

e-silkROAD.NET
E-SILKROAD HOLDINGS LIMITED
絲網路數碼控股有限公司
(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2001

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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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FIRST QUARTERLY RESULTS FOR 2001

HIGHLIGHTS

For the three months ended 31 March 2001, the Company has achieved a turnover of HK\$1.6 million. We successfully opened the Shunde office in March in line with our goal of building a strong presence in Guangdong, an area with many potential customers and a growing demand for both online and offline marketing services. We continue to uphold our commitment to provide customized services to our customers while expanding the services we offer, and we expect solid revenue growth in the coming months.

During the past three months, the Company was successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong. This is a vital step in order for the Company to expand, and E-silkroad now enjoys name awareness which will enhance its future growth. The management is pleased to report that cost control measures have achieved the desired result of narrowing our losses to HK\$6.6 million in this quarter.

BUSINESS REVIEW AND PROSPECTS

General

The unaudited turnover for the period ended 31 March 2001 was HK\$1.6 million, which is in line with the results of the previous three-month period. Given the long Chinese New Year holiday, this is a very encouraging result and proves that E-silkroad has already established a stable income base despite the limited number of working days in the quarter. Also, the Company was listed on the GEM Board of The Stock Exchange of Hong Kong in March 2001, which coincides with the last month of the quarter. The benefits of being a listed company, both in terms of finance and business growth, have not, therefore, been fully reflected in this quarter's result. With the new office in Shunde, the People Republic of China (the "PRC"), which opened in March, the Company is well positioned to expand at a steady rate in the untapped PRC e-marketing industry.

Tighter cost controls have resulted in narrowing the net loss from HK\$7.2 million in the previous quarter to HK\$6.6 million for the three months ended 31 March 2001. E-silkroad will continue to be cost conscious by adapting a prudent and well-planned approach to capital expenditure. Instead of developing technology in house, E-silkroad will take a more commercially cost-efficient route by acquiring or co-operating with technology companies in order to access the latest technology.

Online Business

Online business continued to represent around 43% of the turnover of the Company for the three months ended 31 March 2001. E-silkroad has also acquired 3D Visualization and e-brochure technology, so as to provide a broader spectrum of services to our customers. These services will be launched in the second quarter

to increase revenue and to make the Company more competitive in the marketplace.

Using 3D visualization, products can be displayed in a three-dimensional format. With the aid of this technology, online exhibitions will be able to compete with real trade shows.

In addition to being an efficient and cost-effective way to promote a company, e-brochure technology also has a tracking system which enables the sender to know who has viewed which section of the e-brochure and for how long. This is an excellent system for product cross-selling and sales cold-calling preparation because it enables a company to understand its individual clients' interests.

www.expo24hrs.net continues to serve as a channel to attract new customers and to generate new opportunities through business matching. The platform is now able to claim many reputable customers and to begin achieving the corporate goal of increasing revenue per customer.

Offline Business

Offline business is important to broaden E-silkroad's service offerings and to complement the vertical development of the online business. E-silkroad's offline business supplies vital customized services to our clients. By proactively contacting and providing direct and personal consultation to clients, the Company has gained a good understanding of the market and is a more responsive enterprise as a result.

Offline business represented 57% of the total turnover this quarter, an increase from 54% in 2000. This area is expected to enjoy significant growth in the future.

Future Prospects

The results for the first quarter have proved that E-silkroad has moved in the right direction in the e-marketing industry. The coming months will be the time for solid, if not tremendous, growth given the huge number of small and medium enterprises demanding e-marketing services.

As well as establishing new offices in the PRC, in the coming months E-silkroad will look for co-operation opportunities in Thailand in order to expand the geographical scope of its operations.

Within this year, besides introducing the e-brochure and 3D Visualization technology, the Company will start to offer financial portal services which will provide related quotation or financial news for prospective clients. E-silkroad will further strengthen the offline business in Hong Kong by diversifying its service offerings there. With our aim of increasing the number of customers and also revenue per customer, supported by cautious cost control measures, E-silkroad will continue to thrive and foresees excellent prospects in the future.

QUARTERLY RESULTS

The Board of Directors (the “Board”) of E-silkroad is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”)

for the three months ended 31 March 2001 together with the comparative unaudited figures of the corresponding period in 2000 as follows:–

		Unaudited consolidated results for the three months ended 31 March 2001	Unaudited consolidated results for the three months ended 31 March 2000
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	1,629	–
Cost of sales		(1,616)	–
Gross profit		13	–
Other revenue		78	–
Selling and distribution expenses		(2,074)	(129)
General and administrative expenses		(3,829)	(1,390)
Research and development costs		(626)	(542)
LOSS FROM OPERATING ACTIVITIES		(6,438)	(2,061)
Finance costs		(213)	–
LOSS BEFORE TAX		(6,651)	(2,061)
Tax	3	–	–
LOSS BEFORE MINORITY INTERESTS		(6,651)	(2,061)
Minority interests		40	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(6,611)	(2,061)
LOSS PER SHARE – Basic	4	HK1.19 cents	HK0.41 cents

Notes:—

1. 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 of the Company dated 26 February 2001 (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 since their respective dates of incorporation rather than from the date of their acquisitions pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the three months ended 31 March 2001 and the corresponding period in 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this is a shorter period.

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.

2. Turnover

Turnover represents the net invoiced value of services rendered.

3. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the three months ended 31 March 2001 and the corresponding period in 2000.

Provision for the tax of profits of subsidiaries operating overseas has not been calculated as the Group did not generate any assessable profits in the respective jurisdictions during the three months ended 31 March 2001 and the corresponding period in 2000.

The Group did not have any significant unprovided deferred tax in respect of the three months ended 31 March 2001 and the corresponding period in 2000.

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

4. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the three months ended 31 March 2001 of HK\$6,611,000 (three months ended 31 March 2000: HK\$2,061,000) and the weighted average number of 557,633,067 shares of the Company in issue (pro forma number of shares in issue for the three months ended 31 March 2000: 502,400,000 shares).

Diluted loss per share for the three months ended 31 March 2001 has not been presented as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period. The comparative diluted loss per share for the corresponding period in 2000 has not been calculated as no diluting events existed during the period.

5. Reserve

	Accumulated losses	Share premium account	Exchange fluctuation reserve	Total
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
At 1 January 2001	(22,658)	19,129	(14)	(3,543)
Issue of shares upon conversion of convertible redeemable notes	–	2,428	–	2,428
Issue of shares pursuant to placement	–	26,091	–	26,091
Issue of shares by capitalisation	–	(25,044)	–	(25,044)
Share issuing expenses	–	(7,772)	–	(7,772)
Loss for the period	(6,611)	–	–	(6,611)
Exchange difference	–	–	(12)	(12)
	(29,269)	14,832	(26)	(14,463)

There was no movement in reserve for the three months ended 31 March 2000.

6. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2001. (three months ended 31 March 2000: Nil)

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March 2001, 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”) or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Type of interest	Number of issued ordinary shares of HK\$0.05 each in the Company held <i>'000</i>
Mr. Yuen Fat Ching (“Mr. Yuen”) (note)	Family	287,440
Mr. Ho Kwong Hung, Thomas (“Mr. Ho”)	Personal	11,620
Mr. Li Ka Hay, Peter (“Mr. Li”)	Personal	7,720
Mr. Lee Wing Yin (“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 Koon Ming (“Mr. Choi”), Mr. Hui Ching Shan (“Mr. Hui”) and Mr. Ha Kee Choy, Eugene (“Mr. Ha”) hold the options to subscribe for shares in the Company, details of which are set out under the section “Directors’ and chief executives’ rights to acquire shares” below.

Save as disclosed above, as at 31 March 2001 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 GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' 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 at pages 195-198 of the Prospectus. 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.

Under the Share Option Scheme, on 19 February 2001, options comprising a total of 111,908,000 underlying shares have been conditionally granted to three directors and thirty-two employees of the Group 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 Group. Details of these options and their movements from 19 February 2001 to 31 March 2001 are as follows:

Grantees	Date of first completed year of service	Number of shares subject to the options granted on 19 February 2001	Number of shares subject to the options lapsed during the period	Number of shares subject to the options as at 31 March 2001
<i>Directors</i>				
Mr. Ho	1 February 2001	28,048,000	–	28,048,000
Mr. Li	1 February 2001	18,000,000	–	18,000,000
Mr. Lee	8 February 2001	18,000,000	–	18,000,000
<i>Employees</i>				
		47,860,000	(4,600,000)	43,260,000
		111,908,000	(4,600,000)	107,308,000

No options as described above have been exercised or cancelled from 19 February 2001 to 31 March 2001. Due to the resignations of certain employees, options comprising an aggregate of 4,600,000 underlying shares as stated above were lapsed during the above period. No further options, other than those as set out at pages 199-200 of the Prospectus, have been granted under the Share Option Scheme during this period.

Apart from the foregoing, neither the Company, its holding company nor any of its subsidiaries is 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, 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 Net Investment Limited ("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 fall to be issued upon exercise of any share options and upon conversion of the remaining convertible redeemable notes, outstanding as at 31 March 2001.

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 31 March 2001 that was required to be recorded under Section 16(1) of the SDI Ordinance.

COMPETING INTERESTS

None of the Directors nor the management shareholders have any interest in any business that directly or indirectly compete with the business of the Group.

SPONSORS' INTERESTS

As updated and notified by the Company's sponsors, Oriental Patron Asia Limited ("OP") and Celestial Capital Limited ("CCL"), as at 31 March 2001, neither OP and CCL nor their directors or employees or associates had any interests 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.

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 quarterly results for the three months ended 31 March 2001 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Since the shares of the Company commenced trading on GEM on 2 March 2001, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the period.

BY ORDER OF THE BOARD

Choi Koon Ming

Chairman

Hong Kong, 9 May 2001