. Training is also provided to improve the calibre of the staff.

The Company maintains a share option scheme, pursuant to which share options have been granted to directors and senior executives to provide them with incentives in maintaining the growth of the Group.

**Prospects**

The global economy will continue to be affected by uncertainties including the slowdown of the United States economy, the political tension in the Middle East and financial problems in certain Latin American countries. Given the unstable global economic environment, the local economy is unlikely to have a resurgence in the near future. The construction and Internet industries are expected to remain volatile and highly competitive. To overcome the challenges ahead, the Group will continue to review its cost structure and business operations to enhance its operational efficiency. On the other hand, the Group will explore new opportunities that will generate revenue and offer development potentials. The Group will endeavour to achieve growth and develop company business.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 September 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS****(i) Shares in an associate**

As at 30 September 2002, the following Director held interests in the shares of Cyber On-Air Group Company Limited, an approximately 27.50% owned associate of the Group, as follows:

| <b>Name of Director</b> | <b>Number and description of shares held</b> |
|-------------------------|--|
| Lo Chi Ho, William      | 1,562,500 ordinary shares of HK\$0.01 each   |

**(ii) Options**

The following Director had personal interests in share options to subscribe for shares in the Company at exercise prices and exercisable periods as follows:

| Name of Director   | Exercise price per share<br>HK\$ | Exercisable period                      | At<br>1 April 2002 | Number of share options   |                             |                          | At<br>30 September<br>2002 |
|--------------------|----------------------------------|---|--------------------|---------------------------|-----------------------------|--------------------------|----------------------------|
|                    |                                  |   |                    | Granted during the period | Exercised during the period | Lapsed during the period |                            |
| Lo Chi Ho, William | 0.304                            | 1 March 2000 to<br>28 February 2003     | 45,000,000         | -                         | -                           | -                        | 45,000,000                 |
|                    | 0.039                            | 15 February 2001 to<br>14 February 2004 | 50,000,000         | -                         | -                           | -                        | 50,000,000                 |

Save as disclosed above, none of the Directors or their associates had, as at 30 September 2002, any interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or had exercised any such right during the period.

Save as disclosed above, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**SHARE OPTIONS**

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution passed on 1 April 1996 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 1 April 2006. Under the Scheme, the Board may grant options to employees, including any executive director, of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares of the Company in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued share capital of the Company on the date of the proposed grant less the aggregate of (i) the number of shares of the Company which would be issued on the exercise in full of the options granted but not exercised on that date and (ii) the number of shares of the Company which have been issued and allotted pursuant to the exercise of any option already granted on such date. As at 30 September 2002, the total number of shares of the Company in respect of which options may be granted under the Scheme was 60,709,995 shares, after deducting options in respect of 133,200,000 shares that had been lapsed in accordance with the terms of the Scheme. No option shall be granted to any employee if the number of shares of the Company the subject of such option when added to the number of shares of the Company which have been subscribed on exercise of any option granted to him under the Scheme and the number of shares of the Company for which the employee is entitled to subscribe under any outstanding option would exceed 25% of the maximum aggregate number of shares of the Company subject to the Scheme.

Consideration to be paid on each grant of option is HK\$10 and an offer for an option must be accepted by the employee not later than 28 days after the offer date of the option. Options granted may be exercised at any time after the date of grant of the option and before the date which is three years after the date of grant. The exercise price is determined by the Directors, and shall not be less than the greater of (i) 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the offer date of the option and (ii) the nominal value of the Company's shares.



The following table discloses movements in the Company's share options during the six months ended 30 September 2002:

| Date granted          | Exercise price<br>per share<br>HK\$ | Exercisable<br>period | At<br>1 April 2002                         | Number of share options         |                                   |                                | At<br>30 September 2002 |                   |
|-----------------------|-------------------------------------|-----------------------|--|---------------------------------|-----------------------------------|--------------------------------|-------------------------|-------------------|
|                       |                                     |                       |  | Granted<br>during<br>the period | Exercised<br>during<br>the period | Lapsed<br>during<br>the period |                         |                   |
| <b>Director</b>       |                                     |                       |  |                                 |                                   |                                |                         |                   |
| Lo Chi Ho,<br>William | 29 February 2000                    | 0.304                 | 1 March 2000 to<br>28 February<br>2003     | 45,000,000                      | -                                 | -                              | -                       | 45,000,000        |
|                       | 14 February 2001                    | 0.039                 | 15 February 2001<br>to 14 February<br>2004 | 50,000,000                      | -                                 | -                              | -                       | 50,000,000        |
| Total                 |                                     |                       |  | <u>95,000,000</u>               | <u>-</u>                          | <u>-</u>                       | <u>-</u>                | <u>95,000,000</u> |

Save as disclosed above, as at 30 September 2002, there were no share options of the Company outstanding. No share options of the Company were granted, exercised, lapsed or cancelled during the six months ended 30 September 2002.

### **SUBSTANTIAL SHAREHOLDER**

As at 30 September 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance showed that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

| <b>Name</b>   | <b>Number of shares held</b>  | <b>% (approximately)</b> |
|---|-------------------------------|--------------------------|
| Companion Building Material<br>(Holdings) Limited ("CBM") | 1,646,901,735 ( <i>Note</i> ) | 36.54                    |

*Note:* Of the above 1,646,901,735 shares of the Company held by CBM, 1,645,701,735 shares were kept in a margin account with a securities house. CBM also mortgaged 1,644,451,735 shares of the Company to Bestar Investment Limited ("Bestar") as at 30 September 2002 with the consent of the securities house. Bestar is wholly owned by Mr. Wong Chun Mo, an independent third party.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 September 2002.

### **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**PRACTICE NOTE 19 OF THE LISTING RULES**

Details of the advances to the Company's affiliated companies by the Group as at 30 September 2002 are as follows:

| <b>Name of affiliated companies</b> | <b>Percentage of effective interest held by the Company as at 30 September 2002 (approximately)</b><br>% | <b>Advances to affiliated companies (before accumulated allowance)</b><br>HK\$'000 | <b>Accumulated allowance for amounts due from affiliated companies</b><br>HK\$'000 | <b>Balance (after accumulated allowance)</b><br>HK\$'000 |
|-------------------------------------|--|--|--|--|
| Prime Key Assets Limited            | 31.8   | 4,201  | (4,201)  | –  |
| Gameplayers.com Limited             | 31.8   | 11,502   | (11,502)   | –  |
| Topstyle Publishing Limited         | 31.8   | 3,926  | (3,926)  | –  |
| HK Stock Limited                    | 32.0   | 953  | (953)  | –  |
| Top Rich Limited                    | 31.8   | 72   | (72)   | –  |
| <b>Total</b>                        |  | <u>20,654</u>  | <u>(20,654)</u>  | <u>–</u>   |

Advances to the affiliated companies are interest free, unsecured and have no fixed repayment term. No guarantees were given by the Group to secure facilities granted to the Company's affiliated companies as at 30 September 2002.

The proforma balance sheet of HK Stock Limited as at 30 September 2002 is as follows:

|                                   | <b>Balance at 30 September 2002</b><br>HK\$'000 | <b>The Company's attributable interest</b><br>HK\$'000 |
|-----------------------------------|---|--|
| Non-current assets                | <u>22,377</u>                                   | <u>7,161</u>   |
| Current assets                    | 1,080   | 345  |
| Current liabilities               | <u>(28,554)</u>                                 | <u>(9,137)</u>   |
| Net current liabilities           | <u>(27,474)</u>                                 | <u>(8,792)</u>   |
| Non-current liabilities           | –   | –  |
| Minority interests                | –   | –  |
| Deficiency of shareholders' funds | <u>(5,097)</u>                                  | <u>(1,631)</u>   |



## Skynet (International Group) Holdings Limited

A pro forma combined balance sheet of all the affiliated companies except for HK Stock Limited is not shown above as Prime Key Assets Limited, Gameplayers.com Limited, Topstyle Publishing Limited and Top Rich Limited have ceased operations and information on the assets and liabilities of such affiliated companies is not available.

Trade debtors of the Group as at 30 September 2002 amounted to approximately HK\$19,895,000 before accumulated provision and approximately HK\$413,000 after accumulated provision. Such receivables arose in the normal course of business and are interest free, unsecured and have no fixed repayment term. Details of such receivables with individual gross amount of HK\$400,000 or above as at 30 September 2002 are as follows:

| <b>Name of entity</b>           | <b>Amount receivable<br/>(before<br/>accumulated<br/>provision)<br/>HK\$'000</b> | <b>Accumulated<br/>provision<br/>HK\$'000</b> | <b>Balance<br/>(after<br/>accumulated<br/>provision)<br/>HK\$'000</b> |
|---------------------------------|--|---|---|
| Best Cheer Development Limited  | 9,760  | (9,460)                                       | 300   |
| Greatgo Holdings Ltd.           | 6,117  | (6,117)                                       | –   |
| Skytoken Limited                | 2,896  | (2,896)                                       | –   |
| Subtotal                        | 18,773   | (18,473)                                      | 300   |
| Others (each below HK\$400,000) | 1,122  | (1,009)                                       | 113   |
| Total                           | <u>19,895</u>  | <u>(19,482)</u>                               | <u>413</u>  |

The Group had been in breach of a covenant on the financial position of the Group in respect of certain bank borrowings, resulting in the bank borrowings immediately repayable on demand. Such bank borrowings amounted to approximately HK\$32,789,000 as at 30 September 2002. On 2 December 2002, the Group successfully negotiated with the bank for restructuring of such borrowings and fully settled the outstanding balance.

### APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks and appreciation to all our staff for their hard work and commitment and to our bankers, customers, suppliers and shareholders for their continued support.

By Order of the Board  
**To Chi**  
*Executive Director*

Hong Kong, 13 December 2002