

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

**First Quarterly Report 2002**

# E-SILKROAD.NET

## E-SILKROAD HOLDINGS LIMITED

### 絲綢路數碼控股有限公司

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

#### **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 these 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. GEM-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 at “[www.hkgem.com](http://www.hkgem.com)” in order to obtain up-to-date information on GEM-listed issuers.

## FIRST QUARTERLY RESULTS FOR 2002

### HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March 2002 was approximately HK\$306,000
- The Group recorded an unaudited loss attributable to shareholders of HK\$2,438,000 for the three months ended 31 March 2002
- Loss per share was HK0.37 cents

### RESULTS

The Board of Directors of E-silkroad Holdings Limited (“E-silkroad” or the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2002 together with comparative unaudited figures for the corresponding period in 2001 as follows:–

		<b>Three months ended 31 March</b>	
		<b>2002</b>	2001
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>306</b>	1,629
Cost of sales		<b>(298)</b>	(1,616)
Gross profit		<b>8</b>	13
Other revenue		<b>14</b>	78
Selling and distribution expenses		<b>(16)</b>	(2,074)
Administrative expenses		<b>(2,292)</b>	(3,829)
Research and development costs		–	(626)
<b>LOSS FROM OPERATING ACTIVITIES</b>		<b>(2,286)</b>	(6,438)
Finance costs		<b>(152)</b>	(213)
<b>LOSS BEFORE TAX</b>		<b>(2,438)</b>	(6,651)
Tax	3	–	–
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(2,438)</b>	(6,651)
Minority interests		–	40
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(2,438)</b>	(6,611)
<b>LOSS PER SHARE – Basic</b>	5	<b>HK0.37 cents</b>	HK1.19 cents

Notes:–

## 1. Basis of presentation

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net deficiencies in assets as at 31 March 2002. 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 during the period, which included the following:

- (i) During the period, the Company issued a convertible redeemable note (“Note”) to Sun Wah Net Investment Limited (“Sun Wah”) for a principal amount of HK\$7 million. Sun Wah is a shareholder of the Company. The Note is unsecured and bears interest at a rate of 8% per annum. Under the terms of the Note, the Company may redeem the whole or part of the Note during the period from 28 March 2002 to 28 March 2005 by giving one month’s prior notice. Furthermore, Sun Wah has the right to request for redemption of 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 period from 28 March 2002 to 28 March 2005. 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 of the Company dated 11 March 2002.
- (ii) During the period, the Group, as a lessor, entered into four conditional five year lease agreements with two independent third parties for the leasing of certain office and computer equipment in return for a total rental payment of approximately HK\$770,000. According to the terms of the agreements, the rentals will be fully settled within six months from 25 March 2002. Further details of the leases are set out in a circular of the Company 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 related 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 setup costs and expect that the new businesses will improve the profitability and cash flows of the Group.

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. Turnover**

Turnover represents the net invoiced value of services rendered.

## **3. Taxation**

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the three months ended 31 March 2002 and the corresponding period in 2001.

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 three months ended 31 March 2002 and the corresponding period in 2001.

The Group did not have any significant unprovided deferred tax in respect of the three months ended 31 March 2002 and the corresponding period in 2001.

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

## **4. 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 three months ended 31 March 2002 is HK\$2,438,000 (three months ended 31 March 2001: HK\$6,611,000).

## **5. Loss per share**

The calculation of basic loss per share is based on the net loss attributable to shareholders for the three months ended 31 March 2002 of HK\$2,438,000 (three months ended 31 March 2001: HK\$6,611,000) and the weighted average number of 653,720,000 ordinary shares of the Company in issue (three months ended 31 March 2001: 557,633,067 shares).

Diluted loss per share for the three months ended 31 March 2002 and 2001 has not been presented as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for both periods.

## 6. Reserve

	Share premium account HK\$'000	Accumulated losses HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 January 2001	19,129	(22,658)	(14)	(3,543)
Loss for the period	–	(6,611)	–	(6,611)
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	–	–	–	–
Exchange adjustment	–	–	(12)	(12)
	<u>14,832</u>	<u>(29,269)</u>	<u>(26)</u>	<u>(14,463)</u>
At 31 March 2001				
At 1 January 2002	15,120	(50,348)	(12)	(35,240)
Loss for the period	–	(2,438)	–	(2,438)
	<u>15,120</u>	<u>(52,786)</u>	<u>(12)</u>	<u>(37,678)</u>
At 31 March 2002				

## 7. Interim dividend

The Directors do not recommend the payment of an interim dividend in respect of the three months ended 31 March 2002. (2001: Nil)

## BUSINESS REVIEW AND PROSPECTS

### Uncertainties in Global Economic Outlook Affected Results

The first quarter of 2002 continued to be a difficult period for the Company due to lingering cautiousness and uncertainties surrounding the Internet business. Under such a challenging environment, the unaudited turnover for the three months ended 31 March 2002 was HK\$306,000, a decline of 81% as compared to the same period in 2001. Loss attributable to shareholders amounted to HK\$2,438,000, a drop of 63% over the period in 2001. The Directors do not recommend the payment of an interim dividend.

Such unfavorable results demonstrated a cautious spending pattern adopted by many corporations. Most companies are still skeptical of the market recovery and are reserved about investing into technology infrastructure. Coupled with the lack of e-commerce technology breakthroughs in the first quarter of 2002, the Company continued to abide to its careful cost containment strategy as an effort to minimize risks.

## **Business Review**

With a cost containment strategy deeply implanted into everyday operations, the Company concentrated its focus and resources in the more potential markets of Hong Kong and Zhongshan. By focusing on specific markets, the Company can effectively and efficiently allocate resources and to endure difficulties created by the fluctuating market. With a prudent and cautious approach, the Company has, and will continue to, evaluate and assess possibilities of implementing its B2B online trading system for exhibitors when the technology and business environments demonstrate their readiness for an online payment system. The Company will strive to seek for quality cooperation opportunities to boost web traffic, so as to generate business and cashflow.

The portal [www.expo24hrs.net](http://www.expo24hrs.net) continues to attract visitors from different markets. With the increase in international trade, the Company is confident that [www.expo24hrs.net](http://www.expo24hrs.net) will attract tremendous business potentials when the e-commerce industry matures. This is the reason why the Company continues to enrich the contents, features and functions of the website, in order to be prepared and ready when the market shows signs of recovery and revival.

## **Prospects**

Despite the fluctuating operating environment, the Group will continue to seek after potential business opportunities as an effort to generate revenue and to attract and retain customers. In the future the Group will consider re-locating its PRC head office to Shenzhen, where there are more corporations engaging in international trade and the demand for e-commerce is booming. Regarding its outlook, the Company is optimistic that its performance will improve substantially when the e-commerce market improves, when global economies show strong signs of recovery and when consumer and investor confidence have been regained. By adhering to its cautious and prudent approach as well as its strict cost control strategy, the Group will dedicate the same effort and commitment to achieve satisfactory returns to its shareholders.

## DIRECTORS' INTERESTS IN SHARES

As at 31 March 2002, 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 Fat Ching ("Mr. Yuen") ( <i>Note</i> )	Family	228,802,000

*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 Kwong Hung, Thomas ("Mr. Ho"), Mr. Li Ka Hay, Peter ("Mr. Li"), Mr. Lee Wing Yin ("Mr. Lee"), Mr. Choi Koon Ming ("Mr. Choi"), Mr. Hui Ching Shan ("Mr. Hui") and Mr. Ha Kee Choy, Eugene ("Mr. Ha") hold options to subscribe for shares in the Company, details of which are set out under the section "Share option scheme" below.

Save as disclosed above, as at 31 March 2002, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the period 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 GEM of the Stock Exchange.

Details of these options are as follows:

Name of ex-directors	Number of share options at 1 January and 31 March 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Mr. Ho (resigned on 1 November 2001)	19,568,400	1 March 2000	2 March 2001 to 1 March 2006	0.125
Mr. Li (resigned on 1 July 2001)	9,784,200	1 March 2000	2 March 2001 to 1 March 2006	0.125
Mr. Lee (resigned on 20 August 2001)	9,784,200	1 March 2000	2 March 2001 to 1 March 2006	0.125
	<hr/> <u>39,136,800</u>			

As at 31 March 2002, the number of shares issuable under 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 March 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>
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
	<hr style="width: 100%; border: 0.5px solid black;"/> 15,072,000 <hr style="width: 100%; border: 1.5px solid black;"/>			

As at 31 March 2002, 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 March 2002, 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.

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

Name or category of participant	Number of share options		Date of grant of share options	Exercise period of share options	Exercise price of share options
	At 1 January 2002	Exercised/ Lapsed during the period At 31 March 2002			
<b>Other employees</b>					
In aggregate	2,700,000	-	2,700,000	19 February 2001	<i>Note</i> 0.25
	<u>2,700,000</u>	<u>-</u>	<u>2,700,000</u>		

*Note:* Pursuant to the Post-IPO share option scheme, options were 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 March 2002 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 share options) respectively.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, 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:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of issued shares</b>
GIC ( <i>note 1</i> )	228,802,000	35.0
Sun Wah ( <i>note 2</i> )	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 (“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 31 March 2002 which was required to be recorded under Section 16(1) of the SDI Ordinance.**

## 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 March 2002. Saved as disclosed herein, the Company’s sponsor, CCL, its directors, employees and associates, as at 31 March 2002, 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.

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.

## **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 are to review and supervise the financial reporting process and internal controls of the Group. The Group's financial statements for the three months ended 31 March 2002 have been reviewed by the audit committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

## **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.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

By Order of the Board  
**Choi Koon Ming**  
*Chairman*

Hong Kong, 7 May 2002