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If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in E-silkroad Holdings Limited you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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)

MAJOR AND CONNECTED TRANSACTIONS
PROPOSED ISSUE OF A HK\$7 MILLION
CONVERTIBLE REDEEMABLE NOTE AND
LEASE OF FIXED ASSETS

Independent financial adviser to the Independent Board Committee



First Shanghai Capital Limited

A letter from the Board is set out on pages 4 to 12 and a letter from the Independent Board Committee of E-silkroad Holdings Limited is set out on page 13 of this circular. A letter from First Shanghai Capital Limited containing its advice and recommendations to the Independent Board Committee of E-silkroad Holdings Limited is set out on pages 14 to 21 of this circular.

A notice convening an extraordinary general meeting of E-silkroad Holdings Limited to be held at 11:00 a.m. on 25th March, 2002 at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong, is set out on pages 58 to 59 of this circular. Whether or not you intend to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for holding such meeting or any adjournment (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so desire.

11th March, 2002

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

| | <i>Page</i> |
|---|-------------|
| Definitions | 1 |
| Letter from the Board | 4 |
| Letter from the Independent Board Committee | 13 |
| Letter from First Shanghai | 14 |
| Appendix I – Principal terms of the Note | 22 |
| Appendix II – Financial information on the Group | 27 |
| Appendix III – General information | 53 |
| Notice of Extraordinary General Meeting | 58 |

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

| | |
|---------------------------------|--|
| “Associate(s)” | has the meaning ascribed thereto under the GEM Listing Rules |
| “Board” | the board of Directors |
| “Company” | E-silkroad Holdings Limited |
| “Conversion Price” | the conversion price under the Note, being HK\$0.05 per Share (subject to adjustment) |
| “Directors” | directors of the Company |
| “Existing Note” | the existing HK\$6 million convertible redeemable note of the Company entitling its holder to convert the principal amount into shares of the Company at the conversion price of HK\$0.175 per Share (subject to adjustment) from 2nd March, 2002 to 19th August, 2003 |
| “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be convened at 11:00 a.m. on 25th March, 2002 at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong, the notice of which is set out on pages 58 to 59 of this circular |
| “First Six Month Period” | a period of 6 months from the Issue Date |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent committee of the board of Directors comprising Messrs. Chan Yan Tin, Andrew and Cho Po Hong, Jimmy |

DEFINITIONS

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|----------------------------|---|
| “First Shanghai” | First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| “Independent Shareholders” | shareholders of the Company other than the Subscriber and its Associates |
| “Issue Date” | the date of issue of the Note, which will be issued on the second business day after the conditions of the Note Agreement are fulfilled or such other date as the Company and the Subscriber may agree |
| “Latest Practicable Date” | 4th March, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular |
| “Lease Agreements” | the four conditional lease agreements in Chinese all dated 15th February, 2002 (two of which were between Zhongshan E-silkroad and 梁洁庄 (Liang Jie Zhuang) and the remaining two were between Zhongshan E-silkroad and 周東海 (Zhou Dong Hai)) in respect of the lease of all the computers and office equipment of Zhongshan E-silkroad to the Lessees |
| “Lessees” | 梁洁庄 (Liang Jie Zhuang) and 周東海 (Zhou Dong Hai) |
| “Maturity Date” | the maturity date of the Note, being the third anniversary of the Issue Date |
| “Mr. Yuen” | Mr. Yuen Fat Ching, an executive Director |
| “Note” | a HK\$7 million convertible redeemable note of the Company |
| “Note Agreement” | the conditional subscription agreement dated 15th February, 2002 between the Company and the Subscriber in respect of the Note |
| “PRC” | People’s Republic of China |

DEFINITIONS

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|------------------------------|---|
| “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 |
| “SDI Ordinance” | the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| “Second Six Month Period” | a period of 6 months after the expiry of the First Six Month Period |
| “Second Twelve Month Period” | a period of 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 and is principally engaged in investment in selected internet technology projects |
| “Takeovers Code” | The Hong Kong Code on Takeovers and Mergers |
| “Zhongshan E-silkroad” | Zhongshan E-silkroad.net Company Limited (中山市絲綢路網絡動力有限公司), a company in which the Group has 95% equity interest and the remaining 5% equity interest is owned by 中山市金科信息網絡有限公司 (Zhongshan Information Network Limited) |
| “HK\$” and “cent(s)” | Hong Kong dollar(s) and cent(s), the lawful currency of Hong Kong |
| “%” | per cent. |

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)

Directors:

Choi Koon Ming
Yuen Fat Ching
Hui Ching Shan
Yang Guozhu
Chow Yeung Tuen, Richard
Xin Wei #
Ha Kee Choy, Eugene #
Chan Yan Tin, Andrew *
Cho Po Hong, Jimmy *

Non-executive Directors

* *Independent non-executive Directors*

Registered office:

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

Principal office:

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

11th March, 2002

To the shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS
PROPOSED ISSUE OF A HK\$7 MILLION
CONVERTIBLE REDEEMABLE NOTE AND
LEASE OF FIXED ASSETS**

INTRODUCTION

The Directors announced on 15th February, 2002 that on such date (i) the Company entered into the Note Agreement with the Subscriber, pursuant to which the Subscriber agreed to subscribe for the Note; and (ii) Zhongshan E-silkroad entered into the Lease Agreements each for a term of five years with the Lessees respectively, pursuant to which Zhongshan E-silkroad agreed to lease all its computers and office equipment for a total rental payment of HK\$770,000.

LETTER FROM THE BOARD

The Subscriber is a substantial and management shareholder of the Company. By virtue of the Subscriber's interest in the Company, the Note Agreement constitutes a connected transaction of the Company under the GEM Listing Rules. Pursuant to Rule 20.15 of the GEM Listing Rules, the Note Agreement and the transactions contemplated therein are subject to the approval of the shareholders at a general meeting of the Company with the Subscriber and its Associates abstained from voting in respect of the Shares held by them in the Company. The Note Agreement also constitutes a major transaction under Chapter 19 of the GEM Listing Rules. The Independent Board Committee has been established to consider and advise the Independent Shareholders in relation to the Note Agreement. First Shanghai has been appointed as independent financial adviser to advise the Independent Board Committee regarding the Note Agreement. As Zhongshan E-silkroad is one of the principal subsidiaries of the Group and the Lease Agreements constitute disposal of assets under the GEM Listing Rules, the Lease Agreements constitute a major transaction and a material change in the general character of business of the Group under the GEM Listing Rules. Pursuant to Rule 17.25 of the GEM Listing Rules, the Lease Agreements are subject to the approval of the shareholders other than the Directors, chief executive and management shareholders of the Company and their respective Associates at the general meeting of the Company.

The purpose of this circular is to provide you with further details of the Note Agreement, the Lease Agreements and the business of the Group, and to give you a notice of the Extraordinary General Meeting at which ordinary resolutions will be proposed for the purpose of considering and, if thought fit, approving the Note Agreement and the Lease Agreements.

THE NOTE AGREEMENT

The Subscription

Under the Note Agreement, the Subscriber has agreed to subscribe for the Note for cash at par, carrying a right to convert into shares of the Company at the Conversion Price, subject to adjustment. A summary of the principal terms of the Note is set out in appendix I.

As at the Latest Practicable Date, the Subscriber held 95,474,000 Shares (representing approximately 14.60% of the issued share capital of the Company). Upon full conversion of the Note at the initial Conversion Price, the Subscriber will hold 140,000,000 Shares, representing approximately 21.42% of the existing issued share capital of the Company and approximately 17.64% of the enlarged issued share capital of the Company. There is no restrictions which apply to the subsequent sale of shares which may be issued under the Note. 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% and the Subscriber will be obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Subscriber and the persons acting in concert under Rule 26 of the Takeovers Code. The Subscriber has undertaken to comply with the requirements under the Takeovers Code.

LETTER FROM THE BOARD

Completion of the Note Agreement is conditional on the fulfilment on or before 30th April, 2002 (or such later date as may be agreed between the Company and the Subscriber) of the following conditions:

- (i) the approval of the Independent Shareholders at an extraordinary general meeting of the Company to the issue of the Note and the issue of shares upon the exercise of the conversion rights attached to the Note or in satisfaction of any redemption of the Note; and
- (ii) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the shares to be issued upon conversion of the Note or in satisfaction of any redemption of the Note.

In the event that any of the conditions set out above has not been fulfilled on or before 30th April, 2002 (or such later date as may be agreed between the Company and the Subscriber), the Note Agreement shall lapse and be of no further effect and no party to the Note Agreement shall have any claim against or liability or obligation to other party under the Note Agreement save for antecedent breaches, and an announcement will be made.

Completion of the Note Agreement will take place on the second business day after the conditions set out above have been fulfilled (or such other date as the parties to the Note Agreement may agree). It is expected that the completion date of the Note Agreement will be before the end of March, 2002.

Listing

No application will be made for the listing of, and permission to deal in, the Note on the Stock Exchange or on any other stock exchange. Application has been made to the GEM Listing Committee of the Stock Exchange for approval to the issue of the Note by the Company and the listing of, and permission to deal in, the shares which may be issued under the Note.

Reasons for entering into the Note Agreement and use of proceeds

In order to secure a long term financing resource and enhance the Group's cash position for its operation and future development, the Directors propose to issue the Note. The Company will use the estimated net proceeds of the Note 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.

The Directors are of the view that the issue of the Note is an appropriate means of raising fund for the Company since it will not have an immediate dilution effect on the shareholding of the existing shareholders of the Company, unlike other equity financing methods such as

LETTER FROM THE BOARD

placing. The Directors have considered other means to raise fund for the Company, namely debt financing from banks. However, the Directors are of the view that since the Group is in a loss position with relatively low level of net assets value and cash position, debt financing from banks may not be a prudent financing method to the Group. In addition, the management of the Company cannot find any other independent third party subscriber who is willing to subscribe for a convertible redeemable note other than the Subscriber.

Financial effects of the subscription

Upon conversion of the Note in full, the unaudited pro forma net assets value of the Group would be increased by approximately HK\$7 million.

Shareholding structure

As at the Latest Practicable Date, the shareholding of the controlling shareholder of the Company, global.com Investments Corp. was about 35%. It is 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 (an executive Director), are the only beneficiaries. The balance of 0.1% of the units of The YFC Unit Trust is held by Mr Yuen's mother.

As at the Latest Practicable Date, the shareholding of the Subscriber in the Company was about 14.6%. It is a wholly owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is wholly and beneficially owned by Mr. Choi Koon Shum, who is the brother of Mr. Choi Koon Ming, the Chairman of the Company.

LETTER FROM THE BOARD

The following table summarizes the shareholding structure of the Company as at the Latest Practicable Date and immediately after (i) the full conversion of the Existing Note and the Note; (ii) the full conversion of the Existing Note and full redemption of the Note within the First Six Month Period upon the exercise of the Redemption Request by the holder of the Note and the Company elects to satisfy the redemption by issue of Shares (assuming no Shares other than those to be issued under the Existing Note and the Note are issued):

| | As at the Latest Practicable Date | | Shareholding immediately after full conversion of the Existing Note and the Note (on 100% of the principal of the Note) | | Shareholding immediately after full conversion of the Existing Note and full redemption 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 | 228,802,000 | 35.00 | 228,802,000 | 27.63 | 228,802,000 | 23.64 |
| Investments Corp. | | <i>(Note 6)</i> | | | | |
| Subscriber | 95,474,000 | 14.60 | 269,759,714 | 32.58 | 409,759,714 | 42.33 |
| | | | | | | <i>(Note 1)</i> |
| Ceroilfood | 84,910,000 | 12.99 | 84,910,000 | 10.26 | 84,910,000 | 8.77 |
| Finance Limited | | | | | | <i>(Note 2)</i> |
| Mr. Li Ka Hay, Peter | 12,220,000 | 1.87 | 12,220,000 | 1.48 | 12,220,000 | 1.26 |
| | | | | | | <i>(Note 3)</i> |
| Mr. Ho Kwong Hung, Thomas | 7,120,000 | 1.09 | 7,120,000 | 0.86 | 7,120,000 | 0.73 |
| | | | | | | <i>(Note 4)</i> |
| Mr. Lee Wing Yin | 2,026,000 | 0.31 | 2,026,000 | 0.24 | 2,026,000 | 0.21 |
| | | | | | | <i>(Note 5)</i> |
| Tai Lee Assets Limited | 58,638,000 | 8.97 | 58,638,000 | 7.08 | 58,638,000 | 6.06 |
| | | <i>(Note 6)</i> | | | | |
| Public | 164,530,000 | 25.17 | 164,530,000 | 19.87 | 164,530,000 | 17.00 |
| | | | | <i>(Note 1)</i> | | <i>(Note 1)</i> |
| | <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 full conversion of the Existing Note and the Note, it is possible that the public float will fall below 20% which will constitute a breach of the GEM Listing Rules. It may 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 management shareholder of the Company 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 who resigned on 1st July, 2001.

LETTER FROM THE BOARD

4. A former executive Director who resigned on 1st November, 2001.
5. A former executive Director who resigned on 20th August, 2001.
6. On 20th February, 2002, global.com Investments Corp. transferred 58,638,000 Shares to Tai Lee Assets Limited, which is beneficially owned by Ms. Tsoi Siu Lan, Mazie, who is the sister of Mr. Choi Koon Ming, the Chairman of the Company.

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.

THE LEASE AGREEMENTS

The Lease

Under the Lease Agreements, Zhongshan E-silkroad, a 95% owned subsidiary of the Company, has agreed to lease all its computers and office equipment to the Lessees each for a term of five years from the date of fulfilment of the condition (mentioned below) of the Lease Agreements. The total rental is HK\$770,000, which has been arrived at after arm's length negotiation between Zhongshan E-silkroad and each of the Lessees 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 Lease Agreements.

Pursuant to two of the Lease Agreements, Zhongshan E-silkroad agreed to lease all its computers and the computers and office equipment owned by its Shunde branch to 周東海 (Zhou Dong Hai) for a rental payment of HK\$329,000 and HK\$30,000 respectively. Pursuant to the other two Lease Agreements, Zhongshan E-silkroad agreed to lease all its office equipment and the computers and office equipment owned by its Guangzhou branch to 梁洁庄 (Liang Jie Zhuang) for a rental payment of HK\$276,000 and HK\$135,000 respectively.

Completion of the Lease Agreements is conditional on the approval of shareholders other than the Directors, chief executive and management shareholders of the Company and their respective Associates at an extraordinary general meeting of the Company to approve the Lease Agreements.

The Lessees are independent third parties not connected with any Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective Associates.

The 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.

LETTER FROM THE BOARD

The rental of the Lease Agreements will be used for reducing certain existing debts of the Group. After the lease pursuant to the Lease Agreements, Zhongshan E-silkroad will continue to carry out its existing business of online exhibition hall, online trade show and web-design marketing and servicing.

Reasons for the lease

The lease under the Lease Agreements is one of the steps to downsize the Group's operation in Zhongshan, which domestic e-business market has proved to be immature and to further consolidate its existing internet related business in the PRC.

Financial effects of the lease

The unaudited net book value of all computers and office equipment (before adjustment to loss on disposal) of Zhongshan E-silkroad as at 31st December, 2001 amounted to about HK\$2.75 million, representing approximately 50% of the unaudited net book value of all the fixed assets of the Group as at 31st December, 2001. The lease pursuant to the Lease Agreements gives rise to a loss of about HK\$1.98 million, representing the difference between the net book value of such assets of about HK\$2.75 million, extracted from the latest unaudited financial statement as at 31st December, 2001, and the total rental payment of HK\$770,000. The loss on disposal has not yet taken into account the unearned interest income, which is already included in the total rental payment as mentioned above, and the cost of disposal. The loss on disposal, subject to adjustments that are found necessary during the annual audit of the Group for the year ended 31st December, 2001, will be included in the annual report of the Group for the financial year ended 31st December, 2001.

FINANCIAL AND TRADING PROSPECTS

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.

The Directors are of the view that due to the poor global economic climate and the tragic September 11 incident, the growth of the existing business of the Group has been below expectation. As a result, the Directors consider that it is beneficial for the Group to look for and develop new Internet-related businesses to compliment 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.

LETTER FROM THE BOARD

Following the completion of the Lease 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 as the Latest Practicable Date, there were 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 will look for new business opportunities in other internet-related businesses, which may provide web contents and immediate cash flow. In addition, the Directors will consider acquiring business in internet oriented software development. Based on the above, though the Lease Agreements constitute a material change in the general character of business under Rule 17.25 of the GEM Listing Rules, the Directors confirm that the Company is still maintaining sufficient level of operations in accordance with Rule 17.26 of the GEM Listing Rules.

EXTRAORDINARY GENERAL MEETING

The Company published a notice of the Extraordinary General Meeting to be held at 11:00 a.m. on 25th March, 2002 at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong on 8th March, 2002. A copy of such notice is reproduced on pages 58 and 59 of this circular.

Resolution no.1 will be proposed as an ordinary resolution to approve the Note Agreement and the issue of the Note pursuant thereto.

Resolution no.2 will be proposed as an ordinary resolution to approve the Lease Agreements.

LETTER FROM THE BOARD

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions thereon to the principal office of the Company at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not prevent you from attending and voting at the Extraordinary General Meeting if you so wish.

RECOMMENDATIONS

The Independent Board Committee, after taking into account the opinion from First Shanghai, has come to the view that the Note Agreement is in the interests of the Company and shareholders as a whole and the terms of the Note Agreement are fair and reasonable in so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for resolution no.1 to be proposed at the Extraordinary General Meeting to approve the Note Agreement and the issue of the Note pursuant thereto.

The text of a letter from the Independent Board Committee is set out on page 13 of this circular and the text of a letter from First Shanghai containing its opinion and the principal factors and reasons it has taken into account in arriving at its opinion as regards the Note Agreement is set out on pages 14 to 21 of this circular.

The Directors are of the view that the terms of the Lease Agreements and the Note Agreement are fair and reasonable and in the interests of the Company and the shareholders as a whole.

The Subscriber and its Associates will abstain from voting in respect of resolution no.1 relating to the Note Agreement and the issue of the Note pursuant thereto. Only Independent Shareholders will be permitted to vote by poll on resolution no.1. The Directors, chief executive and the management shareholders of the Company (being global.com Investments Corp., the Subscriber and Ceroilfood Finance Limited) and their respective Associates will abstain from voting in respect of resolution no.2 relating to the Lease Agreements.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular, the letter from the Independent Board Committee, the letter from First Shanghai in respect of the Note Agreement and the notice of the Extraordinary General Meeting.

Yours faithfully,
By order of the Board
Hui Ching Shan
Executive Director

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)

11th March, 2002

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED ISSUE OF A HK\$7 MILLION CONVERTIBLE REDEEMABLE NOTE

We refer to the circular dated 11th March, 2002 issued by the Company (the “Circular”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee to consider the Note Agreement and First Shanghai has been appointed as the financial adviser to advise us in this respect.

Your attention is drawn to the letter from the Board which set out detailed information relating to the Note Agreement and the letter from First Shanghai containing its advice to us as set out in the Circular respectively.

Taking into account the terms of the Note Agreement and the advice from First Shanghai, we consider that the Note Agreement is in normal commercial terms and in the interests of the Company and shareholders of the Company as a whole and the terms of the Note Agreement are fair and reasonable in so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to vote for the resolution in respect of the Note Agreement and the issue of the Note pursuant thereto at the Extraordinary General Meeting.

Yours faithfully,

Chan Yan Tin, Andrew Cho Po Hong, Jimmy
Independent Board Committee

LETTER FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai in respect of the terms of the Note prepared for the purpose of incorporation in this circular.



First Shanghai Capital Limited

19/F., Wing On House
71 Des Voeux Road Central
Hong Kong

11th March, 2002

To the Independent Board Committee

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION PROPOSED ISSUE OF A HK\$7 MILLION CONVERTIBLE REDEEMABLE NOTE

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Note Agreement, details of which are set out in the circular dated 11th March, 2002 (the “Circular”) to the shareholders of the Company (“Shareholders”) of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Directors announced on 15th February, 2002 that on such date the Company and the Subscriber entered into the Note Agreement to subscribe for the Note.

The Subscriber is a substantial and management shareholder of the Company (as defined in the GEM Listing Rules). By virtue of the Subscriber’s interest in the Company, the Note Agreement constitutes a connected transaction of the Company under the GEM Listing Rules. Pursuant to Rule 20.15 of the GEM Listing Rules, the Note Agreement and the transactions contemplated therein are subject to the approval of the Shareholders at a general meeting of the Company, at which the Subscriber and its Associates shall abstain from voting on the resolution in relation thereto. The Note Agreement also constitutes a major transaction under Chapter 19 of the GEM Listing Rules.

LETTER FROM FIRST SHANGHAI

We have been appointed by the Company as an independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Note Agreement are fair and reasonable so far as the interests of the Shareholders as a whole are concerned. In formulating our recommendation, we have relied on the accuracy of information and representations included in the Circular and provided to us by the Directors and have assumed that all such information and representations provided were true at the time they were made and continue to be true as at the date hereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendations. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the business and affairs or the prospect of the Group or any of its Associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion as to the fairness and reasonableness of the terms of the Note Agreement and giving our advice in relation thereto, we have taken into account the following principal factors and reasons:

Reasons for entering into the Note Agreement and use of proceeds

For details of the reasons for entering into the Note Agreement and use of proceeds, please see the sub-paragraph headed “Reasons for entering into the Note Agreement and use of proceeds” in the paragraph headed “The Note Agreement” in the letter from the Board in the Circular.

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. As mentioned in the paragraph headed “Financial and trading prospects” in the letter from the Board in the Circular, the Directors are of the view that due to the poor global economic climate and the tragic September 11 incident, the growth of the existing business of the Group has been below expectation. As a result, the Directors consider that it is beneficial for the Group to look for and develop new Internet-related businesses to compliment the existing business of the Group.

In order to secure a long term financing resource and enhance the Group’s cash position for its operation and future development, the Directors propose to issue the Note. As set out in the letter from the Board in the Circular, the Company will use the net proceeds of the Note 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.

LETTER FROM FIRST SHANGHAI

The Directors are of the view that the issue of the Note is an appropriate means of raising fund for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders, unlike other equity financing methods such as placing. The Directors have considered other means to raise fund for the Company, namely debt financing from banks. However, the Directors have also advised that they are of the view that since the Group is in a loss position with relatively low level of net assets value and cash position as discussed in the sub-paragraph headed “Financial effects of the Note on the Group” below, debt financing from banks may not be a prudent financing method to the Group. We concur with the Directors’ view in this regard.

The Subscription

The Directors have advised that the principal terms of the Note Agreement were arrived at on an arm’s length basis and normal commercial terms. Principal terms of the Note are set out in appendix I to the Circular.

Redemption

As stated in appendix I to the Circular, 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 an amount of not less than HK\$1 million on each redemption at any one time by the Company 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.

As mentioned in the sub-paragraph headed “Reasons for entering into the Note Agreement and use of proceeds” in the paragraph headed “The Note Agreement” in the letter from the Board in the Circular, the Directors are of the view that since the Group is in a loss position with relatively low level of net assets value and cash position, debt financing from banks may not be a prudent financing method to the Group. In addition, the management of the Company cannot find any other independent third party subscriber who is willing to subscribe for the convertible redeemable note other than the Subscriber. Given the above factors and reasons, the Directors consider that the above redemption terms are acceptable. To this end, we concur with the Directors’ view.

LETTER FROM FIRST SHANGHAI

The holder of the Note shall be entitled to make Redemption Request at any time after the Issue Date as follows. The Directors have advised that such right is determined after arm's length negotiation and on normal commercial terms. As such, we concur with the Directors' view that such right is acceptable. 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 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 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.

An analysis of the highest dilution effect of the issue of Shares according to the above terms to satisfy the Redemption Request made by the holder of the Note is set out in the sub-paragraph headed "Conversion Price" below.

Conversion Price

Pursuant to the Note Agreement, the Conversion Price is set at HK\$0.05 per Share, subject to adjustment. However, as mentioned in the above paragraph, 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. As such, based on the Conversion Price of HK\$0.05 per Share, the lowest effective Conversion Price ("Lowest Effective Conversion Price") would be HK\$0.025 per Share. The following table depicts the closing prices/average closing prices of the Shares as quoted on the Stock Exchange on the date/during the respective periods as stated

LETTER FROM FIRST SHANGHAI

below and the premium/(discount) of the Conversion Price/the Lowest Effective Conversion Price over/to such prices:

| Date/period | Closing price/average closing price for the period (HK\$) | Premium/ (discount) of the Conversion Price over/to the closing price/average closing price (%) | Premium/ (discount) of the Lowest Effective Conversion Price over/to the closing price/average closing price (%) |
|--|--|--|---|
| As at the Latest Practicable Date | 0.028 | 78.57 | (10.71) |
| As at 15th February, 2002 (the date of the Note Agreement) | 0.028 | 78.57 | (10.71) |
| The last 10 trading days up to and including 15th February, 2002 | 0.031 | 61.29 | (19.35) |
| The last 30 trading days up to and including 15th February, 2002 | 0.037 | 35.14 | (32.43) |

As shown in the above table, the Conversion Price was set at premium over the closing price of the Shares on 15th February, 2002 and the average closing prices of the Shares for the periods described in the table above. The premiums of the Conversion Price over the closing price/average closing prices for the different periods described in the table above range from approximately 35.14% to approximately 78.57%.

Further, the Lowest Effective Conversion Price was set at discount to the closing price of the Shares on 15th February, 2002 and the average closing prices of the Shares for the periods described in the table above. The discounts of the Lowest Effective Conversion Price to the closing price/average closing prices for the different periods described in the table above range from approximately 10.71% to approximately 32.43%. Taking into account the loss-making track record of the Group and the relatively low level of net assets value and cash position of the Group, we concur with the Directors' view that the premium of the Conversion Price over and the discount of the Lowest Effective Conversion Price to the closing price of the Shares on 15th February, 2002 is acceptable.

LETTER FROM FIRST SHANGHAI

Having considered the above factors and reasons, the Directors consider that the terms of the Redemption Request are fair and reasonable and in the interest of the Company and Shareholders as a whole. We concur with the Directors' view in this regard.

Interest rate

The Note will bear an interest from the Issue Date at the rate of 8% per annum, which will be payable half yearly in arrears. We note that the interest rate of the Note is the same as the Existing Note. The Directors have advised that after considering the size of the fund raising, the loss-making track record of the Group, the relatively low level of net assets value and cash position of the Group as shown in the table below, together with the unsecured debt financing nature of the Note, they are of the view that such interest rate is justifiable. To this end, we concur with their view.

Financial effects of the Note on the Group

The following table summarises the financial information of the Group based on the unaudited financial information of the Group for the year ended 31st December, 2001 as disclosed in appendix II to the Circular.

| | <i>Approximately HK\$ (million)</i> |
|---|---|
| Unaudited cash and bank balances | 3.97 |
| Unaudited net assets value of the Group ("NAV") as at 31st December, 2001 | 0.28 |
| Add: net proceeds from the Note upon conversion of the Note in full | 7 |
| Pro forma unaudited NAV as at 31st December, 2001 upon conversion of the Note in full | 7.28 |
| Total outstanding borrowings as at 31st December, 2001 | 7.6 |
| Unaudited net borrowings as at 31st December, 2001 | 3.63 |
| Unaudited net loss | 24.86 |
| Net gearing ratio as at 31st December, 2001 (<i>unaudited</i>) | 1,296.43% |
| Net gearing ratio upon conversion of the Note in full (<i>unaudited</i>) | 49.86% |

LETTER FROM FIRST SHANGHAI

*Approximately
HK\$ (million)*

Per Share information

| | |
|---|------------|
| Unaudited NAV per Share as at 31st December, 2001 based on 653.72 million Shares in issue | 0.04 cents |
| Pro forma unaudited NAV per Share as at 31st December, 2001 based on 933.72 million Shares in issue and to be issued upon conversion of the Note in full at the Lowest Effective Conversion Price | 0.78 cents |
| Unaudited net loss per Share based on 653.72 million Shares in issue as at the Latest Practicable Date | 3.80 cents |
| Pro forma unaudited net loss per Share based on 933.72 million Shares in issue and to be issued upon conversion of the Note in full at the Lowest Effective Conversion Price | 2.66 cents |

Profit or loss

For the purpose of our analysis of the dilution effect of the pro forma net loss per Share upon conversion of the Note in full at the Lowest Effective Conversion Price, we have based on the unaudited net loss attributable to Shareholders for the year ended 31st December, 2001 of about HK\$24.86 million, 653,720,000 Shares in issue as at the Latest Practicable Date and 933,720,000 Shares in issue and to be issued upon conversion of the Note in full at the Lowest Effective Conversion Price (without taking into account any Shares to be issued upon conversion of the Existing Note). As shown in the table above, the unaudited net loss per Share for the year ended 31st December, 2001 was about 3.80 cents. Immediately upon conversion of the Note in full at the Lowest Effective Conversion Price, pro forma unaudited net loss per Share for the year ended 31st December, 2001 would be reduced by approximately 1.14 cents per Share to approximately 2.66 cents per Share, representing approximately 30% reduction.

Net assets value

In assessing the effects of the Note on the net assets value of the Group, we have based on the unaudited NAV as at 31st December, 2001 of HK\$279,113 as disclosed in the sub-paragraph headed “Unaudited financial information on the Group and Zhongshang E-silkroad” in appendix II to the Circular. Upon conversion of the Note in full, the pro forma unaudited NAV would be increased by approximately HK\$7 million to about HK\$7.28 million, (representing about 25-fold increase). In addition, upon conversion of the Note in full at the Lowest Effective Conversion Price of HK\$0.025 per Share, additional 280 million Shares

LETTER FROM FIRST SHANGHAI

would be issued. As such, upon conversion of the Note in full at the Lowest Effective Conversion Price, the pro forma unaudited NAV per Share would be increased from approximately 0.04 cents per Share (based on 653,720,000 Shares in issue as at the Latest Practicable Date) to approximately 0.78 cents per Share (based on 933,720,000 Shares in issue and to be issued), representing about 19-fold increment.

Net gearing

In assessing the effects of the Note on net gearing ratio (which equals to net borrowings divided by NAV), we have based on the unaudited NAV of approximately HK\$0.28 million and the unaudited net borrowings of approximately HK\$3.63 million as at 31st December, 2001 as shown in the table above. Accordingly, net gearing ratio was approximately 1,296.43%. Upon conversion of the Note in full, net gearing ratio would be reduced to approximately 49.86% based on the pro forma unaudited NAV of about HK\$7.28 million as shown in the table above.

Possible dilution effect to the Independent Shareholders

Based on 280 million new Shares to be issued upon the exercise of the Redemption Request and conversion of the Note in full at the Lowest Effective Conversion Price, and 653.72 million Shares in issue as at the Latest Practicable Date, Independent Shareholders' interests in the Company would be diluted by a maximum of approximately 29.99%. Nevertheless, we concur with the Directors' view that Independent Shareholders may share the benefits arising from a strengthened capital base and ameliorated financial position of the Group as discussed in the sub-paragraph headed "Financial effects of the Note on the Group" above upon the exercise of the Redemption Request and conversion of the Note, thereby facilitating the Group's business development in the future.

ADVICE

Having considered the above principal factors and reasons, we are of the opinion that the Note Agreement is in the interests of the Company and Shareholders as a whole and that the terms of Note Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Note Agreement and the issue of the Note pursuant thereto.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee
Executive Director

Byron Tan
Director

The principal terms of the Note are summarised below:

Amount of issue

HK\$7 million payable in full in cash on subscription.

Interest

The Note will bear interest from the Issue Date at the rate of 8% per annum, which will be payable half yearly in arrears.

Repayment

The Company shall repay such principal and interests accrued up to and including the date of repayment under the Note on the Maturity Date.

Conversion right

The holder of the Note shall have the right at any time from the Issue Date until the Maturity Date to convert all or part of the Note up to the principal amount of the Note, outstanding at any time into Shares at the Conversion Price (subject to adjustment) provided that a minimum amount of HK\$1 million of the Note can be exercised at any one time at the option of the holder of the Note. Shares issued on conversion will rank pari passu in all respects with the existing Shares outstanding at the date on which the conversion notice is served on the Company.

Adjustment of conversion price

The Note will contain detailed provisions relating to adjustment of the Conversion Price. The following is a summary of the adjustment provisions contained in the Note:

- (a) The Conversion Price shall be subject to adjustment in the following circumstances:
 - (i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision or reduction of capital;
 - (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
 - (iii) a capital distribution (as defined in the Note) being made by the Company, whether on a reduction of capital or otherwise, to holders of Shares in their capacity as such;

- (iv) an offer or grant being made by the Company to holders of its Shares of Shares by way of rights or of options or warrants to subscribe for Shares at a price which is less than 90% of the market price (calculated as provided in the Note);
 - (v) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Note) per Share is less than 90% of the market price (calculated as provided in the Note), or the terms of any such issue being altered so that the said total Effective Consideration is less than 90% of the market price;
 - (vi) an issue being made wholly for cash of Shares (other than pursuant to an executive share scheme as defined in the Note) at a price less than 90% of the market price (calculated as provided in the Note); and
 - (vii) an issue being made for the acquisition of asset at a total Effective Consideration per Share (as defined in the Note) which is less than 90% of the market price (calculated as provided in the Note).
- (b) No such adjustment as is referred to in sub-paragraph (a) above will be made in respect of:
- (i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including any conversion of the Note) to acquire Shares;
 - (ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;
 - (iii) an issue by the Company of Shares or by the Company or any subsidiary of the Company of securities wholly or partly convertible into or rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
 - (iv) an issue of fully paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or rights to acquire Shares; or
 - (v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the

market value of such Shares is not more than 110% of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash.

- (c) Any adjustment to the Conversion Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Shares into Shares of a larger nominal amount) involve an increase in the Conversion Price.
- (d) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above and subject to sub-paragraph (e) below, in any circumstances where the directors of the Company shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with a different time from that provided for under the provisions, the Company may appoint an approved merchant bank to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation, making an adjustment calculated on a different basis) and/or the adjustment shall take effect from such other date and/or time as shall be certified by such approved merchant bank to be in its opinion appropriate.
- (e) In the event of reduction of capital, the Company and the holder of the Note shall appoint an approved merchant bank to consider whether the adjustment provided in the Note is fair, reasonable and fairly and appropriately reflect the relative interests of the persons affected thereby. If the said approved merchant bank considers that other adjustment shall be made, the adjustment and the effective date of the adjustment as determined by the said approved merchant bank shall be conclusive and binding on the Company and the holder of the Note.

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 an amount of not less than HK\$1 million on each redemption at any one time by the Company in the following manner:

- (a) at a premium of 120% over the redemption amount if the redemption is exercised before the first anniversary of the Issue Date;

- (b) 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
- (c) 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.

The holder of the Note shall be entitled to make the 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 in the following manner:

- (a) 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 (subject to adjustment);
- (b) 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 (subject to adjustment);
- (c) 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 (subject to adjustment); and
- (d) 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 (subject to adjustment).

Other rights

If whilst any part of the Note remains outstanding, a general offer or proposal is made to shareholders of the Company to acquire or cancel the whole or any part of the issued share capital of the Company, the Company will forthwith give notice of such offer to the holder of the Note and use its best endeavours to procure that a similar offer or proposal is made to the holder of the Note on the basis that the Note had been converted in full on the day immediately preceding the date on which the offer or proposal was made.

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.

Events of default

The principal amount of the Note outstanding together with all interest shall become immediately repayable by the Company if:

- (a) the Company fails to pay any interest accrued within seven days of the due date for payment thereof; or
- (b) the Company defaults in performance or observance or compliance with any of its other obligations set out in the Note which default is incapable of remedy or, if capable of remedy, is not remedied within 14 days after notice of such default shall have been given to the Company by the holder of the Note; or
- (c) the Shares (as a class) is suspended from being or cease to be listed on the Stock Exchange or a recognised stock exchange for a continuous period of 14 days due to the default of the Company.

Governing law

The terms and conditions of the Note will be governed by and construed in accordance with laws of Hong Kong.

Set out below is extracted from the audited consolidated financial statements of the Group as contained in the Group's annual report for the year ended 31st December, 2000 and the prospectus of the Company dated 26th February, 2001.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | 2000 | 1999 | 1998 |
|--|--------------|----------------------------|---------------------------|--------------------------|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 4 | 3,080 | – | – |
| Cost of sales | | <u>(2,346)</u> | <u>–</u> | <u>–</u> |
| Gross profit | | 734 | – | – |
| Other revenue | | 226 | – | – |
| Selling and distribution expenses | | (5,809) | – | – |
| Administrative expenses | | (12,690) | (350) | (90) |
| Research and development costs | | <u>(2,346)</u> | <u>(399)</u> | <u>(1,866)</u> |
| LOSS FROM OPERATING ACTIVITIES | 5 | (19,885) | (749) | (1,956) |
| Finance costs | 6 | <u>(143)</u> | <u>–</u> | <u>–</u> |
| LOSS BEFORE TAX | | (20,028) | (749) | (1,956) |
| Tax | 8 | <u>–</u> | <u>–</u> | <u>–</u> |
| LOSS BEFORE MINORITY INTERESTS | | (20,028) | (749) | (1,956) |
| Minority interests | | <u>75</u> | <u>–</u> | <u>–</u> |
| NET LOSS ATTRIBUTABLE TO SHAREHOLDERS | 9, 18 | <u>(19,953)</u> | <u>(749)</u> | <u>(1,956)</u> |
| LOSS PER SHARE – Basic | 10 | <u>HK3.97 cents</u> | <u>HK0.15 cent</u> | <u>HK0.4 cent</u> |

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

| | <i>Notes</i> | 2000 <i>HK\$ '000</i> | 1999 <i>HK\$ '000</i> |
|---|--------------|---------------------------------|---------------------------------|
| Exchange differences on translation of the financial statements of foreign entities | 18 | <u>(14)</u> | <u>–</u> |
| Net loss not recognised in the profit and loss account | | (14) | – |
| Net loss for the year attributable to shareholders | | <u>(19,953)</u> | <u>(749)</u> |
| Total recognised losses | | <u><u>(19,967)</u></u> | <u><u>(749)</u></u> |

CONSOLIDATED BALANCE SHEET

| | <i>Notes</i> | 2000 <i>HK\$ '000</i> | 1999 <i>HK\$ '000</i> |
|---|--------------|---------------------------------|---------------------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 11 | 5,247 | 33 |
| Pledged bank deposit | 15 | 200 | – |
| | | <u>5,447</u> | <u>33</u> |
| CURRENT ASSETS | | | |
| Accounts receivable | 13 | 421 | – |
| Prepayments, deposits and other receivables | | 1,981 | – |
| Pledged bank deposit | 15 | 200 | – |
| Cash and bank balances | | 639 | 363 |
| | | <u>3,241</u> | <u>363</u> |
| CURRENT LIABILITIES | | | |
| Accounts payable | | 425 | 149 |
| Accrued liabilities, deposits and other payables | | 4,060 | 252 |
| Due to a minority shareholder of a subsidiary | 14 | 484 | – |
| Due to a related company | 13 | 143 | – |
| Finance lease payables | 15 | 257 | – |
| Convertible redeemable notes | 16 | 6,650 | – |
| | | <u>12,019</u> | <u>401</u> |
| NET CURRENT LIABILITIES | | <u>(8,778)</u> | <u>(38)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | (3,331) | (5) |
| NON-CURRENT LIABILITIES | | | |
| Finance lease payables | 15 | (136) | – |
| | | <u>(3,467)</u> | <u>(5)</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 17 | 76 | 50 |
| Reserves | 18 | (3,543) | (55) |
| | | <u>(3,467)</u> | <u>(5)</u> |

CONSOLIDATED CASH FLOW STATEMENT

| | <i>Notes</i> | 2000 <i>HK\$'000</i> | 1999 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 19(a) | (16,401) | (2,304) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 73 | – |
| Interest paid | | (13) | – |
| Interest element on finance lease rental payments | | (19) | – |
| Interest element on convertible redeemable notes | | (111) | – |
| Net cash outflow from returns on investments and servicing of finance | | (70) | – |
| INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | | (5,951) | (34) |
| Increase in a pledged bank deposit | | (400) | – |
| Net cash outflow from investing activities | | (6,351) | (34) |
| NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES | | (22,822) | (2,338) |
| FINANCING ACTIVITIES | 19(b) | | |
| Proceeds from issue of share capital | | 16,505 | 2,700 |
| Proceeds from issue of convertible redeemable notes | | 6,650 | – |
| Capital element of finance lease rental payments | | (118) | – |
| Contribution from a minority shareholder of a subsidiary | | 75 | – |
| Net cash inflow from financing activities | | 23,112 | 2,700 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 290 | 362 |
| Cash and cash equivalents at beginning of year | | 363 | 1 |
| Effect of foreign exchange rate changes, net | | (14) | – |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u>639</u> | <u>363</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | <u>639</u> | <u>363</u> |

BALANCE SHEET

| | <i>Notes</i> | 2000 <i>HK\$'000</i> | 1999 <i>HK\$'000</i> |
|--------------------------------|--------------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 12 | 3,243 | – |
| CURRENT ASSETS | | | |
| Cash and bank balances | | 51 | – |
| CURRENT LIABILITIES | | | |
| Other payables | | 111 | – |
| Convertible redeemable notes | 16 | 6,650 | – |
| | | <u>6,761</u> | <u>–</u> |
| NET CURRENT LIABILITIES | | | |
| | | <u>(6,710)</u> | <u>–</u> |
| | | <u><u>(3,467)</u></u> | <u><u>–</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 17 | 76 | 50 |
| Reserves | 18 | (3,543) | (50) |
| | | <u>(3,467)</u> | <u>–</u> |

NOTES TO FINANCIAL STATEMENTS

The following are notes extracted from the audited financial statements for the year ended 31 December 2000:

1. CORPORATE INFORMATION

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

- Internet-based application and design service
- Maintaining the www.expo24hrs.net web site
- Web page design service
- Technical support service
- Agency service

As described more fully in note 2 to the financial statements below, subsequent to the balance sheet date, on 2 March 2001, the Company was listed on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) by placing 130,456,000 new shares or 20% of the equity interest of the Company to independent investors.

In the opinion of the directors, as at the year end, the ultimate holding company was global.com Investments Corp., a company incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis notwithstanding that the Group and the Company had net current liabilities and net deficiency in assets as at 31 December 2000. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing measures completed subsequent to the balance sheet date including the following:

- (i) On 3 February 2001, the Company entered into a subscription agreement in relation to the issue of a convertible redeemable note to Sun Wah Net Investment Limited (“Sun Wah”) for an amount of HK\$8 million. Sun Wah is a shareholder of the Company. The convertible redeemable note is unsecured and bears interest at 8% per annum. Under this note, Sun Wah has the right to convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each at a price of HK\$0.175 per ordinary share during the period from 2 March 2002 to 19 August 2003.
- (ii) On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes which were issued on 25 October 2000 and 28 December 2000, respectively, and were outstanding as at the balance sheet date into 19,424,000 ordinary shares of HK\$0.05 each of the Company. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.

- (iii) As detailed in the prospectus of the Company dated 26 February 2001 (the “Prospectus”), the Company offered to place 130,456,000 new shares of HK\$0.05 each at the price of HK\$0.25 per share (the “Placement”). Net proceeds of approximately HK\$22.6 million were received. The shares of the Company were listed on the GEM of the Stock Exchange on 2 March 2001.

Further details of these financing measures together with the pro forma adjusted consolidated net asset statement of the Group as at 31 December 2000, prepared as if these financing measures had taken place on 31 December 2000, are set out in note 22 to the financial statements.

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

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and consolidation

The Group was formed pursuant to a group reorganisation on 11 November 1999 (the “Reorganisation”). Further details of the Reorganisation are set out in the Prospectus.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the year ended 31 December 1999 rather than from the date of their acquisition pursuant to the Reorganisation. Accordingly, the consolidated results and cash flows of the Group for each of the two years ended 31 December 2000 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows.

Depreciation is provided on the straight-line basis to write off the cost of each asset over the following estimated useful lives:

| | |
|----------------------------------|--------------|
| Furniture, fixtures and fittings | 3 to 5 years |
| Computer and office equipment | 3 years |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. TURNOVER

Turnover represents the net invoiced value of services rendered.

5. LOSS FROM OPERATING ACTIVITIES

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

| | 2000 | 1999 | 1998 |
|--|---------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost of services provided | 2,346 | – | – |
| Auditors' remuneration | 450 | 80 | 80 |
| Provision for doubtful debts | 140 | – | – |
| Depreciation: | | | |
| Owned fixed assets | 1,148 | 1 | – |
| Leased fixed assets | 100 | – | – |
| Research and development costs (see staff costs below) | 2,346 | 399 | 1,866 |
| Operating lease rentals: | | | |
| Land and buildings | 1,368 | – | – |
| Equipment | 277 | – | – |
| Pension contributions (excluding directors' remuneration) | 5 | – | – |
| Staff costs (excluding directors' remuneration) | 6,188 | 66 | – |
| Less: Amount included in research and development costs | (767) | – | – |
| | <u>5,421</u> | <u>66</u> | <u>–</u> |
| Exchange gains, net | (49) | – | – |
| Interest income | (73) | – | – |
| | <u><u>(122)</u></u> | <u><u>–</u></u> | <u><u>–</u></u> |

6. FINANCE COSTS

| | 2000 | Group 1999 | 1998 |
|--|-------------------|-----------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on other loan | 7 | – | – |
| Interest on bank overdraft | 6 | – | – |
| Interest on finance leases | 19 | – | – |
| Interest on convertible redeemable notes | 111 | – | – |
| | <u>143</u> | <u>–</u> | <u>–</u> |
| | <u><u>143</u></u> | <u><u>–</u></u> | <u><u>–</u></u> |

7. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

| | 2000 | Group 1999 | 1998 |
|---|-----------------|-----------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees | – | – | – |
| Basic salaries, bonuses, housing benefits, other allowances and benefits in kind | 2,882 | – | – |
| Contributions to provident fund | <u>6</u> | <u>–</u> | <u>–</u> |

8. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (1999: Nil; 1998: Nil).

Provision for the tax of profits of subsidiaries operating outside Hong Kong has not been calculated as the Group did not generate any assessable profits in the respective jurisdictions during the year.

The Group did not have any significant unprovided deferred tax in respect of the three years ended 31 December 2000.

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

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2000 is HK\$19,972,000 (period from 11 November 1999 (date of incorporation) to 31 December 1999: HK\$2,700,000).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$19,953,000 (1999: HK\$749,000; 1998: HK\$1,956,000) and the pro forma issued share capital of the Company of 502,400,000 shares (1999: 501,870,068 shares; 1998: 521,824,000 shares) as further detailed in note 17 to the financial statements.

Diluted loss per share for the year ended 31 December 2000 has not been presented as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year. The comparative diluted loss per share for the year ended 31 December 1998 and 1999 has not been calculated as no diluting events existed during the year.

11. FIXED ASSETS

| Group | Furniture, fixtures and fittings <i>HK\$'000</i> | Computer and office equipment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------|---|--|--------------------------|
| Cost: | | | |
| At beginning of year | – | 34 | 34 |
| Additions | 2,472 | 3,990 | 6,462 |
| | <u>2,472</u> | <u>3,990</u> | <u>6,462</u> |
| At 31 December 2000 | <u>2,472</u> | <u>4,024</u> | <u>6,496</u> |
| Accumulated depreciation: | | | |
| At beginning of year | – | 1 | 1 |
| Provided during the year | 524 | 724 | 1,248 |
| | <u>524</u> | <u>724</u> | <u>1,248</u> |
| At 31 December 2000 | <u>524</u> | <u>725</u> | <u>1,249</u> |
| Net book value: | | | |
| At 31 December 2000 | <u>1,948</u> | <u>3,299</u> | <u>5,247</u> |
| At 31 December 1999 | <u>–</u> | <u>33</u> | <u>33</u> |

The net book value of fixed assets held under finance leases included in the total amount of computer and office equipment at 31 December 2000 amounted to HK\$411,000 (1999: Nil; 1998: Nil).

12. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|-------------------------|-------------------------|
| | 2000 <i>HK\$'000</i> | 1999 <i>HK\$'000</i> |
| Unlisted shares, at cost | – | – |
| Due from subsidiaries | 3,243 | – |
| | <u>3,243</u> | <u>–</u> |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

| Company name | Place of incorporation/ establishment and operations | Paid-up share/ registered capital | Equity interest attributable to the Company | | Principal activities |
|---|--|-----------------------------------|---|----------|--|
| | | | Direct | Indirect | |
| E-silkroad.net Corporation (formerly known as Oppossum Limited) | The British Virgin Islands | US\$1 | 100% | – | Investment holding and development of e-commerce business |
| E-silkroad.net Online Exhibition Limited (formerly known as Electronic Exhibition Design Limited) | Hong Kong | HK\$10,000 | – | 100% | Development of e-commerce business |
| E-silkroad.net Online Commerce Limited (formerly known as e-silkroad.net Advertising Limited) | Hong Kong | HK\$10,000 | – | 100% | Dormant |
| Business Essence Technology Limited | The British Virgin Islands | US\$1 | – | 100% | Investment holding |
| E-silkroad.net Resources Limited (formerly known as Cyber Path Resources Limited) | The British Virgin Islands | US\$1 | – | 100% | Holding of trademarks and domain names |
| 中山市絲綢路網絡動力有限公司 (“Zhongshan E-silkroad”) | The People’s Republic of China (the “PRC”) | HK\$2,500,000 | – | 95% | Provision of web page design services and technical support services |

13. BALANCES WITH RELATED COMPANIES

As at 31 December 2000, approximately HK\$59,000 included in accounts receivable represented an amount due from Fujikon Industrial Holdings Limited (“Fujikon”). One of the independent non-executive directors of the Company, Mr. Yeung Chi Hung, is also a director of Fujikon. The amount was attributable to the Internet-based application and design service provided to Fujikon as further detailed in note 20(v) to the financial statements. Pursuant to Section 161B of the Hong Kong Companies Ordinance, the maximum amount due from Fujikon during the year was approximately HK\$137,000.

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

14. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

15. FINANCE LEASE PAYABLES

Obligations under finance leases as at 31 December 2000 were as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2000 | 1999 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amounts payable: | | |
| Within one year | 281 | – |
| In the second year | 139 | – |
| | <hr/> | <hr/> |
| Total minimum finance lease payments | 420 | – |
| Future finance charges | (27) | – |
| | <hr/> | <hr/> |
| Total net finance lease payables | 393 | – |
| Portion classified as current liabilities | (257) | – |
| | <hr/> | <hr/> |
| Long term portion | <u>136</u> | <u>–</u> |

As at 31 December 2000, the finance lease drawn down on 31 August 2000 was secured by a bank deposit of HK\$400,000 of which HK\$200,000 will be released after 12 months from the date of drawdown of the finance lease.

16. CONVERTIBLE REDEEMABLE NOTES

On 31 August 2000 and 1 September 2000, the Company entered into two subscription agreements in relation to the issue of convertible redeemable notes to two independent third parties for the amount of HK\$2 million and HK\$1.25 million, respectively. Such convertible redeemable notes are unsecured and bear interest at 8% and 5% per annum, respectively. On 25 October 2000 and 28 December 2000, the Company entered into subscription agreements in relation to the issue of convertible redeemable notes to Sun Wah for an amount of HK\$2.5 million and HK\$0.9 million, respectively. Such convertible redeemable notes are unsecured and bear interest at 8% per annum. The subscribers of all the above convertible redeemable notes will have the right to convert the whole or part of the principal amount of the notes into ordinary shares of HK\$0.05 each in the capital of the Company at a price of HK\$0.175 per ordinary share during the period from 1 April 2001 to 31 December 2001.

On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each in the Company. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.

17. SHARE CAPITAL

| | 2000 | 1999 |
|---|-------------------|-------------------|
| <i>Authorised:</i> | | |
| 50,000 ordinary shares of US\$1 each | <u>US\$50,000</u> | <u>US\$50,000</u> |
| <i>Issued and fully paid:</i> | | |
| 9,742 (1999: 6,345) ordinary shares of US\$1 each | <u>HK\$75,988</u> | <u>HK\$50,000</u> |

For the year ended 31 December 2000, the following changes in the Company's issued share capital took place:

- (i) On 10 July 2000, 705 ordinary shares of US\$1 each were allotted to Sun Wah at a total cash consideration of HK\$4,000,000 with HK\$3,995,000 being transferred to the share premium account of the Company.
- (ii) On 28 July 2000, 450 ordinary shares of US\$1 each were issued to the directors of the Company for cash at par.
- (iii) On 29 July 2000, 1,646 ordinary shares of US\$1 each were issued to an independent third party at a total cash consideration of HK\$10,000,000, with HK\$9,987,000 being transferred to the share premium account of the Company.
- (vi) On 25 August 2000, 179 ordinary shares of US\$1 each were issued to a director of the Company for cash at par.
- (v) On 25 October 2000, 417 ordinary shares of US\$1 each were allotted to an existing shareholder at a total cash consideration of HK\$2,500,000 with HK\$2,497,000 being transferred to the share premium account of the Company.

Pursuant to a written resolution of all the shareholders of the Company passed on 19 February 2001, the following changes in the share capital of the Company took place:

- (a) Each of the ordinary shares of US\$1 in the capital of the Company was converted into one share of HK\$7.8.
- (b) Each of the ordinary shares of HK\$7.8 in the capital of the Company resulting from the conversion stated in (a) above was subdivided into 156 shares of HK\$0.05 each.
- (c) The authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of an additional 1,992,200,000 ordinary shares of HK\$0.05 each.
- (d) The Company issued 500,880,248 shares of HK\$0.05 each to the holders of the shares in the register of members of the Company at the close of business on that date, credited as fully paid by way of capitalisation of the sum of HK\$25,044,012 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the Placement.

For the purpose of preparing the consolidated financial statements for the two years ended 31 December 2000, the shares in issue as at 31 December 1999 and 2000 were deemed to have been subdivided as stated in (b) above and the shares in (d) above were deemed to have been issued, nil paid, since 1 January 1999.

A summary of the above movements in the issued share capital of the Company is as follows:

| | Number of shares issued | Par value HK\$ '000 |
|--|------------------------------------|--------------------------------|
| Shares issued during the period from 11 November 1999 (date of incorporation) to 31 December 1999 | 6,345 | 50 |
| Share sub-division | 983,475 | – |
| Issue of shares credited as fully paid conditional on the share premium account of the Company being credited as a result of the Placement | 500,880,248 | – |
| Pro forma issued and paid-up share capital at 31 December 1999 | 501,870,068 | 50 |
| Shares issued during the year ended 31 December 2000 | 3,397 | 26 |
| Share sub-division | 526,535 | – |
| Pro forma issued and paid-up share capital at 31 December 2000 | <u>502,400,000</u> | <u>76</u> |

Subsequent to the balance sheet date, the following transactions occurred:

- (i) On 19 February 2001, Sun Wah entered into a supplementary agreement with the Company whereby Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each of the Company.
- (ii) Pursuant to the Placement, 130,456,000 ordinary shares of HK\$0.05 each of the Company were issued for a cash consideration, before expenses, of HK\$32,614,000.

A summary of the above transactions is as follows:

| | Number of shares issued | Par value HK\$ '000 |
|---|------------------------------------|--------------------------------|
| Pro forma issued and paid-up share capital at 31 December 2000 | 502,400,000 | 76 |
| New shares issued on conversion of convertible redeemable notes | 19,424,000 | 971 |
| New shares issued on the Placement | 130,456,000 | 6,523 |
| Capitalisation of the share premium account as set out above | – | 25,044 |
| | <u>652,280,000</u> | <u>32,614</u> |

Share options

During the year, the Company granted an aggregate of 54,208,800 share options (“Pre-IPO Share Options”) to certain directors of the Company at nil consideration. The details of the Pre-IPO Share Options granted during the year were as follows:

| Date of grant | Exercise price per share | Exercisable period | Number of share options '000 |
|--|-------------------------------------|------------------------------------|---|
| 1 March 2000 | 0.125 | 2 March 2001 to 1 March 2006 | 39,137 |
| 25 October 2000 | 0.250 | 8 August 2001 to 7 August 2004 | 5,024 |
| 25 October 2000 | 0.250 | 25 October 2001 to 24 October 2004 | 10,048 |
| Total number of share options outstanding as at 31 December 2000 | | | 54,209 |

Subsequent to the year end, on 19 February 2001, the Company adopted a share option scheme which is conditional upon the listing of the Company’s shares on the GEM of the Stock Exchange (the “Share Option Scheme”), the directors of the Company may at their discretion grant options to full time employees of the Group, including directors, to subscribe for shares in the Company. 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, which must be a business day; 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 maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 30% of the issued share capital of the Company (excluding for this purpose any shares which have been duly allotted and issued pursuant to the exercise of any option granted under the scheme). The scheme became effective upon the listing of the Company’s shares on the GEM of the Stock Exchange on 2 March 2001 and will remain in force for a period of 10 years from the date of adoption of the Share Option Scheme.

Under the Share Option Scheme, 111,908,000 share options with an exercise price of HK\$0.25 each were granted to three executive directors and 32 full-time employees of the Group for the subscription of ordinary shares in the Company at nil consideration. These share options are exercisable during the period of five years after the completion of one year’s service with the Group. The exercise in full of such share options, would, under the present capital structure of the Company, result in the issue of 111,908,000 additional ordinary shares.

Up to the date of this report, none of the Pre-IPO Share Option, or share options granted under the Share Option Scheme has been exercised.

18. RESERVES

Group

| | Accumulated losses <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Exchange fluctuation reserve <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|---|--|---------------------------------|
| At 1 January 1999 | (1,956) | – | – | (1,956) |
| Loss for the year | (749) | – | – | (749) |
| Issue of shares | – | 2,650 | – | 2,650 |
| At 31 December 1999 and 1 January 2000 | (2,705) | 2,650 | – | (55) |
| Loss for the year | (19,953) | – | – | (19,953) |
| Exchange adjustment | – | – | (14) | (14) |
| Issue of shares | – | 16,479 | – | 16,479 |
| At 31 December 2000 | <u>(22,658)</u> | <u>19,129</u> | <u>(14)</u> | <u>(3,543)</u> |

Company

| | Accumulated losses <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|---------------------------------|
| Loss for the period from 11 November 1999 (date of incorporation) to 31 December 1999 | (2,700) | – | (2,700) |
| Issue of shares | – | 2,650 | 2,650 |
| At 31 December 1999 and 1 January 2000 | (2,700) | 2,650 | (50) |
| Loss for the year | (19,972) | – | (19,972) |
| Issue of shares | – | 16,479 | 16,479 |
| At 31 December 2000 | <u>(22,672)</u> | <u>19,129</u> | <u>(3,543)</u> |

19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2000 <i>HK\$'000</i> | 1999 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Loss from operating activities | (19,885) | (749) |
| Interest income | (73) | – |
| Depreciation | 1,248 | 1 |
| Increase in accounts receivable | (421) | – |
| Increase in prepayments, deposits and other receivables | (1,981) | – |
| Increase in accounts payable | 276 | 149 |
| Increase in accrued liabilities, deposits and other payables | 3,808 | 162 |
| Decrease in an amount due to a director | – | (1,867) |
| Increase in an amount due to a minority shareholder of a subsidiary | 484 | – |
| Increase in an amount due to a related company | 143 | – |
| | <u>(16,401)</u> | <u>(2,304)</u> |
| Net cash outflow from operating activities | <u>(16,401)</u> | <u>(2,304)</u> |

(b) Analysis of changes in financing during the year

| | Share capital and share premium <i>HK\$'000</i> | Convertible redeemable notes <i>HK\$'000</i> | Obligations under finance leases <i>HK\$'000</i> | Minority interests <i>HK\$'000</i> |
|---|--|---|---|--|
| At 1 January 1999 | – | – | – | – |
| Cash inflow from financing activities | <u>2,700</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| At 31 December 1999 and at 1 January 2000 | 2,700 | – | – | – |
| Inception of finance leases | – | – | 511 | – |
| Cash inflow/(outflow) from financing activities | 16,505 | 6,650 | (118) | 75 |
| Minority shareholder's share of loss for the year | <u>–</u> | <u>–</u> | <u>–</u> | <u>(75)</u> |
| At 31 December 2000 | <u>19,205</u> | <u>6,650</u> | <u>393</u> | <u>–</u> |

(c) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of computer and office equipment with a capital value at the inception of the leases of approximately HK\$511,000 (1999: Nil).

20. RELATED PARTY TRANSACTIONS

| | | 2000 | Group 1999 | 1998 |
|--|--------------|-----------------|-----------------|-----------------|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Technical service fees paid to SW e-solutions Limited | (i) | 249 | – | – |
| Equipment leasing charge paid to 中山市金科信息網絡有限公司 (“STINET”) | (ii) | 78 | – | – |
| Agency fee received from STINET | (iii) | (366) | – | – |
| Technical support fee received from STINET | (iv) | (342) | – | – |
| Service fee income for Internet-based application and design received from Fujikon | (v) | (137) | – | – |

- (i) SW e-solutions Limited is a fellow subsidiary of Sun Wah. The beneficial owner of Sun Wah is the brother of the chairman of the Company. Based on the first technical support agreement, the server set-up fee of HK\$30,000 and any further development services, if required, calculated at HK\$8,000 per month, were determined between the Company and SW e-solutions Limited. The term of such agreement is 12 months commencing 25 April 2000. According to the second technical support service agreement, the technical support fee is calculated based on a fixed rate of HK\$59,500 per month for the period from 1 July 2000 to 30 September 2000.
- (ii) STINET is a minority shareholder of a subsidiary which held 5% of Zhongshan E-silkroad. STINET is owned as to 90% by Mr. Yu Jing Long, a member of senior management of the Group. The equipment leasing charge is calculated based on a fixed rate of RMB10,000 per month. The term of the equipment leasing agreement is 3 years starting from 21 April 2000.
- (iii) The agency fee income was received for introducing customers of Zhongshan E-silkroad to STINET regarding Internet-related services. The fee is calculated based on 30% of the net invoiced value received by STINET. The terms of the agency agreements are 3 years commencing 21 April 2000 and 1 May 2000.
- (iv) The income for the provision of technical support service was received from STINET. The fee is calculated based on 28% on the net invoiced value received by STINET. The term of the technical support service agreement is 3 years starting from 1 May 2000.
- (v) The fee was mutually negotiated between the Group and Fujikon based on the specification as required by Fujikon.

21. COMMITMENTS

- (a) As at 31 December 2000, annual commitments payable in the following year under non-cancellable operating leases were as follows:

| | Group | |
|--|------------------|------------------|
| | 2000 | 1999 |
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| In respect of land and buildings expiring: | | |
| Within one year | 28 | – |
| In the second to fifth years, inclusive | 1,798 | – |
| | <u>1,826</u> | <u>–</u> |
| | | |
| In respect of equipment expiring: | | |
| In the second to fifth years, inclusive | <u>112</u> | <u>–</u> |

- (b) As at 31 December 2000, the Group had contracted commitments in respect of an investment in a joint venture in the PRC amounting to HK\$620,000 (1999: Nil).

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

22. SUBSEQUENT EVENTS

- (i) On 3 February 2001, the Company entered into a subscription agreement relating to the issue of a convertible redeemable note to Sun Wah for an amount of HK\$8 million. The convertible redeemable note is unsecured and bears interest at 8% per annum. Under this note, Sun Wah will have the right to convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each at a price of HK\$0.175 per ordinary share during the period from 2 March 2002 to 19 August 2003.
- (ii) Pursuant to a special written resolution passed by the shareholders of the Company on 19 February 2001, the following changes in the share capital of the Company took place:
- (a) Each of the ordinary shares of US\$1 in the capital of the Company was converted into one share of HK\$7.8.
- (b) Each of the ordinary shares of HK\$7.8 in the capital of the Company resulting from the conversion as stated in (a) above was subdivided into 156 shares of HK\$0.05 each.
- (c) The authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of 1,992,200,000 additional ordinary shares of HK\$0.05 each.
- (d) The Company issued 500,880,248 shares of HK\$0.05 each to the holders of the shares on the register of members of the Company at the close of business on that date, credited as fully paid by way of capitalisation of the sum of HK\$25,044,012 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the Placement.

(e) The Company conditionally adopted the Share Option Scheme and granted an aggregate of 111,908,000 options under the Share Option Scheme to three executive directors and 32 full-time employees of the Group to subscribe the shares in the Company at HK\$0.25 per share. The options are exercisable during a period of 5 years after the completion of one year's service with the Group.

(iii) On 19 February 2001, Sun Wah converted an aggregate of HK\$3,399,200 of the two convertible redeemable notes which were issued on 25 October 2000 and 28 December 2000, respectively, and were outstanding as at the balance sheet date into 19,424,000 ordinary shares of HK\$0.05 each of the Company. The balance of HK\$800 of the convertible redeemable notes was repaid in cash.

(iv) Pursuant to the Placement, net proceeds of approximately HK\$22.6 million were received.

A condensed pro forma adjusted summarised consolidated balance sheet of the Group as at 31 December 2000, which is based on the audited net assets of the Group as at 31 December 2000 and adjusted as if the financing measures as set out in (i), (iii) and (iv) above had taken place on 31 December 2000, is presented below:

| | Audited consolidated net assets 31 December 2000 HK\$'000 | Pro forma adjustments | | | Pro forma consolidated net assets 31 December 2000 HK\$'000 |
|--------------------------------------|--|---|--|----------------------------------|--|
| | | Issue of convertible redeemable note HK\$'000 | Conversion of convertible redeemable notes HK\$'000 | Placing of shares HK\$'000 | |
| Non-current assets | 5,447 | – | – | – | 5,447 |
| Current assets | 3,241 | 8,000 | (1) | 22,600 | 33,840 |
| Current liabilities | (12,019) | – | 3,400 | – | (8,619) |
| Net current assets/ (liabilities) | (8,778) | | | | 25,221 |
| Non-current liabilities | (136) | (8,000) | – | – | (8,136) |
| Net assets/(deficiency in assets) | <u>(3,467)</u> | | | | <u>22,532</u> |
| Share capital | 76 | – | 971 | 6,523 | 7,570 |
| Reserves | (3,543) | – | 2,428 | 16,077 | 14,962 |
| | <u>(3,467)</u> | | | | <u>22,532</u> |

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 |
| | <hr/> |
| Total | 6,916,392 |
| Cost of sales | 5,545,120 |
| | <hr/> |
| Gross profit | 1,371,272 |
| Other revenue | 488,501 |
| Distribution costs | (7,031,717) |
| Administration expenses | (19,117,720) |
| Finance costs | (742,347) |
| | <hr/> |
| Profit before taxation | (25,032,011) |
| Taxation | – |
| Minority interests | 175,000 |
| | <hr/> |
| Profit after taxation and minority interests | <u>(24,857,011)</u> |

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

| | Zhongshan E-silkroad | Group |
|------------------------|---------------------------------|--------------|
| | <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 |
| 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 |
| Total | <u><u>22.6</u></u> | <u><u>19.4</u></u> |

The above unaudited figures for the year ended 31st December, 2001, which are extracted from the announcement of the Company dated 15th February, 2002, do not include adjustments, if any, that are found necessary during the annual audit of the Group for the year ended 31st December, 2001 including in particular, the provision for the action claimed by Fruitman, Brian Eric as mentioned in the sub-paragraph headed "Litigation" in appendix III to this Circular and the loss on disposal of the lease pursuant to the Lease Agreements. The necessary adjustments will be included in the annual report of the Group for the financial year ended 31st December, 2001.

INDEBTEDNESS

At the close of business on 31st December, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK\$7.6 million. The borrowings comprised unsecured convertible redeemable notes of approximately HK\$7.3 million and obligations under finance lease contracts of approximately HK\$0.3 million.

The Group's obligations under finance lease contracts are secured by a fixed deposit of approximately HK\$0.2 million as at 31st December, 2001.

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st December, 2001.

As at 31st December, 2001, the Group was involved in a High Court action in Hong Kong by Fruitman, Brian Eric (the "Plaintiff") against E-silkroad.net Online Exhibition Limited (formerly Electronic Exhibition Design Limited) (the "1st Defendant"), one of the subsidiaries of the Company and the Company (collectively the "Defendants"). The Plaintiff claims for (i) against the 1st Defendant payment of outstanding salary and emoluments in the total amount of HK\$832,418; (ii) damages for failure to allot his share options; (iii) a declaration that the Defendants have no right to use the idea, patent or concept in and in respect of the technique known as S.T.O.R.M.; (iv) payment of any and all sums received by the Defendants in respect of use of the technique known as S.T.O.R.M.; and (v) interest and legal costs. The Defendants filed a defence on 14th August, 2001 denying the claims as (i) the service contract dated 28th March, 2000 whereby the Plaintiff was employed as full-time employee of the 1st Defendant had ended by mutual agreement on or about 1st September, 2000; (ii) the conditions of the Plaintiff's entitlement to the options claimed had not been met; (iii) the patent and all other intellectual property rights to the S.T.O.R.M. technology are the sole property of the 1st Defendant pursuant to the said contract and (iv) the Plaintiff and the Defendant did not sell any S.T.O.R.M. technology at all. There has been no further progress of this action.

The possible liability of the above action has not been made in the unaudited accounts of the Group for the year ended 31st December, 2001 but will be provided in the accounts of the Group for the year ended 31st December, 2001 during the annual audit of the Group for that year.

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

Disclaimers

Save as aforesaid or as otherwise disclosed herein and apart from intra-Group liabilities, the Group did not have, at the close of business on 31st December, 2001, any loan capital issued and outstanding or agreed to be issued, outstanding bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance lease or hire purchase commitments or guarantees or material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there have been no material changes in the indebtedness or contingent liabilities of the companies comprising the Group since 31st December, 2001.

SUFFICIENT OF WORKING CAPITAL

Taking into account the estimated net proceeds of the Note and the rental payments under the Lease Agreements, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the quarterly report of the Group for the 9 months ended 30th September, 2001 and in this circular, the Directors are not aware of any material change in the financial or trading position of the Group since 31st December, 2000, the date to which the latest audited consolidated financial statements of the Group were made up.

RESPONSIBILITY STATEMENT

This circular, for which the Directors (except Mr. Yang Guozhu who cannot be contacted) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors (except Mr. Yang Guozhu), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular 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 circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (a) the material contracts referred to in the sub-paragraph headed “Summary of material contracts” under the paragraph headed “Further information about the business” of Appendix IV to the prospectus of the Company dated 26th February, 2001;
- (b) a supplemental deed dated 28th January, 2002 in respect of the HK\$1.25 million convertible redeemable note issued on 1st September, 2000 between (1) Quantum Hi-Technology Investment Corporation and (2) the Company whereby the repayment date of the principal sum together with interest accrued thereon under such note has been extended from 31st December, 2001 to 30th April, 2002;
- (c) the Note Agreement; and
- (d) the Lease Agreements.

DISCLOSURE OF INTERESTS**Interests in the Company**

As at the Latest Practicable Date, the interests of the Directors 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 SDI Ordinance or which required, pursuant to section 28 or

section 31 of the SDI Ordinance or Rules 5.40 to 5.59 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

| Name | Type of interest | Number of Issued Shares held |
|-------------|-------------------------|-------------------------------------|
| Mr. Yuen | Family | 228,802,000(<i>Note</i>) |

Note: These Shares were held by global.com Investments Corp., 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.

As at the Latest Practicable Date, the following Directors held the following options with the right to subscribe for Shares at HK\$0.25 per Share during a period of three years from the date of their respective first completed year of service with the Company:

| Name | Date of first completed year of service | Number of Shares subject to the options |
|-------------------------|--|--|
| Mr. Choi Koon Ming | 8th August, 2001 | 5,024,000 |
| Mr. Hui Ching Shan | 25th October, 2001 | 5,024,000 |
| Mr. Ha Kee Choy, Eugene | 25th October, 2001 | 5,024,000 |

As at the Latest Practicable Date, 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 |
|--|------------------------------|------------------------------------|
| global.com Investments Corp. (<i>Note 1</i>) | 228,802,000 | 35.00 |
| Subscriber (<i>Note 2</i>) | 95,474,000 | 14.60 |
| Ceroilfood Finance Limited | 84,910,000 | 12.99 |

Notes:

- (1) The interest of Mr. Yuen in global.com Investments Corp. has been disclosed above.
- (2) The Subscriber holds the Existing Note. Upon full conversion of the Existing Note, the Subscriber will hold approximately an additional 5% of the enlarged issued share capital of the Company without taking account any Shares which may fall to be issued upon exercise of any share options.

Service contract

Mr. Yuen has entered into a service agreement with the Company for a term of three years commencing on 1st January, 2001, which shall continue thereafter unless and until terminated by either party giving to the other party three months' notice in writing to determine the same.

Save as disclosed above, there is no existing or proposed service contracts, excluding contracts expiring or determinable by the employer within 1 year without payment of compensation (other than statutory compensation), between any company comprising the Group and any of the Directors.

Competing interest

As at the Latest Practicable Date, none of the Directors nor the management shareholders of the Company has any interest in any business that directly or indirectly compete with the business of the Group.

Sponsor's interest

As at the Latest Practicable Date, save for (i) interests of Celestial Capital Limited ("Celestial"), the sponsor of the Company under the sponsor agreement dated 25th September, 2001 between the Company and Celestial and (ii) E-tailer Holding Limited, a fellow subsidiary of Celestial holding 20,000,000 Shares, representing about 3.06% of the Issued Shares, as at the Latest Practicable Date, none of Celestial and its Associates has or may have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities). No director or employee of Celestial who is involved in providing advice to the Company has or may have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

Miscellaneous

- (a) As at the Latest Practicable Date, none of First Shanghai, any of its holding companies or any of its subsidiaries has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. Since 31st December, 2000 being the date to which the latest audited consolidated financial statements of the Group were made up, none of the Directors and First Shanghai has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) Save as disclosed herein, no material contracts have been entered into in which a Director is materially interested and which is significant in relation to the business of the Group.

LITIGATION

As at the Latest Practicable Date, the Group was involved in a High Court action in Hong Kong by Fruitman, Brian Eric (the “Plaintiff”) against E-silkroad.net Online Exhibition Limited (formerly Electronic Exhibition Design Limited) (the “1st Defendant”), one of the subsidiaries of the Company and the Company (collectively the “Defendants”). The Plaintiff claims for (i) against the 1st Defendant payment of outstanding salary and emoluments in the total amount of HK\$832,418, (ii) damages for failure to allot his share options, (iii) a declaration that the Defendants have no right to use the idea, patent or concept in and in respect of the technique known as S.T.O.R.M., (iv) payment of any and all sums received by the Defendants in respect of use of the technique known as S.T.O.R.M., and (v) interest and legal costs. The Defendants filed a defence on 14th August, 2001 denying the claims as (i) the service contract dated 28th March, 2000 whereby the Plaintiff was employed as full-time employee of the 1st Defendant had ended by mutual agreement on or about 1st September, 2000 (ii) the conditions of the Plaintiff’s entitlement to the options claimed had not been met (iii) the patent and all other intellectual property rights to the S.T.O.R.M technology are the sole property of the 1st Defendant pursuant to the said contract and (iv) the Plaintiff and the Defendant did not sell any S.T.O.R.M technology at all. There has been no further progress of this action.

The possible liability of the above action has not been made in the unaudited accounts of the Group for the year ended 31st December, 2001 but will be provided in the accounts of the Group for the year ended 31st December, 2001 during the annual audit of the Group for that year.

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

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

CONSENT

First Shanghai has given and has not withdrawn its written consent to the issue of this circular with copy of its letter and the reference to its name included herein in the form and context in which it is included.

INFORMATION ON SECRETARY AND OTHER OFFICERS

Ms. Leung Wai Sze, the qualified accountant and the secretary of the Company, is an associate member of the Hong Kong Society of Accountants.

Mr. Hui Ching Shan, the compliance officer of the Company, is a member of The Hong Kong Institute of Company Secretaries.

Messrs. Chan Yan Tin, Andrew and Cho Po Hong, Jimmy, the independent non-executors Directors and Mr. Chow Yeung Tuen, Richard, the executive Director, are the members of the audit committee of the Company. Mr. Chan Yan Tin, Andrew has extensive experience in property investment and development in both Hong Kong and overseas. Mr. Cho Po Hong, Jimmy has over 8 years' experience in corporate finance and is an executive director of Multifield International Holdings Limited and Oriental Explorer Holdings Limited, both of which are listed on the Main Board of the Stock Exchange. Mr. Chow Yeung Tuen, Richard is a certified public accountant with over 18 years of experience in auditing and taxation. The audit committee of the Company was set up on 19th February, 2001 with written terms of reference for the purpose of reviewing of and providing supervision over the financial reporting process and internal control of the Group.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Jennifer Cheung & Co. at Unit A, 19th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong during normal business hours from the date of this circular up to and including 25th March, 2002:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the year ended 31st December, 2000;
- (c) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (d) the service contract referred to in the paragraph headed "Service contract" in this appendix; and
- (e) the letter from First Shanghai, the text of which is set out on pages 14 to 21.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the abovementioned company (the “Company”) will be held at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong on 25th March, 2002 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** the subscription agreement dated 15th February, 2002 between Sun Wah Net Investment Limited (the “Subscriber”) and the Company whereby the Subscriber agreed to subscribe for a HK\$7 million convertible redeemable note of the Company for cash at par (a copy of which marked “A” has been tabled at the meeting and signed by the Chairman for the purpose of identification), be and it is hereby approved and that the directors of the Company be and they are hereby authorised to implement the transactions contemplated by such subscription agreement.”
2. **“THAT** the four lease agreements in Chinese all dated 15th February, 2002 (two of which were between 梁洁庄 and Zhongshan E-silkroad.net Company Limited (“Zhongshan E-silkroad”) and the remaining two were between 周東海 (together with 梁洁庄 the “Lessees”) and Zhongshan E-silkroad) whereby Zhongshan E-silkroad agreed to lease all its computers and office equipment to the Lessees for a total rental payment of HK\$770,000 for a term of five years (copies of which marked “B”, “C”, “D” and “E” have been tabled at the meeting and signed by the Chairman for the purpose of identifications), be and they are hereby approved and that the directors of the Company be and they are hereby authorised to implement the transactions contemplated by such lease agreements.”

By Order of the Board

Leung Wai Sze

Secretary

Hong Kong, 8th March, 2002

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal office:

Offices Nos.701-2

7th Floor

Man Yee Building

60-68 Des Voeux Road Central

Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy must be deposited at the Company's principal office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

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)

FORM OF PROXY FOR EXTRAORDINARY GENERAL MEETING (OR ANY ADJOURNMENT THEREOF)

I/We¹ _____ of _____

being the registered holder(s) of _____ shares of HK\$0.05 each in the capital of abovenamed company (the "Company") HEREBY APPOINT³ the Chairman of the meeting, or failing him

of _____
as my/our proxy to attend and vote for me/us and on my/our behalf at the said meeting of the Company to be held at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong on 25th March, 2002 at 11:00 a.m. (or at any adjournment thereof) in respect of the resolutions set out in the notice convening the said meeting as hereunder indicated, and if no such indication is given, as my/our proxy thinks fit.

| Resolutions | | For ⁴ | Against ⁴ |
|-------------|--|------------------|----------------------|
| 1. | To approve the subscription agreement dated 15th February, 2002 between Sun Wah Net Investment Limited and the Company relating to the subscription of a HK\$7 million convertible redeemable note of the Company and to authorise the directors of the Company to implement the transactions contemplated by such subscription agreement. | | |
| 2. | To approve the four lease agreements in Chinese all dated 15th February, 2002 relating to the lease by Zhongshan E-silkroad.net Company Limited of all its computers and office equipment to 梁洁庄 and 周東海 for a total rental payment of HK\$770,000 for a term of five years and to authorise the directors of the Company to implement the transactions contemplated by such lease agreements. | | |

Dated this _____ day of _____ 2002.

Signature(s)⁵ _____

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, delete the words "the Chairman of the meeting" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON WHO SIGNS IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTION, TICK THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST ANY RESOLUTION, TICK IN THE BOX MARKED "AGAINST".** Failure to tick a box will entitle your proxy to cast your vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than those referred to in the notice convening the meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must either be executed under its common seal or under the hand of an officer or attorney or other person duly authorised.
6. To be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the principal office of the Company at Offices Nos.701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for holding the said meeting.
7. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the meeting, personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
8. The proxy need not be a member of the Company but must attend the meeting in person to represent you.
9. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.