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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)

MAJOR AND CONNECTED TRANSACTIONS
ISSUE OF A HK\$7 MILLION CONVERTIBLE REDEEMABLE NOTE AND
LEASE OF FIXED ASSETS AND
THE UNAUDITED RESULTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2001

The Company and the Subscriber entered into a conditional subscription agreement on 15th February, 2002 for the subscription of a HK\$7 million convertible redeemable note of the Company for cash at par.

The Subscriber is a substantial and management shareholder of the Company. The conditional subscription agreement constitute a major and connected transaction of the Company under the GEM Listing Rules which requires its independent shareholders' approval.

The subscription is effected to raise fund for the Company. The Company will use the net proceeds of the subscription of approximately HK\$7 million to support and continue the existing online exhibition halls, on-line trade shows and related web services in Hong Kong and the PRC.

Zhongshan E-silkroad, a 95% owned subsidiary of the Company, entered into conditional lease agreements on 15th February, 2002 for the lease of all its computers and office equipment to two independent third parties for a total lease payment of HK\$770,000 and each for a lease period of five years. The conditional lease agreements constitute a major transaction under Chapter 19 of the GEM Listing Rules and a material change in the general character of business of the Group under Rule 17.25 of the GEM Listing Rules which requires its independent shareholders' approval.

A circular giving details of the conditional subscription agreement, the conditional lease agreements, the advice from the independent board committee and the independent financial adviser and incorporating a notice of the extraordinary general meeting will be sent to shareholders of the Company within 21 days after publication of this announcement.

ISSUE OF A HK\$7 MILLION CONVERTIBLE REDEEMABLE NOTE

Subscription agreement dated 15th February, 2002

Parties:

Issuer: the Company

Subscriber: Sun Wah Net Investment Limited

The Note:

A HK\$7 million convertible redeemable note of the Company

Price:

HK\$7 million

Summary of the principal terms of the Note:

Interest

8% per annum, which will be payable half yearly in arrears each year.

Maturity

The third anniversary of the Issue Date. The Note is expected to be issued on the second business day after the conditions of the subscription agreement are fulfilled or such other date as the Company and the Subscriber may agree.

Conversion right

The holder of the Note may convert the whole or part of the Note into shares of the Company at the conversion price during the conversion period mentioned below.

Conversion price

HK\$0.05 per Share (subject to adjustment), representing a premium of about 127% over the closing price of HK\$0.022 per Share as quoted on the Stock Exchange on 11th February, 2002. If the holder of the Note exercises the conversion right in full at the initial conversion price of HK\$0.05 per Share, a total of 140,000,000 Shares will be issued, representing about 21.42% of the existing issued share capital of the Company and about 17.64% of the issued share capital of the Company as enlarged by such issue.

Conversion period

From the Issue Date until the third anniversary of the Issue Date.

Ranking

Shares issued on conversion will rank pari passu in all respects with the existing shares of the Company at the date of conversion.

Redemption

The Company may redeem the whole or part of the Note by giving one month's prior written notice to the holder of the Note in the following manner:

- (i) at a premium of 120% over the redemption amount if the redemption is exercised before the first anniversary of the Issue Date;
- (ii) at a premium of 110% over the redemption amount if the redemption is exercised on or after the first anniversary of the Issue Date and before the second anniversary of the Issue Date; or
- (iii) at the redemption amount if the redemption is exercised on or after the second anniversary of the Issue Date,

subject to the right of the holder of the Note to convert the whole of the Note or the amount of the Note that the Company is exercising its redemption rights, into shares of the Company.

The holder of the Note shall be entitled to make Redemption Request. In such circumstances, the Company may, instead of redeeming the Note or such part thereof the subject of the relevant Redemption Request in cash at the face value of the Note plus interest, elect to satisfy the redemption by the issue of such number of shares of the Company in the following manner:

- (i) if the Redemption Request is exercised within the First Six Month Period, the number of shares to be issued shall be equal to the sum of 200% of the principal amount of the Note the subject of the Redemption Request, divided by the conversion price;
- (ii) if the Redemption Request is exercised within the Second Six Month Period, the number of shares to be issued shall be equal to the sum of 175% of the principal amount of the Note the subject of the Redemption Request, divided by the conversion price;
- (iii) if the Redemption Request is exercised within the Second Twelve Month Period, the number of shares to be issued shall be equal to the sum of 150% of the principal amount of the Note the subject of the Redemption Request, divided by the conversion price; and
- (iv) if the Redemption Request is exercised within 12 months after the expiry of the Second Twelve Month Period, the number of shares to be issued shall be equal to the sum of the principal amount of the Note the subject of the relevant Redemption Request, divided by the conversion price.

Since the number of Shares representing up to 20% of the issued share capital of the Company that can be issued pursuant to the general mandate is less than the number of shares that will be issued upon full conversion of the Note, a resolution will be proposed at the extraordinary general meeting of the Company for the approval of the issue of shares upon conversion of the Note.

Voting

The holder of the Note will not be entitled to attend or vote at general meetings of the Company.

Transferability

The Note will be transferable subject to the approval of the board of directors of the Company.

Conditions of the subscription:

The subscription is conditional on:

- (a) the approval of the shareholders other than the Subscriber and its associates at an extraordinary general meeting of the Company; and
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the shares which may be issued upon conversion of the Note or in satisfaction of any redemption of the Note.

If the conditions are not fulfilled on or before 30th April, 2002 (or such other date as the parties may mutually agree), the conditional subscription agreement will lapse and an announcement will be made.

Completion of subscription:

Second business day after the conditions of the subscription have been fulfilled (or such other date as the parties may agree).

Application for listing:

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the shares which may be issued on the exercise of the conversion right under the Note or in satisfaction of any redemption of the Note.

Reason for the subscription and use of proceeds:

The subscription is effected to raise fund for the Company. The Company will use the estimated net proceeds of the subscription of approximately HK\$7 million to support and continue the existing online exhibition halls, on-line trade shows and related web services in Hong Kong and the PRC.

Controlling shareholder's interest in the Company:

Presently the shareholding of the controlling shareholder of the Company, global.com Investments Corp. is about 43.97%. It is a company wholly owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of all units of which are beneficially owned by The YFC Family Trust, a discretionary trust of which the children of Mr. Yuen Fat Ching, a director of the Company, are the only beneficiaries.

The following table summarizes the effect in the shareholdings in the Company immediately before and after the full conversion of the Note and the Existing Note (including the circumstances that the holder of the Note requests a full redemption within the First Six Month Period and the Company elects to issue shares instead of paying cash assuming no Shares other than those to be issued under the Note and the Existing Note are issued.

	Shareholding immediately after full conversion of the Existing Note and the Note on 100% of the principal of the Note					
	Existing shareholding		on 100% of the principal of the Note		on 200% of the principal of the Note	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
global.com Investments Corp.	287,440,000	43.97	287,440,000	34.71	287,440,000	29.70
Subscriber	95,474,000	14.60	269,759,714	32.58	409,759,714	42.33 (Note 1)
Ceroilfood Finance Limited	84,910,000	12.99	84,910,000	10.26	84,910,000	8.77 (Note 2)
Mr. Li Ka Hay, Peter	12,220,000	1.87	12,220,000	1.48	12,220,000	1.26 (Note 3)
Mr. Ho Kwong Hung, Thomas	7,120,000	1.09	7,120,000	0.86	7,120,000	0.74 (Note 4)
Mr. Lee Wing Yin	2,026,000	0.31	2,026,000	0.24	2,026,000	0.21 (Note 5)
Public	164,530,000	25.17	164,530,000	19.87	164,530,000	16.99 (Note 1)
	<u>653,720,000</u>	<u>100.00</u>	<u>828,005,714</u>	<u>100.00</u>	<u>968,005,714</u>	<u>100.00</u>

Notes:

1. Upon conversion of the Note and Existing Note, it is possible that the public float will fall below 20% which will constitute a breach of the GEM Listing Rules. It may also change the control of the Company. The Subscriber has undertaken to the Stock Exchange that it will not, and will procure any transferee of the Note to undertake to the Stock Exchange not to, exercise the conversion rights attached to the Note which may result in the public float of the Company falling below 20% or such other percentage as required under the GEM Listing Rules. Therefore, these represent the theoretical shareholding structure in those particular circumstances and are for illustration purpose only.
2. Ceroilfood Finance Limited, a substantial and a management shareholder and a wholly owned subsidiary of China National Cereals Oils and Foodstuffs Import and Export Corporation, a state owned enterprise which principal business is the importing and export of cereals, oils and foodstuffs in the PRC.
3. A former executive director of the Company who resigned on 1st July, 2001.
4. A former executive director of the Company who resigned on 1st November, 2001.
5. A former executive director of the Company who resigned on 20th August, 2001.

The minimum level of public float to be maintained by the Company at all times under the GEM Listing Rules is 20% of the share capital of the Company in issue from time to time. The Company has undertaken to the Stock Exchange to take all steps to maintain the minimum level of the public float of the Company.

Connection between the parties:

The Subscriber is principally engaged in investment in selected Internet technology projects. The Subscriber is a substantial and management shareholder of the Company holding about 14.60% of the issued share capital of the Company. It also holds the Existing Note. Upon full exercise of the conversion rights under the Note and the Existing Note, the shareholding of the Subscriber in the Company will be increased to over 30% of the issued share capital of the Company and the Subscriber will be obliged to make a mandatory general offer under Rule 26 of the Takeover Code. The Subscriber has undertaken to comply with the requirements under the Takeover Code.

Information for shareholders:

The subscription is a major and connected transaction for the Company under the GEM Listing Rules requiring approval by the shareholders of the Company other than the Subscriber and its associates.

An independent board committee comprising the independent non-executive directors of the Company will be formed to advise the independent shareholders in respect of the conditional subscription agreement. An independent financial advisor will be appointed to advise the independent board committee about the conditional subscription agreement.

The directors of the Company consider that the terms of the conditional subscription agreement are fair and reasonable and on normal commercial terms and in the interests of the shareholders as a whole.

LEASE OF FIXED ASSETS

Zhongshan E-silkroad, a 95% owned subsidiary of the Company, entered into conditional lease agreements on 15th February, 2002 for the lease of all its computers and office equipment to two lessees each for a term of five years from the date of fulfillment of the condition (mentioned below) of the agreements. The total rental is HK\$770,000, which has been arrived at after arm's length negotiation between Zhongshan E-silkroad and the respective leasees with reference to the net book value of the relevant computers and office equipment and will be paid over the first six months period from the completion date of the leases. The unaudited net book value of all computers and office equipment of Zhongshan E-silkroad as at 31 December 2001 amounted to about HK\$2.75 million. The leases of the computers and office equipment represent disposals of such assets under the GEM Listing Rules and **give rise to a loss of about HK\$1.98 million representing the difference between the net book value of such assets of HK\$2.75 million and the total lease payments HK\$770,000. These losses has not been included in the unaudited financial information attached herein and upon the confirmation of the auditors of the Company, these losses may be recognized in the financial year ending 31st December, 2001.**

The rental of the leases will be used for reducing certain existing debts of the Group and the directors of the Company are of the view that the terms of the conditional lease agreements are fair and reasonable and in the interest of the shareholder as a whole.

The lessees are not connected with any directors, chief executive officer or substantial shareholders of the Company or any of its subsidiaries or their respective associates.

As Zhongshan E-silkroad is one of the principal subsidiaries of the Group, the conditional lease agreements constitute a major transaction for the Company under Chapter 19 of the GEM Listing Rules and a material change in the general character of business of the Group under Rule 17.25 of the GEM Listing Rules. The conditional lease agreements will be conditional on the approval of shareholders of the Company other than the directors, chief executive and management shareholders of the Company and their respective associates. After the leasing, Zhongshan E-silkroad will continue to carry out its existing business of online exhibition hall, online trade show and web-design marketing and servicing.

The following unaudited financial information is also provided for reference.

LATEST UNAUDITED FINANCIAL INFORMATION ON THE GROUP AND ZHONGSHAN E-SILKROAD

The unaudited consolidated profit and loss account of the Group for the year ended 31st December, 2001 is summarized as follows:

	<i>HK\$</i>
Turnover	
Online exhibition & traded show	1,699,453
Web page design	3,764,377
Technical support service (web related)	701,237
Agency service (web-design marketing)	751,325
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Total	6,916,392
Cost of sales	5,545,120
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Gross profit	1,371,272
Other revenue	488,501
Distribution costs	(7,031,717)
Administration expenses	(19,117,720)
Finance costs	(742,347)
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Profit before taxation	(25,032,011)
Taxation	–
Minority interests	175,000
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Profit after taxation and minority interests	<u>(24,857,011)</u>

The audited financial statements of the Group are expected to be announced on or about 25th March, 2002.

The latest unaudited financial information on Zhongshan E-silkroad and the Group for the year ended 31st December, 2001 is summarized as follows:

	Zhongshan	Group
	E-silkroad	HK\$
	<i>HK\$</i>	<i>HK\$</i>
Cash and bank balances	119,080	3,974,686
Net (deficits)/assets	(845,007)	279,113
Turnover	5,216,939	6,916,392
Gross profit	2,569,719	1,371,272
Net loss	4,795,726	24,857,011

The breakdown of the unaudited net book value of the fixed assets of the Group as at 31st December 2001 is as follows:

	<i>HK\$</i>
Office equipment	
E-silkroad.net Online Exhibition Limited	1,810,995
Zhongshan E-silkroad	1,809,955
Furniture, fixtures and fittings	
E-silkroad.net Online Exhibition Limited	937,352
Zhongshan E-silkroad	944,424
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Total	<u><u>5,502,726</u></u>

The updated use of proceeds of the Group is summarized as follows:

	Amount stated in the prospectus dated 26th February, 2001	Actual amount used up to 31st December, 2001
	<i>HK\$' million</i>	<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	0
Marketing and promotion	2.0	2.0
Working capital	12.5	12.5
	<hr/>	<hr/>
Total	<u><u>22.6</u></u>	<u><u>19.4</u></u>

THE COMPANY BUSINESS BEFORE AND AFTER THE LEASES

The Group is mainly engaged in the provision of trade show and exhibition services on the internet in Hong Kong and internet-based application and design services in Hong Kong and the PRC.

Due to the poor economic climate globally and the tragic September 11 incident, the growth of the existing business of the Group is below expectation. As a result, the directors of the Company consider that it is beneficial for the Group to look for and develop new internet-related businesses to the existing business of the Group.

For the year 2002, the Group plans to further consolidate its existing internet related business in the PRC, by closing down unprofitable branches in Guangzhou and Shunde. Moreover, the Group will downsize its present operation in Zhongshan, which domestic e-business market has proved to be immature. On the other hand, the Group plans to open new branches or joint ventures in more populous cities in the PRC including Shenzhen and Shanghai, where the demand for internet based commercial activities have been strong and fast-growing.

Following the completion of the conditional leasing agreements, the Group will still be carrying out the following principal operating activities:

- Online exhibition hall in Hong Kong and the PRC (marketing, hosting, and maintenance)
- Online trade shows in Hong Kong and the PRC (marketing, hosting and maintenance)
- Web-design marketing and servicing in Hong Kong and the PRC (web-design jobs solicited will be programmed by the Company's Hong Kong staff or outsourced to third parties)
- Web-design in Hong Kong (technical staff in Hong Kong will provide graphic and programming support or outsourced to third parties. The Company's staff will monitor work progress on the work outsourced including handling of clients' requirements and ensuring web-design quality)
- Any other related web services including web-page hosting (client's web-pages are hosted in the Company's server and maintenance services are provided)

At present, there are 9 and 11 staff of the Group in Hong Kong and Zhongshan respectively.

Besides consolidating its existing internet business, in order to broaden the Group's income sources and client base, the directors of the Company will look for new business opportunities in other internet-related businesses, which may provide web contents and immediate cash flow. In addition, the directors of the Company will consider acquiring business in internet oriented software development. Based on the above, though the lease transactions constitute a material change in the general character of business under Rule 17.25 of the GEM Listing Rules, the directors of the Company confirm that the Company is still maintaining sufficient level of operations in accordance with Rule 17.26 of the GEM Listing Rules.

A circular giving details of the conditional subscription agreement, the conditional lease agreements, the advice from the independent board committee and the independent financial advisor and incorporating a notice of the extraordinary general meeting will be sent to shareholders of the Company within 21 days after publication of this announcement.

GENERAL

The directors of the Company have noted the today's increases in the price of the shares of the Company.

Saved as disclosed, the directors of the Company confirm that there are no other negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Chapters 19 to 20 of the GEM Listing Rules, neither is the board of directors of the Company aware of any matter discloseable under the general obligation imposed by rule 17.10 of the GEM Listing Rules, which is or may be of a price-sensitive nature.

DEFINITIONS

In the announcement, unless the context otherwise requires, the expressions below have the following meanings:

“Company”	E-silkroad Holdings Limited
“Existing Note”	the existing HK\$6 million convertible redeemable note. It was initially a HK\$8 million convertible redeemable note issued to the Subscriber on 19th February, 2001. The conversion price is HK\$0.175 per Share (subject to adjustment) and the conversion period is from 2nd March, 2002 to 19th August, 2003
“First Six Month Period”	6 months from the Issue Date
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Issue Date”	the date of issue of the Note expected to be issued on the second business day after the conditions of the conditional subscription agreement are fulfilled or such other date as the Company and the Subscriber may agree with the maturity at the third anniversary of the Issue Date
“Note”	a HK\$7 million convertible redeemable note of the Company
“PRC”	People's Republic of China
“Redemption Request”	the request of the holder of the Note to redeem the whole or part of the Note after the Issue Date by giving not less than 3 days' written notice but not more than 30 days' written notice to the Company

“Second Six Month Period”	6 months after the expiry of the First Six Month Period
“Second Twelve Month Period”	12 months after the expiry of the Second Six Month Period
“Share(s)”	share(s) of HK\$0.05 each of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Sun Wah Net Investment Limited, a wholly-owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, the brother of Mr. Choi Koon Ming, the Chairman of the Company. It is also a substantial and management shareholder of the Company
“Takeover Code”	The Hong Kong Code on Takeovers and Mergers
“Zhongshan E-silkroad”	Zhongshan E-silkroad.net Company Limited

By order of the Board
E-silkroad Holdings Limited
Tsang Shu Kei
Company Secretary

Hong Kong, 15th February, 2002

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website on the “Latest Company Announcements” page for 7 days from the day of its posting.