

**E-silkROAD.NET**

E-silkroad Holdings Limited

(incorporated in the Cayman Islands with limited liability)

---

**ANNUAL 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.

## CONTENTS

	Pages
CORPORATE INFORMATION	2-3
CHAIRMAN'S STATEMENT	4-5
MANAGEMENT DISCUSSION AND ANALYSIS	6-7
COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS	8-11
PROSPECTS	12
DIRECTORS AND SENIOR MANAGEMENT	13-15
REPORT OF THE DIRECTORS	16-27
REPORT OF THE AUDITORS	28
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Profit and loss account	29
Statement of recognised gains and losses	30
Balance sheet	31
Cash flow statement	32
Company:	
Balance sheet	33
Notes to financial statements	34-63
NOTICE OF ANNUAL GENERAL MEETING	64-66

### Board of Directors

*Chairman*  
Choi Koon Ming

*Executive Directors*  
Yuen Fat Ching  
Hui Ching Shan  
Chow Yeung Tuen, Richard  
Yang Guozhu

*Non-executive Directors*  
Xin Wei  
Ha Kee Choy, Eugene

*Independent Non-executive Directors*  
Cho Po Hong, Jimmy  
Chan Yan Tin, Andrew

### Company Secretary

Leung Wai Sze

### Qualified Accountant

Leung Wai Sze

### Compliance Officer

Hui Ching Shan

### Authorised Representatives

Hui Ching Shan  
Chow Yeung Tuen, Richard

### Audit Committee

Cho Po Hong, Jimmy  
Chan Yan Tin, Andrew  
Chow Yeung Tuen, Richard

### 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  
International Bank of Asia

### Registered Office

Century Yard,  
Cricket Square,  
Hutchins Drive,  
P.O. Box 2681GT,  
George Town,  
Grand Cayman,  
British West Indies

**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

I am pleased to present the annual results for E-silkroad Holdings Limited ("E-silkroad") and its subsidiaries (the "Group") for the year ended 31 December 2001.

### Results Reflect Impact from Global Slowdown

Adverse market conditions due to the global economic slowdown, the tragic 911 incident and weak consumer confidence hindered growth of the e-commerce industry and impaired the Group's overall performance. Turnover for the year ended 31 December 2001 was HK\$6,543,000, an increase of 112% as compared to the fiscal year 2000. Loss attributable to shareholders amounted to HK\$27,690,000, an increase of 38.8% over the period in 2000. Such unfavourable results demonstrated the severity of the gloomy and pessimistic outlook that affected every company and every industry on a worldwide basis. Moreover, coupled with the immaturity of the e-commerce industry that further impeded the Group's business development and expansion plans, the Group will adhere to a calculating and careful strategic approach to minimize risks. The Directors do not recommend the payment of a dividend.

### Prospects

Despite the challenging and intense market environment, the Group will continue its effort to seek after potential business opportunities to generate revenue and to attract and retain customers.

Looking into the future, the Group will concentrate its effort and resources on Hong Kong, Zhongshan and Shenzhen markets. It will strive to realize its business developments through a prudent and cautious approach, when and where appropriate. The Group will continue to look into the possibility of implementing its B2B online trading system for exhibitors when the technology and business environments demonstrate its readiness for the service of an online payment system. At the same time, the Group will actively seek after potential partnership with quality Internet content providers including multi-media and entertainment business, as synergies from strong alliances with content providers are expected to create more web traffic, business and cashflow, which in return can help enhance the Group's performance.

The service of [www.expo24hrs.net](http://www.expo24hrs.net) functions as virtual exhibition facilities and e-marketing support for registered members to showcase the latest products and offers unique, relevant and qualified leads to buyers, sellers and trade visitors. The Group will strive to enrich the contents, features and functions of the website, so as to be ready and updated when the market shows signs of recovery and revival. When both market and cashflow of the Group become more steady and improved, the Group will then consider expanding the marketing of [www.expo24hrs.net](http://www.expo24hrs.net) into other international markets and seeking after other potential distribution channels.

I am optimistic that our visions can be achieved when the e-commerce market conditions have improved substantially, when the market shows strong signs of recovery and when consumer and investor confidence have been regained. With the cautious and prudent approach of the management team and the attention being paid to cost control, the Group will continue its endeavour to generate satisfactory returns to the shareholders.

**Choi Koon Ming**

*Chairman*

Hong Kong, March 26, 2002

### Overview

The global economic downturn and pessimism towards the technology sector has made 2001 a very difficult year for Internet related companies. The tragic 911 incident further worsened the overall business sentiment and most companies have tightened their budget on technological spending. Under such operating landscape, E-silkroad's performance was impaired. Although turnover increased by 112% to HK\$6,543,000 as compared to the year ended 31 December 2000, loss attributable to shareholders also increased by 38.8% to HK\$27,690,000.

In light of the market conditions, management is aware that E-silkroad will have to wait patiently for a full economic recovery. E-silkroad will implement a cautious approach until the e-commerce industry stabilizes and shows signs of revival. To weather through this challenging period, the management has taken measures to control costs and minimize risks. These measures include streamlining operations by closing down non-performing branches in the PRC, as well as maintaining administrative expenses at a reasonable level.

### Operations Review

In response to the global slump in demand for Internet related products and services, the Group has adopted a cost containment strategy. Hoping to maintain sufficient resources to ride through the fragile economic situation, and to be ready to grasp potential opportunities when the e-commerce market matures, E-silkroad will carefully control its operating expenses.

With this strategy in mind, E-silkroad has been prudently and conservatively managing its business in the past year. Though the Group still aims to introduce the *www.expo24hrs.net* exhibition portal to other overseas markets, this plan has been postponed until the e-commerce market demonstrates significant improvements. As a result, it also led to the suspension of development of the Korean version. But continuous studies have been conducted to assess the costs and benefits of new technologies for the enhancing functions and features of the portal. During the year, both the contents and functions of *www.expo24hrs.net* have been enriched, but the planned major overhaul of the portal design has been delayed due to the adverse market conditions.

To better utilize resources, the opening of the Dongguan office has been suspended and the establishment of both Japan and Korea offices will be delayed. Regarding the PRC operations, the focus has been shifted to the Hong Kong, Zhongshan and Shenzhen markets as management believes that they possess better and more business opportunities. The PRC business accounted for about 74.6% of the Group's total revenue with the remaining generated from Hong Kong. The Group will consider moving into other populous cities in the PRC when these offices prove successful.



### **Operations Review (continued)**

During the year under review, management of E-silkroad responded swiftly to market conditions and devised the most suitable strategy for the Group. Though there were unfulfilled plans for fiscal year 2001 as compared to the statement of business objectives set out in the prospectus, the Group has been able to uphold its resources and will be ready to combat when the e-commerce market becomes mature.

### **Employee Information**

As at 31 December 2001, the Group employed a total of 20 employees. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme where options to subscribe for shares of the Company may be granted to the executive Directors and full-time employees of the Group.

The following is a summary of the actual progress of the Group compared with the business objectives set out in the prospectus of the Company dated 26 February 2001 (the "Prospectus") for the period from 1 July 2001 to 31 December 2001 (the "Review Period")

**According to  
the business plans as  
stated in the Prospectus**

**Actual business progress**

**Content development**

1. Launch Korean version of *www.expo24hrs.net*

Due to latest fast adverse changes in worldwide e-commerce market and the tragic 911 incident, the Directors decided to focus the present and near future operations of the Group on Hong Kong and the PRC markets and to suspend the development of Korean version in order to reduce the development costs. The Directors opined that the suspension would not have any negative impacts on the number of existing users and visitors of *www.expo24hrs.net* as the current English, Chinese and Japanese versions are adequately sufficient to serve the need of those users and visitors.

2. Implement B2B online trading system for exhibitors

The Group will continue to look into the possibility when the technology business environment are ready, including but not limited to when online payment security and privacy issues have been solved.

3. Commence the major overhaul of the design and functions of *www.expo24hrs.net*

Given latest adverse changes in market conditions and unfavourable financial results of the Company, the planned major overhaul of the design and functions of *www.expo24hrs.net* will be put-off. The Directors were of the view that this should have no impact on existing operations as they are well taken care of by existing hardware and software given the client and transaction size of the present operations, so major technical overhaul is not imminent.

### According to the business plans as stated in the Prospectus

### Actual business progress

- |   |   |
|---|---|
| 4. Commence development of French version of <i>www.expo24hrs.net</i>   | Since the <i>www.expo24hrs.net</i> is focused on Hong Kong and the PRC markets, the development of French version is suspended. The Directors opined that the suspension would not have any negative impacts on the number of existing users and visitors of <i>www.expo24hrs.net</i> as the current English, Chinese and Japanese versions are adequately sufficient to serve the need of those users and visitors.  |
| 5. Assess the possibility of and form alliances with Internet content providers to acquire content relating to international trade and commerce | The Group performed assessment on the possibility of forming alliance with Internet content providers to acquire content relating to international trade and commerce. However, the Group has pended the formation of any alliance with any other companies until the improvement of the overall economic environment in order to reserve more funds for development of the PRC market in particular Shenzhen and for formation of a new capable sales team in the PRC. The suspension of the formation or alliances will have no major impact on the Group. Instead of forming alliance which is in substance a marketing maneuver to display solidarity amongst Internet companies, the Company will adopt the more traditional and accepted market practices in the PRC by looking for local partnerships, agencies, sales teams and others. |
| 6. Continue to enrich the contents and functions of <i>www.expo24hrs.net</i>  | The Group intended to enrich the contents and functions of <i>www.expo24hrs.net</i> by developing other specialized B2B portal so as to meet the potential customers' need. At present, the Group is in the course of discussion with potential partners in the PRC to develop an online exhibition hall for health and beauty products.  |

**According to  
the business plans as  
stated in the Prospectus**

**Actual business progress**

**Technology development**

- |  |  |
|--|--|
| <p>1. Form alliances with overseas technology consultants to strengthen the technical capabilities</p>                         | <p>The Group performed assessment on the possibility of forming alliances with overseas technology consultants. However, the Group has pended the formation of any alliance with any other companies until the improvement of the overall economic environment in order to reserve more funds for future development.</p>  |
| <p>2. Continue to develop new web applications to enhance the features and functions of <i>www.expo24hrs.net</i></p>           | <p>In view of the adverse change in market sentiments, the Company has slowed down but yet continue to develop new web application to enhance the features and functions of the portal. Currently, the Group has discussions with Internet technology firms to explore possibility of co-operation program on subject.</p> |
| <p>3. Explore and evaluate new content distribution channels (e.g. mobile broadband network)</p>                               | <p>At this stage, the Company does not have enough funds to explore new content distribution channels, but will keep this option open. When the market and cashflow of the Group has been much improved, the Group will explore and evaluate new content distribution channels.</p>  |
| <p>4. Assess new technologies available in the market to improve the functions and performance of <i>www.expo24hrs.net</i></p> | <p>The Group is continuously assessing new technologies available in the market, when identified in future, to improve the functions and performance of <i>www.expo24hrs.net</i>. Costs and benefits will be closely studied.</p>  |

**According to  
the business plans as  
stated in the Prospectus**

**Actual business progress**

**Marketing development**

- |   |   |
|---|---|
| 1. Establish sales offices in Korea and Japan   | Since the <i>www.expo24hrs.net</i> is focused on the PRC market as well as the global slump in demand for Internet related products and services, the Group will delay its move to open offices in Japan and Korea.   |
| 2. Implement marketing plans of the Company in Hong Kong, Guangzhou and Zhongshan                                     | The Group will concentrate on Hong Kong, Zhongshan and Shenzhen markets. Upon success, the Group will further consider to move into other populous PRC cities.  |
| 3. Establish sales office in Dongguan, the PRC  | The Group will concentrate its marketing effort in Shenzhen first. Upon success, the Group will expand its marketing effort in other PRC cities, e.g. Dongguan  |
| 4. Assess and develop opportunities to expand the marketing of <i>www.expo24hrs.net</i> into new international market | The strategy to expand marketing of <i>www.expo24hrs.net</i> into international markets remain unchanged, though the timing has been deferred until the e-commerce market conditions have improved substantially.   |
| 5. Continue to explore and develop B2B e-commerce and other Internet and IT business opportunities                    | The Group will actively explore the possibility to develop B2B e-commerce when technology and market are ready. The Directors expected it will take one to three years to develop B2B, especially in online payment technology. Meanwhile, the Group is aggressively searching for other Internet and IT business opportunities which could bring in immediate revenue. |

## PROSPECTS

Looking ahead, the future performance of E-silkroad will continue to depend on the global economic environment and the development pace of the e-commerce market. The Group is optimistic that the e-commerce market can be enormous once the market has fully recovered and become more developed. E-silkroad will continue to explore this market and enter into B2B e-commerce when both the technology and the market are ready. However, without any definite signs of recovery at the horizon, E-silkroad will carefully evaluate and explore other Internet and IT opportunities that can generate income and cashflows to the Group. New content distribution channels will also be explored to expand the business base.

Given the market uncertainty, co-operations or alliances with technology or business partners are under consideration in order to expand the Group's business, with minimized risks. Through joining hands with multi-media or entertainment content providers, web traffic can improve and hopefully, it can transform into business potential and eventually, into cashflows.

## DIRECTORS

### Chairman

Mr. Choi Koon Ming, aged 33, 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. Yuen Fat Ching, aged 54, 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 20 years experience in electronics industry as a senior management.

Mr. Hui Ching Shan, aged 50, 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 Media 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 British Columbia, Canada (Dick Dawson Award) and a member of the Hong Kong Institute of Company Secretaries.

Mr. Chow Yeung Tuen, Richard, aged 45, is a Certified Public Accountant with over 18 years of experience in auditing and taxation. He acts as Director of a number of subsidiary companies of Sun Wah Group. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Taxation Institute of Hong Kong. He also holds a Master Degree in Business Administration.

Mr. Yang Guozhu, aged 33, holds a Bachelor Degree in Economic Information Management from Renmin University of China.

### **DIRECTORS (continued)**

#### **Non-executive Directors**

Mr. Xin Wei, aged 27, joined the Group as non-executive Director of the Company on 5th April, 2000. Mr. Xin obtained a Master Degree in Economics from the Shanghai University of Finance and Economics. 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 44, 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 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. Cho Po Hong, Jimmy, aged 31, is an executive Director of Multifield International Holdings Limited and Oriental Explorer Holdings Limited and both companies are listed on the Main Board of the Stock Exchange in Hong Kong. He is responsible for formulation of the Corporate Strategy of both companies. He has over eight years' experience in corporate finance. He has been involved in financial services industry for over 7 years with a number of brokerage houses and listed companies. He holds a First Honour degree in finance from the University of Washington in Seattle, USA.

Mr. Chan Yan Tin, Andrew, aged 38, has extensive experience in property investment and development in both Hong Kong and overseas. He holds a Bachelor Degree in Business Administration from Simon Fraser University in Canada.

### **SENIOR MANAGEMENT**

Ms. Leung Wai Sze, aged 34, joined the Group as Financial Controller on 20th August, 2001. Ms. Leung responsible for the financial planning and control of the Group. She is an associate member of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants and has over 10 years' working experience in accounting and auditing.



Mr. Yin Cheng Zheng, aged 32, General Manager of the PRC Division of the Group. Mr. Yin is responsible for the business development and operation of the PRC Division. He joined the Group on 1st December, 2001 and is currently the Financial Controller of Sun Wah Hi-Tech (China) Holdings Ltd. Mr. Yin has over six years' of accounting experience in the PRC and is a Certified Public Accountant in the PRC. He also holds a Bachelor Degree in Economics and a Master Degree in Administration from Zhongnan University of Economics and Law.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

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 15 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

### **Segment Information**

An analysis of the Group’s turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

### **Results and Dividend**

The Group’s loss for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 to 63.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001.

### Use of Proceeds from the Company's Initial Public Offering ("IPO")

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange on 2 March 2001, after deduction of the related issue expenses, were applied during the year ended 31 December 2001 in accordance with the proposed application set out in the Company's listing prospectus, as follows:

	<b>Amount extracted from the Prospectus dated 26 February 2001 HK\$ million</b>	<b>Actual proceeds being used up to 31 December 2001 HK\$ million</b>
Purchase of fixed assets	3.1	3.1
Development of operation hardware and software	3.0	1.8
Expansion of overseas markets	2.0	-
Marketing and promotion	2.0	2.0
Working capital	12.5	12.5
<b>Total</b>	<b>22.6</b>	<b>19.4</b>

The remaining net proceeds as at 31 December 2001 was approximately HK\$3.2 million, which have been placed on short-term interest-bearing deposit with banks in Hong Kong.

### Summary Financial Information

The following is a summary of the consolidated results of the Group for each of the four years ended 31 December 2001 prepared on the basis set out in note 1 below.

#### Results

	Year ended 31 December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	<b>6,543</b>	3,080	-	-
LOSS BEFORE TAX	<b>(27,865)</b>	(20,028)	(749)	(1,956)
Tax	-	-	-	-
Loss before minority interests	<b>(27,865)</b>	(20,028)	(749)	(1,956)
Minority interests	<b>175</b>	75	-	-
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>(27,690)</b>	(19,953)	(749)	(1,956)

#### Asset And Liabilities

	31 December		
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	<b>8,873</b>	8,688	396
TOTAL LIABILITIES	<b>(11,427)</b>	(12,155)	(401)
	<b>(2,554)</b>	(3,467)	(5)

#### 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. The results of the Group for the two years ended 31 December 2001 were extracted from the audited financial statements of the Company.
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 as at 31 December 1999, 2000 and 2001.

### Fixed Assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

### Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 23 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 24 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 the 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 of the Company

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 principle sum of HK\$2 million.

Saved 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 listed securities during the year.

### Major Customers and Suppliers

In the year under review, the percentage of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (i) The aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover for the year.
- (ii) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 45% of the total purchases for the year. The purchases from the Group's largest supplier represented 14% of the Group's total purchases for the year.

### Major Customers and Suppliers (continued)

As far as the directors are aware, neither the directors, their associates nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in the Group's five largest suppliers during the year.

### Directors

The directors of the Company during the year were as follows:

Mr. Choi Koon Ming ("Mr. Choi")	
Mr. Yuen Fat Ching ("Mr. Yuen")	
Mr. Hui Ching Shan ("Mr. Hui")	
Mr. Yang Guozhu ("Mr. Yang")	(appointed on 20 July 2001)
Mr. Chow Yeung Tuen, Richard ("Mr. Chow")	(appointed on 20 August 2001)
Mr. Li Ka Hay, Peter ("Mr. Li")	(resigned on 1 July 2001)
Mr. Lee Wing Yin ("Mr. Lee")	(resigned on 20 August 2001)
Mr. Ho Kwong Hung, Thomas ("Mr. Ho")	(resigned on 1 November 2001)
Mr. Xin Wei * ("Mr. Xin")	
Mr. Ha Kee Choy, Eugene * ("Mr. Ha")	
Mr. Chan Yan Tin, Andrew ** ("Mr. Chan")	(appointed on 1 November 2001)
Mr. Cho Po Hong, Jimmy ** ("Mr. Cho")	(appointed on 1 November 2001)
Mr. Yeung Chi Hung **	(resigned on 1 November 2001)
Mr. Chu Cheong Kit, Raymond **	(resigned on 1 November 2001)

\* non-executive directors

\*\* independent non-executive directors

In accordance with article 86(3) of the Company's articles of association, Mr. Yang, Mr. Chow, Mr. Chan and Mr. Cho will retire at the forthcoming annual general meeting. Mr. Chow, Mr. Chan and Mr. Cho, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

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.

A special resolution will be proposed in the forthcoming annual general meeting to remove Mr. Yang as director of the Company due to the fact that Mr. Yang could not be located or contacted though the management of the Company had tried all means (by phone (both office and mobile), fax and e-mail) to contact him.

### Directors' Service Contracts

Mr. Yuen has entered into a service contract with the Company for a term of three years from 1 January 2001. The service contract may be terminated by either party giving to the other three months' prior written notice.

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 compensation.

### Directors' Interests in Contracts

Except as disclosed in note 26 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.

### Contract of Significance and Connected Transaction

The Group entered into a conditional subscription agreement in relation to the issue of a HK\$7 million convertible redeemable note by the Company with Sun Wah Net Investment Limited ("Sun Wah"), a shareholder of the Company, on 15 February 2002. Further details of the transaction are included in a circular to shareholders dated 11 March 2002.

### Directors' Interests in Shares

At the balance sheet date, 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
Mr. Yuen (Note)	Family	287,440,000

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 options to subscribe for shares in the Company, details of which are set out under the section "Share option scheme" below.

### **Directors' Interests in Shares (continued)**

Subsequent to the balance sheet date, on 20 February 2002, GIC transferred 58,638,000 shares of the Company to Tai Lee Assets Limited, which is beneficially owned by Ms. Tsoi Siu Lan, Mazie, who is the sister of Mr. Choi.

Save as disclosed above, as at the balance sheet date, 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 (the "Listing Rules") on the GEM of the Stock Exchange.

### **Directors' Rights to Acquire Shares**

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

### **Share Option Scheme**

The principal purpose of the share option scheme is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentive to these persons to continue to contribute to the Group's long term success and prosperity.

#### **(a) Pre-IPO share option**

- (i) On 1 March 2000, the Company granted options to certain directors of the Company which are exercisable during a period of five years commencing from 2 March 2001, the date of commencement of dealings in the shares on the GEM of the Stock Exchange.



**Share Option Scheme (continued)****(a) Pre-IPO share option (continued)**

Details of these options are as follows:

Directors	Number of share options at 1 January and 31 December 2001	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Mr. Ho	19,568,400	1 March 2000	2 March 2001 to 1 March 2006	0.125
Mr. Li	9,784,200	1 March 2000	2 March 2001 to 1 March 2006	0.125
Mr. Lee	9,784,200	1 March 2000	2 March 2001 to 1 March 2006	0.125
	39,136,800			

As at 31 December 2001, the number of shares issuable under these share options granted was 39,136,800, which represented approximately 6% of the Company's shares in issue as at that date.

- (ii) On 25 October 2000, the Company granted options to certain directors of the Company which are exercisable during a period of three years commencing from the date of their respective first completed year of service with the Company.

Details of these options are as follows:

Directors	Number of share options at 1 January and 31 December 2001	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Mr. Choi	5,024,000	25 October 2000	8 August 2001 to 7 August 2004	0.25
Mr. Hui	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
Mr. Ha	5,024,000	25 October 2000	25 October 2001 to 24 October 2004	0.25
	15,072,000			

### Share Option Scheme (continued)

#### (a) Pre-IPO share option (continued)

As at 31 December 2001, the number of shares issuable under these share options granted was 15,072,000, which represented approximately 2.3% of the Company's shares in issue as at that date.

#### (b) Post-IPO share option scheme

The eligible participants of the Post-IPO share option scheme are the directors of the Company and its subsidiaries and full time employees of the Group. The Post-IPO share option scheme became effective on 2 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 19 February 2001. These share options are exercisable during a period of five years after the completion of one year's service with the Group.

The maximum number of unexercised share options currently permitted to be granted under the Post-IPO share option scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the Post-IPO share option scheme was 2,700,000, which represented approximately 0.4% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO share option scheme in aggregate cannot exceed 25% of the total number of shares of the Company for which Post-IPO share options may be granted under the Post-IPO share option scheme in issue at any time.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and shall not be less than three years and not be later than ten years from the date of the offer of the share options or the expiry date of the Post-IPO share option scheme, if earlier.

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; 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.

## Share Option Scheme (continued)

The following share options were outstanding under the scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options	Exercise period of share options	Company's share price	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001			Exercise price of share options	At exercise date of options
								HK\$	HK\$
<b>Directors</b>									
Mr. Ho	-	28,048,000	-	(28,048,000)*	-	19 February 2001	1 February 2001 to 31 January 2006	0.25	-
Mr. Li	-	18,000,000	-	(18,000,000)*	-	19 February 2001	1 February 2001 to 31 January 2006	0.25	-
Mr. Lee	-	18,000,000	-	(18,000,000)*	-	19 February 2001	8 February 2001 to 7 February 2006	0.25	-
	-	64,048,000	-	(64,048,000)	-				
<b>Other employees</b>									
In aggregate	-	47,860,000	(1,440,000)	(43,720,000)*	2,700,000	19 February 2001	Note 1	0.25	0.24
	-	111,908,000	(1,440,000)	(107,768,000)	2,700,000				

\* Share options lapsed upon the resignation of the directors or employees of the Group during the year.

Note:

- Pursuant to the Post-IPO share option scheme, options are exercisable during the period of five years after completion of one year's service with the Group. The participating employees holding 2,700,000 share options outstanding at 31 December 2001 completed their first year of service on 20 March 2001 (900,000 share options), 28 April 2001 (1,200,000 share options) and 8 May 2001 (600,000 shares options).

Summary details of the Company's share option scheme are also set out in note 23 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted because the grant dates of share options were prior to the listing of the Company's shares on the GEM of the Stock Exchange on 2 March 2001.

### Substantial Shareholders

As at 31 December 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	44.0
Sun Wah (note 2)	95,474,000	14.6
Ceroilfood Finance Limited	84,910,000	13.0

Notes:

- (1) The interests of Mr. Yuen in GIC has been disclosed under the section "Directors' interests in shares" above.
- (2) As at the date of this report, the Company has issued convertible redeemable notes to Sun Wah with an aggregate principal amount of HK\$13 million. Upon full conversion of the notes, Sun Wah will hold additional interests ranging from approximately 21.1% to 32.5% of the enlarged issued share capital of the Company without taking into account any of the shares which may fall to be issued upon exercise of any share options and upon conversion of the other remaining convertible redeemable notes, outstanding as at the date of this report.

Save as disclosed above, the directors are 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 balance sheet date which was required to be recorded under Section 16(1) of the SDI Ordinance.

### Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 29 to the financial statements.

### Sponsors' Interests

As updated and notified by the Company's sponsor, Celestial Capital Limited ("CCL"), a fellow subsidiary of CCL held a total of 20,000,000 shares of the Company as at 31 December 2001. Saved as disclosed herein, the Company's sponsor, CCL, its respective directors, employees and associates, as at 31 December 2001, did not have any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to a termination agreement dated 20 September 2001, Oriental Patron Asia Limited ("OP") ceased to be the Company's continuing sponsor with effect from 1 October 2001. CCL was the co-sponsor of the Company for its initial public offer and was appointed by the Company to replace OP as the Company's continuing sponsor with effect from 1 October 2001. CCL will act as the continuing sponsor of the Company, for a monthly fee, for a period of 27 months from 1 October 2001 to 31 December 2003.

### Compliance with Rule 5.28 to 5.39 of the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 2 March 2001.

### Audit Committee

The Company established an audit committee on 19 February 2001 with written terms of reference in compliance with GEM Listing Rules. The audit Committee has three members comprising two independent non-executive directors, Messrs. Cho Po Hong, Jimmy (Committee Chairman) (appointed on 1 November 2001), Chan Yan Tin, Andrew (appointed on 1 November 2001) and one executive director, Mr. Chow Yeung Tuen, Richard (appointed on 20 August 2001). The primary duties of the audit committee is to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee has met twice reviewing and supervising the financial reporting process, the Company's annual report and financial statements, and providing advice and recommendation to the Board.

### Competition and Conflict of Interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

### Change of Company Secretary

Mr. Lee resigned as the company secretary of the Company, and Mr. Tsang Shu Kei ("Mr. Tsang") was appointed as the company secretary of the Company, both with effect from 20 August 2001. Subsequent to the balance sheet date, on 4 March 2002, Mr. Tsang resigned as the company secretary of the Company and Ms. Leung Wai Sze ("Ms. Leung") was appointed as the company secretary of the Company.

### Change of Qualified Accountant

Mr. Lee resigned as the qualified accountant of the Company, and Ms. Leung was appointed as the qualified accountant of the Company, both with effect from 20 August 2001.

### 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 2002



安永會計師事務所

To the members

**E-silkroad Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 29 to 63 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 2001 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 2002

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Turnover	6	<b>6,543</b>	3,080
Cost of sales		<b>(4,526)</b>	(2,346)
Gross profit		<b>2,017</b>	734
Other revenue		<b>445</b>	226
Selling and distribution expenses		<b>(7,034)</b>	(5,809)
Administrative expenses		<b>(19,997)</b>	(12,690)
Research and development costs		<b>(555)</b>	(2,346)
Other operating expenses		<b>(2,088)</b>	-
LOSS FROM OPERATING ACTIVITIES	7	<b>(27,212)</b>	(19,885)
Finance costs	8	<b>(653)</b>	(143)
LOSS BEFORE TAX		<b>(27,865)</b>	(20,028)
Tax	11	-	-
LOSS BEFORE MINORITY INTERESTS		<b>(27,865)</b>	(20,028)
Minority interests		<b>175</b>	75
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12, 24	<b>(27,690)</b>	(19,953)
LOSS PER SHARE – Basic	13	<b>HK4.40 cents</b>	HK3.97 cents

# CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Exchange differences on translation of the financial statements of foreign entities	24	2	(14)
Net gains/(losses) not recognised in the profit and loss account		2	(14)
Net loss for the year attributable to shareholders		<b>(27,690)</b>	(19,953)
Total recognised gains and losses		<b>(27,688)</b>	(19,967)



	Notes	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	<b>3,415</b>	5,247
Pledged bank deposit	20	-	200
		<b>3,415</b>	5,447
<b>CURRENT ASSETS</b>			
Accounts receivable	16	<b>109</b>	421
Prepayments, deposits and other receivables		<b>1,374</b>	1,981
Pledged bank deposit	20	<b>200</b>	200
Cash and bank balances		<b>3,775</b>	639
		<b>5,458</b>	3,241
<b>CURRENT LIABILITIES</b>			
Accounts payable	17	<b>(94)</b>	(425)
Accrued liabilities, deposits and other payables		<b>(2,571)</b>	(4,060)
Due to a minority shareholder of a subsidiary	18	-	(484)
Due to a related company	19	-	(143)
Finance lease payables	20	<b>(210)</b>	(257)
Convertible redeemable notes	21	<b>(1,250)</b>	(6,650)
Provision	22	<b>(200)</b>	-
		<b>(4,325)</b>	(12,019)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>1,133</b>	(8,778)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,548</b>	(3,331)
<b>NON-CURRENT LIABILITIES</b>			
Due to a minority shareholder of a subsidiary	18	<b>(979)</b>	-
Finance lease payables	20	<b>(123)</b>	(136)
Convertible redeemable notes	21	<b>(6,000)</b>	-
		<b>(7,102)</b>	(136)
		<b>(2,554)</b>	(3,467)
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	<b>32,686</b>	76
Reserves	24	<b>(35,240)</b>	(3,543)
		<b>(2,554)</b>	(3,467)

**Choi Koon Ming**  
Director

**Hui Ching Shan**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	25(a)	<b>(22,972)</b>	(16,401)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		<b>384</b>	73
Interest paid		<b>(22)</b>	(13)
Interest element on finance lease rental payments		<b>(54)</b>	(19)
Interest element on convertible redeemable notes		<b>(577)</b>	(111)
Net cash outflow from returns on investments and servicing of finance		<b>(269)</b>	(70)
INVESTING ACTIVITIES			
Purchases of fixed assets		<b>(2,994)</b>	(5,951)
Proceeds from disposal of fixed assets		<b>25</b>	-
Decrease/(increase) in a pledged bank deposit		<b>200</b>	(400)
Net cash outflow from investing activities		<b>(2,769)</b>	(6,351)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<b>(26,010)</b>	(22,822)
FINANCING ACTIVITIES	25(b)		
Proceeds from issue of shares		<b>32,614</b>	16,505
Listing and share issue expenses		<b>(7,772)</b>	-
Proceeds from issue of convertible redeemable notes		<b>8,000</b>	6,650
Redemption of convertible redeemable notes		<b>(4,001)</b>	-
Exercise of share options		<b>360</b>	-
Capital element of finance lease rental payments		<b>(218)</b>	(118)
Contribution from a minority shareholder of a subsidiary		<b>175</b>	75
Net cash inflow from financing activities		<b>29,158</b>	23,112
INCREASE IN CASH AND CASH EQUIVALENTS		<b>3,148</b>	290
Cash and cash equivalents at beginning of year		<b>639</b>	363
Effect of foreign exchange rate changes, net		<b>(12)</b>	(14)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>3,775</b>	639
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<b>3,775</b>	639

	Notes	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	15	<b>1,288</b>	3,243
<b>CURRENT ASSETS</b>			
Prepayments		<b>225</b>	–
Cash and bank balances		<b>3,490</b>	51
		<b>3,715</b>	51
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		<b>(307)</b>	(111)
Convertible redeemable notes	21	<b>(1,250)</b>	(6,650)
		<b>(1,557)</b>	(6,761)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>2,158</b>	(6,710)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,446</b>	(3,467)
<b>NON-CURRENT LIABILITIES</b>			
Convertible redeemable notes	21	<b>(6,000)</b>	–
		<b>(2,554)</b>	(3,467)
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	<b>32,686</b>	76
Reserves	24	<b>(35,240)</b>	(3,543)
		<b>(2,554)</b>	(3,467)

**Choi Koon Ming**  
Director

**Hui Ching Shan**  
Director

## 1. BASIS OF PRESENTATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group and the Company had net deficiencies in assets as at 31 December 2001. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing and operating measures executed subsequent to the balance sheet date, which include the following:

- (i) On 15 February 2002, the Company entered into a conditional 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\$7 million. Sun Wah is a shareholder of the Company. The terms of the convertible redeemable note is unsecured and bears interest at 8% per annum. Under the terms of this note, the Company may redeem the whole or part of the note during a period of three years from the issue date of the note. Furthermore, Sun Wah has the right to redeem the whole or part of the principal amount of the note in cash or 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\$0.05 per ordinary share, subject to adjustment, during the abovementioned period. In such circumstances, the Company may, instead of redeeming the note or such part thereof in cash at the face value of the note plus interest, elect to satisfy the redemption by the issue of the ordinary shares of the Company. The Company will only redeem the note or such part thereof in cash if the adequacy of working capital and liquidity of the Group is not impaired by such cash redemption. Further details of the note are set out in a circular to shareholders dated 11 March 2002.
- (ii) On 15 February 2002, the Group, as lessor, entered into four conditional five year lease agreements with two independent third parties for the leasing of certain office and computer equipments in return for a total rental payment of approximately HK\$770,000. According to the terms of the agreements, the rentals should be fully settled within six months from 25 March 2002. Further details of the leases are also set out in a circular to shareholders dated 11 March 2002.
- (iii) The directors have commenced the closure of certain unprofitable operations in Guangzhou and Shunde in the People's Republic of China, other than Hong Kong and Macau (the "PRC"). The anticipated cost relating to closing down these unprofitable operations were provided and accounted for as included in accrued liabilities as at 31 December 2001. The directors will relocate the resources to other business centres in the PRC to continue the Group's existing principal activities.

In addition to consolidating its existing Internet business, in order to broaden the Group's income sources and client base, the directors will look for new business opportunities in other Internet-related businesses. The directors have budgeted for the anticipated set-up costs and expect that the new businesses will improve the profitability and cash flows of the Group.

## 1. BASIS OF PRESENTATION (continued)

The directors are of the opinion that, in view of the measures taken to date, together with the expected results 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.

## 2. CORPORATE INFORMATION

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

- providing Internet-based application and web page design services
- maintaining the *www.expo24hrs.net* web site
- providing technical support and agency services

In the opinion of the directors, the ultimate holding company is global.com Investments Corp., a company incorporated in the British Virgin Islands.

## 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following relevant recently-issued and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised) : “Events after the balance sheet date”
- SSAP 14 (Revised) : “Leases”
- SSAP 26 : “Segment reporting”
- SSAP 28 : “Provisions, contingent liabilities and contingent assets”
- SSAP 31 : “Impairment of assets”
- SSAP 32 : “Consolidated financial statements and accounting for investments in subsidiaries”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP has had no major impact on these financial statements.

### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 20 and 27 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. Provisions are now disclosed as a separate line item on the face of the balance sheet and note 22 to the financial statements “Provisions” has been revised to include the newly required additional disclosures.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements. The Group has performed an assessment of the fair value of its assets. As a result, fixed assets were determined to have been impaired as at 31 December 2001, further details of which are included in note 14 to the financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs, certain minor revisions to SSAP 17 “Property, plant and equipment” are effective for the first time for the current year’s financial statements. The only significant effect of these revisions is that the revised SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 14 to the financial statements, whereas previously they would have been deducted from the cost of the relevant asset.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of preparation**

These financial statements have been prepared in accordance with SSAPs, 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.

##### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

##### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

##### **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.

##### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and impairment losses. 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.

Depreciation is calculated 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
Motor vehicles	5 years

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.

##### **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.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Cash equivalents**

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

##### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for legal costs are made based on the present value of the future costs expected to be incurred.

##### **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 until its realisation is assured beyond reasonable doubt.

##### **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:

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **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.

##### **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.

##### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contributions as required by the MPF Scheme and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages of those eligible employees and are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable to the defined contribution retirement benefits scheme.

## 5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as further explained in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the provision of Internet-based application and web page design services segment provides online trade-show and exhibition services and web page development work;
- (b) the web site maintenance segment represents the monthly subscription service for joining *www.expo24hrs.net*; and
- (c) the provision of technical support and agency services segment includes the provision of consultation services relating to the implementation and application of computer systems and introducing customers for web site hosting, e-mail boxes services, domain name registration and international trading and business information services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 5. SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

Group	Internet-based		Web site		Technical		Eliminations		Consolidated	
	application and web		maintenance		support and					
	page design services		services		agency services		2001	2000	2001	2000
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	4,764	2,033	327	339	1,452	708	-	-	6,543	3,080
Intersegment sales	761	418	-	-	-	-	(761)	(418)	-	-
Total	5,525	2,451	327	339	1,452	708	(761)	(418)	6,543	3,080
Segment results	(4,865)	(5,939)	(1,005)	(1,577)	298	95	-	-	(5,572)	(7,421)
Interest Income									384	73
Other revenue									61	153
Unallocated expenses									(22,085)	(12,690)
Loss from operating activities									(27,212)	(19,885)
Finance costs									(653)	(143)
Loss before tax									(27,865)	(20,028)
Tax									-	-
Loss before minority interests									(27,865)	(20,028)
Minority interests									175	75
Net loss from ordinary activities attributable to shareholders									(27,690)	(19,953)

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Internet-based application and web page design services		Web site maintenance services		Technical support and agency services		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	2,964	4,093	542	991	199	634	-	-	3,705	5,718
Unallocated assets									5,168	2,970
Total assets									8,873	8,688
Segment liabilities	737	345	37	292	136	185	-	-	910	822
Unallocated liabilities									10,517	11,333
Total liabilities									11,427	12,155
Other segment information:										
Depreciation	2,130	914	362	247	275	87	-	-	2,767	1,248
Impairment loss recognised in the profit and loss account	1,466	-	-	-	622	-	-	-	2,088	-
Other non-cash expenses	486	111	193	29	-	-	-	-	679	140
Capital expenditure	2,310	4,611	189	1,130	653	721	-	-	3,152	6,462

### (b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		PRC		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	1,665	1,435	4,878	1,645	-	-	6,543	3,080
Other segment information:								
Segment assets	7,573	6,671	1,300	2,017	-	-	8,873	8,688
Capital expenditure	961	4,788	2,191	1,674	-	-	3,152	6,462

## 6. TURNOVER

Turnover represents the net invoiced value of services rendered.

**7. LOSS FROM OPERATING ACTIVITIES**

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cost of services provided	<b>4,526</b>	2,346
Auditors' remuneration	<b>380</b>	450
Provision for doubtful debts	<b>361</b>	140
Depreciation	<b>2,767</b>	1,248
Research and development costs (see staff costs below)	<b>555</b>	2,346
Provision of legal costs	<b>200</b>	-
Provision for impairment of fixed assets	<b>2,088</b>	-
Loss on disposal of fixed assets	<b>118</b>	-
Minimum lease payments under operating leases:		
Land and buildings	<b>2,368</b>	1,368
Equipment	<b>104</b>	277
Pension contributions (excluding directors' remuneration - note 9)	<b>221</b>	5
Staff costs (excluding directors' remuneration - note 9)	<b>11,376</b>	6,188
Less: Amount included in research and development costs	-	(767)
	<b>11,376</b>	5,421
Exchange gains, net	<b>(28)</b>	(49)
Interest income	<b>(384)</b>	(73)

**8. FINANCE COSTS**

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Interest on other loan	-	7
Interest on bank overdraft	<b>22</b>	6
Interest on finance leases	<b>54</b>	19
Interest on convertible redeemable notes	<b>577</b>	111
	<b>653</b>	143

## 9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
<b>Fees:</b>		
Executive directors	-	-
Non-executive directors	-	-
Independent non-executive directors	<b>33</b>	-
	<b>33</b>	-
<b>Other emoluments of executive directors:</b>		
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	<b>2,371</b>	2,882
Pension contributions	<b>53</b>	6
	<b>2,424</b>	2,888

Save as disclosed above, none of the non-executive or independent non-executive directors received any fees or other reimbursements or emoluments for the year ended 31 December 2001.

The two (2000: Nil) independent non-executive directors received individual fees of approximately HK\$16,500 each. The four (2000: four) executive directors received individual emoluments of approximately HK\$779,000, HK\$677,000, HK\$644,000 and HK\$324,000 (2000: HK\$1,173,000, HK\$939,000, HK\$587,000 and HK\$189,000) during the year ended 31 December 2001.

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

During the year, 64,048,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 25. No value in respect of the share options granted during the year has been charged to the profit and loss account.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2000: two) non-director, highest paid employees are as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>328</b>	623
Performance related bonuses	<b>360</b>	-
Pension contributions	<b>7</b>	1
	<b>695</b>	624

The remuneration of the remaining two (2000: two) non-director, highest paid employees during the two years ended 31 December 2001 fell within the range of nil to HK\$1,000,000.

During the year, 18,000,000 share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures set out under the heading "Share option scheme" in the Report of the Directors on page 25. No value in respect of the share options granted during the year has been charged to the profit and loss account.

## 11. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2000: 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 (2000: Nil).

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.

## 12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 is HK\$27,688,000 (2000: HK\$19,972,000).



### 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$27,690,000 (2000: HK\$19,953,000) and the weighted average number of 629,188,603 ordinary shares (2000: pro forma issued share capital of 502,400,000 shares) of the Company in issue during the year.

Diluted loss per share for the years ended 31 December 2001 and 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 both years.

### 14. FIXED ASSETS

#### Group

	<b>Furniture, fixtures and fittings</b>	<b>Computer and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>				
At beginning of year	2,472	4,024	–	6,496
Additions	869	2,035	248	3,152
Disposals	–	(214)	–	(214)
Exchange realignment	4	11	–	15
<b>At 31 December 2001</b>	<b>3,345</b>	<b>5,856</b>	<b>248</b>	<b>9,449</b>
<b>Accumulated depreciation and impairment:</b>				
At beginning of year	524	725	–	1,249
Provided during the year	939	1,778	50	2,767
Impairment during the year recognised in the profit and loss account	716	1,372	–	2,088
Disposals	–	(71)	–	(71)
Exchange realignment	–	1	–	1
<b>At 31 December 2001</b>	<b>2,179</b>	<b>3,805</b>	<b>50</b>	<b>6,034</b>
<b>Net book value:</b>				
At 31 December 2001	1,166	2,051	198	3,415
At 31 December 2000	1,948	3,299	–	5,247

**14. FIXED ASSETS (continued)**

The net book value of the Group's fixed assets held under finance leases included in the total amount of computer and office equipment and motor vehicles at 31 December 2001 amounted to HK\$258,000 (2000: HK\$411,000) and HK\$198,000 (2000: Nil), respectively.

**15. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	-	-
Due from subsidiaries	<b>1,288</b>	3,243
	<b>1,288</b>	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:

<b>Company name</b>	<b>Place of incorporation/ establishment and operations</b>	<b>Nominal value of paid-up share/ registered capital</b>	<b>Equity interest attributable to the Company</b>		<b>Principal activities</b>
			<b>Direct</b>	<b>Indirect</b>	
E-silkroad.net Corporation	British Virgin Islands/ Hong Kong	US\$1	100%	-	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	HK\$10,000	-	100%	Development of e-commerce business
E-silkroad.net Online Commerce Limited	Hong Kong	HK\$10,000	-	100%	Dormant

**15. INTERESTS IN SUBSIDIARIES (continued)**

Company name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Business Essence Technology Limited	British Virgin Islands	US\$1	-	100%	Investment holding
E-silkroad.net Resources Limited	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")	PRC	HK\$5,000,000	-	95%	Provision of web page design service and technical support services

**16. ACCOUNTS RECEIVABLE**

A defined credit policy is maintained within the Group. The general credit terms range from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of accounts receivable is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current – 3 months	<b>108</b>	331
Over 3 months	<b>1</b>	90
	<b>109</b>	421

**17. ACCOUNTS PAYABLE**

An aged analysis of accounts payable is as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current – 3 months	<b>10</b>	321
Over 3 months	<b>84</b>	104
	<b>94</b>	425

**18. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY**

The amount due to a minority shareholder of a subsidiary is unsecured and interest-free. The minority shareholder has undertaken not to demand repayment within a period of twelve months.

**19. 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 who resigned on 1 November 2001, is also a director of Fujikon. The amount was attributable to the Internet-based application and design services provided to Fujikon and was fully settled during the current year. Pursuant to Section 161B of the Hong Kong Companies Ordinance, the maximum amount due from Fujikon during the year was approximately HK\$59,000 (2000: HK\$137,000).

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

**20. FINANCE LEASE PAYABLES**

The Group conducted a portion of its operations using certain leased computer and office equipment and motor vehicles. These leases are classified as finance leases and have remaining lease terms ranging from less than one year to three years.

**20. FINANCE LEASE PAYABLES (continued)**

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

**Group**

	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	<b>229</b>	281	<b>216</b>	269
In the second year	<b>79</b>	139	<b>71</b>	124
In the third to fifth years, inclusive	<b>53</b>	-	<b>46</b>	-
Total minimum finance lease payments	<b>361</b>	420	<b>333</b>	393
Future finance charges	<b>(28)</b>	(27)		
Total net finance lease payables	<b>333</b>	393		
Portion classified as current liabilities	<b>(210)</b>	(257)		
Long term portion	<b>123</b>	136		

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

As at 31 December 2001, the finance lease drawn down on 31 August 2000 was secured by a bank deposit of HK\$200,000 (2000: HK\$400,000).

**21. CONVERTIBLE REDEEMABLE NOTES**

	Notes	Group and Company	
		2001 HK\$'000	2000 HK\$'000
At beginning of year	(i)	<b>6,650</b>	–
New issue	(ii)	<b>8,000</b>	6,650
Converted into ordinary shares of the Company	(iii)	<b>(3,399)</b>	–
Cash redemption	(iii), (iv)	<b>(4,001)</b>	–
At end of year		<b>7,250</b>	6,650
Portion classified as current liabilities	(v)	<b>(1,250)</b>	(6,650)
Long-term portion		<b>6,000</b>	–

- (i) 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 principal amount of HK\$2 million (the "First Note") and HK\$1.25 million (the "Second Note"), 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 two additional convertible redeemable notes to Sun Wah for principal amounts 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 these convertible redeemable notes have the right to convert the whole or part of the principle 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. The exercise period has been extended for the Second Note, as detailed in (v) below.
- (ii) 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 the terms of 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, or to redeem the note in cash upon its maturity on 19 August 2003.
- (iii) 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 its two convertible redeemable notes, detailed in (i) above, into 19,424,000 ordinary shares of HK\$0.05 each in the Company. The remaining balance of HK\$800 of these convertible redeemable notes was also repaid in cash.

**21. CONVERTIBLE REDEEMABLE NOTES (continued)**

- (iv) On 4 April 2001, the Company paid HK\$2 million to Sun Wah by way of partial redemption of the convertible redeemable note as detailed in (ii) above. On the same date, the Company redeemed the First Note in cash.
- (v) On 28 January 2002, the Company entered into a supplemental deed with the subscriber of the Second Note to extend the repayment date from 31 December 2001 to 30 April 2002.

**22. PROVISION**

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Provision for legal costs during the year and balance at year end	<b>200</b>	-

The Group was involved in a High Court action in Hong Kong initiated by a former employee (the "Plaintiff"). The Plaintiff claims for (i) payment of alleged outstanding salary and emoluments in the total amount of HK\$832,418; (ii) damages for the alleged failure of the Company to allot his share options; (iii) a declaration that the Group has no right to use the idea, patent or concept in and in respect of the technique known as S.T.O.R.M.; (iv) payment of any and all sums received by the Group in respect of use of the technique known as S.T.O.R.M.; and (v) interest and legal costs. The above legal case is still in progress as at the date of this report and no further action has been undertaken by the Plaintiff. After seeking independent legal advice, the Company's directors have estimated and provided for the expected legal costs in respect of this case during the year ended 31 December 2001.

**23. SHARE CAPITAL**

	<b>2001</b>	2000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each (2000: 50,000 ordinary shares of US\$1 each)	<b>HK\$100,000,000</b>	HK\$390,000
Issued and fully paid:		
653,720,000 ordinary shares of HK\$0.05 each (2000: 9,742 ordinary shares of US\$1 each)	<b>HK\$32,686,000</b>	HK\$75,988

### 23. SHARE CAPITAL (continued)

During the period from 11 November 1999 (date of incorporation) to 31 December 2001, the following changes in the Company's issued share capital took place:

- (i)
  - (a) 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.
  - (b) On 28 July 2000, 450 ordinary shares of US\$1 each were issued to the directors of the Company for cash at par.
  - (c) 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.
  - (d) On 25 August 2000, 179 ordinary shares of US\$1 each were issued to a director of the Company for cash at par.
  - (e) 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.
- (ii) 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\$7.80.
  - (b) Each of the ordinary shares of HK\$7.80 in the capital of the Company resulting from the conversion stated in (a) above was subdivided into 156 shares of HK\$0.05 each.
  - (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 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 listing of the Company's shares on the GEM of the Stock Exchange.



**23. SHARE CAPITAL (continued)**

- (iii) 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 of its convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each of the Company, as further detailed in note 21(iii) to the financial statements.
- (iv) Upon the listing of the Company's shares on the GEM of the Stock Exchange, on 2 March 2001, 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.
- (v) On 14 July 2001, share options to subscribe for 1,440,000 shares in the Company under the share option scheme were exercised and accordingly, 1,440,000 shares were issued for a total consideration of HK\$360,000.

A summary of the above transactions is as follows:

	<b>Number of issued shares</b>	<b>Par value HK\$'000</b>
At 1 January 2000	6,345	50
Shares issued during the year	3,397	26
At 31 December 2000 and 1 January 2001	9,742	76
Share sub-division	1,510,010	–
Capitalisation of share premium account	500,880,248	25,044
Shares issued on conversion of convertible redeemable notes	19,424,000	971
New issues on public share issue and placing of shares	130,456,000	6,523
Exercise of share options	1,440,000	72
At 31 December 2001	653,720,000	32,686

**Share options**

The Company has a pre-IPO share option agreement (the "Pre-IPO Agreement") and post-IPO share option scheme (the "Post-IPO Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 22 to 25.

At the beginning of the year, there were 54,208,800 share options ("Pre-IPO Share Options") outstanding under the Pre-IPO Agreement, which entitled certain directors of the Company to subscribe for shares of the Company at any time during periods ranging from 2 March 2001 to 1 March 2006. The subscription price payable upon the exercise of these options ranged from HK\$0.125 per share to HK\$0.25 per share.

## 23. SHARE CAPITAL (continued)

### Share options (continued)

On 19 February 2001, the Company adopted the Post-IPO Scheme which was conditional upon the listing of the Company's shares on the GEM of the Stock Exchange. 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 Post-IPO Scheme.

Under the Post-IPO Scheme, 111,908,000 share options ("Post-IPO 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. These share options are exercisable during the period of five years after the completion of one year's service with the Group.

During the year, 107,768,000 share options lapsed upon the resignation of three directors and 29 full-time employees of the Group. On 14 July 2001, 1,440,000 share options were exercised at an exercise price of HK\$0.25 per share.

At the balance sheet date, the Company had 54,208,800 Pre-IPO Share Options and 2,700,000 Post-IPO Share Options outstanding, with exercise periods from 2 March 2001 to 1 March 2006 and from 20 March 2001 to 7 May 2006, respectively. The exercise prices of the outstanding Pre-IPO Share Options range from HK\$0.125 per share to HK\$0.25 per share. The exercise price of the outstanding Post-IPO Share Options is HK\$0.25 per share. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 56,908,800 additional shares of HK\$0.05 each with gross proceeds of approximately HK\$9,335,100. Up to the date of this report, none of the Pre-IPO Share Options has been exercised.

## 24. RESERVES

### Group

	<b>Share premium account</b>	<b>Accumulated losses</b>	<b>Exchange fluctuation reserve</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	2,650	(2,705)	-	(55)
Loss for the year	-	(19,953)	-	(19,953)
Exchange adjustment	-	-	(14)	(14)
Issue of new shares	16,479	-	-	16,479
At 31 December 2000 and 1 January 2001	19,129	(22,658)	(14)	(3,543)
Loss for the year	-	(27,690)	-	(27,690)
Conversion of convertible redeemable note	2,428	-	-	2,428
Issue of new shares	26,091	-	-	26,091
Capitalisation of shares issued	(25,044)	-	-	(25,044)
Listing and share issue expenses	(7,772)	-	-	(7,772)
Exercise of share options	288	-	-	288
Exchange adjustment	-	-	2	2
At 31 December 2001	15,120	(50,348)	(12)	(35,240)

24. RESERVES (continued)

Company

	<b>Share premium account</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	2,650	(2,700)	(50)
Loss for the year	-	(19,972)	(19,972)
Issue of new shares	16,479	-	16,479
At 31 December 2000 and 1 January 2001	19,129	(22,672)	(3,543)
Loss for the year	-	(27,688)	(27,688)
Conversion of convertible redeemable note	2,428	-	2,428
Issue of new shares	26,091	-	26,091
Capitalisation of shares issued	(25,044)	-	(25,044)
Listing and share issue expenses	(7,772)	-	(7,772)
Exercise of share options	288	-	288
At 31 December 2001	15,120	(50,360)	(35,240)

## 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Loss from operating activities	<b>(27,212)</b>	(19,885)
Interest income	<b>(384)</b>	(73)
Depreciation	<b>2,767</b>	1,248
Provision for doubtful debts	<b>361</b>	140
Provision for legal costs	<b>200</b>	–
Provision for impairment of fixed assets	<b>2,088</b>	–
Loss on disposal of fixed assets	<b>118</b>	–
Increase in accounts receivable	<b>(49)</b>	(561)
Decrease/(increase) in prepayments, deposits and other receivables	<b>607</b>	(1,981)
Increase/(decrease) in accounts payable	<b>(331)</b>	276
Increase/(decrease) in accrued liabilities, deposits and other payables	<b>(1,489)</b>	3,808
Increase in an amount due to a minority shareholder of a subsidiary	<b>495</b>	484
Increase/(decrease) in an amount due to a related company	<b>(143)</b>	143
Net cash outflow from operating activities	<b>(22,972)</b>	(16,401)

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

(b) Analysis of changes in financing during the years

	Issued capital and share premium account HK\$'000	Convertible redeemable notes HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000
At 1 January 2000	2,700	-	-	-
Inception of finance leases	-	-	511	-
Net 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 and at 1 January 2001	19,205	6,650	393	-
Inception of finance leases	-	-	158	-
Net cash inflow/(outflow) from financing activities	25,202	3,999	(218)	175
Minority shareholder's share of loss for the year	-	-	-	(175)
Arising on conversion of convertible redeemable notes	3,399	(3,399)	-	-
At 31 December 2001	47,806	7,250	333	-

(c) Major non-cash transactions

- (i) During the year, Sun Wah converted an aggregate of HK\$3,399,200 of two of its convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each of the Company, as further detailed in note 21(iii) to the financial statements. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.
- (ii) During the year, the Group entered into finance lease arrangements in respect of computer and office equipment and motor vehicles with a capital value at the inception of the leases of approximately HK\$158,000 (2000: HK\$511,000).

## 26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following related party transactions during the year.

	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Technical service fees paid to			
SW e-solutions Limited	(i)	<b>72</b>	249
Equipment leasing charges paid to			
中山市金科信息網絡有限公司 ("STINET")	(ii)	<b>104</b>	78
Agency fees received from STINET	(iii)	<b>(751)</b>	(366)
Technical support fees received from STINET	(iv)	<b>(701)</b>	(342)
Service fee income for Internet-based			
application and design received from Fujikon	(v)	<b>(13)</b>	(137)
Rental expenses paid to			
Sun Wah Hi-Tech (HK) Limited	(vi)	<b>630</b>	-
Management fees paid to			
Sun Wah Hi-Tech (HK) Limited	(vii)	<b>236</b>	-

- (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 technical support agreement, the technical service fees are calculated at HK\$8,000 per month, which basis was determined between the Company and SW e-solutions Limited. The term of such agreement is 12 months commencing on 25 April 2000 and is further extended to 30 September 2001.
- (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 the senior management of the Group who resigned on 1 December 2001. 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. Pursuant to a termination agreement entered into between STINET and Zhongshan E-silkroad, the lease agreement was terminated on 1 December 2001.
- (iii) The agency fee income was received for introducing customers of Zhongshan E-silkroad to STINET for 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 on 21 April 2000 and 1 May 2000.

## 26. RELATED PARTY TRANSACTIONS (continued)

- (iv) The income for the provision of technical support services 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.
- (vi) Sun Wah Hi-Tech (HK) Limited is a fellow subsidiary of Sun Wah. The Group entered into a lease agreement in respect of the lease of office properties from Sun Wah Hi-Tech (HK) Limited on 4 April 2001. The lease term is 12 months commencing on 4 April 2001 and the rental charge is HK\$70,000 per month.
- (v) The management fee was related to secretarial services provided by Sun Wah Hi-Tech (HK) Limited and was charged on a cost-plus basis.

## 27. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Within one year	<b>1,850</b>	2,044
In the second to fifth years, inclusive	<b>779</b>	2,591
	<b>2,629</b>	4,635

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases have been restated to accord with the current year's presentation.

## 28. COMMITMENTS

As at 31 December 2001, the Group had contracted commitments in respect of an investment in a joint venture in the PRC amounting to HK\$171,000 (2000: HK\$620,000).

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



## 29. POST BALANCE SHEET EVENTS

- (i) On 15 February 2002, the Company entered into a conditional subscription agreement relating to the issue of a convertible note to Sun Wah for an amount of HK\$7 million. The Company's shareholders approved this transaction at an extraordinary general meeting on 25 March 2002. The terms of the convertible redeemable note is unsecured and bears interest at 8% per annum. Under the terms of 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 during a period of three years from the issue date of the note. The conversion price is HK\$0.05 per ordinary share, subject to adjustment. Further details of the issuance of the convertible redeemable note are set out in a circular to shareholders dated 11 March 2002.
- (ii) On 15 February 2002, Zhongshan E-silkroad, as lessor, entered into four conditional lease agreements with two independent third parties in respect of the lease of computer and office equipment for a total rental payment of HK\$770,000 for a lease period of five years. Further details of the leases are also set out in the circular to shareholders dated 11 March 2002.

## 30. LITIGATION

As at 31 December 2001, the Group was involved in a High Court action in Hong Kong initiated by a former employee. Further details are disclosed in note 22 to the financial statements.

On 23 March 2001, the Company initiated an action in the High Court of Hong Kong against Icered.com Limited for, inter alia, the disclosure of the names, addresses, e-mail addresses and Internet Protocol addresses of all senders of the messages on the Icered Internet chat-line who the Company wished to pursue for defamation. An order was made by the High Court on 6 April 2001 ordering, inter alia, the disclosure of the said information. There has been no further progress in this action.

## 31. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of SSAP 14 (Revised) during the current year, the presentation of certain items and balances in the financial statements has been revised to comply with the new requirements. Accordingly, the comparative amounts have been revised to conform with the current year's presentation.

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2002.

**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 3rd May, 2002 at 11:00 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, 2001.
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 resolutions, of which resolution no. 4A will be proposed as a special resolution and resolution no. 4B will be proposed as an ordinary resolution:

**SPECIAL RESOLUTION**

- A. **"THAT** Mr. Yang Guozhu, an executive director of the Company, be and is hereby removed as director of the Company with immediate effect."

**ORDINARY RESOLUTION**

- B. **"THAT:**
- (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company during the Relevant Period of all powers of the Company to allot and issue shares in the capital of the Company and to make and grant offers, agreements and options which would or might require shares to be allotted 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 and grant offers, agreements and options which would or might require shares to be allotted 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 shares issued as a result of a Rights Issue or pursuant to a scrip dividend scheme of the Company or the convertible redeemable notes issued by the Company or the exercise of the subscription rights under the options granted by the Company, or the share option scheme of 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
- (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 of the Cayman Islands to be held; and
- (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 in the capital of the Company whose names appear 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 exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory).”

By Order of the Board  
**Leung Wai Sze**  
*Company Secretary*

Hong Kong, 26th March, 2002

## Notice of Annual General Meeting

*Principal Office:*

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

*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.