

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

3rd Quarterly Report 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 nine months ended 30 September 2002 was approximately HK\$582,000
- The Group recorded an unaudited loss attributable to shareholders of HK\$7,424,000 for the nine months ended 30 September 2002
- Loss per share was HK1.14 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 and nine months ended 30 September 2002 together with comparative unaudited figures for the corresponding periods in 2001 as follows:–

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2002	2001	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	119	2,088	582	5,400
Cost of sales		(210)	(1,566)	(846)	(4,927)
Gross profit/(loss)		(91)	522	(264)	473
Other revenue		31	103	80	475
		(60)	625	(184)	948
Selling and distribution expenses		(117)	(1,343)	(168)	(6,268)
Administrative expenses		(2,096)	(6,137)	(6,539)	(15,622)
Research and development costs		–	94	–	(552)
LOSS FROM OPERATING ACTIVITIES	3	(2,273)	(6,761)	(6,891)	(21,494)
Finance costs	4	(262)	(151)	(683)	(518)
LOSS BEFORE TAX		(2,535)	(6,912)	(7,574)	(22,012)
Tax	5	–	–	–	–
LOSS BEFORE MINORITY INTERESTS		(2,535)	(6,912)	(7,574)	(22,012)
Minority interests		150	59	150	176
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(2,385)</u>	<u>(6,853)</u>	<u>(7,424)</u>	<u>(21,836)</u>
LOSS PER SHARE – basic	6	<u>HK0.37 cents</u>	<u>HK1.05 cents</u>	<u>HK1.14 cents</u>	<u>HK3.51 cents</u>

Notes:–

1. Basis of preparation

The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

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 September,		For the nine months ended 30 September,	
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Crediting:				
Interest Income	<u>31</u>	<u>103</u>	<u>80</u>	<u>475</u>
Charging:				
Cost of services provided	210	1,566	846	4,927
Auditors' remuneration	90	300	280	300
Provision for doubtful debts	–	–	–	80
Depreciation	368	743	1,313	1,996
Research and development costs	–	(94)	–	552
Loss on disposal of fixed assets	<u>226</u>	<u>16</u>	<u>235</u>	<u>67</u>

4. Finance costs

	For the three months ended 30 September,		For the nine months ended 30 September,	
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on other loans	–	5	2	32
Interest on finance leases	–	10	11	47
Interest on convertible redeemable notes	<u>262</u>	<u>136</u>	<u>670</u>	<u>439</u>
	<u>262</u>	<u>151</u>	<u>683</u>	<u>518</u>

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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2002 of HK\$2,385,000 and HK\$7,424,000 respectively (three months and nine months ended 30 September 2001: HK\$6,853,000 and HK\$21,836,000 respectively) and the weighted average number of 653,720,000 ordinary shares of the Company in issue during the aforementioned two periods ended 30 September 2002 (three months and nine months ended 30 September 2001: 653,250,435 and 621,404,747 shares respectively).

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

7. Reserves

	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Total <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 difference	–	–	(12)	(12)
	<hr/>	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2001 and 1 July 2001	14,832	(37,641)	(53)	(22,862)
Loss for the period	–	(6,853)	–	(6,853)
Issue of shares by exercise of share option	288	–	–	288
Exchange difference	–	–	(12)	(12)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2001	<u>15,120</u>	<u>(44,494)</u>	<u>(65)</u>	<u>(29,439)</u>
At 1 January 2002	15,120	(50,348)	(12)	(35,240)
Loss for the period	–	(2,438)	–	(2,438)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002 and 1 April 2002	15,120	(52,786)	(12)	(37,678)
Loss for the period	–	(2,601)	–	(2,601)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002 and 1 July 2002	15,120	(55,387)	(12)	(40,279)
Loss for the period	–	(2,385)	–	(2,385)
Exchange difference	–	–	2	2
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2002	<u>15,120</u>	<u>(57,772)</u>	<u>(10)</u>	<u>(42,662)</u>

8. Interim dividend

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

BUSINESS REVIEW

The Group's unaudited turnover for the nine months ended 30 September 2002 was HK\$582,000, a decline of 89% as compared to the corresponding period in 2001. Loss attributable to shareholders amounted to HK\$7,424,000, a drop of 66% over the same period in 2001. The Directors do not recommend the payment of an interim dividend.

During the period under review, since the global economic environment demonstrated little or no signs of improvement, it is inevitable that customers and corporations continue to uphold their guard and cautiousness in their e-commerce investment activities until the market shows steady signs of a robust rebound and recovery. Well aware of existing market competitions and immense challenges, the Company has focused on containing its costs and reserving its resources as top priorities to sustain its foothold and viability in the industry. Simultaneously, the Company has also striven to maintain a lean operation as an effort to cope with and adjust to market fluctuations and low consumer confidence over businesses related to the Internet. E-silkroad will continue to pursue its prudent strategies and minimize risks so that it will be armored for take off when the market activates and revives.

The Company continued to slender operations by closing down businesses where e-commerce opportunities are limited, such as in Shunde, the PRC. In fact, it gave priority to reserving resources to explore business opportunities in locations where demand is higher and more encouraging. During the period under review, the Company has continued to perform market testing on the more populous cities in the PRC where business opportunities are more abundant.

PROSPECTS

Looking ahead, e-commerce will continue to be the Group's core business, but the approach will be shifted to provide Internet-based marketing services for growing and developing media companies in the PRC. Eyeing the vast potentials in the PRC market and its promising business growth, the Company aims to solicit businesses for e-exhibition halls and e-direct marketing services. Coupled with its stringent cost containment measures and cautious approach to minimize risk exposures, E-silkroad will carefully weigh out the pros and cons before it takes each initiative and wait for the revival of the global economy.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 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 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 in the section "Share option scheme" below.

Save as disclosed above, as at 30 September 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 share options at 1 January and 30 September 2002	Date of grant of share options	Exercise period of share options	Exercise price of 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
	<u>39,136,800</u>			

As at 30 September 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 September 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 September 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 September 2002, there were 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 September 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 September 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 September 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 September 2002, neither CCL nor its directors, employees and associates had 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 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 quarterly results for the three months and nine months ended 30 September 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 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

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, 13 November, 2002