

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)

3rd Quarterly Report 2001

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.

3RD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2001

HIGHLIGHTS

While global economies were suffering from the recent slump in the business world, the September 11 incident took place and changed history. Corporations across the world, including E-Silkroad Holdings Limited (“E-Silkroad”), were affected by the weak market sentiment and low consumer confidence. During the nine months ended 30 September 2001, turnover of E-Silkroad and its subsidiaries (“the Group”) amounted to HK\$5.4 million.

Management of the Group will restructure its business operations, and at the same time, it will slim down its operations in Hong Kong and the PRC. The focus will turn to controlling the costs of the Group to improve efficiency and effectiveness. A new management team has also joined the Group so as to strive to improve the overall business operations.

Upon China’s imminent entry into WTO and the exciting 2008 Olympics in Beijing, the Group aims to capture the enormous rising business opportunities. With the established customer base and guidance of a prudent and capable management team, the Group is ready to meet the market with a fresh start once its restructuring is completed.

BUSINESS REVIEW

The Group's unaudited turnover for the nine months ended 30 September 2001 was HK\$5.4 million, and the loss attributable to shareholders amounted to HK\$21.8 million.

Corporations around the globe are suffering from the recent slump in the business world, especially in the e-commerce sector. Following the tragic September 11 incident that shook the world, business sentiments and confidence levels continued to decline. Under these conditions, the Group is one of the many companies affected by the impact of the tragedy. The management of the Group are of the view that the Group has sustained a controllable loss, thanks largely to its cost control measures and its efforts to maintain customer relationships in the face of such a poor economic climate globally. During the third quarter, the management had put more emphasis on the offline business which presented a better prospect. Therefore, the Group's online business declined from the 41% recorded during interim results to approximately 30%, while offline business surged from the 59% recorded during interim results to approximately 70%. This trend of growing importance in offline business is expected to continue.

To cope with the changes in market sentiments over businesses relating to the Internet, the management of the Group will restructure its business operations. The Group will slim down operations both in Hong Kong and the PRC, and focus on cost containment measures so as to improve the overall efficiency and effectiveness of the Group. The end result of the restructuring will make Hong Kong the strategic headquarter for the Group, while in future the businesses in Guangzhou, Shunde and Zhongshan will be gradually redirected to Shenzhen as the main focus of operations in the PRC.

During the past quarter, the Group welcomed a new management team into the board that is equally as experienced and knowledgeable as the former team who contributed much to the establishment of the Group. This new and very capable management team will continue to provide services for the Group's existing customers, strengthen the ties with Zhongshan Information Network Limited ("STINET") and do their utmost to lead the Group safely through this difficult period. The growing cooperation with STINET will benefit the Group's future development and help to sustain its presence in the PRC.

FUTURE PROSPECTS

The enormous PRC market can expect further economic growth in the new millennium. An influx of foreign corporations will all want a share of the action, owing largely to China's imminent accession to the WTO and Beijing's hosting of the 2008 Olympics. Unfortunately, the PRC's bright outlook could yet fall victim to the impact of the 911 tragedy and the downturn in the US economy. It is expected that technology companies in particular will face difficulties in the foreseeable future. These companies have little choice but to remain prudent within the macro environment, continuing to maintain their cost control measures and improving both their operational efficiency and overall productivity.

The management of the Group will make every effort to seize opportunities arising in the future, especially in major cities in the PRC with the most growth potential. Keeping a watchful eye on the macro environment, the management will formulate appropriate strategies to increase business opportunities. Once the restructuring is completed, the Group will be able to enter the PRC market fully prepared and with confidence. The Group believes that its established customer base, together with a prudent and cautious management team, will prove beneficial to the Group's 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 and nine months ended 30 September 2001

together with the comparative unaudited figures of the corresponding period in 2000 as follows:–

	Notes	Consolidated results for the three months ended 30 September		Consolidated results for the nine months ended 30 September	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	2,088	975	5,400	1,315
Cost of sales		(1,566)	(413)	(4,927)	(1,515)
Gross profit/(loss)		522	562	473	(200)
Other revenue		103	4	475	129
Selling and distribution expenses		625	566	948	(71)
General and administrative expenses		(1,343)	(1,953)	(6,268)	(3,537)
Research and development costs		(6,137)	(2,943)	(15,622)	(6,971)
		94	(1,131)	(552)	(1,750)
(LOSS) FROM OPERATING ACTIVITIES		(6,761)	(5,461)	(21,494)	(12,329)
Finance costs		(151)	(10)	(518)	(10)
(LOSS) BEFORE TAX		(6,912)	(5,471)	(22,012)	(12,339)
Tax	3	-	-	-	-
(LOSS) BEFORE MINORITY INTERESTS		(6,912)	(5,471)	(22,012)	(12,339)
Minority interests		59	42	176	54
(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		(6,853)	(5,429)	(21,836)	(12,285)
(LOSS) PER SHARE – Basic	4	(HK1.049 cents)	(HK1.081 cents)	(HK3.514 cents)	(HK2.445 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 and nine months ended 30 September 2001 and the corresponding periods 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 and nine months ended 30 September 2001 and the corresponding periods 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 and nine months ended 30 September 2001 and the corresponding periods in 2000.

The Group did not have any significant unprovided deferred tax in respect of the three months and nine months ended 30 September 2001 and the corresponding periods 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 loss attributable to shareholders for the three months and nine months ended 30 September 2001 of HK\$6,853,000 and HK\$21,836,000 respectively (three months and nine months ended 30 September 2000: HK\$5,429,000 and HK\$12,285,000 respectively) and the weighted average number of 653,250,435 and 621,404,747 shares of the Company in issue during the aforementioned two periods ended 30 September 2001 respectively (pro forma number of shares in issue for the three months and nine months ended 30 September 2000: 502,400,000 shares).

Diluted loss per share for the three months and nine months ended 30 September 2001 has not been presented as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the period. The comparative diluted loss per share for the corresponding periods in 2000 has not been calculated as no diluting events existed during the periods.

5. Reserve

	Accumulated losses HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 January 2000	(2,704)	2,650	–	(54)
Loss for the period	(2,061)	–	(3)	(2,064)
At 31 March 2000 and at 1 April 2000	(4,765)	2,650	(3)	(2,118)
Loss for the period	(4,795)	–	–	(4,795)
Exchange difference	–	–	(8)	(8)
At 30 June 2000 and 1 July 2000	(9,560)	2,650	(11)	(6,921)
Loss for the period	(5,429)	–	–	(5,429)
Exchange difference	–	–	–	–
Issue of shares by allotment	–	13,981	–	13,981
At 30 September 2000	<u>(14,989)</u>	<u>16,631</u>	<u>(11)</u>	<u>1,631</u>
	Accumulated losses HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
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)
At 31 March 2001 and 1 April 2001	(29,269)	14,832	(26)	(14,463)
Loss for the period	(8,372)	–	–	(8,372)
Exchange difference	–	–	(27)	(27)
At 30 June 2001 and 1 July 2001	(37,641)	14,832	(53)	(22,862)
Loss for the period	(6,853)	–	–	(6,853)
Issue of shares by exercise of share option	–	288	–	288
Exchange difference	–	–	(12)	(12)
At 30 September 2001	<u>(44,494)</u>	<u>15,120</u>	<u>(65)</u>	<u>(29,439)</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2001 (2000: Nil).

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2001, the interests of the directors and their associates in the securities 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 '000
Mr. Yuen Fat Ching (“Mr. Yuen”) (note)	Family	287,440
Mr. Ho Kwong Hung, Thomas (“Mr. Ho”)	Personal	7,120

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. Choi Koon Ming (“Mr. Choi”), Mr. Hui Ching Shan (“Mr. Hui”), Mr. Ha Kee Choy, Eugene (“Mr. Ha”), Mr. Li Ka Hay, Peter (“Mr. Li”) and Mr. Lee Wing Yin (“Mr. Lee”) 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 30 September 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

During the period under review and on 1 March 2000, the Company granted options to the following director/ex-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/ex-directors	Number of shares subject to the options
Mr. Ho	19,568,400
Mr. Li (resigned on 1 July 2001)	9,784,200
Mr. Lee (resigned on 20 August 2001)	9,784,200
	<u>39,136,800</u>

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
		<u>15,072,000</u>

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 30 September 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 exercised and/or lapsed during the period	Number of shares subject to the options as at 30 September 2001
<i>Director/ex-Directors</i>				
Mr. Ho	1 February 2001	28,048,000	-	28,048,000
Mr. Li (resigned on 1 July 2001)	1 February 2001	18,000,000	(18,000,000)	-
Mr. Lee (resigned on 20 August 2001)	8 February 2001	18,000,000	(18,000,000)	-
<i>Employees</i>				
		47,860,000	(34,600,000)	13,260,000
		<u>111,908,000</u>	<u>(70,600,000)</u>	<u>41,308,000</u>

An aggregate of 1,440,000 number of shares subject to options as described above have been exercised. No options have been cancelled from 19 February 2001 to 30 September 2001. Due to the resignations of two directors and certain employees during the above period, options comprising an aggregate of 69,160,000 underlying shares as stated above were lapsed. 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 30 September 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	43.97
Sun Wah Net Investment Limited ("Sun Wah") (note 2)	95,474,000	14.60
Ceroilfood Finance Limited	84,910,000	12.99

Notes:

- (1) The interests of Mr. Yuen in GIC has been disclosed under the section "Directors' interests in securities" above.
- (2) The Company has issued a convertible redeemable note to Sun Wah with a principal amount of HK\$8 million (the "Note"). On 4 April 2001, the Company has redeemed part of the Note in the principal sum of HK\$2 million. Upon full conversion of balance of the Note of HK\$6 million, Sun Wah will hold approximately an additional 5% 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 30 September 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 30 September 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 which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's continuing sponsor, Oriental Patron Asia Limited ("OP"), as at 30 September 2001, neither OP nor its directors or employees or associates had any interests in the share capital of the Company.

Pursuant to the agreement dated 23 February 2001 ("the Agreement") made between OP as the sponsor and the Company, OP received fees for acting as the Company's retained sponsor for the period from 2 March 2001 to 30 September 2001. As agreed by OP and the Company, the Agreement has been terminated with effect from 1 October 2001.

Pursuant to the Sponsor Agreement dated 25 September 2001 made between Celestial Capital Limited ("CCL") and the Company, CCL received, and will receive, fees for acting as the Company's retained sponsor for the period from 1 October 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 and nine months ended 30 September 2001 have been reviewed by the Committee, who were of the opinion that such financial statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Mr. Lee Wing Yin resigned as Member of Audit Committee of the Company and Mr. Chow Yeung Tuen, Richard, an existing executive director, was appointed as Member of Audit Committee of the Company with effect from 20 August 2001.

Mr. Yeung Chi Hung and Mr. Chu Cheong Kit, Raymond resigned as Independent Non-Executive Directors and Members of Audit Committee of the Company and Mr. Chan Yan Tin, Andrew and Mr. Cho Po Hong, Jimmy were appointed as Independent Non-Executive Directors and Members of Audit Committee of the Company, all with effect from 1 November 2001.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

On 4 April 2001, the Company has redeemed the HK\$2 million convertible redeemable note issued to Purple Stone Worldwide Ltd. and part of the HK\$8 million convertible redeemable note issued to Sun Wah in the principal sum of HK\$2 million.

Save as disclosed above, 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

Tsang Shu Kei
Company Secretary

Hong Kong, 9 November 2001