

## BUSINESS REVIEW

For the year ended 31 March 2003, Skynet (International Group) Holdings Limited (“Company”) and its subsidiaries (“Group”) recorded a consolidated turnover of approximately HK\$51.4 million, of which approximately HK\$10.9 million was attributable to the wholesale of marble and granite products and marble fittings and approximately HK\$40.5 million to the provision of installation services for marble and granite products.

Net loss for the year was approximately HK\$96.9 million. Loss from operations was approximately HK\$31.5 million for the year, compared with approximately HK\$144.9 million in the previous year. The significant reduction in loss from operations was largely attributable to a drop in allowances made and impairment loss recognized and a decrease in administrative expenses.

During the year, the Group continued to operate under a tough business environment. The local economy remained in the doldrums with persistent high unemployment rate and restrained consumer and business spending. Despite the HKSAR Government’s measures to stabilise property prices, the local property market continued to be stagnant. The gross value of construction work performed by main contractors at sites in Hong Kong in respect of buildings was in a downward trend, and the construction sector experienced hard times. Intense competition in the construction industry put severe pressure on the sales price and profit margin of the Group’s marble and granite products. Facing these challenges, the Group streamlined its operations and implemented stringent cost control measures, including a reduction in the 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 indirect 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 approximately HK\$51.8 million for a total cash consideration of HK\$24 million. Completion of the disposal took place on 25 October 2002 and a gain of approximately HK\$5.1 million was recognized from the disposal. In addition, the Group outsourced its contracts for the installation of marble and granite products to an independent sub-contractor to minimize operating costs. In its effort to streamline operations, the Group also sold its obsolete marble and granite stock, in respect of which an allowance of approximately HK\$7.5 million was made during the year. Administrative expenses decreased by 62.3% to approximately HK\$14.9 million for the year.

Following the downturn of the global technology sector, the business environment of the local Internet industry remained harsh and unfavourable. To minimize the repercussions of the shrinking Internet industry, the Group had cut down its Internet operations. A loss on disposal of property, plant and equipment of approximately HK\$5.8 million was recognised during the year, which was attributable to the cut down of Internet operations.

Share of loss of an associate for the year was approximately HK\$0.4 million, which was attributable to the loss of an associate that had previously invested in the website [www.hkstock.com.hk](http://www.hkstock.com.hk).

Full allowance was made for trade debtors that had been overdue for more than six months. An allowance for bad and doubtful debts of approximately HK\$2.1 million was made during the year.

As disclosed in the annual report of the Company for the year ended 31 March 2002 and the interim report of the Company for the six months ended 30 September 2002, the Group had been in breach of a covenant in respect of certain bank borrowings, resulting in the borrowings immediately repayable on demand. Such bank borrowings amounted to approximately HK\$31.4 million as at 31 March 2002 and approximately 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. Bank interest of approximately HK\$7.1 million was waived by the bank and such amount was recognized as a gain in the consolidated financial statements of the Company for the year ended 31 March 2003.

On 24 October 2002, a winding up petition ("Petition") was served on the Company by Lombard Asian Private Investment Company LDC ("Lombard"). It was alleged in the Petition that Skynet Limited ("Skynet", an indirectly approximately 68.9% owned subsidiary of the Company as at the date of this report) was in breach of a shareholders' agreement dated 17 July 2000 ("Shareholders' Agreement") entered into between, among others, Lombard and Skynet, and as a result of such breach, Lombard would be entitled to demand the early redemption of the 671,651 convertible cumulative redeemable participative preferred shares of Skynet ("CP Shares") held by Lombard ("Lombard Securities"). It was further alleged that the Company, as guarantor under a subscription agreement dated 28 June 2000 ("Subscription Agreement") entered into between Skynet, the Company and Lombard, had failed to cause Skynet to pay the redemption amount of HK\$93.6 million. On 30 October 2002, Lombard informed the Company that it would seek leave to withdraw the Petition and served another winding up petition ("New Petition") alleging the same on the Company. On 5 March 2003, a conditional restructuring agreement ("Lombard Restructuring Agreement") was entered into between BCD (Holdings) Limited ("Newco", a wholly-owned subsidiary of the Company), Skynet, the Company and Lombard pursuant to which, among others, the parties thereto agreed to terminate the Shareholders' Agreement and the Subscription Agreement and Lombard agreed to transfer the Lombard Securities to Newco. Details of the Lombard Restructuring Agreement have been set out in the joint announcements dated 6 May 2003 and 30 June 2003 issued by the Company and Monetary Success Investments Limited ("Subscriber"). In view of the Proposal (as defined below) and the signing of the Lombard Restructuring Agreement, the Company and Lombard have agreed to adjourn the hearing of the New Petition. On 9 June 2003, the High Court of the HKSAR ordered a further adjournment of the hearing of the New Petition until 22 September 2003. However, taking a prudent approach, a provision of HK\$93.6 million was made during the year.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003, the Group had net current liabilities of approximately HK\$107.6 million (31 March 2002: net current liabilities of approximately HK\$24.6 million) and a current ratio of approximately 0.02 (31 March 2002: approximately 0.53). Cash and bank balances as at 31 March 2003 were approximately HK\$0.3 million (31 March 2002: approximately HK\$10.6 million). No calculation of gearing ratio as at 31 March 2003 and 31 March 2002 was made as there was a deficiency of shareholders' funds.

Apart from the shareholders' loans of HK\$8.5 million due to minority shareholders of a subsidiary (which were denominated in Hong Kong dollars) and intra-group liabilities and normal trade payables and accruals, the Group did not have any mortgages, charges, bank loans, bank overdraft, bills payable, import loans or other similar indebtedness as at 31 March 2003, as compared with short term unsecured bank loans of approximately HK\$21.2 million, bank overdraft of approximately HK\$9.2 million and bills payable and import loans of approximately HK\$2.2 million as at 31 March 2002.

Cash and cash equivalents as at 31 March 2003 were mainly held in Hong Kong dollars. The Group had no significant exposure to foreign exchange rate fluctuations.

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 31 March 2003, the Group did not have any contingent liabilities. In June 2002, a writ was issued by Swee Kheng & Aster Marble Company Limited ("Swee Kheng") against Companion Marble Limited ("Companion Marble", an indirect wholly-owned subsidiary of the Company) claiming payment of a sum of approximately HK\$1.7 million being the alleged outstanding sum of the contract works done by Swee Kheng under a sub-contract granted by Companion Marble to Swee Kheng on a back-to-back basis or an account of all sum due from Companion Marble to Swee Kheng in respect of the payment Companion Marble received from Pentad Construction Company Limited (the main contractor of the construction project), plus interest and costs. Companion Marble has filed a defence and counterclaim claiming payment from Swee Kheng of a sum of approximately HK\$0.2 million, plus interest and costs. No provision has been made in the financial statements in respect of this.

As at 31 March 2002, the Group's contingent liabilities were approximately HK\$19.5 million, representing outstanding performance bonds in respect of contract work of approximately HK\$18.5 million and other corporate guarantees in lieu of rental payment of approximately HK\$1.0 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

As a result of the Group's cost reduction and streamlining measures, the Group's employees had reduced significantly. As at 31 March 2003, the Group had seven employees (2002: approximately 120). For the year ended 31 March 2003, total staff costs amounted to approximately HK\$4.3 million (2002: approximately HK\$11.0 million). 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. During the year, no share options were granted, exercised or cancelled, while options conferring rights to subscribe for 45 million shares of the Company were lapsed.

## **PROSPECTS**

In view of the uncertain global economic environment, it is expected that the local economy, further dampened by the outbreak of Severe Acute Respiratory Syndrome, will continue to be plagued by lacklustre demand and deflationary pressure. It is unlikely that the local property market will have a strong recovery in the near future. To overcome the challenges ahead and revitalise the financial position of the Group, the

Company, on 5 March 2003, entered into a subscription agreement, two restructuring agreements and a disposal agreement with various parties to effect a restructuring proposal ("Proposal"). The Proposal involves:

- (i) the establishment of Newco as the holding company of the Company by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda between the Company and its shareholders, the implementation of which will entail an exchange of one share of Newco ("Newco Share") for every 40 shares of the Company ("Skynet Shares") (subject to such other ratio as may be agreed by the Company and the Subscriber, provided that the Subscriber will hold not less than 97% of the enlarged issued share capital of Newco and the existing shareholders of the Company will hold approximately 3% of the enlarged issued share capital of Newco upon completion of the Proposal);
- (ii) the delisting of Skynet Shares and the listing of Newco Shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange");
- (iii) the subscription of 4,000,000,000 Newco Shares at the subscription price of HK\$0.01 per share by the Subscriber (subject to such other number of Newco Shares as may be agreed by the Company and the Subscriber provided that the Subscriber will hold not less than 97% of the enlarged issued share capital of Newco upon completion of the Proposal) and the issue to the Subscriber of convertible notes in the aggregate principal amount of HK\$5 million in Newco which are convertible into Newco Shares;
- (iv) the termination of certain prior agreements entered into by the Company and/or Skynet and/or certain shareholder(s) of Skynet with Lombard and the transfer of the Lombard Securities to Newco in consideration of payment of HK\$15 million by Newco to Lombard;
- (v) the termination of certain prior agreements entered into by the Company and/or Skynet and/or certain shareholder(s) of Skynet with Hidden Advantage Investments Limited ("Hidden"), a shareholder of Skynet holding 1,091,545 ordinary shares of Skynet ("Hidden Securities", representing approximately 5.2% of the aggregate number of ordinary shares of Skynet and CP Shares currently in issue), and the transfer of the Hidden Securities to Newco in consideration of payment of HK\$15 million by Newco to Hidden; and
- (vi) the disposal of 22,868,656 ordinary shares of Cyber On-Air Group Company Limited ("COA", a company listed on the Growth Enterprise Market of the Stock Exchange), representing approximately 27.5% of the issued share capital of COA as at the date of the disposal agreement, at a price of approximately HK\$0.0733 per share.

Details of the Proposal have been disclosed in the joint announcements dated 6 May 2003, 20 May 2003, 27 May 2003, 9 June 2003, 30 June 2003 and 22 July 2003 issued by the Company and the Subscriber. Completion of the Proposal is subject to the fulfilment of certain conditions. Provided that the Proposal can be successfully completed, the Group will be able to dismiss the New Petition and strengthen its financial position, thus allowing it to capture new opportunities ahead.

## 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, 28 July 2003