



SKYNET (INTERNATIONAL GROUP) HOLDINGS LIMITED (天網(國際集團)有限公司)*

(incorporated in Bermuda with limited liability)
(Stock Code: 577)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

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 2004. The interim results of the Group for the six months ended 30 September 2004 are unaudited and have been reviewed by the Company's audit committee and auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30.9.2004 (unaudited) HK\$'000	30.9.2003 (unaudited) HK\$'000
Turnover	3	6,431	1,057
Cost of sales		<u>(6,313)</u>	<u>(1,049)</u>
Gross profit		118	8
Other operating income		–	25
Administrative expenses		<u>(4,909)</u>	<u>(4,102)</u>
Loss from operations		(4,791)	(4,069)
Gain on deemed disposal of an associate		167	–
Finance costs		<u>(45)</u>	<u>–</u>
Loss before taxation	4	(4,669)	(4,069)
Taxation	5	–	–
Net loss for the period		<u>(4,669)</u>	<u>(4,069)</u>
Loss per share	6		
Basic		<u>(0.10) cent</u>	<u>(0.09) cent</u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

In preparing the interim financial report, the Directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK\$123,930,000 as at 30 September 2004. On 29 March 2004, the Company entered into a conditional agreement with Paul Y. - ITC Construction Holdings Limited ("Paul Y") in relation to a restructuring proposal (the "Proposal"). The Proposal involves (i) a capital reorganisation which includes: (a) the cancellation of HK\$0.018 of the paid-up capital from the issued shares of the Company 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; (d) the consolidation of every 250 reduced shares of HK\$0.002 each into one consolidated share of HK\$0.5; and (e) the increase in the authorised share capital of the Company from HK\$140,000,000 to HK\$500,000,000 by the creation of an additional 720,000,000 consolidated share of HK\$0.5 each; (ii) an open offer to allow the shareholders of the Company to participate in the restructuring of the Group, the Company will make the open offer whereby qualifying shareholders will be offered five offer shares for every two consolidated shares on an assured basis held on 30 December 2004 ("Record Date") at HK\$1.00 per offer share; (iii) to acquire from Paul Y the entire issued share capital of, and shareholder's loans to, Paul Y. - ITC Construction Holdings (B.V.I.) Limited at a total consideration of HK\$400,000,000, to be satisfied by the issue of the consideration shares at HK\$1.00 per consolidated share; (iv) Paul Y conditionally agreed to acquire the entire issued share capital of Hidden Advantage Investments Limited ("Hidden") together with the outstanding loan from Wellington Equities Inc. for a total consideration of HK\$30,000,000, of which HK\$10,000,000 will be paid in cash and the remaining HK\$20,000,000 will be satisfied by the issue of 20,000,000 consolidation shares out of the Hidden consideration shares. To retire the Group's obligation in relation to the Lombard Asian Private Investment Company LDC. ("Lombard") Claim and to retire the Group's outstanding obligations under the Hidden Prior Agreements, the Company agreed to acquire from Paul Y the Hidden Interest at HK\$113.6 million which will be settled by the issue of the Hidden consideration shares at HK\$1.00 per consolidated share to Paul Y. Details of the Proposal are set out in the circular of the Company dated 30 November 2004 ("Circular").

The Proposal is expected to be completed by 17 January 2005. Provided that the Proposal can be successfully completed, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the interim financial report has 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 2004, except as described below.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

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 bases on which the Group reports its primary segment information.

Principal activities are as follows:

Wholesaling	–	wholesaling of building materials
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 2004 and 2003 is presented below.

Income statement for the six months ended 30 September 2004:

	Wholesaling (unaudited) HK\$'000	Installation services (unaudited) HK\$'000	IT services (unaudited) HK\$'000	Consolidated (unaudited) HK\$'000
REVENUE				
External sales	<u>6,088</u>	<u>343</u>	<u>–</u>	<u>6,431</u>
SEGMENT RESULT				
(Loss) profit from operations	(4,005)	165	(951)	(4,791)
Gain on deemed disposal of an associate				167
Finance costs				<u>(45)</u>
Loss before taxation				<u>(4,669)</u>

Income statement for the six months ended 30 September 2003:

	Wholesaling (unaudited) HK\$'000	Installation services (unaudited) HK\$'000	IT services (unaudited) HK\$'000	Consolidated (unaudited) HK\$'000
REVENUE				
External sales	<u>415</u>	<u>642</u>	<u>–</u>	<u>1,057</u>
SEGMENT RESULT				
(Loss) profit before taxation	<u>(3,011)</u>	<u>7</u>	<u>(1,065)</u>	<u>(4,069)</u>

4. LOSS BEFORE TAXATION

	Six months ended	
	30.9.2004 (unaudited) HK\$'000	30.9.2003 (unaudited) HK\$'000
Loss before taxation has been arrived at after (crediting)/charging:		
Bad debt recovered	(165)	–
Interest on borrowing	<u>45</u>	<u>–</u>

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the interim financial report as the Group had no assessable profit during both periods.

Nil provision for the period can be reconciled to the loss per the consolidated income statement as follows:

	Six months ended	
	30.9.2004 (unaudited) HK\$'000	30.9.2003 (unaudited) HK\$'000
Loss before taxation	<u>(4,669)</u>	<u>(4,069)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(817)	(712)
Tax effect of income not taxable for tax purpose	(30)	–
Utilisation of tax losses previously not recognised	(25)	–
Tax effect of tax losses not recognised	<u>872</u>	<u>712</u>
Taxation for the period	<u>–</u>	<u>–</u>

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$4,669,000 (2003: HK\$4,069,000) and 4,507,099,957 ordinary shares in issue during both periods.

7. CONTINGENT LIABILITIES

- (a) A subsidiary of the Company is a defendant in a lawsuit brought during 2002 claiming approximately HK\$1,733,000 relating to the outstanding sum of the contract works done by a sub-contractor, Swee Kheng & Aster Marble Company Limited ("Swee Kheng"). The subsidiary filed a defence and counterclaimed payment from Swee Kheng of a sum of approximately HK\$162,000. The subsidiary has contested the claim vigorously and no provision has been made in the financial statements.
- (b) The Company has given certain undertakings to Hidden, a minority shareholder of a subsidiary of the Group, that the return of Hidden's investment in that subsidiary would not be less than US\$16,000,000. 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\$10,576,000. The directors considered that the likelihood of compensation is remote and no provision is made accordingly.

EXTRACT OF AUDITORS' INDEPENDENT REVIEW REPORT

The following is an extract of the auditors' independent review report on the interim financial report of the Company for the six months ended 30 September 2004:

"Fundamental uncertainty relating to the going concern basis

In arriving at our review conclusion, we have considered the adequacy of the disclosures in note 1 to the interim financial report which explains that the Group is dependent upon the successful completion of a restructuring proposal. Provided that the restructuring proposal can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. The interim financial report has been prepared on a going concern basis, the validity of which depends upon the successful completion of the final restructuring and upon future funding being available.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2004."

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 September 2004, the Group recorded a turnover of approximately HK\$6,431,000 and a net loss of approximately HK\$4,669,000, compared with a turnover of approximately HK\$1,057,000 and a net loss of approximately HK\$4,069,000 for the corresponding period in the previous year.

During the period, the Group continued to operate under a tough business environment and stringent financial condition.

The Group is principally engaged in trading of building materials, the provision of installation services for marble and granite products and the provision of information technology services. Due to the adverse financial position of the Group and its tight liquidity position, the Group's principal operation has been significantly scaled down.

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 Listing Rules 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 (as supplemented by three supplemental agreements) and an underwriting agreement (as supplemented by three supplemental agreements) 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"), resulting in the 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 250 Reduced Shares into one consolidated share of HK\$0.5 ("Consolidated Share"); (e) the increase in the authorised share capital of the Company from HK\$140 million to HK\$500 million by the creation of an additional 720 million Consolidated Shares; and (f) the change in the board lot for trading of the Shares from 5,000 shares to 2,000 Consolidated Shares upon the capital reorganisation becoming effective;
- (ii) an open offer ("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\$1.0 per Offer Share and the underwriting of 45,070,995 Offer Shares by Paul Y;
- (iii) the acquisition of the entire issued share capital of, and shareholder's loan to, Paul Y Construction at a total consideration of HK\$400 million (the "Acquisition"), to be satisfied by the issue of 400 million Consolidated Shares to Paul Y (or as it may direct), and the provision of an unsecured loan facility in the principal of up to HK\$100 million by Paul Y to the Company at completion of the Acquisition;

- (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 113.6 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 indirect 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 20 million Consolidated Shares out of the Hidden Consideration Shares; and
- (v) in order to facilitate the restoration of the public float of the Company upon completion of the Proposal, the Company has entered into a placing agreement dated 30 August 2004 with Tai Fook Securities Company Limited ("Tai Fook") for the placing of up to a maximum of 141,530,000 new Consolidated Shares on a best efforts basis to not less than six independent third parties who are independent of and not connected with the Company or Paul Y or ITC Corporation Limited or their respective connected persons and ultimate beneficial owners.

A special general meeting of the Company will be held on 22 December 2004 to consider and approve, among others things, the Proposal. The Proposal is subject to a number of conditions and as at the date of this announcement, completion of the Proposal has not been taken place. Details of the Proposal are set out in the Circular and an announcement of the Company dated 15 December 2004.

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 Share (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 ("COA Placing Agreement") in relation to the placing, on a best efforts basis, of up to 80 million new COA Consolidated Shares by Tai Fook 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 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 COA Placing Agreement was completed on 5 May 2004. The interest held by Qantex Limited, an indirect 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 COA 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.

Charge on assets

As at 30 September 2004 and 31 March 2004, 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 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 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 considered that the likelihood of compensation is remote and no provision has been made accordingly.

Employees and remuneration policies

As at 30 September 2004, the Group had five employees. For the six months ended 30 September 2004, total remuneration of the Group amounted to approximately HK\$1,619,000. The Group's remuneration policies are in line with the 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 caliber of the staff.

The Company maintains a share option scheme, pursuant to which share options have been granted to Directors and senior executives of the Company to provide them with incentives in maintaining the growth of the Group. During the period, no share options were granted, exercised, cancelled or lapsed.

Liquidity and financial resources

As at 30 September 2004, the Group had net current liabilities of approximately HK\$123,930,000 (31 March 2004: net current liabilities of approximately HK\$119,094,000) and a current ratio of approximately 0.0033 (31 March 2004: approximately 0.0002). Cash and bank balances as at 30 September 2004 were approximately HK\$73,000 (31 March 2004: approximately HK\$20,000). No calculation of gearing ratio as at 30 September 2004 and 31 March 2004 was made as there was a deficiency of shareholders' funds.

As at 30 September 2004, loans of HK\$6.0 million and HK\$2.5 million were owing from a subsidiary of the Company to its minority shareholders and third party respectively and loan of HK\$4.0 million was owing from the Company to Paul Y Construction Group and the Group did not have any bank borrowings. As at 31 March 2004, 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 30 September 2004 were mainly held in Hong Kong dollars. The Group had no significant exposure to foreign exchange rate fluctuations.

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 its liabilities or obligation and restore its net asset base and working capital position.

In an effort to assist the Group to revive its marble and granite products trading and installation business, Paul Y Construction Group has, since April 2004, purchased tiles from the Group. The selling prices of the tiles have been fixed after arm's length negotiation taking into consideration the costs of the materials to the Group and the terms of the transactions are based on normal commercial terms. The Paul Y Construction Group has extended loans in the total amount of HK\$4 million as at 30 September, 2004 to finance the day to day operation of the Group. Such loans are unsecured, bear interest at normal commercial rate (2% above the prime rate) and are repayable on demand. With the new working capital from the Proposal, in particular, the net proceeds of about HK\$44 million from the Open Offer, the Group will be in a position to acquire new stock of marble and granite products and employ additional sales and marketing staff. The marble and tile business of the Group is complimentary to, and will form part of, the construction business run by the Paul Y Construction Group. In addition to the Paul Y Construction Group's possible demand for marble for its own projects, the enlarged Group upon completion of the Acquisition (the "Enlarged Group") will be able to leverage on the business connections built up by Paul Y Construction and secure new business opportunities in Hong Kong, the People's Republic of China and overseas.

The sourcing, supply and installation of marble and granite products will be carried out through the Group. The supply of marble and tile will become an integral part of the construction material division of the Enlarged Group. The Directors expect that the integration of the marble business and the construction business through the Acquisition would bring synergistic value to the Enlarged Group leading to, among others, reduction in overhead and improvement in profit margin, which will in turn enable it to provide more competitive pricing to its customers.

With new capital and by leverage 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.

CODE OF BEST PRACTICE

As announced by the Company on 8 October 2004, the Board consists of three executive Directors, one non-executive Director and two independent non-executive Directors and the audit committee consists of these two independent non-executive Directors. None of the two independent non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Accordingly, the Company fails to meet the requirements under Rule 3.10 and Rule 3.21 of the listing Rules.

Save as disclosed above, 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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended 30 September 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
To Chi
Executive Director

Hong Kong, 17 December 2004

* *for identification only*

Please also refer to the published version of this announcement in The Standard.