

BUSINESS REVIEW

For the year ended 31 March 2004, Skynet (International Group) Holdings Limited (“Company”) and its subsidiaries (“Group”) recorded a turnover of approximately HK\$1.5 million and a net loss of approximately HK\$11.5 million, compared with a turnover of approximately HK\$51.4 million and a net loss of approximately HK\$96.9 million in the previous year.

During the year, the Group continued to operate under a tough business environment and stringent financial condition. To minimize operating costs, the Group outsourced its contracts for the installation of marble and granite products to an independent sub-contractor. The Group’s operations were scaled down, leading to the decline in the turnover. Turnover from wholesaling of marble and granite products and marble fittings reduced from approximately HK\$10.9 million to approximately HK\$0.4 million, while turnover from provision of installation services for marble and granite products reduced from approximately HK\$40.5 million to approximately HK\$1.1 million.

Net loss for the year was approximately HK\$11.5 million, compared with approximately HK\$96.9 million in the previous year. The reduction in net loss was largely attributable to the followings: (i) a provision for guarantee to repay the redemption sum of a subsidiary’s preferred shares of HK\$93.6 million was made in previous year; (ii) an allowance for obsolete finished goods and work in progress of approximately HK\$7.5 million was made in the previous year; and (iii) a loss on disposal of property, plant and equipment of approximately HK\$5.8 million was recognized in the previous year.

ACQUISITION AND DISPOSAL

Restructuring proposal involving acquisition of Paul Y. – ITC Construction Holdings (B.V.I.) Limited (“Paul Y Construction”, together with its subsidiaries, “Paul Y Construction Group”) and Hidden Advantage Investments Limited (“Hidden”)

The Company was placed into the “first stage” of the delisting procedure on 16 October 2003 as the Company is unable to comply with the requirements under the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) which require listed issuers to carry out a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to warrant the continued listing of the shares on the Stock Exchange. According to the Listing Rules, the “first stage” lapsed and the “second stage” of the delisting procedure commenced on 15 April 2004, being six months following the suspension of trading in the shares of the Company on 16 October 2003. In view of the above, on 29 March 2004, the Company entered into certain sale and purchase agreements and an underwriting agreement to effect a restructuring proposal (“Proposal”). The Proposal involves:

- (i) a capital reorganisation which includes: (a) the cancellation of HK\$0.018 of the paid-up capital from each issued share of HK\$0.02 in the capital of the Company (“Share”) and reduction in the nominal value of each issued Share from HK\$0.02 to HK\$0.002; (b) the cancellation of the entire amount standing to the credit of the share premium account of the Company; (c) the subdivision of each authorised but unissued Share into 10 reduced shares of HK\$0.002 each (“Reduced Shares”); (d) the consolidation of every 10 Reduced Shares into one consolidated share of HK\$0.02 (“Consolidated Share”); and (e) the increase in the authorised share capital of the Company from HK\$140 million to HK\$400 million by the creation of an additional 13,000 million Consolidated Shares;

- (ii) an open offer on the basis of five new Consolidated Shares (“Offer Shares”) for every two Consolidated Shares held by qualifying shareholders on the record date for the offer at HK\$0.04 per Offer Share and the underwriting of 1,126,774,985 Offer Shares by Paul Y. – ITC Construction Holdings Limited (“Paul Y”);
- (iii) the acquisition of the entire issued share capital of, and shareholder’s loans to, Paul Y Construction at a total consideration of HK\$400 million, to be satisfied by the issue of 10,000 million Consolidated Shares to Paul Y (or as it may direct), and the provision of an unsecured loan facility in the principal amount of up to HK\$100 million by Paul Y to the Company at completion of the aforesaid acquisition; and
- (iv) the acquisition by the Company from Paul Y of the entire issued share capital of, and shareholder’s loans to, Hidden at a total consideration of HK\$113.6 million which will be satisfied by the issue of 2,840 million Consolidated Shares (“Hidden Consideration Shares”) to Paul Y (or as it may direct). (On 27 March 2004, a wholly-owned subsidiary of Hidden conditionally agreed to acquire from Lombard Asian Private Investment Company LDC (“Lombard”) of all the rights arising from the 671,651 convertible cumulative redeemable participative preferred shares (“Preferred Shares”) of Skynet Limited (“Skynet”), an indirectly approximately 68.9% owned subsidiary of the Company (including Lombard’s claim for the payment of the redemption sum of HK\$93.6 million in respect of the Preferred Shares), and a wholly-owned subsidiary of Paul Y conditionally agreed to acquire from Wellington Equities Inc. the entire issued share capital of, and shareholder’s loans to, Hidden at a total consideration of HK\$30 million, of which HK\$10 million will be paid in cash and the remaining HK\$20 million will be satisfied by the issue to Wellington Equities Inc. (or as it may direct) of 500 million Consolidated Shares out of the Hidden Consideration Shares).

The Proposal is subject to a number of conditions and as at the date of this announcement, completion of the Proposal has not taken place. Details of the Proposal have been disclosed in the joint announcements dated 4 June 2004 and 25 June 2004 issued by the Company, Paul Y and ITC Corporation Limited.

Disposal of Cyber On-Air Group Company Limited (“COA”)

On 8 March 2004, COA entered into: (i) a conditional subscription agreement (“Subscription Agreement”) in relation to the subscription of 120 million new COA Consolidated Shares (as defined below) by Mediastar International Limited (“Mediastar”) at a subscription price of HK\$1.00 per COA Consolidated Share; (ii) a conditional placing agreement (“Placing Agreement”) in relation to the placing, on a best efforts basis, of up to 80 million new COA Consolidated Shares by Tai Fook Securities Company Limited at a placing price of HK\$1.00 per COA Consolidated Share; and (iii) conditional settlement agreements (“Settlement Agreements”) in relation to the settlement of certain loan notes and the release of certain share charges by the issue of 4 million new COA Consolidated Shares at an issue price of HK\$1.00 per COA Consolidated Share, and the directors of COA proposed a capital reorganisation involving, among others, a share consolidation of all the issued shares of COA on the basis of every 100 shares of HK\$0.01 each into one consolidated share of HK\$1.00 (“COA Consolidated Share”). The capital reorganisation became effective on 22 April 2004. The Subscription Agreement and the Settlement Agreements were completed on 30 April 2004 and the Placing Agreement was completed on 5 May 2004. The interest held by Qantex Limited, an indirectly approximately 68.9% owned subsidiary of the Company, in COA was reduced from approximately 27.5% to approximately 0.1% immediately after completion of the Subscription Agreement, the Settlement Agreements and the Placing Agreement. Details of the above were set out in the joint announcements dated 8 March 2004, 2 April 2004, 22 April 2004, 5 May 2004 and 27 May 2004 issued by COA, Mediastar and Chow Tai Fook Enterprises Limited.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Group had net current liabilities of approximately HK\$119.1 million (31 March 2003: net current liabilities of approximately HK\$107.6 million) and a current ratio of approximately 0.0002 (31 March 2003: approximately 0.02). Cash and bank balances as at 31 March 2004 were approximately HK\$0.02 million (31 March 2003: approximately HK\$0.3 million). No calculation of gearing ratio as at 31 March 2004 and 31 March 2003 was made as there was a deficiency of shareholders' funds.

As at 31 March 2004 and 31 March 2003, shareholders' loans of HK\$8.5 million (which were denominated in Hong Kong dollars) were owing from a subsidiary of the Company to its minority shareholders and the Group did not have any bank borrowings.

Cash and cash equivalents as at 31 March 2004 were mainly held in Hong Kong dollars. The Group had no significant exposure to foreign exchange rate fluctuations.

A winding up petition was served on the Company by Lombard on 30 October 2002 alleging that Skynet was in breach of a shareholders' agreement dated 17 July 2000 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 Preferred Shares held by Lombard. It was alleged that the Company, as a guarantor under a subscription agreement dated 28 June 2000 entered into between Skynet, the Company and Lombard, had failed to cause Skynet to pay the redemption amount of HK\$93.6 million. The petition was dismissed by the court on 29 March 2004 following the entering into a conditional agreement for the acquisition by a wholly-owned subsidiary of Hidden from Lombard of all of Lombard's rights arising from the Preferred Shares.

CHARGES ON ASSETS

As at 31 March 2004 and 31 March 2003, the Group did not charge any of its assets.

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 indirectly 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 cost. 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.

The Company has given certain undertakings to Hidden that the return of Hidden's investment in Skynet would not be less than US\$16 million. There is a shortfall in the return of Hidden's investment. The compensation to Hidden in accordance with the agreement is estimated to be approximately HK\$10.6 million. The directors of the Company considered that the likelihood of compensation is remote and no provision has been made accordingly.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2004, the Group had 5 employees (2003: 7). For the year ended 31 March 2004, total staff costs amount to approximately HK\$3.9 million (2003: approximately HK\$4.3 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 employees. Training is also provided to improve the caliber 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 50 million Shares were lapsed.

PROSPECTS

The local economy has shown signs of improvement, as evidenced by declining unemployment and deflation rates. It is expected that the Proposal will enable the Group to satisfy most of its liabilities or obligation and restore its net asset base and working capital position. Paul Y Construction Group is construction group that undertakes civil engineering, building construction and specialist works and pre-cast concrete product manufacturing. With new working capital and by leveraging on Paul Y Construction Group's experience and expertise in the construction sector, the Group will be able to solicit new businesses and revitalize its marble and granite products wholesale and installation businesses and 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, 23 July 2004