

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)

Interim Report 2002

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which 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” in order to obtain up-to-date information on GEM-listed issuers.

HIGHLIGHTS

- The unaudited turnover of the Group for the six months ended 30 June 2002 was approximately HK\$463,000
- The Group recorded an unaudited loss attributable to shareholders of HK\$5,039,000 for the six months ended 30 June 2002
- Loss per share was HK0.77 cents

INTERIM 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 and six months ended 30 June 2002 together with comparative unaudited figures for the corresponding periods in 2001 as follows:–

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	2	157	1,683	463	3,312
Cost of sales		(338)	(1,745)	(636)	(3,361)
Gross loss		(181)	(62)	(173)	(49)
Other revenue		35	294	49	372
Selling and distribution expenses		(35)	(2,851)	(51)	(4,925)
Administrative expenses		(2,151)	(5,656)	(4,443)	(9,485)
Research and development costs		–	(20)	–	(646)
LOSS FROM OPERATING					
ACTIVITIES	3	(2,332)	(8,295)	(4,618)	(14,733)
Finance costs	4	(269)	(154)	(421)	(367)
LOSS BEFORE TAX		(2,601)	(8,449)	(5,039)	(15,100)
Tax	5	–	–	–	–
LOSS BEFORE MINORITY					
INTERESTS		(2,601)	(8,449)	(5,039)	(15,100)
Minority interests		–	77	–	117
NET LOSS FROM ORDINARY					
ACTIVITIES ATTRIBUTABLE TO					
SHAREHOLDERS		(2,601)	(8,372)	(5,039)	(14,983)
LOSS PER SHARE – Basic	6	HK0.40 cents	HK1.28 cents	HK0.77 cents	HK2.47 cents

CONSOLIDATED BALANCE SHEET

		As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	7	1,621	3,415
CURRENT ASSETS			
Accounts receivable	8	187	109
Finance lease receivable		385	–
Prepayments, deposits and other receivables		1,031	1,374
Pledged bank deposit	10	–	200
Cash and bank balances		5,245	3,775
		6,848	5,458
CURRENT LIABILITIES			
Accounts payable	9	(91)	(94)
Accrued liabilities, deposits and other payables		(2,148)	(2,571)
Finance lease payables	10	(3)	(210)
Convertible redeemable notes		–	(1,250)
Provision	11	(200)	(200)
		(2,442)	(4,325)
NET CURRENT ASSETS		4,406	1,133
TOTAL ASSETS LESS CURRENT LIABILITIES		6,027	4,548
NON-CURRENT LIABILITIES			
Due to a minority shareholder of a subsidiary		(620)	(979)
Finance lease payables		–	(123)
Convertible redeemable notes		(13,000)	(6,000)
		(13,620)	(7,102)
		(7,593)	(2,554)
CAPITAL AND RESERVES			
Issued capital		32,686	32,686
Reserves	12	(40,279)	(35,240)
		(7,593)	(2,554)

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2002 (Unaudited) HK\$'000	Six months ended 30 June 2001 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(4,331)	(15,372)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	44	372
Interest paid	(2)	(27)
Interest element on finance lease rental payments	(11)	(37)
Interest element on convertible redeemable notes	(408)	(303)
Net cash inflow/(outflow) from returns on investments and servicing of finance	(377)	5
INVESTING ACTIVITIES		
Purchases of fixed assets	–	(2,450)
Proceeds from disposal of fixed assets	173	–
Decrease in a pledged bank deposit	200	–
Net cash inflow/(outflow) from investing activities	373	(2,450)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(4,335)	(17,817)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	–	32,614
Proceeds from issue of convertible redeemable notes	7,000	8,000
Listing and share issuance expenses	–	(7,772)
Redemption of convertible redeemable notes	(1,250)	(4,001)
Rental payments received on lease agreements	385	–
Capital element of finance lease rental payments	(330)	(168)
Contribution from a minority shareholder of a subsidiary	–	175
Net cash inflow from financing activities	5,805	28,848
INCREASE IN CASH AND CASH EQUIVALENTS	1,470	11,031
Cash and cash equivalents at beginning of period	3,775	639
Effect of foreign exchange rate changes, net	–	(53)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,245	11,617
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,245	11,617

Notes:–

1. Basis of presentation and principal accounting policies

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net deficiencies in assets as at 30 June 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 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 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.

The unaudited consolidated interim accounts have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies and methods of computation adopted in the preparation of the interim accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2001.

2. Turnover

Turnover represents the net invoiced value of services rendered.

3. Loss from operating activities

The Group’s loss from operating activities is arrived at after crediting and charging the following:–

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Crediting:				
Interest Income	35	287	49	349
Charging:				
Cost of services provided	338	1,745	636	3,361
Auditors’ remuneration	95	–	190	–
Provision for doubtful debts	–	40	–	80
Depreciation	469	695	945	1,253
Research and development costs	–	20	–	646
Loss on disposal of fixed assets	9	51	9	51

4. Finance costs

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>
Interest on other loan	–	2	2	27
Interest on finance leases	4	13	11	37
Interest on convertible redeemable notes	265	139	408	303
	269	154	421	367

5. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the three months and six months ended 30 June 2002 and the corresponding periods 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 and six months ended 30 June 2002 and the corresponding periods in 2001.

The Group did not have any significant unprovided deferred tax liabilities in respect of the three months and six months ended 30 June 2002 and the corresponding periods in 2001.

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

6. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the three months and six months ended 30 June 2002 of HK\$2,601,000 and HK\$5,039,000 respectively (three months and six months ended 30 June 2001: HK\$8,372,000 and HK\$14,983,000 respectively) and the weighted average number of 653,720,000 ordinary shares of the Company in issue during the aforementioned two periods ended 30 June 2002 (three months and six months ended 30 June 2001: 652,280,000 and 605,217,989 shares respectively).

Diluted loss per share for the three months and six months ended 30 June 2002 and 30 June 2001 have not been presented as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the relevant periods.

7. Fixed assets

Group

	Furniture, fixtures and fittings (Unaudited)	Computer and office equipment (Unaudited)	Motor vehicles (Unaudited)	Total (Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At beginning of period	3,345	5,856	248	9,449
Disposals	–	–	(248)	(248)
Transfer under the finance lease	(1,162)	(2,718)	–	(3,880)
At 30 June 2002	2,183	3,138	–	5,321
Accumulated depreciation:				
At beginning of period	2,179	3,805	50	6,034
Provided during the period	406	523	16	945
Disposals	–	–	(66)	(66)
Transfer under the finance lease	(933)	(2,280)	–	(3,213)
At 30 June 2002	1,652	2,048	–	3,700
Net book value:				
At 30 June 2002	531	1,090	–	1,621
At 31 December 2001	1,166	2,051	198	3,415

8. Accounts receivable

A defined credit policy is maintained within the Group. The general credit term ranges from 1 month to 3 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 the senior management.

The aged analysis of accounts receivable is as follows:

Group

	At 30 June 2002 (Unaudited)	At 31 December 2001 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 3 months	104	108
Over 3 months	83	1
	<u>187</u>	<u>109</u>

9. Accounts payable

The aged analysis of accounts payable is analysed as follows:

Group

	At 30 June 2002 (Unaudited) HK\$'000	At 31 December 2001 (Audited) HK\$'000
Current – 3 months	76	10
Over 3 months	15	84
	<u>91</u>	<u>94</u>

10. Finance lease payables

The Group conducted a portion of its operations using 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.

At 30 June 2002, 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	
	(Unaudited) 2002 HK\$'000	(Audited) 2001 HK\$'000	(Unaudited) 2002 HK\$'000	(Audited) 2001 HK\$'000
Amounts payable:				
Within one year	3	229	3	216
In the second year	–	79	–	71
In the third to fifth years, inclusive	–	53	–	46
Total minimum finance lease payments	3	361	3	333
Future finance charges	–	(28)		
Total net finance lease payables	3	333		
Portion classified as current liabilities	(3)	(210)		
Long term portion	–	123		

During the period, a pledged bank deposit of HK\$200,000 which was used for securing the finance lease drawn down on 31 August 2000, was released on 29 June 2002 (31 December 2001: HK\$200,000).

11. Provision

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 rights 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 the 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.

12. Reserve

	Share premium account	Accumulated losses	Exchange fluctuation reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
Capitalization of shares issued	(25,044)	–	–	(25,044)
Listing and share issue expenses	(7,772)	–	–	(7,772)
Exchange adjustment	–	–	(12)	(12)
At 31 March 2001 and 1 April 2001	14,832	(29,269)	(26)	(14,463)
Loss for the period	–	(8,372)	–	(8,372)
Exchange difference	–	–	(27)	(27)
At 30 June 2001	14,832	(37,641)	(53)	(22,862)
At 1 January 2002	15,120	(50,348)	(12)	(35,240)
Loss for the period	–	(2,438)	–	(2,438)
At 31 March 2002 and 1 April 2002	15,120	(52,786)	(12)	(37,678)
Loss for the period	–	(2,601)	–	(2,601)
At 30 June 2002	15,120	(55,387)	(12)	(40,279)

13. Interim dividend

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2002. (six months ended June 2001: Nil)

BUSINESS REVIEW AND PROSPECTS

Continuous Decline in Investor Sentiments

The global economic environment has shown no sign of recovery, thus corporations are very cautious in their e-commerce investment activities. Facing such a gloomy macro outlook, E-silkroad faces tremendous challenges to remain in the market and to leap forward until the market begins its recovery. The Company has successfully contained costs for the first six months in 2002 to reserve resources for future development. The unaudited turnover for the six months ended 30 June 2002 was HK\$463,000, a decline of 86% as compared to the same period in 2001. Loss attributable to shareholders amounted to HK\$5,039,000, an improvement of 66% over the same period in 2001. The Directors do not recommend the payment of an interim dividend.

For the three months and six months ended 2002, turnover from the provision of Internet-based application and web page design business were approximately HK\$132,000 and HK\$319,000 respectively. It remains the major revenue contributor of the Group and accounted for approximately 84% and 69% of the Group's total turnover in the respective periods. However, due to the prolonged economic recession and lack of confidence in e-commerce by the general public, the turnover from the provision of Internet-based application and web page design services had actually declined by 79% and 73% respectively as compared to the corresponding periods in 2001.

Regarding the web site maintenance business, it recorded turnover of approximately HK\$25,000 and HK\$144,000 respectively for the three months and six months ended 2002, and accounted for approximately 16% and 31% of the Group's total turnover in the respective periods. As compared to the corresponding periods in 2001, the turnover from the web site maintenance business dropped by approximately 96% and 89% respectively.

In view of the profitless nature of the business, E-silkroad has ceased to provide technical support and agency services in the PRC during the periods under review. The management believes that, by taking the above action, it not only enables the Company to streamline its operation but also conserves resources for future development.

E-silkroad has continued to focus on its cost containment measures to ensure the long-term viability of the Company. New Internet technology is expensive, especially during such a challenging operating environment with limited resources for e-commerce investments. The Company has strived to maintain a lean operation to better cope with market uncertainties and fluctuations.

Operation Review

During the period under review, E-silkroad continued to pursue its strategy to maintain a slender operation to reserve resources for the Company to expand when the market improves. One of the initiatives is to streamline its operations in Hong Kong and in the PRC by closing down the operations in Shunde, the location with limited e-commerce opportunities. Instead, the Company shifted its focus to other locations with better opportunities. The Company's prudent approach would allow it to sustain and to seek after future business opportunities. E-silkroad has plans to relocate its corporate headquarters to Shenzhen and Guangzhou, where the demand for e-commerce is more abundant. The Company has also considered looking for appropriate strategic alliances so as to minimize its risks.

E-marketing continued to be the Company's core business. Understanding that the Company's current strategy to provide highly competitive and laborious design and programming services no longer suits the existing market demand, E-silkroad will focus on working with media companies in the PRC to provide Internet-based marketing services in the future. Meanwhile, the Company is negotiating with a Shenzhen media advertising firm to jointly develop e-marketing business. The Company is confident that business soliciting through e-exhibition halls, together with diversification into e-direct marketing will bring a promising future to E-silkroad. To better execute this strategy, the Company plans to commence market testing in Shenzhen and Guangzhou, the populated and opportunity abundant cities in the PRC compared to Zhongshan and Shunde. It is expected that the connections and experience obtained through these cities development can pave the way for E-silkroad to bring its services to the entire Guangdong province.

Financial Review

Liquidity and financial resources

The Group financed its operations and investing activities with internally generated cashflows, and the balance of proceeds from the share placement exercise and issuance of convertible notes in February 2001 and in March 2002.

As at 30 June 2002, the Group had cash and cash equivalent of approximately HK\$5.2 million (31 December 2001: HK\$3.8 million). During the period, the Group utilized HK\$4.3 million to finance its operations and investing activities.

As at 30 June 2002, the Group's outstanding borrowings comprised two unsecured convertible redeemable notes of HK\$13 million, for which the six-million-dollar note will mature on 19 August 2003 and the seven-million-dollar note will mature on 28 March 2005 (31 December 2001: approximately HK\$7.3 million).

As at 30 June 2002, obligations under financial lease contracts amounted to HK\$3,150. During the period, almost all of the outstanding leases had either been repaid as scheduled or had been settled early (31 December 2001: approximately HK\$0.3 million).

Capital Structure

As at 30 June 2002, the Company's total number of issued shares was 653,720,000 (31 December 2001: 653,720,000 shares).

Apart from funds generated from the Group's existing businesses, the Group sought other financing resources, such as issuance of convertible notes, to strengthen the Group's cash position for its operations. The funds generated have been placed on short-term interest bearing deposits with banks in Hong Kong for the Group's general working capital purpose.

On 28 March 2002, the Company issued a convertible redeemable note to Sun Wah for a principal amount of HK\$7 million. The note is unsecured and bears interest at a rate of 8% per annum.

On 30 April 2002, the Company redeemed the convertible redeemable note of approximately HK\$1.3 million issued to Quantum Hi-Technology Investment Corporation.

As at 30 June 2002, the Group had convertible redeemable notes of HK\$13 million, which are unsecured and bear interest at a rate of 8% per annum (31 December 2001: approximately HK\$7.3 million).

Exposure to Foreign Exchange

The Group's exposure to foreign currencies is limited to its investment in a foreign subsidiary, which is financed internally. Most of the Group's transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the period under review. Moreover, it is also the Group's policy for each operating entity to borrow in local currencies, where possible, to minimize currency risk.

Investment, Material Acquisitions and Disposal of Subsidiaries and Affiliated Companies

The Group held no significant investment during the period under review. There were no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the six months ended 30 June 2002 (six months ended 2001: Nil).

Charges on Group Assets

As at 30 June 2002, none of the Group's assets was pledged as security for liabilities as the previous lien of HK\$200,000 was released in May 2002 (31 December 2001: HK\$200,000).

Gearing Ratio

As at 30 June 2002, the Group's gearing ratio was approximately -171% (31 December 2001: -292%, based on the total borrowings of approximately HK\$13 million (31 December 2001: approximately HK\$7.6 million) and deficiencies in assets of approximately HK\$7.6 million (31 December 2001: approximately HK\$2.6 million).

Future Plan for Material Investments or Capital Assets

Save as disclosed in the Company's prospectus dated 26 February 2001 in the section headed "Statement of Business Objectives", the Group had no future plans for material investments and acquisition of material capital assets as at 30 June 2002.

Contingent Liabilities

As at 30 June 2002, the Group had no material contingent liabilities (31 December 2001: Nil).

Employee Information

As at 30 June 2002, the Group employed a total of 23 employees (31 December 2001: 20). The staff costs, excluding directors' remuneration, were approximately HK\$779,000 (31 December 2001: HK\$11,376,000). The decrease in staff costs was mainly attributable to the active cost containment strategy taken by the Group to cope with the downturn in the global e-commerce market.

The salaries and benefits 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 operated a share option scheme where options to subscribe for shares may be granted to the executive directors and full-time employees of the Group.

Segment Information

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) Internet-based application and web page design service segment provides online trade-show and exhibition services and web page development work;
- (b) provision of website maintenance segment represents the monthly subscription service for joining www.expo24hrs.net; and
- (c) technical support and agency service segment is the provision of consultation service relating to implementation and application of computer system and introducing customers for website 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.

(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 application and web page design service		Website maintenance service		Technical support and agency service		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	319	2,185	144	354	-	773	-	-	463	3,312
Intersegment sales	-	525	-	-	-	-	-	(525)	-	-
Total	<u>319</u>	<u>2,710</u>	<u>144</u>	<u>354</u>	<u>-</u>	<u>773</u>	<u>-</u>	<u>(525)</u>	<u>463</u>	<u>3,312</u>
Segment results	<u>55</u>	<u>(4,427)</u>	<u>(279)</u>	<u>(1,295)</u>	<u>-</u>	<u>102</u>	<u>-</u>	<u>-</u>	<u>(224)</u>	<u>(5,620)</u>
Interest									49	372
Unallocated expenses									<u>(4,443)</u>	<u>(9,485)</u>
Loss from operating activities									<u>(4,618)</u>	<u>(14,733)</u>
Finance costs									<u>(421)</u>	<u>(367)</u>
Loss before tax									<u>(5,039)</u>	<u>(15,100)</u>
Tax									<u>-</u>	<u>-</u>
Loss before minority interests									<u>(5,039)</u>	<u>(15,100)</u>
Minority interests									<u>-</u>	<u>117</u>
Net loss from ordinary activities attributable to shareholders									<u><u>(5,039)</u></u>	<u><u>(14,983)</u></u>

Group	Internet-based application and web page design service		Website maintenance service		Technical support and agency service		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
Segment assets	258	5,195	1,640	1,087	-	889	-	-	1,898	7,171
Unallocated assets									6,571	14,204
Total assets									8,469	21,375
Segment liabilities	545	833	-	59	-	235	-	-	545	1,127
Unallocated liabilities									15,517	10,437
Total liabilities									16,062	11,564
Other segment information:										
Depreciation	-	907	945	228	-	118	-	-	945	1,253
Other non-cash expenses	-	97	9	34	-	-	-	-	9	131
Capital expenditure	-	1,861	-	230	-	547	-	-	-	2,638

(b) Geographical segments

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

Group	Hong Kong		PRC		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
Segment revenue:								
Sales to external customers	144	1,361	319	2,476	-	(525)	463	3,312
Other segment information:								
Segment assets	7,682	17,734	787	3,640	-	-	8,469	21,374
Capital expenditure	-	885	-	1,753	-	-	-	2,638

Litigation

As at 30 June 2002, the Group was involved in a High Court action in Hong Kong initiated by a former employee. Further details are disclosed in note 11 of 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 chatline 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.

Prospects

Looking ahead, E-silkroad will continue to diversify into e-marketing related businesses and to generate revenue and retain existing customers. The Company will actively look for appropriate technological and business alliances in Southern China to strengthen its operations, and at the same time, to minimize its risk exposure. E-silkroad is optimistic that the Company can establish alliances in China and in Hong Kong, especially in e-marketing and related areas, to expand its business when the market begins to pick up.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the prospectus for the period from 1 January 2002 to 30 June 2002 (the "Review Period").

**According to the business objectives
as stated in the prospectus
dated 26 February 2001**

**Actual business progress
in the Review Period**

Content development

1. Launch French version of www.expo24hrs.net
2. Commence development of German version of www.expo24hrs.net
3. Launch new version of www.expo24hrs.net
4. Assess the possibility of and form alliances with Internet content providers to acquire content relating to international trade and commerce

www.expo24hrs.net is focused on the PRC and Hong Kong markets. Therefore, the existing versions can satisfy the existing customer demand. Due to the currently depressed global economic environment, this focus on the PRC and Hong Kong markets reflects the expertise and confidence of the Directors in these markets during such period of global recession. Together with the continuous weakening market towards Internet portals, the development of French, German and other new versions has been temporarily suspended. The Directors expected that the suspension would not have any negative impact on the number of existing users and visitors of www.expo24hrs.net. The Directors will wait for the worldwide market to improve before making a decision on the resumption of development of the suspended versions.

After reviewing the market condition and the possibility of forming alliance with Internet content providers to acquire content relating to international trade and commerce, the Group considers to build up a capable sales team in the PRC to promote its business. When the overall market sentiment improves, E-silkroad will adopt a more traditional and widely accepted market practice - to look for local partnerships, agencies and sales teams in the PRC for business development. However, the temporary suspension for the formation of alliances will have no major impact on the Group. The Directors will wait for the worldwide market to improve before making a decision on the resumption of this objective.

**According to the business objectives
as stated in the prospectus
dated 26 February 2001**

5. Continue to enrich the contents and functions of www.expo24hrs.net

**Actual business progress
in the Review Period**

The Group continues to discuss the development of an online exhibition for health and beauty with potential partners in the PRC. The Group will develop other specialized B2B portals to enrich the contents and functions of www.expo24hrs.net.

Technology development

1. Continuously evaluate the system load of www.expo24hrs.net and implement improvement plans, if required

The Company has evaluated the system load of the portal and the existing technical platforms do not show any sign of overloading. The current system is sufficient to accommodate current number of visitors and users.

2. Assess new technologies available in the market to improve the functions and performance of www.expo24hrs.net

The Group has assessed new technologies available in the market. At present, the functions of www.expo24hrs.net can satisfy end users' needs. But the Group will continue to analyze the performance of www.expo24hrs.net and improve its function when necessary.

3. Form alliances with overseas technology consultants to strengthen the technical capabilities

The Group performed assessment on the possibility of forming alliances with overseas technology consultants. However, available technologies are very limited and expensive without any proven track record. The Group thus temporarily suspended the formation of any alliances with any other companies until of the overall economic environment improves in order to reserve more funding for future development.

**According to the business objectives
as stated in the prospectus
dated 26 February 2001**

4. Continue to develop new web applications to enhance the features and functions of www.expo24hrs.net

**Actual business progress
in the Review Period**

When future opportunities arise with market upturn, the Company will consider developing new web applications to enhance the features and functions of the portal. Though application development has slowed down, the Group is discussing possible cooperation with two Internet technology firms in this respect.

Marketing development

1. Continue implement marketing plans of the Company in Hong Kong, Guangzhou and Zhongshan
2. Assess and develop opportunities to expand the marketing of www.expo24hrs.net into new international markets
3. Continue to explore and develop B2B e-commerce and other Internet and IT business opportunities

The Group will concentrate on the PRC market including Guangzhou and Shenzhen, and consider streamlining its operations in Hong Kong and Zhongshan.

To reserve more resources for the Group's development when the market improves, the strategy to expand the marketing of www.expo24hrs.net into international markets is deferred. However, the directors intend to introduce this portal to the global market in mid-2003.

The top priority is to bring in revenue. Therefore, the Group is aggressively searching for e-marketing opportunities to generate immediate revenue. In the mean time, the directors will actively explore the possibility to develop B2B e-commerce by developing an industry database, followed by the establishment of an online exchange platform to facilitate transactions amongst the Company's clients. This is expected to take one to three years to develop.

Use of proceeds

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 related issuance expenses, were applied during the period ended 30 June 2002 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

	Amount extracted from the prospectus dated 26 February 2001 <i>HK\$ million</i>	Actual proceeds being used up to 30 June 2002 <i>HK\$ million</i>
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
	<hr/>	<hr/>
Total	<u>22.6</u>	<u>19.4</u>

The remaining net proceeds as at 30 June 2002 was approximately HK\$3.2 million, which have been placed on short-term interest-bearing deposits with banks in Hong Kong (*Note*).

Note: For business objectives from July 2002 up to December 2003, the Company intends to engage in future fund-raising activities when funds are so required, although no specific fund-raising activities and timeframe have yet been identified.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 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	185,570,000

Note: These shares were held by global.com Investment 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 in the section “Share option scheme” below.

Save as disclosed above, as at 30 June 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’ RIGHT 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 recognize 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.

Details of these options are as follows:

Name of ex-directors	Number of	Date of grant of	Exercise period of	Exercise price
	share options at			of share
	1 January and	share options	share options	options
	30 June 2002		share options	HK\$
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 30 June 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:

Name of director	Number of share options At 1 January and 30 June 2002	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			

As at 30 June 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 30 June 2002, there was no share options outstanding under share options granted under the Post-IPO share option scheme. 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 within 21 days in writing 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 price of share options
	At 1 January 2002	Exercised/ Lapsed during the period	At 30 June 2002		
Other employees					
In aggregate	2,700,000	(2,700,000)*	–	19 February 2001	0.25
	<u>2,700,000</u>	<u>(2,700,000)</u>	<u>–</u>		

* Share options lapsed upon the resignation of the employees of the Group during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 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:

Name	Number of shares held	Percentage of issued shares
GIC (<i>Note 1</i>)	185,570,000	28.4%
Sun Wah (<i>Note 2</i>)	95,474,000	14.6%
Ceroilfood Finance Limited	84,910,000	13.0%

Note 1:

The interests of Mr. Yuen in GIC has been disclosed in the section "Directors' interests in shares" above.

Note 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 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 30 June 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"), as at 30 June 2002, neither CCL nor its directors, employees and associates had any interests 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 the GEM listing Rules. The audit committee has three members comprising two independent non-executive directors, Messrs. Cho Po Hong, Jimmy, Chan Yan Tin, Andrew and one executive director, Mr. Chow Yeung Tuen, Richard. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Group's interim results for the three months and six months ended 30 June 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.

COMPLIANCE WITH RULES 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 throughout the period under review.

COMPETITION AND CONFLICT 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

On 30 April 2002, the Company redeemed the approximately HK\$1.3 million convertible redeemable note issued to Quantum Hi-Technology Investment Corporation.

Save as disclosed above, 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, 12 August, 2002