

E-silkROAD.NET

E-silkroad Holdings Limited

(incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2000

IMPORTANT NOTICE

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

Board of Directors

Chairman

Choi Koon Ming

Executive Directors

Ho Kwong Hung, Thomas

Yuen Fat Ching

Li Ka Hay, Peter

Lee Wing Yin

Hui Ching Shan

Non-executive Directors

Xin Wei

Ha Kee Choy, Eugene

Independent Non-executive Directors

Yeung Chi Hung

Chu Cheong Kit, Raymond

Company secretary

Lee Wing Yin

Qualified accountant

Lee Wing Yin

Compliance officer

Lee Wing Yin

Authorised representatives

Ho Kwong Hung, Thomas

Lee Wing Yin

Audit committee

Yeung Chi Hung

Chu Cheong Kit, Raymond

Lee Wing Yin

Legal advisers to the Company

Jennifer Cheung & Co.

Conyers Dill & Pearman, Cayman

Auditors

Ernst & Young

Certified Public Accountants

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited

The Bank of Communications

Registered office

P.O. Box 2681

Zephyr House

Mary Street

George Town

Grand Cayman

Cayman Islands

British West Indies

Corporate Information

Head office and principal place of business

Offices Nos. 701-2
7th Floor, Man Yee Building
60-68 Des Voeux Road Central
Hong Kong

Share registrars and transfer offices

Principal registrar

Bank of Butterfield International
(Cayman) Ltd
Butterfield House
Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Branch registrar

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Chairman's Statement

I am pleased to present the first audited consolidated result for the year ended 31 December 2000 of E-silkroad Holdings Limited ("E-silkroad") and its subsidiaries (the "Group") to shareholders since its successful listing on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2001.

Results in line with expectations

Turnover for the year ended 31 December 2000 was approximately HK\$3 million and loss attributable to shareholders amounted to approximately HK\$20 million. The Directors do not recommend the payment of a dividend.

During the year, E-silkroad launched www.expo24hrs.net and opened a sales office in the PRC. Both moves brought positive impact to E-silkroad in turnover which is in line with the management expectations.

Well aligned e-marketing solutions

The specialist niche created by E-silkroad provides total e-marketing solutions that are systematically linked to the developing business needs of a growing number of clients. They are also closely aligned to the thriving expo and exhibition business traditionally at the heart of trade in a number of key industry sectors, such as fast moving consumer goods and luxury products. E-silkroad is therefore well poised to benefit from steadily rising trade in such sectors in Hong Kong, the PRC and the Asia Pacific, as well as from the new international opportunities that will stem from the PRC's accession to the World Trade Organisation ("WTO").

Business review

In line with its announced business development plans, E-silkroad is providing a balanced and flexible mix of offline and online business in order to generate revenue and attract and retain customers.

Offline - solutions to enhance trading

As at March 2001, out of a total of 210 employees, 100 are actively engaged in E-silkroad's offline business, which provides marketing and overall business solutions from offices in the PRC (85 staff) and the Hong Kong (15 staff). Their extensive experience and wide ranging business contacts enable them to provide valuable marketing advice and intelligence that enhance trading opportunities, particularly on the exhibition front, both real and virtual. Staying close to their customers, E-silkroad's trading and exhibition specialists are proving that their insights can significantly enhance client savings and profitability.

Chairman's Statement

Online - launch of first virtual trading portal www.expo24hrs.net

The strong support offered to customers by E-silkroad's online business got off to a promising start in June 2000 with the launch in Hong Kong of www.expo24hrs.net. This is the first in a line of brand new trade centred portals. It provides virtual exhibition facilities and e-marketing support for registered members in the following key industries: toys, electronics, fashion and garments, computers and IT, jewellery and leather products, gifts and houseware. Much more than a showcase for the latest products however, www.expo24hrs.net provides unique, relevant and qualified leads for buyers, sellers and trade visitors. It has made a great success with S.T.O.R.M., the first in a planned series of proprietary technological breakthroughs that systematically heighten visibility and profile for E-silkroad's customers.

Expansion and listing

E-silkroad's geographical expansion continued with the opening in August 2000 of the Guangzhou office. Its dynamic market presence and original appeal was confirmed by its successful GEM listing in Hong Kong in March 2001.

Achievable vision

E-silkroad's corporate vision calls for it deliver real marketing results for all by combining proven business and trading expertise with the latest e-technologies, creating an electronic Silk Road that links people, places, ideas and products into a thriving new market in Greater China and around the world.

I am confident that this vision can be achieved, given the opportunities for growth, the prudent approach of the management team and the attention being paid to cost control and product quality. I am equally confident that, as this vision is progressively realised, it will be accompanied by satisfactory returns to shareholders.

I would like to thank the staff for their sustained hard work and their dedication to successful and wide ranging implementation. I wish also to express my gratitude to shareholders for the confidence they have placed in this dynamic venture.

Choi Koon Ming

Chairman

Hong Kong, 26 March 2001

Management Discussion and Analysis

Industry overview

E-silkroad's primary offline and online e-marketing initiatives are linked to the exhibition industry in Hong Kong, the region and internationally. This industry held some 60 major events in Hong Kong alone during the period under review, and attracted more than 200,000 quality trade visitors with a primary interest in light industrial products, such as clocks and watches, fashion and accessories, jewellery and electronics.

The exhibition industry is becoming increasingly mature and differentiated by sector. This factor, coupled with the advent of new Internet-based technologies, is likely to pose new challenges and offer new opportunities for traditional traders, including buyers, sellers and intermediaries such as exhibition organisers, for it will offer them the advantages of a seamless and mutually profitable online linkage of their businesses.

The transparency and the supply chain integrity offered by e-distribution and e-procurement together allow the creation of an online marketplace that is forecast to dominate business to business (B2B) e-commerce by 2003, to a total flowthrough value of US\$1.6 trillion, as estimated by IDC in 2000.

Such a forecast recognises that the online marketplace brings significant benefits, expanding choice and reach, particularly for small and medium enterprises, providing access to spot markets, and driving down supply and transaction costs.

The role of e-marketing is to deliver to players in the online marketplace the accumulated trading exhibition and e-technological expertise of dedicated consulting teams and to help them identify and maximise trading opportunities in a fast changing and rapidly growing arena. E-silkroad thus seeks to provide real marketing results and values for all who trade in Hong Kong, Greater China and the world. It does not only attract and retain exhibitors and suppliers with creative and innovative virtual exhibition portals containing virtual booths and virtual seminar and conference opportunities, it also offers an ongoing and supportive e-marketing consultancy that proactively creates new business opportunities for clients. The consultancy can profitably exploit significant data and knowledge bases, skill sets and strategic alliances that few enterprises would single-handedly be able to utilise.

As messaging and exchange via the Internet becomes the standard infrastructure for regional and global B2B trading, it will supplement traditional exhibition modes, and e-marketing will in due course eat into traditional marketing functions. It will point the way to specialist consultancies that can advise on how to best transform and heighten customer relationships throughout the entire supply chain in order to bring increased reach and increased profit. As an early entrant to this niche market, E-silkroad stands ready to provide definitive solutions and determined industry leadership.

Management Discussion and Analysis

The projected growth of trading, e-marketplaces and hence e-marketing in Hong Kong and regionally is likely to receive a major stimulus from the accession of the PRC to the WTO.

Business concept

E-silkroad aims to provide personalised and attentive customer e-marketing services using a one-stop shop concept that rides on strategic alliances formed with:-

- suppliers of online trading and settlement systems;
- suppliers of technology for e-marketing;
- Internet content providers specialising in up to date regional and global trade related information; and
- selective acquisitions including cooperative joint ventures, since these can ensure that the quality of an acquired entity is sustained and improved over time.

Turnover

Turnover related to E-silkroad's offline and online business for the period under review accounted for 53 per cent and 47 per cent respectively of a total turnover of approximately HK\$3 million.

Turnover attributable to the PRC based activities accounted for 53 per cent of total turnover, and to Hong Kong based activities for 47 per cent of total turnover. This is well in line with the planned development of these two geographical markets, which are targeted to bring in 50 per cent and 30 per cent of revenue respectively, leaving 20 per cent for other regional and world markets.

www.expo24hrs.net

E-silkroad's pioneering vertical portal www.expo24hrs.net was launched in Hong Kong on 1st June 2000. As at 31 March 2001, it had approximately 270 registered members, many of whom commented very favourably on the straightforward, rapid and secure access to the site that they enjoyed.

In addition to providing online trade show and exhibition facilities for eight key industries, www.expo24hrs.net allows buyers and sellers to meet and conduct business on the Internet in an efficient and cost-effective manner. By 31 March 2001, www.expo24hrs.net hosted online trade shows attracting a total of 270 exhibitors in Hong Kong, thus endorsing E-silkroad's policy of selective initial targeting of selected industries rather than an undifferentiated and costly mass marketing approach.

Management Discussion and Analysis

Rather than seeking to generate direct revenue or commission from exhibitors and visitors who use this portal, E-silkroad is instead using its lively presence as an Internet-based exhibition organiser to attract customers to a wide range of fee-based e-marketing services. By 31 March 2001 it had entered into approximately 300 confirmed contracts in Hong Kong and approximately 600 in the PRC.

As E-silkroad increases the depth of this and upcoming vertical portals, it will progressively expand its revenue generating possibilities in line with a revenue model that remains firmly based on adding value through the provision of enhanced services rather than on earnings from advertising or commissions. The range of business and trade information available at *www.expo24hrs.net* will be progressively enhanced to meet and exceed users' expectations.

Internet presence and expansion

While it follows an e-strategy of taking up where other exhibition organisers and marketing specialists leave off, E-silkroad is careful to supplement its growing Internet presence with a continuing physical presence at major trade shows in Hong Kong including, most recently the Hong Kong Toys and Games Fair 2001. It thus seeks to utilise a variety of carefully selected channels to promote growth and expansion.

Geographical presence and expansion

E-silkroad's presence in the PRC is growing steadily. The Guangzhou office opened in August 2000. From 31 December 2000 to 31 March 2001 the number of staff in Guangzhou increased from 20 to around 40. This approximately 100 per cent increase in resources was matched by a customer growth rate of over 50 per cent.

Since PRC law currently restricts participation by foreign investors in Internet services (including online exhibition services), E-silkroad in the PRC is building its reputation and its business by concentrating on web page design, in addition to receiving service fees as a result of introducing customers to Zhongshan Information Network Limited ("STINET") for web hosting and maintenance, email services, domain name registration, computer system design and implementation, and a business information service. (STINET is a privately owned enterprise established in the PRC which holds 5 per cent equity interest in Zhongshan E-silkroad.net Company Limited, a subsidiary of the Group.)

Management Discussion and Analysis

Outlook and plans for overall growth and development

Over the next five years, E-silkroad expects to achieve significant organic growth as it continues to develop its e-marketing solutions appropriate for in-depth business matching, lead generation and distribution and supply chain management. With revenue already at acceptable levels, it looks forward to steady revenue growth, further supported by the healthy increase in GDP likely on the PRC's accession to the WTO.

It will develop and launch Chinese, Japanese and Korean versions of www.expo24hrs.net. It will initiate system migration to an enterprise level platform which supports worldwide access with appropriate load balancing and assess new technologies available in the IT market to continuously improve the functions and performance of its portal sites. Further, it will continue to develop a strong sales force in Hong Kong and Mainland and develop new overseas markets, for example in Japan, Korea, Taiwan, and Thailand.

The Shunde office will be opened in April 2001. Later in the year, sales offices are planned to open in Foshan, Shanghai and Beijing.

Directors and Senior Management

DIRECTORS

Chairman

Mr. Choi Koon Ming, aged 32, joined the Group as the Chairman of the Company on 8th August, 2000. Mr. Choi is responsible for the overall strategic planning of the Group. He holds a Bachelor of Arts degree from the University of British Columbia. He is also an executive director of SW Kingsway Capital Holdings Ltd. He is the brother of Mr. Choi Koon Shum, the beneficial owner of Sun Wah.

Executive Directors

Mr. Ho Kwong Hung, Thomas, aged 35, joined the Group on 1st February, 2000 as the Vice-Chairman and Managing Director of the Company. Mr. Ho is responsible for the overall strategic planning and business development of the Group. He was admitted as a solicitor in Hong Kong in 1993 and has over six years' experience in practising commercial law in Hong Kong. He worked in the corporate and commercial department of an international law firm before joining the Group. Before joining the Group, Mr. Ho acted as consultant to advise on legal and business development matters from October 1999.

Mr. Yuen Fat Ching, aged 52, is the founder of the Group and is responsible for business development corporate strategy. Mr. Yuen completed courses of studies in radio engineering and transistor technology in the Hong Kong Radio Institute during 1968 and 1969. He has over twenty years experience in electronics industry as a senior management.

Mr. Li Ka Hay, Peter aged 34, is the Information Technology Director of the Company responsible for technology development and business operation of the Group. Mr. Li has over ten years' working experience in the area of Internet, software and computer systems. Prior to joining the Group on 1st February, 2000, he was the year 2000 Project Manager in Australian Government Analytical Laboratories ("AGAL") and responsible for the overall year 2000 compliance program for AGAL. Before joining the Group, Mr. Li acted as consultant to develop the infrastructure requirements and the pilot version of the online exhibition and trade show portal from November 1997.

Mr. Lee Wing Yin, aged 31, is the Finance Director of the Company responsible for the financial planning and control of the Group. Mr. Lee is an associate member of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. He has over nine years' working experience in auditing and business advisory services. Prior to joining the Group on 8th February, 2000, he worked for an international accounting firm.

Directors and Senior Management

Mr. Hui Ching Shan, aged 49, joined the Group on 25th October, 2000. Mr. Hui has over 10 years' working experience in securities, commercial and merchant banking sectors. He currently is the managing director of Sun Wah Net Holdings Limited, which is a fellow subsidiary of Sun Wah. He holds a Bachelor Degree in Social Sciences from The University of Hong Kong and a Master Degree in Business Administration from the University of Toronto (Deans List). He is also a Certified Management Accountant of Ontario, Canada (Dick Dawson Award) and a member of the Hong Kong Institute of Company Secretaries.

Non-executive Directors

Mr. Xin Wei, aged 26, joined the Group as non-executive Director of the Company on 5th April, 2000. Mr. Xin obtained a Master Degree in Economics from the Institute of International Unification Theory Academy. Having joined COFCO in 1996, Mr. Xin is the Vice General Manager of Merchant Investment and Advisory Co., Ltd., a wholly owned subsidiary of COFCO in April 1999, prior to which he was the Manager of Planning and Accounting division in COFCO.

Mr. Ha Kee Choy, Eugene, aged 43, joined the Group as non-executive Director of the Company on 25th October, 2000. Mr. Ha has over 12 years of experience in the finance and banking industry. He is currently the managing director of SW Asset Management Limited which is a fellow subsidiary of Sun Wah. He is a fellow member of the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. He holds a Master Degree in Business Administration.

Independent non-executive Directors

Mr. Yeung Chi Hung, aged 56, is the Chairman of Fujikon Industrial Holdings Limited, a company listed on the Stock Exchange. Mr. Yeung is also the Vice-Chairman of The Hong Kong Electronics Industries Association, and a member of the Electronics/Electrical Appliances Industry Advisory Committee of the Hong Kong Trade Development Council.

Mr. Chu Cheong Kit, Raymond, aged 40, is currently a partner of Messrs. Raymond Chu & Co.. Mr. Chu was admitted as a solicitor of the High Court of Hong Kong in 1989 and a solicitor of the Supreme Court of England and Wales in 1991.

Directors and Senior Management

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are, among other matters, (i) to review the annual reports and accounts, half-year reports and quarterly reports and provide advice and comments thereon to the board of Directors; and (ii) to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has three members comprising the two independent non-executive Directors and one executive Director.

SENIOR MANAGEMENT

Mr. Wong Ho Hang, Francis, aged 48, is the General Manager of the Company. Mr. Wong is responsible for strategic planning and business development. Prior to joining the Group on 11th November, 2000, Mr. Wong has served in a quasi-government organisation of Hong Kong over 14 years for international trade promotion. He holds a Bachelor of Science Degree with Honours in Chemistry from Acadia University, Nova Scotia, Canada and a Master of Science Degree in Chemical Engineering from the University of New Brunswick, Fredericton, Canada.

Mr. Yu Jing Long, aged 30, is the Vice President of China Division of the Group and responsible for business development and operation of the Group's China division. Prior to joining the Group on 21st April, 2000, Mr. Yu has over ten years' experience in the computer industry. He is also the President of Zhongshan Computer Industry Association (中山市電腦業商會) and a standing committee member of the Chinese People's Political Consultative Conference of Zhongshan (中山市政協委員). He holds 90% of the equity interest in STINET.

Mr. Leung Chun Fai, Allen, aged 35, joined the Group as Administration Manager on 15th May, 2000. Mr. Leung obtained a Bachelor's Degree of Science from the University of London and has over eight years' experience in Personnel and Administration Management.

Mr. Sze Wai Kit, Marco, aged 27, joined the Group as Web Producer on 1st April, 2000. Mr. Sze has over six years' experience in graphic design. Prior to joining the Group, he had formerly acted as the web producer in an Internet development company and art supervisor in a newspaper publisher.

Directors and Senior Management

Mr. Chau Ki Shun, aged 25, joined the Group as Sales Manager of Sales & Marketing department on 25th April, 2000. He has five years sales and marketing experience in the industry of telecommunication and IT.

Mr. Kwok Chung Yin, Terry, aged 24, joined the Group as Sales Manager of Sales & Marketing department on 19th April, 2000. Mr. Kwok has four years' experience in the sales and marketing field. From 1997 to 1999, he was a sales team manager in a company listed on NASDAQ and earned the best performer award (Asia Pacific Region) in 1998 and 1999.

Report of the Directors

The directors herein present their first annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2000.

The shares of the Company were listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 March 2001.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 12 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segmental information

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

	Turnover	Contribution to loss from operating activities
	HK\$'000	HK\$'000
<hr/>		
By principal activity:		
Service fees for Internet-based application and design	1,096	(12,842)
Monthly subscription fees for joining <i>www.expo24hrs.net</i>	339	(3,942)
Web page design fees	936	(2,067)
Technical support service fees	343	(616)
Agency service fees	366	(418)
	<hr/>	<hr/>
	3,080	(19,885)
<hr/>		
By geographical area:		
People's Republic of China ("PRC"):		
Hong Kong	1,435	(16,784)
Elsewhere	1,645	(3,101)
	<hr/>	<hr/>
	3,080	(19,885)
<hr/>		

Report of the Directors

Results

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 27 to 53.

Summary financial information

The following is a summary of the consolidated results of the Group for each of the three years ended 31 December 2000 prepared on the basis set out in note 1 below.

	Year ended 31 December		
	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000
TURNOVER	3,080	-	-
LOSS BEFORE TAX	(20,028)	(749)	(1,956)
Tax	-	-	-
Loss before minority interests	(20,028)	(749)	(1,956)
Minority interests	75	-	-
NET LOSS FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	(19,953)	(749)	(1,956)

Notes:

1. The summary of the consolidated results of the Group for the two years ended 31 December 1999 has been extracted from the Company's prospectus dated 26 February 2001. Such summary was prepared based on the audited consolidated financial statements of the Group as if the structure of the Group had been in existence throughout these financial years, and was presented on the basis set out in note 3 to the financial statements. The results of the Group for the year ended 31 December 2000 are those set out on page 27 of the financial statements.
2. Since the reorganisation of the Group was completed in November 1999, the only audited consolidated balance sheets for the Group that have been prepared are those set out on page 29 of the financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 11 to the financial statements.

Report of the Directors

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 12 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital during the year and up to the date of this report, together with the reasons therefor, and details of the Company's share options as at the date of this report are set out in note 17 to the financial statements.

Borrowings

Details of the borrowings of the Company and of the Group as at 31 December 2000 are set out in notes 15 and 16 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 18 to the financial statements.

Distributable reserves

In accordance with the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities

Other than in connection with the Company's issue of new shares by way of placing in the course of listing its shares on the GEM of the Stock Exchange, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

Report of the Directors

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 17% of the total sales for the year and sales to the largest customer included therein amounted to 8%. Apart from Fujikon Industrial Holdings Limited ("Fujikon") of which one of the independent non-executive directors of the Company, Mr. Yeung Chi Hung, is also a director of Fujikon, none of the directors, their respective associates and shareholders who own more than 5% of the issued share capital of the Company had any interest in any of the top five largest customers of the Group. The total revenue received from Fujikon represented 4% of the turnover of the Group for the year.

Purchases from the Group's five largest suppliers accounted for 76% of the total purchases for the year and purchases from the largest supplier included therein amounted to 43%. Apart from SW e-solutions Limited, a fellow subsidiary of Sun Wah Net Investment Limited ("Sun Wah"), none of the directors, their respective associates and shareholders who own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers of the Group. Sun Wah is a wholly-owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, who is the brother of Mr. Choi Koon Ming, chairman of the Company.

Directors

The directors of the Company during the year and at the date of this report were as follows:

Mr. Choi Koon Ming ("Mr. Choi")	(appointed on 8 August 2000)
Mr. Ho Kwong Hung, Thomas ("Mr. Ho")	(appointed on 8 February 2000)
Mr. Yuen Fat Ching ("Mr. Yuen")	
Mr. Li Ka Hay, Peter ("Mr. Li")	(appointed on 8 February 2000)
Mr. Lee Wing Yin ("Mr. Lee")	(appointed on 8 February 2000)
Mr. Hui Ching Shan ("Mr. Hui")	(appointed on 25 October 2000)
Mr. Xin Wei*	(appointed on 5 April 2000)
Mr. Ha Kee Choy, Eugene* ("Mr. Ha")	(appointed on 25 October 2000)
Mr. Yeung Chi Hung**	(appointed on 14 August 2000)
Mr. Chu Cheong Kit, Raymond**	(appointed on 14 August 2000)

* non-executive directors

** independent non-executive directors

In accordance with articles 87(1) and (2) of the Company's articles of association, Mr. Yuen, Mr. Li and Mr. Lee will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Report of the Directors

Directors (continued)

The directors of the Company, including the non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

Directors' service contracts

Mr. Yuen has entered into a service contract with the Company for a term of three years from 1 January 2001 and each of Mr. Ho, Mr. Li and Mr. Lee has entered into a service contract for the same term from 1 June 2000. These service contracts may be terminated by either party giving to the other three months' prior written notice. Under these service contracts (other than that for Mr. Yuen), if the Company terminates any of the service contracts by serving the said three months' written notice to the relevant director, (i) the Company is required to pay a sum equivalent to 24 months' salary of that director in cash as compensation to him on the last day of his employment thereunder; and (ii) any outstanding options under any share option scheme of the Company held by that director shall continue on the original terms of grant despite the termination of his employment thereunder.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory pursuant to any obligation.

Directors' interests in contracts

Except as disclosed in note 20 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

Related party transactions

Details of the related party transactions of the Group are set out in note 20 to the financial statements.

Report of the Directors

Directors' remuneration and the five highest paid individuals

Details of the directors' remuneration are as follows:

	2000
	HK\$'000
<hr/>	
Fees:	
Executive directors	-
Non-executive directors	-
Independent non-executive directors	-
Other emoluments of executive directors:	
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	2,882
Contributions to provident fund	6
	<hr/>
	2,888

There were 4 executive directors receiving individual emoluments of approximately HK\$1,173,000, HK\$939,000, HK\$587,000 and HK\$189,000 for the year ended 31 December 2000.

Share options to subscribe for 49,184,800 shares and 5,024,000 shares in the Company were granted to certain executive directors and a non-executive director of the Company, respectively during the year. In the absence of a readily available market value for options on the shares in the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in directors' remuneration in respect of share options granted.

None of the non-executive and independent non-executive directors received any fees and other reimbursements or emoluments for the year ended 31 December 2000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Directors' remuneration and the five highest paid individuals (continued)

The five highest paid individuals included 3 directors during the year, whose remuneration are set out above.

The emoluments and designated band of the remaining 2 highest paid, non-director individuals during the year are as follows:

	2000
	HK\$'000
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	624

The remuneration of the highest paid, non-director individuals during the year fell within the range of Nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The Group did not operate a pension scheme for its employees in Hong Kong. With effect from 1 December 2000, the Group has implemented the mandatory provident fund scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance in Hong Kong. Under the MPF Scheme, the Group and each of its employees are required to make a mandatory contribution of 5% of relevant employee's monthly income ranging from HK\$4,000 to HK\$20,000. Employees may choose to contribute additional voluntary employee contributions. The Group's mandatory contributions vest fully and immediately in favour of the employees. The Group also makes additional voluntary contributions in respect of 3 executive directors. In the event such a director leaves the employment of the Group, the accrued benefits from the Group's voluntary contributions will be withdrawn in accordance with the vesting scale. If the Group's voluntary contributions are not fully vested in favour of the relevant director, such forfeited contributions may be used by the Group to fund its other major contribution liabilities.

Report of the Directors

Directors' interests in share capital

Subsequent to the balance sheet date, on 2 March 2001, the Company was listed on the GEM of the Stock Exchange. Accordingly, as at the date of this report, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Type of interest	Number of issued ordinary shares of HK\$0.05 each in the Company held
		'000
Mr. Yuen (note)	Family	287,440
Mr. Ho	Personal	11,620
Mr. Li	Personal	7,720
Mr. Lee	Personal	3,890

Note: These shares were held by global.com Investments Corp. ("GIC"), a company wholly owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of the units of which are owned by The YFC Family Trust, a discretionary trust of which Yuen Chi Mann, Celina and Yuen Chi Tsen, Ronnie, children of Mr. Yuen, are the only beneficiaries. The balance of 0.1% of the units of the YFC Unit Trust is held by Mr. Yuen's mother. Mr. Yuen is the settlor of The YFC Family Trust.

Mr. Ho, Mr. Li, Mr. Lee, Mr. Choi, Mr. Hui and Mr Ha hold the options to subscribe for shares in the Company, details of which are set out under the section "Directors' rights to acquire shares" below.

Save as disclosed above, as at the date of this report, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

Report of the Directors

Directors' rights to acquire shares

On 1 March 2000, the Company granted options to the following directors to subscribe for shares in the Company of HK\$0.05 each at HK\$0.125 per share during a period of five years from the date of commencement of dealings of the shares on the GEM of the Stock Exchange. Details of these options are as follows:

Name of director	Number of shares subject to the options
Mr. Ho	19,568,400
Mr. Li	9,784,200
Mr. Lee	9,784,200
	39,136,800

On 25 October 2000, the Company granted options to the following directors to subscribe for shares in the Company of HK\$0.05 each at HK\$0.25 per share during a period of three years from the date of their respective first completed year of service with the Company. Details of these options are as follows:

Name of director	Date of first completed year of service	Number of shares subject to the options
Mr. Choi	8 August 2001	5,024,000
Mr. Hui	25 October 2001	5,024,000
Mr. Ha	25 October 2001	5,024,000
		15,072,000

Under the terms of a share option scheme conditionally adopted by the Company on 19 February 2001 (the "Share Option Scheme"), the directors may at their discretion grant options to full time employees of the Group, including directors of the Company, to subscribe for shares in the Company. Details of the Share Option Scheme are set out in note 17 to the financial statements. The Share Option Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 2 March 2001.

Report of the Directors

Directors' rights to acquire shares (continued)

Under the Share Option Scheme, on 19 February 2001, options have been conditionally granted to the following directors to subscribe for shares in the Company of HK\$0.05 each at HK\$0.25 per share during a period of five years after completion of one year's service with the Company. Details of these options are as follows:

Name of director	Date of first completed year of service	Number of share options granted
Mr. Ho	1 February 2001	28,048,000
Mr. Li	1 February 2001	18,000,000
Mr. Lee	8 February 2001	18,000,000
		64,048,000

Apart from the foregoing, at no time during the year and up to the date of this report, was the Company, its holding company or any of its subsidiaries, a party to any arrangement to enable the Company's directors, their respective spouses, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders

As at the date of this report, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of issued shares
GIC (note 1)	287,440,000	44.06
Sun Wah (note 2)	95,474,000	14.64
Ceroilfood Finance Limited	84,910,000	13.02

Notes:

- (1) The interests of Mr. Yuen in GIC has been disclosed under the section "Directors' interests in share capital" above.
- (2) The Company has issued a convertible redeemable note to Sun Wah with a principal amount of HK\$8 million. Upon full conversion of the note, Sun Wah will hold approximately an additional 6.55% of the enlarged issued share capital of the Company without taking into account any shares which may be fall to be issued upon exercise of any share options and upon conversion of the remaining convertible redeemable notes, outstanding as at the date of this report.

Report of the Directors

Substantial shareholders (continued)

Save as disclosed above, the directors were not aware of any person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at the date of this report that was required to be recorded under Section 16(1) of the SDI Ordinance.

Subsequent events

Details of the significant subsequent events of the Group are set out in note 22 to the financial statements.

Pension scheme

Apart from the MPF Scheme as noted in the section "Directors' remuneration and the five highest paid individuals" above, the Group's subsidiary in the PRC is required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC (the "Retirement Scheme") and to make contributions for its eligible employees. The contribution to be borne by the Group is calculated at a certain percentage of the salaries and wages for those eligible employees.

As at 31 December 2000, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

The employer's pension costs charged to the profit and loss account for the year are set out in note 5 to the financial statements.

Sponsors' interests

As updated and notified by the Company's sponsors, Oriental Patron Asia Limited ("OP") and Celestial Capital Limited ("CCL"), as at the date of this report, neither OP and CCL, nor their directors and employees had any interest in the share capital of the Company.

Pursuant to the agreement dated 23 February 2001 made between OP as the sponsor and the Company, OP received, and will receive, fees for acting as the Company's retained sponsor for the period from 2 March 2001 to 31 December 2003.

Report of the Directors

Audit committee

The Company set up an audit committee (the "Committee") on 19 February 2001 with written terms of reference for the purpose of reviewing of and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors and one executive director. The Group's financial statements for the year ended 31 December 2000 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Choi Koon Ming

Chairman

Hong Kong

26 March 2001

REPORT OF THE AUDITORS



安永會計師事務所

To the members

E-silkroad Holdings Limited

(Formerly E-silkroad.net Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2000 HK\$'000	1999 HK\$'000
Turnover	4	3,080	-
Cost of sales		(2,346)	-
<hr/>			
Gross profit		734	-
Other revenue		226	-
Selling and distribution expenses		(5,809)	-
Administrative expenses		(12,690)	(350)
Research and development costs		(2,346)	(399)
<hr/>			
LOSS FROM OPERATING ACTIVITIES	5	(19,885)	(749)
Finance costs	6	(143)	-
<hr/>			
LOSS BEFORE TAX		(20,028)	(749)
Tax	8	-	-
<hr/>			
LOSS BEFORE MINORITY INTERESTS		(20,028)	(749)
Minority interests		75	-
<hr/>			
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	9, 18	(19,953)	(749)
<hr/>			
LOSS PER SHARE - Basic	10	HK3.97 cents	HK0.15 cent

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Note	2000 HK\$'000	1999 HK\$'000
Exchange differences on translation of the financial statements of foreign entities	18	(14)	-
Net loss not recognised in the profit and loss account		(14)	-
Net loss for the year attributable to shareholders		(19,953)	(749)
Total recognised losses		(19,967)	(749)

CONSOLIDATED BALANCE SHEET

	Notes	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	11	5,247	33
Pledged bank deposit	15	200	-
		5,447	33
CURRENT ASSETS			
Accounts receivable	13	421	-
Prepayments, deposits and other receivables		1,981	-
Pledged bank deposit	15	200	-
Cash and bank balances		639	363
		3,241	363
CURRENT LIABILITIES			
Accounts payable		425	149
Accrued liabilities, deposits and other payables		4,060	252
Due to a minority shareholder of a subsidiary	14	484	-
Due to a related company	13	143	-
Finance lease payables	15	257	-
Convertible redeemable notes	16	6,650	-
		12,019	401
NET CURRENT LIABILITIES		(8,778)	(38)
TOTAL ASSETS LESS CURRENT LIABILITIES		(3,331)	(5)
NON-CURRENT LIABILITIES			
Finance lease payables	15	(136)	-
		(3,467)	(5)
CAPITAL AND RESERVES			
Share capital	17	76	50
Reserves	18	(3,543)	(55)
		(3,467)	(5)

Ho Kwong Hung Thomas

Director

Lee Wing Yin

Director

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2000 HK\$'000	1999 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	19(a)	(16,401)	(2,304)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		73	-
Interest paid		(13)	-
Interest element on finance lease rental payments		(19)	-
Interest element on convertible redeemable notes		(111)	-
Net cash outflow from returns on investments and servicing of finance		(70)	-
INVESTING ACTIVITIES			
Purchases of fixed assets		(5,951)	(34)
Increase in a pledged bank deposit		(400)	-
Net cash outflow from investing activities		(6,351)	(34)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(22,822)	(2,338)
FINANCING ACTIVITIES	19(b)		
Proceeds from issue of share capital		16,505	2,700
Proceeds from issue of convertible redeemable notes		6,650	-
Capital element of finance lease rental payments		(118)	-
Contribution from a minority shareholder of a subsidiary		75	-
Net cash inflow from financing activities		23,112	2,700
INCREASE IN CASH AND CASH EQUIVALENTS		290	362
Cash and cash equivalents at beginning of year		363	1
Effect of foreign exchange rate changes, net		(14)	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		639	363
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		639	363

BALANCE SHEET

	Notes	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	12	3,243	-
CURRENT ASSETS			
Cash and bank balances		51	-
CURRENT LIABILITIES			
Other payables		111	-
Convertible redeemable notes	16	6,650	-
		6,761	-
NET CURRENT LIABILITIES			
		(6,710)	-
		(3,467)	-
CAPITAL AND RESERVES			
Share capital	17	76	50
Reserves	18	(3,543)	(50)
		(3,467)	-

Ho Kwong Hung Thomas

Director

Lee Wing Yin

Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- Internet-based application and design service
- Maintaining the www.expo24hrs.net web site
- Web page design service
- Technical support service
- Agency service

As described more fully in note 2 to the financial statements below, subsequent to the balance sheet date, on 2 March 2001, the Company was listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by placing 130,456,000 new shares or 20% of the equity interest of the Company to independent investors.

In the opinion of the directors, as at the year end, the ultimate holding company was global.com Investments Corp., a company incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis notwithstanding that the Group and the Company had net current liabilities and net deficiency in assets as at 31 December 2000. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing measures completed subsequent to the balance sheet date including the following:

- (i) On 3 February 2001, the Company entered into a subscription agreement in relation to the issue of a convertible redeemable note to Sun Wah Net Investment Limited ("Sun Wah") for an amount of HK\$8 million. Sun Wah is a shareholder of the Company. The convertible redeemable note is unsecured and bears interest at 8% per annum. Under this note, Sun Wah has the right to convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each at a price of HK\$0.175 per ordinary share during the period from 2 March 2002 to 19 August 2003.

NOTES TO FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION (continued)

- (ii) On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes which were issued on 25 October 2000 and 28 December 2000, respectively, and were outstanding as at the balance sheet date into 19,424,000 ordinary shares of HK\$0.05 each of the Company. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.

- (iii) As detailed in the prospectus of the Company dated 26 February 2001 (the "Prospectus"), the Company offered to place 130,456,000 new shares of HK\$0.05 each at the price of HK\$0.25 per share (the "Placement"). Net proceeds of approximately HK\$22.6 million were received. The shares of the Company were listed on the GEM of the Stock Exchange on 2 March 2001.

Further details of these financing measures together with the pro forma adjusted consolidated net asset statement of the Group as at 31 December 2000, prepared as if these financing measures had taken place on 31 December 2000, are set out in note 22 to the financial statements.

The directors are of the opinion that, in view of the measures taken to date, together with the expected result of other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and consolidation

The Group was formed pursuant to a group reorganisation on 11 November 1999 (the "Reorganisation"). Further details of the Reorganisation are set out in the Prospectus.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the year ended 31 December 1999 rather than from the date of their acquisition pursuant to the Reorganisation. Accordingly, the consolidated results and cash flows of the Group for each of the two years ended 31 December 2000 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period.

NOTES TO FINANCIAL STATEMENTS

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation and consolidation (continued)

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- income from the provision of services, when the relevant services have been rendered; and
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows.

Depreciation is provided on the straight-line basis to write off the cost of each asset over the following estimated useful lives:

Furniture, fixtures and fittings	3 to 5 years
Computer and office equipment	3 years

NOTES TO FINANCIAL STATEMENTS

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

NOTES TO FINANCIAL STATEMENTS

4. TURNOVER

Turnover represents the net invoiced value of services rendered.

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2000	1999
	HK\$'000	HK\$'000
Cost of services provided	2,346	–
Auditors' remuneration	450	80
Provision for doubtful debts	140	–
Depreciation:		
Owned fixed assets	1,148	1
Leased fixed assets	100	–
Research and development costs (see staff costs below)	2,346	399
Operating lease rentals:		
Land and buildings	1,368	–
Equipment	277	–
Pension contributions (excluding directors' remuneration)	5	–
Staff costs (excluding directors' remuneration)	6,188	66
Less: Amount included in research and development costs	(767)	–
	5,421	66
Exchange gains, net	(49)	–
Interest income	(73)	–

NOTES TO FINANCIAL STATEMENTS

6. FINANCE COSTS

Group

	2000	1999
	HK\$'000	HK\$'000
Interest on other loan	7	-
Interest on bank overdraft	6	-
Interest on finance leases	19	-
Interest on convertible redeemable notes	111	-
	143	-

7. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

Group

	2000	1999
	HK\$'000	HK\$'000
Fees	-	-
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	2,882	-
Contributions to provident fund	6	-

8. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (1999: Nil).

Provision for the tax of profits of subsidiaries operating outside Hong Kong has not been calculated as the Group did not generate any assessable profits in the respective jurisdictions during the year.

The Group did not have any significant unprovided deferred tax in respect of the year.

There are no significant potential deferred tax liabilities for which provision has not been made.

NOTES TO FINANCIAL STATEMENTS

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2000 is HK\$19,972,000 (period from 11 November 1999 (date of incorporation) to 31 December 1999: HK\$2,700,000).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$19,953,000 (1999: HK\$749,000) and the pro forma issued share capital of the Company of 502,400,000 shares (1999: 501,870,068 shares) as further detailed in note 17 to the financial statements.

Diluted loss per share for the year ended 31 December 2000 has not been presented as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year. The comparative diluted loss per share for the year ended 31 December 1999 has not been calculated as no diluting events existed during the year.

11. FIXED ASSETS

Group

	Furniture, fixtures and fittings	Computer and office equipment	Total
	HK\$'000	HK\$'000	HK\$'000
Cost:			
At beginning of year	-	34	34
Additions	2,472	3,990	6,462
At 31 December 2000	2,472	4,024	6,496
Accumulated depreciation:			
At beginning of year	-	1	1
Provided during the year	524	724	1,248
At 31 December 2000	524	725	1,249
Net book value:			
At 31 December 2000	1,948	3,299	5,247
At 31 December 1999	-	33	33

The net book value of fixed assets held under finance leases included in the total amount of computer and office equipment at 31 December 2000 amounted to HK\$411,000 (1999: Nil).

NOTES TO FINANCIAL STATEMENTS

12. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	-	-
Due from subsidiaries	3,243	-
	3,243	-

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
E-silkroad.net Corporation (formerly known as Oppossum Limited)	The British Virgin Islands	US\$1	100%	-	Investment holding and development of e-commerce business
E-silkroad.net Online Exhibition Limited (formerly known as Electronic Exhibition Design Limited)	Hong Kong	HK\$10,000	-	100%	Development of e-commerce business
E-silkroad.net Online Commerce Limited (formerly known as e-silkroad.net Advertising Limited)	Hong Kong	HK\$10,000	-	100%	Dormant

NOTES TO FINANCIAL STATEMENTS

12. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Business Essence Technology Limited	The British Virgin Islands	US\$1	-	100%	Investment holding
E-silkroad.net Resources Limited (formerly known as Cyber Path Resources Limited)	The British Virgin Islands	US\$1	-	100%	Holding of trademarks and domain names
中山市絲綢路網絡動力有限公司 ("Zhongshan E-silkroad")	The People's Republic of China (the "PRC")	HK\$2,500,000	-	95%	Provision of web page design services and technical support services

13. BALANCES WITH RELATED COMPANIES

As at 31 December 2000, approximately HK\$59,000 included in accounts receivable represented an amount due from Fujikon Industrial Holdings Limited ("Fujikon"). One of the independent non-executive directors of the Company, Mr. Yeung Chi Hung, is also a director of Fujikon. The amount was attributable to the Internet-based application and design service provided to Fujikon as further detailed in note 20(v) to the financial statements. Pursuant to Section 161B of the Hong Kong Companies Ordinance, the maximum amount due from Fujikon during the year was approximately HK\$137,000.

The balances with related companies are unsecured, interest-free and repayable on demand.

14. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

15. FINANCE LEASE PAYABLES

Obligations under finance leases as at 31 December 2000 were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
	(27)	-
Total net finance lease payables	393	-
Portion classified as current liabilities	(257)	-
Long term portion	136	-

As at 31 December 2000, the finance lease drawn down on 31 August 2000 was secured by a bank deposit of HK\$400,000 of which HK\$200,000 will be released after 12 months from the date of drawdown of the finance lease.

16. CONVERTIBLE REDEEMABLE NOTES

On 31 August 2000 and 1 September 2000, the Company entered into two subscription agreements in relation to the issue of convertible redeemable notes to two independent third parties for the amount of HK\$2 million and HK\$1.25 million, respectively. Such convertible redeemable notes are unsecured and bear interest at 8% and 5% per annum, respectively. On 25 October 2000 and 28 December 2000, the Company entered into subscription agreements in relation to the issue of convertible redeemable notes to Sun Wah for an amount of HK\$2.5 million and HK\$0.9 million, respectively. Such convertible redeemable notes are unsecured and bear interest at 8% per annum. The subscribers of all the above convertible redeemable notes will have the right to convert the whole or part of the principal amount of the notes into ordinary shares of HK\$0.05 each in the capital of the Company at a price of HK\$0.175 per ordinary share during the period from 1 April 2001 to 31 December 2001.

On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each in the Company. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.

NOTES TO FINANCIAL STATEMENTS

17. SHARE CAPITAL

	2000	1999
<hr/>		
Authorised:		
50,000 ordinary shares of US\$1 each	US\$50,000	US\$50,000
<hr/>		
Issued and fully paid:		
9,742 (1999: 6,345) ordinary shares of US\$1 each	HK\$75,988	HK\$50,000
<hr/>		

For the year ended 31 December 2000, the following changes in the Company's issued share capital took place:

- (i) On 10 July 2000, 705 ordinary shares of US\$1 each were allotted to Sun Wah at a total cash consideration of HK\$4,000,000 with HK\$3,995,000 being transferred to the share premium account of the Company.
- (ii) On 28 July 2000, 450 ordinary shares of US\$1 each were issued to the directors of the Company for cash at par.
- (iii) On 29 July 2000, 1,646 ordinary shares of US\$1 each were issued to an independent third party at a total cash consideration of HK\$10,000,000, with HK\$9,987,000 being transferred to the share premium account of the Company.
- (vi) On 25 August 2000, 179 ordinary shares of US\$1 each were issued to a director of the Company for cash at par.
- (v) On 25 October 2000, 417 ordinary shares of US\$1 each were allotted to an existing shareholder at a total cash consideration of HK\$2,500,000 with HK\$2,497,000 being transferred to the share premium account of the Company.

Pursuant to a written resolution of all the shareholders of the Company passed on 19 February 2001, the following changes in the share capital of the Company took place:

- (a) Each of the ordinary shares of US\$1 in the capital of the Company was converted into one share of HK\$7.8.
- (b) Each of the ordinary shares of HK\$7.8 in the capital of the Company resulting from the conversion stated in (a) above was subdivided into 156 shares of HK\$0.05 each.

NOTES TO FINANCIAL STATEMENTS

17. SHARE CAPITAL (continued)

- (c) The authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of an additional 1,992,200,000 ordinary shares of HK\$0.05 each.
- (d) The Company issued 500,880,248 shares of HK\$0.05 each to the holders of the shares in the register of members of the Company at the close of business on that date, credited as fully paid by way of capitalisation of the sum of HK\$25,044,012 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the Placement.

For the purpose of preparing the consolidated financial statements for the two years ended 31 December 2000, the shares in issue as at 31 December 1999 and 2000 were deemed to have been subdivided as stated in (b) above and the shares in (d) above were deemed to have been issued, nil paid, since 1 January 1999.

A summary of the above movements in the issued share capital of the Company is as follows:

	Number of shares issued	Par value HK\$'000
<hr/>		
Shares issued during the period from		
11 November 1999 (date of incorporation)		
to 31 December 1999	6,345	50
Share sub-division	983,475	–
Issue of shares credited as fully paid conditional on		
the share premium account of the Company		
being credited as a result of the Placement	500,880,248	–
<hr/>		
Pro forma issued and paid-up share capital		
at 31 December 1999	501,870,068	50
Shares issued during the year ended		
31 December 2000	3,397	26
Share sub-division	526,535	–
<hr/>		
Pro forma issued and paid-up share capital		
at 31 December 2000	502,400,000	76
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NOTES TO FINANCIAL STATEMENTS

17. SHARE CAPITAL (continued)

Subsequent to the balance sheet date, the following transactions occurred:

- (i) On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each of the Company.
- (ii) Pursuant to the Placement, 130,456,000 ordinary shares of HK\$0.05 each of the Company were issued for a cash consideration, before expenses, of HK\$32,614,000.

A summary of the above transactions is as follows:

	Number of	shares issued	Par value
			HK\$'000
Pro forma issued and paid-up share capital at 31 December 2000	502,400,000		76
New shares issued on conversion of convertible redeemable notes	19,424,000		971
New shares issued on the Placement	130,456,000		6,523
Capitalisation of the share premium account as set out above		-	25,044
	652,280,000		32,614

NOTES TO FINANCIAL STATEMENTS

17. SHARE CAPITAL (continued)

Share options

During the year, the Company granted an aggregate of 54,208,800 share options ("Pre-IPO Share Options") to certain directors of the Company at nil consideration. The details of the Pre-IPO Share Options granted during the year were as follows:

Date of grant	Exercise price per share	Exercisable period	Number of share options '000
1 March 2000	0.125	2 March 2001 to 1 March 2006	39,137
25 October 2000	0.250	8 August 2001 to 7 August 2004	5,024
25 October 2000	0.250	25 October 2001 to 24 October 2004	10,048
Total number of share options outstanding as at 31 December 2000			54,209

Subsequent to the year end, on 19 February 2001, the Company adopted a share option scheme which is conditional upon the listing of the Company's shares on the GEM of the Stock Exchange (the "Share Option Scheme"), the directors of the Company may at their discretion grant options to full time employees of the Group, including directors, to subscribe for shares in the Company. The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 30% of the issued share capital of the Company (excluding for this purpose any shares which have been duly allotted and issued pursuant to the exercise of any option granted under the scheme). The scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 2 March 2001 and will remain in force for a period of 10 years from the date of adoption of the Share Option Scheme.

NOTES TO FINANCIAL STATEMENTS

17. SHARE CAPITAL (continued)

Share options (continued)

Under the Share Option Scheme, 111,908,000 share options with an exercise price of HK\$0.25 each were granted to three executive directors and 32 full-time employees of the Group for the subscription of ordinary shares in the Company at nil consideration. These share options are exercisable during the period of five years after the completion of one year's service with the Group. The exercise in full of such share options, would, under the present capital structure of the Company, result in the issue of 111,908,000 additional ordinary shares.

Up to the date of this report, none of the Pre-IPO Share Option, or share options granted under the Share Option Scheme has been exercised.

18. RESERVES

Group

	Accumulated losses	Share premium	Exchange fluctuation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	(1,956)	-	-	(1,956)
Loss for the year	(749)	-	-	(749)
Issue of shares	-	2,650	-	2,650
At 31 December 1999 and 1 January 2000	(2,705)	2,650	-	(55)
Loss for the year	(19,953)	-	-	(19,953)
Exchange adjustment	-	-	(14)	(14)
Issue of shares	-	16,479	-	16,479
At 31 December 2000	(22,658)	19,129	(14)	(3,543)

NOTES TO FINANCIAL STATEMENTS

18. RESERVES (continued)

Company

	Accumulated losses	Share premium	Total
	HK\$'000	HK\$'000	HK\$'000
Loss for the period from 11 November 1999 (date of incorporation) to 31 December 1999	(2,700)	-	(2,700)
Issue of shares	-	2,650	2,650
At 31 December 1999 and 1 January 2000	(2,700)	2,650	(50)
Loss for the year	(19,972)	-	(19,972)
Issue of shares	-	16,479	16,479
At 31 December 2000	(22,672)	19,129	(3,543)

19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	2000	1999
	HK\$'000	HK\$'000
Loss from operating activities	(19,885)	(749)
Interest income	(73)	-
Depreciation	1,248	1
Increase in accounts receivable	(421)	-
Increase in prepayments, deposits and other receivables	(1,981)	-
Increase in accounts payable	276	149
Increase in accrued liabilities, deposits and other payables	3,808	162
Decrease in an amount due to a director	-	(1,867)
Increase in an amount due to a minority shareholder of a subsidiary	484	-
Increase in an amount due to a related company	143	-
Net cash outflow from operating activities	(16,401)	(2,304)

NOTES TO FINANCIAL STATEMENTS

19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Convertible redeemable notes HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000
At 1 January 1999	-	-	-	-
Cash inflow from financing activities	2,700	-	-	-
At 31 December 1999 and at 1 January 2000	2,700	-	-	-
Inception of finance leases	-	-	511	-
Cash inflow/(outflow) from financing activities	16,505	6,650	(118)	75
Minority shareholder's share of loss for the year	-	-	-	(75)
At 31 December 2000	19,205	6,650	393	-

(c) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of computer and office equipment with a capital value at the inception of the leases of approximately HK\$511,000 (1999: Nil).

NOTES TO FINANCIAL STATEMENTS

20. RELATED PARTY TRANSACTIONS

	Notes	Group	
		2000 HK\$'000	1999 HK\$'000
Technical service fees paid			
to SW e-solutions Limited	(i)	249	–
Equipment leasing charge paid to			
中山市金科信息網絡有限公司 (“STINET”)	(ii)	78	–
Agency fee received from STINET	(iii)	(366)	–
Technical support fee received from STINET	(iv)	(342)	–
Service fee income for Internet-based			
application and design received from Fujikon	(v)	(137)	–

- (i) SW e-solutions Limited is a fellow subsidiary of Sun Wah. The beneficial owner of Sun Wah is the brother of the chairman of the Company. Based on the first technical support agreement, the server set-up fee of HK\$30,000 and any further development services, if required, calculated at HK\$8,000 per month, were determined between the Company and SW e-solutions Limited. The term of such agreement is 12 months commencing 25 April 2000. According to the second technical support service agreement, the technical support fee is calculated based on a fixed rate of HK\$59,500 per month for the period from 1 July 2000 to 30 September 2000.
- (ii) STINET is a minority shareholder of a subsidiary which held 5% of Zhongshan E-silkroad. STINET is owned as to 90% by Mr. Yu Jing Long, a member of senior management of the Group. The equipment leasing charge is calculated based on a fixed rate of RMB10,000 per month. The term of the equipment leasing agreement is 3 years starting from 21 April 2000.
- (iii) The agency fee income was received for introducing customers of Zhongshan E-silkroad to STINET regarding Internet-related services. The fee is calculated based on 30% of the net invoiced value received by STINET. The terms of the agency agreements are 3 years commencing 21 April 2000 and 1 May 2000.
- (iv) The income for the provision of technical support service was received from STINET. The fee is calculated based on 28% on the net invoiced value received by STINET. The term of the technical support service agreement is 3 years starting from 1 May 2000.
- (v) The fee was mutually negotiated between the Group and Fujikon based on the specification as required by Fujikon.

NOTES TO FINANCIAL STATEMENTS

21. COMMITMENTS

- (a) As at 31 December 2000, annual commitments payable in the following year under non-cancellable operating leases were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
<hr/>		
In respect of land and buildings expiring:		
Within one year	28	-
In the second to fifth years, inclusive	1,798	-
	<hr/>	
	1,826	-
	<hr/>	
In respect of equipment expiring:		
In the second to fifth years, inclusive	112	-
	<hr/>	

- (b) As at 31 December 2000, the Group had contracted commitments in respect of an investment in a joint venture in the PRC amounting to HK\$620,000 (1999: Nil).

At the balance sheet date, the Company did not have any commitments.

22. SUBSEQUENT EVENTS

- (i) On 3 February 2001, the Company entered into a subscription agreement relating to the issue of a convertible redeemable note to Sun Wah for an amount of HK\$8 million. The convertible redeemable note is unsecured and bears interest at 8% per annum. Under this note, Sun Wah will have the right to convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each at a price of HK\$0.175 per ordinary share during the period from 2 March 2002 to 19 August 2003.
- (ii) Pursuant to a special written resolution passed by the shareholders of the Company on 19 February 2001, the following changes in the share capital of the Company took place:
- (a) Each of the ordinary shares of US\$1 in the capital of the Company was converted into one share of HK\$7.8.
- (b) Each of the ordinary shares of HK\$7.8 in the capital of the Company resulting from the conversion as stated in (a) above was subdivided into 156 shares of HK\$0.05 each.

NOTES TO FINANCIAL STATEMENTS

22. SUBSEQUENT EVENTS (continued)

- (c) The authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of 1,992,200,000 additional ordinary shares of HK\$0.05 each.
 - (d) The Company issued 500,880,248 shares of HK\$0.05 each to the holders of the shares on the register of members of the Company at the close of business on that date, credited as fully paid by way of capitalisation of the sum of HK\$25,044,012 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the Placement.
 - (e) The Company conditionally adopted the Share Option Scheme and granted an aggregate of 111,908,000 options under the Share Option Scheme to three executive directors and 32 full-time employees of the Group to subscribe the shares in the Company at HK\$0.25 per share. The options are exercisable during a period of 5 years after the completion of one year's service with the Group.
- (iii) On 19 February 2001, Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes which were issued on 25 October 2000 and 28 December 2000, respectively, and were outstanding as at the balance sheet date into 19,424,000 ordinary shares of HK\$0.05 each of the Company. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.
- (iv) Pursuant to the Placement, net proceeds of approximately HK\$22.6 million were received.

NOTES TO FINANCIAL STATEMENTS

22. SUBSEQUENT EVENTS (continued)

A condensed pro forma adjusted summarised consolidated balance sheet of the Group as at 31 December 2000, which is based on the audited net assets of the Group as at 31 December 2000 and adjusted as if the financing measures as set out in (i), (iii) and (iv) above had taken place on 31 December 2000, is presented below:

	Audited consolidated consolidated net assets 31 December 2000 HK\$'000	Pro forma adjustments			Pro forma net assets 31 December 2000 HK\$'000
		Issue of Conversion of			
		convertible redeemable note	convertible redeemable notes	Placing of shares	
		HK\$'000	HK\$'000	HK\$'000	
Non-current assets	5,447	-	-	-	5,447
Current assets	3,241	8,000	(1)	22,600	33,840
Current liabilities	(12,019)	-	3,400	-	(8,619)
Net current assets/(liabilities)	(8,778)				25,221
Non-current liabilities	(136)	(8,000)	-	-	(8,136)
Net assets/(deficiency in assets)	(3,467)				22,532
Share capital	76	-	971	6,523	7,570
Reserves	(3,543)	-	2,428	16,077	14,962
	(3,467)				22,532

23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 March 2001.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the abovenamed company (the "Company") will be held at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong on 2nd May, 2001 at 10:00 a.m. for the following purposes:-

1. To receive and consider the audited financial statements and the reports of the Directors and auditors for the year ended 31st December, 2000.
2. To elect Directors and to authorise the Board of Directors to fix their remuneration.
3. To appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolution as ordinary resolution:-

"THAT:

- (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or scrip dividend scheme of the Company or the exercise of the subscription rights under the options granted by the Company, or the share option scheme of the Company or the exercise of the conversion rights attributable to the convertible redeemable notes issued by the Company, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purposes of this resolution:-

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; or
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

By Order of the Board

Lee Wing Yin

Company Secretary

Hong Kong, 29th March, 2001

Principal Office:

Offices Nos.701-2

7th Floor

Man Yee Building

60-68 Des Voeux Road Central

Hong Kong

Notice of Annual General Meeting

Note:-

A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's principal office in Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.