
IMPORTANT: THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of E-silkroad Holdings Limited (the “Company”).

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

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

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)

**SUBSCRIPTION OF NEW SHARES
AS A MAJOR TRANSACTION,
CHANGE OF COMPANY NAME
AND
GRANT OF SHARE ISSUE MANDATE
AND REPURCHASE MANDATE**

Financial Adviser to the Company

CASH

Celestial Capital Limited

A notice convening an extraordinary general meeting of the Company to be held at 9:00 a.m. on 30 December 2002 at the principal office of the Company at Office Nos. 701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong is set out on pages 54 to 58 of this circular. Whether or not you are able 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.

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for 7 days from the date of its posting.

6 December 2002

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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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“associates”	have the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Company”	E-silkroad Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“Companies Law”	the Companies Law (Cap.22) of the Cayman Islands
“Conditions”	the conditions of the Subscription Agreement as more particularly described in the sub-paragraph headed “Conditions” under the paragraph headed “The Subscription” under the section headed “Letter from the Board”
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of approving the Subscription, the proposed change of name of the Company and the grant of the Share Issue Mandate and the Repurchase Mandate, the notice of which is set out on pages 54 to 58 of this circular
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	2 December 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“PRC”	the People’s Republic of China

DEFINITIONS

“Repurchase Mandate”	as defined in the paragraph headed “Share Issue and Repurchase Mandates” under the section headed “Letter from the Board” in this circular
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.05 each of the Company
“Share Issue Mandate”	as defined in the paragraph headed “Share Issue and Repurchase Mandates” under the section headed “Letter from the Board” in this circular
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Glory Cyber Company Limited, a company incorporated in Hong Kong with limited liability on 3 June 2002 and the share capital of which is owned as to 70% by Mr. Luan Shu Sheng and 30% by Mr. Chan Kam Wai, Stephen who are independent from and not connected with the directors, chief executive, management shareholders and substantial shareholders of the Company or any of their respective associates
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 18 November 2002 made between the Company and the Subscriber in relation to the Subscription
“Subscription Price”	the subscription price of HK\$0.06 per Subscription Share
“Subscription Shares”	100,000,000 new Shares proposed to be subscribed for by the Subscriber subject to the terms and conditions of the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$” and “cent(s)”	Hong Kong dollar(s) and cent(s), the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD

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)

Executive Directors:

Choi Koon Ming (*Chairman*)
Hui Ching Shan (*Managing Director*)
Chow Yeung Tuen, Richard

Non-executive Director:

Ha Kee Choy, Eugene

Independent non-executive Directors:

Chan Yan Tin, Andrew
Cho Po Hong, Jimmy

Registered office:

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

Principal office:

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

6 December 2002

To the Shareholders

Dear Sir or Madam,

**SUBSCRIPTION OF NEW SHARES
AS A MAJOR TRANSACTION,
CHANGE OF COMPANY NAME
AND
GRANT OF SHARE ISSUE MANDATE
AND REPURCHASE MANDATE**

INTRODUCTION

The Board announced on 19 November 2002 that (i) the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber, subject to the Conditions, agreed to subscribe for the Subscription Shares at the Subscription Price; and (ii) a special resolution would be proposed to the Shareholders at the EGM to approve the change of the Company's name from its existing name to Glory Future Group Limited (光彩未來集團有限公司) which shall only take effect after completion of the Subscription.

LETTER FROM THE BOARD

It was also proposed that at the EGM, proposals would be made to the Shareholders to grant to the Board the Share Issue Mandate and the Repurchase Mandate.

Pursuant to the Subscription, the Subscriber, subject to the satisfaction of the Conditions, will subscribe for the Subscription Shares at the Subscription Price with a gross consideration of HK\$6,000,000. Based on the unaudited management accounts of the Group, the consolidated net liabilities of the Group as at 30 September 2002 amounted to about HK\$ 9.98 million. Accordingly, the Subscription constitutes a major transaction for the Company.

The purpose of this circular is (i) to provide more details of the Subscription and the proposed change of the Company's name; (ii) to give notice for the EGM at which resolutions will be proposed to approve the Subscription, the proposed change of the Company's name and the grant of the Share Issue Mandate and the Repurchase Mandate; and (iii) to provide an explanatory statement in relation to the proposed grant of the Repurchase Mandate.

THE SUBSCRIPTION

The Company has entered into the Subscription Agreement with the Subscriber, the principal terms of which are set out below:

The Subscription Agreement

- Parties : (1) the Company
(2) the Subscriber, an investment company and a party independent from and not connected with the Directors, chief executive, management shareholders and substantial shareholders of the Company or any of their respective associates
- Date : 18 November 2002
- Subscription Shares : The 100,000,000 Subscription Shares represented approximately 15.30% and 13.27%, respectively, of the existing and the enlarged issued capital of the Company.
- The Subscription Shares will, upon issue, rank *pari passu* in all respects with the Shares then in issue including the right to receive all dividends and distributions declared, paid or made with reference to a record date on or after the date of their allotment and issue.
- Subscription Price : The Subscription Price of HK\$0.06 per Subscription Share, (i) is equal to the closing price of the Shares on GEM of HK\$0.06 per Share on 18 November 2002, being the last trading day prior to the

LETTER FROM THE BOARD

date of the announcement of the Company in respect of, among others, the Subscription; (ii) represents a premium of about 29.87% over the average closing price of the Shares of HK\$0.0462 per Share for the last 10 trading days ended 18 November 2002; (iii) represents a premium of about 15.38% over the closing price of the Shares of HK\$0.052 per Share as at the Latest Practicable Date; and (iv) represents a premium of about 26.05% over the average closing price of the Shares of HK\$0.0476 per Share for the last 10 trading days ended at the Latest Practicable Date.

The aggregate amount payable by the Subscriber for the Subscription Shares is HK\$6,000,000.

- Conditions : The Subscription is conditional upon:
- (a) the receipt by the Company's legal adviser, acting as a stakeholder, of an amount equal to the aggregate Subscription Price for the Subscription Shares as deposit (the "**Deposit**") from the Subscriber on or before 9 December 2002;
 - (b) the obtaining of such approval from the shareholders of the Company for the allotment and issue of the Subscription Shares as may be required under the GEM Listing Rules; and
 - (c) the GEM Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares.

If any of the Conditions is not fulfilled by 31 December 2002, the parties will not proceed with the Subscription and the Company shall procure its legal adviser to return the Deposit, without interest, to the Subscriber.

- Completion : Completion of the Subscription will take place within three business days after the Subscriber has been notified by the Company about the satisfaction of all the conditions mentioned above.

- Post completion : Subject to completion of the Subscription, the Company shall procure two persons (one as an executive director and the other as a non-executive director) to be nominated by the Subscriber as members of the Board (which currently consists of three executive directors, one non-executive director and two independent non-executive directors) and shall propose to the shareholders of the Company for the change

LETTER FROM THE BOARD

of the Company's name to Glory Future Group Limited (光彩未來集團有限公司) to reflect the new additional substantial shareholder of the Company, being the Subscriber, upon completion of the Subscription.

Restriction on disposal: There is no restriction on disposal imposed on any of the Subscription Shares under the Subscription Agreement.

So far as the Company is aware, no Shareholder is interested in the Subscription Agreement. Accordingly, no Shareholder is expected to be abstained from voting in respect of the resolution for the approval of the Subscription.

MANDATE TO ISSUE THE SUBSCRIPTION SHARES

The Subscription Shares will be allotted and issued under the general mandate granted to the Board pursuant to a resolution passed at the annual general meeting of the Company held on 3 May 2002.

APPLICATION FOR LISTING

Application will be made to the GEM Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company immediately before and after the Subscription and after full conversion of the convertible notes of the Company:

Shareholders	Immediately before the Subscription		Immediately after the Subscription		Immediately after the Subscription and full conversion of the convertible notes of the Company (Note 5)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
global.com Investments Corp. (Note 1)	185,570,000	28.39%	185,570,000	24.62%	185,570,000	17.96%
Sun Wah Net Investment Ltd. (Note 2)	95,474,000	14.60%	95,474,000	12.67%	374,759,714	36.28%
Tai Lee Assets Limited (Note 3)	58,638,000	8.97%	58,638,000	7.78%	58,638,000	5.68%
Ceroilfood Finance Limited (Note 4)	84,910,000	12.99%	84,910,000	11.26%	84,910,000	8.22%
Subscriber	–	–	100,000,000	13.27%	100,000,000	9.68%
Public	229,128,000	35.05%	229,128,000	30.40%	229,128,000	22.18%
	<u>653,720,000</u>	<u>100.00%</u>	<u>753,720,000</u>	<u>100.00%</u>	<u>1,033,005,714</u>	<u>100.00%</u>

LETTER FROM THE BOARD

Notes:

1. global.com Investments Corp. is a company wholly owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of all units of which are beneficially owned by The YFC Family Trust, a discretionary trust of which the children of Mr. Yuen Fat Ching, a former director of the Company, are the only beneficiaries.
2. Sun Wah Net Investment Limited is 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 Board. Sun Wah Net Investment Limited is also the beneficial holder of the convertible notes of the Company.
3. Tai Lee Assets Limited is beneficially owned by Ms. Tsoi Siu Lan, Mazie, who is the sister of Mr. Choi Koon Ming, the Chairman of the Board.
4. Ceroilfood Finance Limited, a substantial shareholder and a wholly owned subsidiary of China National Cereals Oils and Foodstuffs Import and Export Corporation, a state owned enterprise whose principal business is the importing and export of cereals, oils and foodstuffs in the PRC.
5. Assuming that the Subscription was completed and the convertible notes of the Company were fully converted as at the Latest Practicable Date.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally 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 Board considers that the Subscription represents a good opportunity for the Company to raise funds and will also enable the Company to broaden its capital and shareholder base. The Subscription Price was arrived at after arm's length negotiation between the Company and the Subscriber with reference to the closing price per Share as quoted on GEM on 18 November 2002, the last trading day immediately prior to the suspension of trading in the Shares pending the release of the announcement of the Company in respect of, among others, the Subscription Agreement. The Board therefore considers that the Subscription is fair and reasonable and in the interest of the Company and its shareholders as a whole.

The cash and bank balances of the Group as at the Latest Practicable Date amounted to approximately HK\$1.9 million. However, the Board has estimated that the Group will require additional general working capital for its operations for the year ending 31 December 2003 and the Board considers that it is an appropriate time for the Company to raise fund as general working capital by means of the Subscription given the prevailing market conditions. The net proceeds from the Subscription will be used as general working capital of the Group and will not be used to repay the convertible notes issued by the Company. The Board considers that the net proceeds from the Subscription together with the cash and bank balances of the Group as at the Latest Practicable Date of approximately HK\$1.9 million will be sufficient for its operations up to the year ending 31 December 2003.

LETTER FROM THE BOARD

PROPOSAL FOR CHANGE OF COMPANY NAME

At the EGM, a special resolution will be proposed to the Shareholders to approve the change of the Company's name from its existing name to Glory Future Group Limited (光彩未來集團有限公司) which shall only take effect after completion of the Subscription.

Upon the change of the Company's name becoming effective, all existing share certificates bearing the existing name of the Company will continue to be evidence of title to the Shares and will continue to be valid for trading, settlement and registration purpose. Also, the rights of the Shareholders will not be affected as a result of the proposed change of name of the Company. Should the change of name become effective, any issue of share certificates thereafter will be in the new name of the Company.

A further announcement will be made when the change of name becomes effective.

SHARE ISSUE AND REPURCHASE MANDATES

At the EGM, ordinary resolutions will also be proposed to the Shareholders to approve the grant of new general mandates to the Board:

- (a) to allot, issue or deal with Shares of an aggregate nominal amount of up to 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing such resolution as enlarged by the allotment and issue of the Subscription Shares (the "**Share Issue Mandate**");
- (b) to purchase an aggregate nominal amount of up to 10% of the aggregate nominal amount of the issued share capital of the Company on the date of passing such resolution as enlarged by the allotment and issue of the Subscription Shares (the "**Repurchase Mandate**"); and
- (c) to extend the Share Issue Mandate by an amount representing the aggregate nominal amount of the Shares repurchased by the Company pursuant to and in accordance with the Repurchase Mandate.

The Share Issue Mandate and the Repurchase Mandate will continue in force until the conclusion of the next annual general meeting of the Company following the EGM or any earlier date as referred to in resolution nos. 2 and 3 set out in the notice of the EGM.

In accordance with the requirements of the GEM Listing Rules, the Company is required to send to the Shareholders an explanatory statement containing all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the grant of the Repurchase Mandate. An explanatory statement as required by the GEM Listing Rules in connection with the Repurchase Mandate is set out in Appendix II to this circular.

LETTER FROM THE BOARD

EGM

The notice of the EGM is set out on pages 54 to 58 of this circular.

Resolution no. 1 will be proposed as an ordinary resolution to approve the Subscription as a major transaction for the Company for the purposes of the GEM Listing Rules.

Resolution nos. 2 to 4 will be proposed as ordinary resolutions to approve the grant of the Share Issue Mandate and the Repurchase Mandate.

Resolution no. 5 will be proposed as a special resolution to approve the change of the Company's name.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the principal office of the Company at Office 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 EGM 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 EGM or any adjournment (as the case may be) if you so wish.

RECOMMENDATIONS

The Board is of the view that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote for resolution no.1 to be proposed at the EGM to approve the Subscription as a major transaction for the Company. The Board also supports the change of the Company's name and recommends the Shareholders to vote for resolution no.5 to be proposed at the EGM.

GENERAL

There will be no change in control of the Company or the Board (taken into account the proposed appointment of two Directors to be nominated by the Subscriber to the Board after completion of the Subscription) or the management of the Group as a result of the Subscription.

LETTER FROM THE BOARD

The Subscriber intends the Company to remain listed on the Stock Exchange. If the Company remains a listed company, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the Company's principal activities. The Stock Exchange also has the power to aggregate a series of transactions and any such transaction may result in the Company being treated as if it were a new listing applicant.

Shareholders and potential investors should be aware that the Subscription is subject to the satisfaction of the Conditions. There is no assurance that any of the Conditions will be fulfilled and therefore the Subscription may or may not proceed at all. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

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

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following the Subscription, are expected to be, as follows:

<i>Authorised:</i>		<i>HK\$</i>
2,000,000,000	Shares	100,000,000
 <i>Issued and to be issued as fully paid:</i>		
653,720,000	Existing Shares	32,686,000
100,000,000	Shares to be issued pursuant to the Subscription Agreement	5,000,000
753,720,000	Shares	37,686,000

The Subscription Shares to be issued pursuant to the Subscription will, upon issue, rank pari passu in all respects with the existing Shares.

Set out below is a summary of the audited consolidated profit and loss accounts of the Group for each of the three years ended 31 December 2001 and the consolidated balance sheet of the Group as at 31 December 2000 and 2001 together with the relevant notes to the accounts as extracted from the Group's annual reports.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the year ended 31 December,		
		2001	2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	6	6,543	3,080	–
Cost of sales		(4,526)	(2,346)	–
Gross profit		2,017	734	–
Other revenue		445	226	–
Selling and distribution expenses		(7,034)	(5,809)	–
Administrative expenses		(19,997)	(12,690)	(350)
Research and development costs		(555)	(2,346)	(399)
Other operating expenses		(2,088)	–	–
LOSS FROM OPERATING ACTIVITIES	7	(27,212)	(19,885)	(749)
Finance costs	8	(653)	(143)	–
LOSS BEFORE TAX		(27,865)	(20,028)	(749)
Tax	11	–	–	–
LOSS BEFORE MINORITY INTERESTS		(27,865)	(20,028)	(749)
Minority interests		175	75	–
NET LOSS FROM ORDINARY ACTIVITIES				
ATTRIBUTABLE TO SHAREHOLDERS	12, 24	<u>(27,690)</u>	<u>(19,953)</u>	<u>(749)</u>
LOSS PER SHARE – Basic	13	<u>HK4.40 cents</u>	<u>HK3.97 cents</u>	<u>HK0.15 cents</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	For the year ended 31 December,		
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Exchange differences on translation of the financial statements of foreign entities	24	2	(14)	–
Net gains/(losses) not recognised in the profit and loss account		2	(14)	–
Net loss for the year attributable to shareholders		<u>(27,690)</u>	<u>(19,953)</u>	<u>(749)</u>
Total recognised gains and losses		<u><u>(27,688)</u></u>	<u><u>(19,967)</u></u>	<u><u>(749)</u></u>

CONSOLIDATED BALANCE SHEET

		At at 31 December,	
	<i>Notes</i>	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	14	3,415	5,247
Pledged bank deposit	20	–	200
		<u>3,415</u>	<u>5,447</u>
CURRENT ASSETS			
Accounts receivable	16	109	421
Prepayments, deposits and other receivables		1,374	1,981
Pledged bank deposit	20	200	200
Cash and bank balances		3,775	639
		<u>5,458</u>	<u>3,241</u>
CURRENT LIABILITIES			
Accounts payable	17	(94)	(425)
Accrued liabilities, deposits and other payables		(2,571)	(4,060)
Due to a minority shareholder of a subsidiary	18	–	(484)
Due to a related company	19	–	(143)
Finance lease payables	20	(210)	(257)
Convertible redeemable notes	21	(1,250)	(6,650)
Provision	22	(200)	–
		<u>(4,325)</u>	<u>(12,019)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>1,133</u>	<u>(8,778)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,548	(3,331)
NON-CURRENT LIABILITIES			
Due to a minority shareholder of a subsidiary	18	(979)	–
Finance lease payables	20	(123)	(136)
Convertible redeemable notes	21	(6,000)	–
		<u>(7,102)</u>	<u>(136)</u>
		<u>(2,554)</u>	<u>(3,467)</u>
CAPITAL AND RESERVES			
Issued capital	23	32,686	76
Reserves	24	(35,240)	(3,543)
		<u>(2,554)</u>	<u>(3,467)</u>

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group and the Company had net deficiencies in assets as at 31 December 2001. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration several financing and operating measures executed subsequent to the balance sheet date, which include the following:

- (i) On 15 February 2002, the Company entered into a conditional 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\$7 million. Sun Wah is a shareholder of the Company. The terms of the convertible redeemable note is unsecured and bears interest at 8% per annum. Under the terms of this note, the Company may redeem the whole or part of the note during a period of three years from the issue date of the note. Furthermore, Sun Wah has the right to redeem the whole or part of the principal amount of the note in cash or convert the whole or part of the principal amount of the note into ordinary shares of HK\$0.05 each at a price of HK\$0.05 per ordinary share, subject to adjustment, during the abovementioned period. In such circumstances, the Company may, instead of redeeming the note or such part thereof in cash at the face value of the note plus interest, elect to satisfy the redemption by the issue of the ordinary shares of the Company. The Company will only redeem the note or such part thereof in cash if the adequacy of working capital and liquidity of the Group is not impaired by such cash redemption. Further details of the note are set out in a circular to shareholders dated 11 March 2002.
- (ii) On 15 February 2002, the Group, as lessor, entered into four conditional five year lease agreements with two independent third parties for the leasing of certain office and computer equipments in return for a total rental payment of approximately HK\$770,000. According to the terms of the agreements, the rentals should be fully settled within six months from 25 March 2002. Further details of the leases are also set out in a circular to shareholders dated 11 March 2002.
- (iii) The directors have commenced the closure of certain unprofitable operations in Guangzhou and Shunde in the People’s Republic of China, other than Hong Kong and Macau (the “PRC”). The anticipated cost relating to closing down these unprofitable operations were provided and accounted for as included in accrued liabilities as at 31 December 2001. The directors will relocate the resources to other business centres in the PRC to continue the Group’s existing principal activities.

In addition to consolidating its existing Internet business, in order to broaden the Group’s income sources and client base, the directors will look for new business opportunities in other Internet-related businesses. The directors have budgeted for the anticipated set-up costs and expect that the new businesses will improve the profitability and cash flows of the Group.

The directors are of the opinion that, in view of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

2. CORPORATE INFORMATION

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

- providing Internet-based application and web page design services
- maintaining the *www.expo24hrs.net* web site
- providing technical support and agency services

In the opinion of the directors, the ultimate holding company is global.com Investments Corp., a company incorporated in the British Virgin Islands.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”)

The following relevant recently-issued and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised) : “Events after the balance sheet date”
- SSAP 14 (Revised) : “Leases”
- SSAP 26 : “Segment reporting”
- SSAP 28 : “Provisions, contingent liabilities and contingent assets”
- SSAP 31 : “Impairment of assets”
- SSAP 32 : “Consolidated financial statements and accounting for investments in subsidiaries”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 20 and 26 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. Provisions are now disclosed as a separate line item on the face of the balance sheet and note 22 to the financial statements “Provisions” has been revised to include the newly required additional disclosures.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements. The Group has performed an assessment of the fair value of its assets. As a result, fixed assets were determined to have been impaired as at 31 December 2001, further details of which are included in note 14 to the financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs, certain minor revisions to SSAP 17 “Property, plant and equipment” are effective for the first time for the current year’s financial statements. The only significant effect of these revisions is that the revised SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 14 to the financial statements, whereas previously they would have been deducted from the cost of the relevant asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses. 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.

Depreciation is calculated 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
Motor vehicles	5 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.

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.

Cash equivalents

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for legal costs are made based on the present value of the future costs expected to be incurred.

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 until its realisation is assured beyond reasonable doubt.

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:

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

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.

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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries or the maximum mandatory contributions as required by the MPF Scheme and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's subsidiary in the PRC is required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages of those eligible employees and are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable to the defined contribution retirement benefits scheme.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as further explained in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the provision of Internet-based application and web page design services segment provides online trade-show and exhibition services and web page development work;
- (b) the web site maintenance segment represents the monthly subscription service for joining *www.expo24hrs.net*; and
- (c) the provision of technical support and agency services segment includes the provision of consultation services relating to the implementation and application of computer systems and introducing customers for web site hosting, e-mail boxes services, domain name registration and international trading and business information services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

Group	Internet-based application and web page design services		Web site maintenance services		Technical support and agency services		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	4,764	2,033	327	339	1,452	708	-	-	6,543	3,080
Intersegment sales	761	418	-	-	-	-	(761)	(418)	-	-
Total	<u>5,525</u>	<u>2,451</u>	<u>327</u>	<u>339</u>	<u>1,452</u>	<u>708</u>	<u>(761)</u>	<u>(418)</u>	<u>6,543</u>	<u>3,080</u>
Segment results	<u>(4,865)</u>	<u>(5,939)</u>	<u>(1,005)</u>	<u>(1,577)</u>	<u>298</u>	<u>95</u>	<u>-</u>	<u>-</u>	<u>(5,572)</u>	<u>(7,421)</u>
Interest Income									384	73
Other revenue									61	153
Unallocated expenses									(22,085)	(12,690)
Loss from operating activities									(27,212)	(19,885)
Finance costs									(653)	(143)
Loss before tax									(27,865)	(20,028)
Tax									-	-
Loss before minority interests									(27,865)	(20,028)
Minority interests									175	75
Net loss from ordinary activities attributable to shareholders									<u>(27,690)</u>	<u>(19,953)</u>
Segment assets	2,964	4,093	542	991	199	634	-	-	3,705	5,718
Unallocated assets									5,168	2,970
Total assets									<u>8,873</u>	<u>8,688</u>
Segment liabilities	737	345	37	292	136	185	-	-	910	822
Unallocated liabilities									10,517	11,333
Total liabilities									<u>11,427</u>	<u>12,155</u>
Other segment information:										
Depreciation	2,130	914	362	247	275	87	-	-	2,767	1,248
Impairment loss recognised in the profit and loss account	1,466	-	-	-	622	-	-	-	2,088	-
Other non-cash expenses	486	111	193	29	-	-	-	-	679	140
Capital expenditure	<u>2,310</u>	<u>4,611</u>	<u>189</u>	<u>1,130</u>	<u>653</u>	<u>721</u>	<u>-</u>	<u>-</u>	<u>3,152</u>	<u>6,462</u>

(b) Geographical segments

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

Group	Hong Kong		PRC		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>1,665</u>	<u>1,435</u>	<u>4,878</u>	<u>1,645</u>	<u>–</u>	<u>–</u>	<u>6,543</u>	<u>3,080</u>
Other segment information:								
Segment assets	<u>7,573</u>	<u>6,671</u>	<u>1,300</u>	<u>2,017</u>	<u>–</u>	<u>–</u>	<u>8,873</u>	<u>8,688</u>
Capital expenditure	<u>961</u>	<u>4,788</u>	<u>2,191</u>	<u>1,674</u>	<u>–</u>	<u>–</u>	<u>3,152</u>	<u>6,462</u>

6. TURNOVER

Turnover represents the net invoiced value of services rendered.

7. LOSS FROM OPERATING ACTIVITIES

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

	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000
Cost of services provided	4,526	2,346	–
Auditors' remuneration	380	450	80
Provision for doubtful debts	361	140	–
Depreciation	2,767	1,248	1
Research and development costs (see staff costs below)	555	2,346	399
Provision of legal costs	200	–	–
Provision for impairment of fixed assets	2,088	–	–
Loss on disposal of fixed assets	118	–	–
Minimum lease payments under operating leases:			
Land and buildings	2,368	1,368	–
Equipment	104	277	–
Pension contributions (excluding directors' remuneration – note 9)	221	5	–
Staff costs (excluding directors' remuneration – note 9)	11,376	6,188	66
Less: Amount included in research and development costs	–	(767)	–
	<u>11,376</u>	<u>5,421</u>	<u>66</u>
Exchange gains, net	(28)	(49)	–
Interest income	<u>(384)</u>	<u>(73)</u>	<u>–</u>

8. FINANCE COSTS

	2001	Group 2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on other loan	–	7	–
Interest on bank overdraft	22	6	–
Interest on finance leases	54	19	–
Interest on convertible redeemable notes	577	111	–
	<u>653</u>	<u>143</u>	<u>–</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2001	Group 2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:			
Executive directors	–	–	–
Non-executive directors	–	–	–
Independent non-executive directors	33	–	–
	<u>33</u>	<u>–</u>	<u>–</u>
Other emoluments of executive directors:			
Basic salaries, bonuses, housing benefits, other allowances and benefits in kind	2,371	2,882	–
Pension contributions	53	6	–
	<u>2,424</u>	<u>2,888</u>	<u>–</u>

Save as disclosed above, none of the non-executive or independent non-executive directors received any fees or other reimbursements or emoluments for the year ended 31 December 2001.

The two (2000: Nil; 1999: Nil) independent non-executive directors received individual fees of approximately HK\$16,500 each. The four (2000: four; 1999: Nil) executive directors received individual emoluments of approximately HK\$779,000, HK\$677,000, HK\$644,000 and HK\$324,000 (2000: HK\$1,173,000, HK\$939,000, HK\$587,000 and HK\$189,000; 1999: Nil) during the year ended 31 December 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year ended 31 December 2001, 64,048,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading “Share option scheme” in the annual report for the year ended 31 December 2001. No value in respect of the share options granted during the year has been charged to the profit and loss account.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2000: two) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	328	623
Performance related bonuses	360	–
Pension contributions	7	1
	<u>695</u>	<u>624</u>

The remuneration of the remaining two (2000: two) non-director, highest paid employees during the two years ended 31 December 2001 fell within the range of nil to HK\$1,000,000.

During the year ended 31 December 2001, 18,000,000 share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures set out under the heading “Share option scheme” in the annual report for the year ended 31 December 2001. No value in respect of the share options granted during the year has been charged to the profit and loss account.

11. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2000: Nil; 1999: 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 (2000: Nil; 1999: Nil).

The Group did not have any significant unprovided deferred tax in respect of the year.

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

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 is HK\$27,688,000 (2000: HK\$19,972,000; period from 11 November 1999 (date of incorporation) to 31 December 1999: HK\$2,700,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$27,690,000 (2000: HK\$19,953,000; 1999: HK\$749,000) and the weighted average number of 629,188,603 ordinary shares (2000: pro forma issued share capital of 502,400,000 shares; 1999: 501,870,068) of the Company in issue during the year.

Diluted loss per share for the years ended 31 December 2001 and 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 both years. The comparative diluted loss per share for the year ended 31 December 1999 has not been calculated as no diluting events existed during the year.

14. FIXED ASSETS

Group	Furniture, fixtures and fittings <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	2,472	4,024	–	6,496
Additions	869	2,035	248	3,152
Disposals	–	(214)	–	(214)
Exchange realignment	4	11	–	15
At 31 December 2001	<u>3,345</u>	<u>5,856</u>	<u>248</u>	<u>9,449</u>
Accumulated depreciation and impairment:				
At beginning of year	524	725	–	1,249
Provided during the year	939	1,778	50	2,767
Impairment during the year recognised in the profit and loss account	716	1,372	–	2,088
Disposals	–	(71)	–	(71)
Exchange realignment	–	1	–	1
At 31 December 2001	<u>2,179</u>	<u>3,805</u>	<u>50</u>	<u>6,034</u>
Net book value:				
At 31 December 2001	<u><u>1,166</u></u>	<u><u>2,051</u></u>	<u><u>198</u></u>	<u><u>3,415</u></u>
At 31 December 2000	<u><u>1,948</u></u>	<u><u>3,299</u></u>	<u><u>–</u></u>	<u><u>5,247</u></u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of computer and office equipment and motor vehicles at 31 December 2001 amounted to HK\$258,000 (2000: HK\$411,000) and HK\$198,000 (2000: Nil), respectively.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$ '000</i>	2000 <i>HK\$ '000</i>
Unlisted shares, at cost	–	–
Due from subsidiaries	1,288	3,243
	<u>1,288</u>	<u>3,243</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	Nominal value of paid-up share/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
E-silkroad.net Corporation	British Virgin Islands/ Hong Kong	US\$1	100%	–	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	HK\$10,000	–	100%	Development of e-commerce business
E-silkroad.net Online Commerce Limited	Hong Kong	HK\$10,000	–	100%	Dormant
Business Essence Technology Limited	British Virgin Islands	US\$1	–	100%	Investment holding
E-silkroad.net Resources Limited	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”)	PRC	HK\$5,000,000	–	95%	Provision of web page design service and technical support services

16. ACCOUNTS RECEIVABLE

A defined credit policy is maintained within the Group. The general credit terms range from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of accounts receivable is as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 3 months	108	331
Over 3 months	1	90
	<u>109</u>	<u>421</u>

17. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 3 months	10	321
Over 3 months	84	104
	<u>94</u>	<u>425</u>

18. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured and interest-free. The minority shareholder has undertaken not to demand repayment within a period of twelve months.

19. 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 who resigned on 1 November 2001, is also a director of Fujikon. The amount was attributable to the Internet-based application and design services provided to Fujikon and was fully settled during the current year. Pursuant to Section 161B of the Hong Kong Companies Ordinance, the maximum amount due from Fujikon during the year was approximately HK\$59,000 (2000: HK\$137,000).

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

20. FINANCE LEASE PAYABLES

The Group conducted a portion of its operations using certain leased computer and office equipment and motor vehicles. These leases are classified as finance leases and have remaining lease terms ranging from less than one year to three years.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:				
Within one year	229	281	216	269
In the second year	79	139	71	124
In the third to fifth years, inclusive	53	–	46	–
	<u>361</u>	<u>420</u>	<u>333</u>	<u>393</u>
Total minimum finance lease payments	<u>361</u>	<u>420</u>	<u>333</u>	<u>393</u>
Future finance charges	<u>(28)</u>	<u>(27)</u>		
Total net finance lease payables	333	393		
Portion classified as current liabilities	<u>(210)</u>	<u>(257)</u>		
Long term portion	<u>123</u>	<u>136</u>		

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

As at 31 December 2001, the finance lease drawn down on 31 August 2000 was secured by a bank deposit of HK\$200,000 (2000: HK\$400,000).

21. CONVERTIBLE REDEEMABLE NOTES

	<i>Notes</i>	Group and Company	
		2001	2000
		<i>HK\$ '000</i>	<i>HK\$ '000</i>
At beginning of year	(i)	6,650	–
New issue	(ii)	8,000	6,650
Converted into ordinary shares of the Company	(iii)	(3,399)	–
Cash redemption	(iii), (iv)	(4,001)	–
		<hr/>	<hr/>
At end of year		7,250	6,650
Portion classified as current liabilities	(v)	(1,250)	(6,650)
		<hr/>	<hr/>
Long-term portion		<u>6,000</u>	<u>–</u>

- (i) 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 principal amount of HK\$2 million (the “First Note”) and HK\$1.25 million (the “Second Note”), 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 two additional convertible redeemable notes to Sun Wah for principal amounts 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 these convertible redeemable notes have the right to convert the whole or part of the principle 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. The exercise period has been extended for the Second Note, as detailed in (v) below.
- (ii) 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 the terms of 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, or to redeem the note in cash upon its maturity on 19 August 2003.
- (iii) 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 its two convertible redeemable notes, detailed in (i) above, into 19,424,000 ordinary shares of HK\$0.05 each in the Company. The remaining balance of HK\$800 of these convertible redeemable notes was also repaid in cash.
- (iv) On 4 April 2001, the Company paid HK\$2 million to Sun Wah by way of partial redemption of the convertible redeemable note as detailed in (ii) above. On the same date, the Company redeemed the First Note in cash.

- (v) On 28 January 2002, the Company entered into a supplemental deed with the subscriber of the Second Note to extend the repayment date from 31 December 2001 to 30 April 2002.

22. PROVISION

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for legal costs during the year and balance at year end	<u>200</u>	<u>–</u>

The Group was involved in a High Court action in Hong Kong initiated by a former employee (the “Plaintiff”). The Plaintiff claims for (i) payment of alleged outstanding salary and emoluments in the total amount of HK\$832,418; (ii) damages for the alleged failure of the Company to allot his share options; (iii) a declaration that the Group has no 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 Group in respect of use of the technique known as S.T.O.R.M.; and (v) interest and legal costs. The above legal case is still in progress as at the date of this report and no further action has been undertaken by the Plaintiff. After seeking independent legal advice, the Company’s directors have estimated and provided for the expected legal costs in respect of this case during the year ended 31 December 2001.

23. SHARE CAPITAL

	2001	2000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.05 each (2000: 50,000 ordinary shares of US\$1 each)	<u>HK\$100,000,000</u>	<u>HK\$390,000</u>
<i>Issued and fully paid:</i>		
653,720,000 ordinary shares of HK\$0.05 each (2000: 9,742 ordinary shares of US\$1 each)	<u>HK\$32,686,000</u>	<u>HK\$75,988</u>

During the period from 11 November 1999 (date of incorporation) to 31 December 2001, the following changes in the Company’s issued share capital took place:

- (i) (a) 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.
- (b) On 28 July 2000, 450 ordinary shares of US\$1 each were issued to the directors of the Company for cash at par.
- (c) 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.

- (d) On 25 August 2000, 179 ordinary shares of US\$1 each were issued to a director of the Company for cash at par.
 - (e) 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.
- (ii) 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\$7.80.
 - (b) Each of the ordinary shares of HK\$7.80 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 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 listing of the Company's shares on the GEM of the Stock Exchange.
- (iii) 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 of its convertible redeemable notes into 19,424,000 ordinary shares of HK\$0.05 each of the Company, as further detailed in note 21(iii) to the financial statements.
- (iv) Upon the listing of the Company's shares on the GEM of the Stock Exchange, on 2 March 2001, 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.
- (v) On 14 July 2001, share options to subscribe for 1,440,000 shares in the Company under the share option scheme were exercised and accordingly, 1,440,000 shares were issued for a total consideration of HK\$360,000.

A summary of the above transactions is as follows:

	Number of issued shares	Par value <i>HK\$'000</i>
At 1 January 2000	6,345	50
Shares issued during the year	<u>3,397</u>	<u>26</u>
At 31 December 2000 and 1 January 2001	9,742	76
Share sub-division	1,510,010	–
Capitalisation of share premium account	500,880,248	25,044
Shares issued on conversion of convertible redeemable notes	19,424,000	971
New issues on public share issue and placing of shares	130,456,000	6,523
Exercise of share options	<u>1,440,000</u>	<u>72</u>
At 31 December 2001	<u><u>653,720,000</u></u>	<u><u>32,686</u></u>

Share options

The Company has a pre-IPO share option agreement (the “Pre-IPO Agreement”) and post-IPO share option scheme (the “Post-IPO Scheme”), further details of which are set out under the heading “Share option scheme” in the annual report for the year ended 31 December 2001.

At the beginning of the year, there were 54,208,800 share options (“Pre-IPO Share Options”) outstanding under the Pre-IPO Agreement, which entitled certain directors of the Company to subscribe for shares of the Company at any time during periods ranging from 2 March 2001 to 1 March 2006. The subscription price payable upon the exercise of these options ranged from HK\$0.125 per share to HK\$0.25 per share.

On 19 February 2001, the Company adopted the Post-IPO Scheme which was conditional upon the listing of the Company’s shares on the GEM of the Stock Exchange. 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 Post-IPO Scheme.

Under the Post-IPO Scheme, 111,908,000 share options (“Post-IPO 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. These share options are exercisable during the period of five years after the completion of one year’s service with the Group.

During the year, 107,768,000 share options lapsed upon the resignation of three directors and 29 full-time employees of the Group. On 14 July 2001, 1,440,000 share options were exercised at an exercise price of HK\$0.25 per share.

At the balance sheet date, the Company had 54,208,800 Pre-IPO Share Options and 2,700,000 Post-IPO Share Options outstanding, with exercise periods from 2 March 2001 to 1 March 2006 and from 20 March 2001 to 7 May 2006, respectively. The exercise prices of the outstanding Pre-IPO Share Options range from HK\$0.125 per share to HK\$0.25 per share. The exercise price of the outstanding Post-IPO Share Options is HK\$0.25 per share. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 56,908,800 additional shares of HK\$0.05 each with gross proceeds of approximately HK\$9,335,100. Up to the date of this report, none of the Pre-IPO Share Options has been exercised.

24. RESERVES

Group

	Share premium account	Accumulated losses	Exchange fluctuation reserve	Total
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
At 1 January 2000	2,650	(2,705)	–	(55)
Loss for the year	–	(19,953)	–	(19,953)
Exchange adjustment	–	–	(14)	(14)
Issue of new shares	16,479	–	–	16,479
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000 and 1 January 2001	19,129	(22,658)	(14)	(3,543)
Loss for the year	–	(27,690)	–	(27,690)
Conversion of convertible redeemable note	2,428	–	–	2,428
Issue of new shares	26,091	–	–	26,091
Capitalisation of shares issued	(25,044)	–	–	(25,044)
Listing and share issue expenses	(7,772)	–	–	(7,772)
Exercise of share options	288	–	–	288
Exchange adjustment	–	–	2	2
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>15,120</u>	<u>(50,348)</u>	<u>(12)</u>	<u>(35,240)</u>

Company	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	2,650	(2,700)	(50)
Loss for the year	–	(19,972)	(19,972)
Issue of new shares	16,479	–	16,479
At 31 December 2000 and 1 January 2001	19,129	(22,672)	(3,543)
Loss for the year	–	(27,688)	(27,688)
Conversion of convertible redeemable note	2,428	–	2,428
Issue of new shares	26,091	–	26,091
Capitalisation of shares issued	(25,044)	–	(25,044)
Listing and share issue expenses	(7,772)	–	(7,772)
Exercise of share options	288	–	288
At 31 December 2001	<u>15,120</u>	<u>(50,360)</u>	<u>(35,240)</u>

25. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following related party transactions during the year.

	<i>Notes</i>	Group	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Technical service fees paid to			
SW e-solutions Limited	(i)	72	249
Equipment leasing charges paid to			
中山市金科信息網絡有限公司 (“STINET”)	(ii)	104	78
Agency fees received from STINET	(iii)	(751)	(366)
Technical support fees received from STINET	(iv)	(701)	(342)
Service fee income for Internet-based			
application and design received from Fujikon	(v)	(13)	(137)
Rental expenses paid to			
Sun Wah Hi-Tech (HK) Limited	(vi)	630	–
Management fees paid to			
Sun Wah Hi-Tech (HK) Limited	(vii)	<u>236</u>	<u>–</u>

- (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 technical support agreement, the technical service fees are calculated at HK\$8,000 per month, which basis was determined between the Company and SW e-solutions Limited. The term of such agreement is 12 months commencing on 25 April 2000 and is further extended to 30 September 2001.

- (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 the senior management of the Group who resigned on 1 December 2001. 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. Pursuant to a termination agreement entered into between STINET and Zhongshan E-silkroad, the lease agreement was terminated on 1 December 2001.
- (iii) The agency fee income was received for introducing customers of Zhongshan E-silkroad to STINET for 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 on 21 April 2000 and 1 May 2000.
- (iv) The income for the provision of technical support services 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.
- (vi) Sun Wah Hi-Tech (HK) Limited is a fellow subsidiary of Sun Wah. The Group entered into a lease agreement in respect of the lease of office properties from Sun Wah Hi-Tech (HK) Limited on 4 April 2001. The lease term is 12 months commencing on 4 April 2001 and the rental charge is HK\$70,000 per month.
- (vii) The management fee was related to secretarial services provided by Sun Wah Hi-Tech (HK) Limited and was charged on a cost-plus basis.

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>
Within one year	1,850	2,044
In the second to fifth years, inclusive	779	2,591
	<u>2,629</u>	<u>4,635</u>

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases have been restated to accord with the current year's presentation.

27. COMMITMENTS

As at 31 December 2001, the Group had contracted commitments in respect of an investment in a joint venture in the PRC amounting to HK\$171,000 (2000: HK\$620,000).

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

28. POST BALANCE SHEET EVENTS

- (i) On 15 February 2002, the Company entered into a conditional subscription agreement relating to the issue of a convertible note to Sun Wah for an amount of HK\$7 million. The Company's shareholders approved this transaction at an extraordinary general meeting on 25 March 2002. The terms of the convertible redeemable note is unsecured and bears interest at 8% per annum. Under the terms of 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 during a period of three years from the issue date of the note. The conversion price is HK\$0.05 per ordinary share, subject to adjustment. Further details of the issuance of the convertible redeemable note are set out in a circular to shareholders dated 11 March 2002.
- (ii) On 15 February 2002, Zhongshan E-silkroad, as lessor, entered into four conditional lease agreements with two independent third parties in respect of the lease of computer and office equipment for a total rental payment of HK\$770,000 for a lease period of five years. Further details of the leases are also set out in the circular to shareholders dated 11 March 2002.

29. LITIGATION

As at 31 December 2001, the Group was involved in a High Court action in Hong Kong initiated by a former employee. Further details are disclosed in note 22 to the financial statements.

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

30. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of SSAP 14 (Revised) during the current year, the presentation of certain items and balances in the financial statements has been revised to comply with the new requirements. Accordingly, the comparative amounts have been revised to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2002.

BASIS OF PREPARATION AND CONSOLIDATION FOR THE YEAR ENDED 31 DECEMBER 1999

The Group was formed pursuant to a group reorganisation which took place on 11 November 1999 (the “Reorganisation”). Further details of the Reorganisation are set out in the prospectus of the Company dated 26 February 2001.

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 acquisitions pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the year ended 31 December 1999 include the results 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.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

Set out below is an extract of the financial information of the Group from its quarterly report for the nine months ended 30 September 2002.

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

Notes:–

1. Basis of preparation

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

2. Turnover

Turnover represents the net invoiced value of services rendered.

3. Loss from operating activities

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

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

4. Finance costs

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

5. Tax

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

Provision for the tax of profits of subsidiaries operating outside Hong Kong has not been calculated as the Group did not generate any assessable profits in the respective jurisdictions during the three months and nine months ended 30 September 2002 and the corresponding periods in 2001.

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

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

6. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the three months and nine months ended 30 September 2002 of HK\$2,385,000 and HK\$7,424,000 respectively (three months and nine months ended 30 September 2001: HK\$6,853,000 and HK\$21,836,000 respectively) and the weighted average number of 653,720,000 ordinary shares of the Company in issue during the aforementioned two periods ended 30 September 2002 (three months and nine months ended 30 September 2001: 653,250,435 and 621,404,747 shares respectively).

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

FINANCIAL AND TRADING PROSPECTS

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

The Group continues to downsize operations by closing down businesses where e-commerce opportunities are limited, such as in Shunde, the PRC. In fact, it has given priority to reserving resources to explore business opportunities in locations where demand is higher and more encouraging. In addition, the Group continues to perform market testing on the more populous cities in the PRC where business opportunities are more abundant.

Looking ahead, e-commerce will continue to be the Group's core business, but the approach will be shifted from providing highly competitive and laborious design and

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

INDEBTEDNESS

At the close of business on 31 October 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding unsecured convertible redeemable notes in the principal amount of HK\$13 million.

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 31 October 2002.

As at 31 October 2002, the Group was involved in a High Court action in Hong Kong initiated by a former employee (the "Plaintiff"). The Plaintiff claims for (i) payment of alleged outstanding salary and emoluments in the total amount of HK\$832,418; (ii) specific performance and/or damages for the alleged failure of the Company to allot his share options; (iii) a declaration that the Group has 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 Group in respect of use of the technique known as S.T.O.R.M.; and (v) interest and legal costs. On 1 November 2002, the above legal case was transferred from the High Court to the District Court. The above legal case is still in progress as at the Latest Practicable Date. The Company's directors have estimated that the total amount of the ultimate liability and expected legal costs in respect of this case was approximately HK\$300,000, of which HK\$150,000 had been deposited in the Court and HK\$150,000 had been provided for by the Group. The Directors, after seeking independent legal advice, considered that the aforesaid provision relating to the legal proceedings was adequate and reasonable.

On 23 March 2001, the Company 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 addresses of all senders of the messages on the Icered Internet chat-line whom the Company wished to pursue for defamation. An order was made by the High Court on 6 April 2001 ordering, inter alia, the disclosure of the said information. There has been no further progress of this action as the Company has not decided whether to take further legal action or not.

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 31 October 2002, 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 adverse changes in the indebtedness or contingent liabilities of the companies comprising the Group since 31 October 2002.

SUFFICIENT WORKING CAPITAL

Taking into account (a) the estimated net proceeds from the issue of the Subscription Shares at the Subscription Price, and (b) the confirmation made by Sun Wah Net Investment Limited (“Sun Wah”) with respect to a convertible redeemable note with an outstanding principal amount of HK\$6 million issued by the Company pursuant to a subscription agreement dated 3 February 2001 (the “Note”), of which Sun Wah has confirmed to the Company that it would either exercise the conversion rights attaching to the Note in full on the maturity date of 19 August 2003 (the “Maturity Date”) or to extend the Maturity Date to a date not earlier than five months after the Maturity Date should the Company be unable to repay the Note on the Maturity Date after taking into account the liquidity position of the Group, the Board is 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 nine months ended 30 September 2002 and in this circular, the Board is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2001, the date to which the latest audited consolidated financial statements of the Group were made up.

The GEM Listing Rules permit companies whose primary listings are on GEM to repurchase their own securities on GEM subject to certain restrictions.

The following is the explanatory statement required to be sent to the Shareholders under the GEM Listing Rules to enable them to make an informed decision on whether to vote for or against the ordinary resolution in relation to the grant of the Repurchase Mandate to be proposed at the EGM.

1. REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase the Company's own securities in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders. The Directors have no present intention to repurchase any of the Shares.

2. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company was HK\$32,686,000 comprising 653,720,000 Shares.

Subject to the passing of the resolution approving the grant of the Repurchase Mandate and assuming that (i) no Shares will be issued or repurchased by the Company during the period between the Latest Practicable Date and the date of the EGM and (ii) the Subscription becomes unconditional and the 100,000,000 Subscription Shares are allotted and issued pursuant thereto, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 75,372,000 Shares.

3. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by the Company may be made out of profits or out of a fresh issue of shares made for the purpose of the repurchase or, if authorised by the articles of association of the Company and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits or from sums standing to the credit of the share premium account of the Company or, if authorised by the articles of association of the Company and subject to the Companies Law, out of capital.

If the Repurchase Mandate were exercised in full, there might be a material adverse effect on the working capital or gearing position of the Company (as compared with the position disclosed in the audited financial statements contained in the annual report of the Company for the year ended 31 December 2001). However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

4. DIRECTORS' DEALINGS AND CONNECTED PERSONS

None of the Directors or, to the best of their knowledge and belief and having made all reasonable enquiries, their associates, have any present intention, if the Repurchase Mandate is exercised, to sell to the Company or its subsidiaries any Shares.

No connected persons (as defined in the GEM Listing Rules) of the Company have notified the Company that they have intention to sell to the Company or its subsidiaries Shares or have undertaken not to do so in the event that the Company is authorised to make repurchases of its own Shares.

5. SHARE PRICES

The highest and lowest prices at which the Shares were traded on GEM during each of the 12 months preceding the Latest Practicable Date were as follows:

	Trading price per Share	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2001		
December	0.075	0.045
2002		
January	0.046	0.034
February	0.036	0.022
March	0.042	0.027
April	0.03	0.023
May	0.055	0.029
June	0.059	0.02
July	0.043	0.031
August	0.038	0.025
September	0.032	0.015
October	0.02	0.02
November	0.06	0.021

6. DIRECTORS' UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

7. TAKEOVERS CODE

If, on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert (as defined under the Takeovers Code), depending on the level of such increase, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

According to the Company's register maintained under Section 16(1) of the SDI Ordinance and as at the Latest Practicable Date, the percentage shareholding of global.com Investments Corp. ("**global.com**"), being the single largest Shareholder, was approximately 28.39%. Assuming the completion of the Subscription takes place in accordance with the terms and conditions of the Subscription Agreement, global.com's shareholding interest in the Company will be diluted to approximately 24.62%. In the event that the Repurchase Mandate were exercised in full by the Company and assuming that no new Shares would be issued prior to such exercise, the percentage shareholding of global.com in the Company would increase from approximately 24.62% to approximately 27.36%. Such an increase will not trigger any obligation on global.com to make a mandatory general offer under the Takeovers Code.

8. SHARE REPURCHASES MADE BY THE COMPANY

No repurchase of Shares has been made by the Company during the six months preceding the Latest Practicable Date.

RESPONSIBILITY STATEMENT

This circular, for which the Directors 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, 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 assumption 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) a subscription agreement dated 28 December 2000 (as amended on 19 February 2001) between (1) Sun Wah Net Investment Limited (“**Sun Wah**”) and (2) the Company whereby Sun Wah agreed to subscribe for cash at par a HK\$900,000 convertible redeemable note carrying the right to convert the principal amount into Shares at HK\$0.175 per Share;
- (b) a subscription agreement dated 3 February 2001 between (1) Sun Wah and (2) the Company whereby Sun Wah agreed to subscribe for cash at par a HK\$8 million convertible redeemable note carrying the right to convert the principal amount into Shares at HK\$0.175 per Share during the period from 2 March 2002 to 19 August 2003;
- (c) a deed of indemnity dated 19 February 2001 given by Mr. Yuen Fat Ching and global.com Investments Corp. in favour of the Company and its subsidiaries containing indemnities in respect of, among other matters, Hong Kong estate duty;
- (d) the underwriting and placing agreement dated 23 February 2001 between, among others, the Company and the underwriters as stated in the prospectus of the Company dated 26 February 2001 relating to the placing of 130,456,000 Shares at the placing price of HK\$0.25 per Share (subject to an over-allotment option relating to 19,560,000 Shares);
- (e) a supplemental deed dated 28 January 2002 in respect of the HK\$1.25 million convertible redeemable note issued on 1 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 of HK\$83,390 up to 31 December 2001 under such note has been extended from 31 December 2001 to 30 April 2002;

- (f) the subscription agreement dated 15 February 2002 between the Company and Sun Wah in respect of a HK\$7 million convertible redeemable note of the Company;
- (g) the four lease agreements in Chinese all dated 15 February 2002 (two of which were between Zhongshan E-silkroad.net Company Limited (中山市絲綢路網絡動力有限公司) (“**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 梁洁庄 (Liang Jie Zhuang) and 周東海 (Zhou Dong Hai)) for a total rental of HK\$770,000 for the whole term; and
- (h) the Subscription Agreement.

DISCLOSURE OF INTERESTS

Interests in the Company

As at the Latest Practicable Date, no Director was 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 as interested in the share capital of the Company or its associated corporations.

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	8 August 2001	5,024,000
Mr. Hui Ching Shan	25 October 2001	5,024,000
Mr. Ha Kee Choy, Eugene	25 October 2001	5,024,000

As at the Latest Practicable Date, so far as is known to the Director or chief executive of the Company, no person, other than a Director or chief executive of the Company, who is expected, directly or indirectly, to be interested in 10% or more of the Shares, has interest in any options in respect of the share capital of the Company.

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>	185,570,000	28.39%
Sun Wah Net Investment Ltd. <i>(Note 2)</i>	95,474,000	14.60%
Ceroilfood Finance Limited <i>(Note 3)</i>	84,910,000	12.99%

Notes:

1. global.com Investments Corp. is a company wholly owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of all units of which are beneficially owned by The YFC Family Trust, a discretionary trust of which the children of Mr. Yuen Fat Ching, a former director of the Company, are the only beneficiaries.
2. Sun Wah Net Investment Limited is 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 Board. Sun Wah Net Investment Limited is also the beneficial holder of the convertible notes of the Company.
3. Ceroilfood Finance Limited, a substantial shareholder and a wholly owned subsidiary of China National Cereals Oils and Foodstuffs Import and Export Corporation, a state owned enterprise whose principal business is the importing and export of cereals, oils and foodstuffs in the PRC.

Service contract

There is no existing or proposed service contracts, excluding contracts expiring or determinable by the employer within one 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 competes with the business of the Group.

Sponsor's interest

As at the Latest Practicable Date, neither Celestial Capital Limited, being the Company's sponsor, nor its directors, employees and associates had any interests in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Miscellaneous

- (a) Since 31 December 2001 being the date to which the latest audited consolidated financial statements of the Group were made up, none of the Directors 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 as of the date of this circular 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 initiated by a former employee (the "Plaintiff"). The Plaintiff claims for (i) payment of alleged outstanding salary and emoluments in the total amount of HK\$832,418; (ii) specific performance and/or damages for the alleged failure of the Company to allot his share options; (iii) a declaration that the Group has 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 Group in respect of use of the technique known as S.T.O.R.M.; and (v) interest and legal costs. On 1 November 2002, the above legal case was transferred from the High Court to the District Court. The above legal case is still in progress as at the Latest Practicable Date. The Directors have estimated that the total amount of the ultimate liability and expected legal costs in respect of this case was approximately HK\$300,000, of which HK\$150,000 had been deposited in the Court and HK\$150,000 had been provided for by the Group. The Directors, after seeking independent legal advice, considered that the aforesaid provision relating to the legal proceedings was adequate and reasonable.

On 23 March 2001, the Company 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 addresses of all senders of the messages on the Icered Internet chat-line whom the Company wished to pursue for defamation. An order was made by the High Court on 6 April 2001 ordering, inter alia, the disclosure of the said information. There has been no further progress of this action as the Company has not decided whether to take further legal action or not.

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.

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-executive Directors and Mr. Chow Yeung Tuen, Richard, an executive Director, are the members of the audit committee of the Company. The audit committee of the Company was set up on 19 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.

Mr. Chan Yan Tin, Andrew, aged 39, is a non-executive director of Tern Properties Co., Ltd., a company listed on the Main Board of the Stock Exchange, and has extensive experience in property investment and development in both Hong Kong and overseas. He holds a Bachelor Degree in Business Administration from Simon Fraser University in Canada.

Mr. Cho Po Hong, Jimmy, aged 31, is an executive director of Multifield International Holdings Limited and Oriental Explorer Holdings Limited and both companies are listed on the Main Board of the Stock Exchange. He is responsible for formulation of the corporate strategy of both companies. He has over eight years' experience in corporate finance. He has been involved in financial services industry for over seven years with a number of brokerage houses and listed companies. He holds a First Honour degree in finance from the University of Washington in Seattle, USA.

Mr. Chow Yeung Tuen, Richard, aged 45, is a Certified Public Accountant with over 18 years of experience in auditing and taxation, He acts as director of a number of subsidiary companies of Sun Wah Group. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Taxation Institute of Hong Kong. He also holds a Master Degree in Business Administration.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Office Nos. 701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong during normal business hours from the date of this circular up to and including 30 December 2002:

- (a) the memorandum and articles of association of the Company;

- (b) the annual reports of the Company for each of the two years ended 31 December 2001;
- (c) the material contracts referred to in the paragraph headed “Material contracts” in this appendix; and
- (d) a copy of each circular of the Company issued since the date of the latest published audited accounts of the Group.

NOTICE OF EGM

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 E-silkroad Holdings Limited (the “Company”) will be held at Office Nos. 701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong on 30 December 2002 at 9:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

ORDINARY RESOLUTIONS

1. “**THAT** the subscription of 100,000,000 new shares of HK\$0.05 each of the Company (the “**Subscription Shares**”) by Glory Cyber Company Limited pursuant to a subscription agreement dated 18 November 2002 made between the Company and Glory Cyber Company Limited as described in a circular of the Company dated 6 December 2002 (a copy of which marked “A” is produced to this meeting and signed for the purpose of identification by the Chairman hereof) as a major transaction for the Company (within the meaning of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) be and is hereby approved.”
2. “**THAT**:
 - (a) the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the unissued shares of the Company as approved by the shareholders of the Company pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 3 May 2002 be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing of this Resolution);
 - (b) subject to paragraph (d) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional Shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

NOTICE OF EGM

- (c) the approval in paragraph (b) above shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;
- (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (b) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) any share option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of shares or rights to acquire Shares; or (iii) an issue of Shares as scrip dividends or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not in total exceed the aggregate of: (i) 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution as enlarged by the allotment and issue of the Subscription Shares (as defined in resolution no.1 set out in the notice convening this meeting and subject to such resolution no.1 being duly passed); and (ii) (if the directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal value of the share capital of the Company in issue on the date of the passing of this Resolution as enlarged by the allotment and issue of the Subscription Shares (as defined in resolution no.1 set out in the notice convening this meeting and subject to such resolution no.1 being duly passed)), and the said approval shall be limited accordingly; and
- (e) for the purposes of this Resolution:

“**Relevant Period**” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company under this Resolution; and
- (iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law of the Cayman Islands or any applicable laws of the Cayman Islands to be held.

NOTICE OF EGM

“**Rights Issue**” means an offer of shares in the Company or warrants, options or other securities giving rights to subscribe for shares in the Company open for a period fixed by the directors of the Company to shareholders of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such Shares or any class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

3. “**THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its shares of HK\$0.05 each subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of Shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution as enlarged by the allotment and issue of the Subscription Shares (as defined in resolution no.1 set out in the notice convening this meeting and subject to such resolution no.1 being duly passed), and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “**Relevant Period**” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company under this Resolution; and
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law of the Cayman Islands or any applicable laws of the Cayman Islands to be held.”

NOTICE OF EGM

4. “**THAT** subject to the passing of the resolutions set out in the notice convening this meeting as resolution nos. 2 and 3, the general mandate granted to the directors of the Company pursuant to the approval granted under the resolution set out in the notice convening this meeting as resolution no. 2 above and for the time being in force to exercise the power of the Company to allot, issue and deal with shares in the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the Company of the powers of the Company to purchase such shares pursuant to the approval granted under the resolution set out in the notice convening this meeting as resolution no. 3, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as enlarged by the allotment and issue of the Subscription Shares (as defined in resolution no. 1 set out in the notice convening this meeting and subject to such resolution no. 1 being duly passed).”

SPECIAL RESOLUTION

5. “**THAT** subject to the completion of the subscription of 100,000,000 shares of HK\$0.05 each in the capital of the Company by Glory Cyber Company Limited pursuant to the terms and conditions of a subscription agreement dated 18 November 2002 made between the Company and Glory Cyber Company Limited and subject also to the approval of the Registrar of Companies in the Cayman Islands, the name of the Company be changed from E-silkroad Holdings Limited (絲綢路數碼控股有限公司) to “Glory Future Group Limited (光彩未來集團有限公司)” and the directors of the Company be and are hereby authorised to take all necessary action to implement such change of name.”

By order of the Board
Leung Wai Sze
Secretary

Hong Kong, 6 December 2002

Principal office:
Office Nos. 701-2
7th Floor
Man Yee Building
60-68 Des Voeux Road Central
Hong Kong

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy 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 principal office of the Company at Office Nos. 701-2, 7th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto but if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.