



SYSTEMEK

Information Technology

Systemek Information Technology (Holdings) Limited
(incorporated in the Cayman Islands with limited liability)

Interim Report 2000

Leading the way in e-innovation

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CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

The 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

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

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This document, for which the directors of Systek Information Technology (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of given information with regard to Systek Information Technology (Holdings) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

• HIGHLIGHTS

- Turnover amounted to HK\$24,194,000, representing a 53.53% increase over the corresponding period in 1999.
- Profit attributable to shareholders amounted to HK\$2,121,000, representing a 120.94% increase over the corresponding period in 1999.
- Sales of software products amounted to HK\$6,961,000, representing a 275.05% increase over the corresponding period in 1999.
- Successful listing on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong on 8 September 2000.

INTERIM RESULTS

On behalf of the board of the directors (the “Directors”) of Systek Information Technology (Holdings) Limited (the “Company”), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2000 (“reporting periods”), together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Note	Three months ended 30 September		Six months ended 30 September	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	10,329	7,963	24,194	15,758
Cost of services and merchandise sold		(4,934)	(4,140)	(11,515)	(7,944)
Gross Profit		5,395	3,823	12,679	7,814
Other revenue		921	15	958	15
Selling expenses		(1,188)	(393)	(1,214)	(727)
General and administrative expenses		(7,416)	(4,115)	(9,563)	(5,612)
Profit/(loss) from operations		(2,288)	(670)	2,860	1,490
Finance cost		(362)	(17)	(540)	(31)
Profit/(loss) from ordinary activities before taxation	3	(2,650)	(687)	2,320	1,459
Taxation	4	453	(73)	(364)	(499)
Profit/(loss) from ordinary activities after taxation		(2,197)	(760)	1,956	960
Minority interests		172	—	165	—
Profit/(loss) attributable to the shareholders		(2,025)	(760)	2,121	960
Earnings/(loss) per share	5				
Basic		HK(0.30) cents	HK(0.13) cents	HK0.33 cents	HK0.16 cents

Notes:—

1 Reorganisation and basis of presentation

(a) Reorganisation

The Company was incorporated in the Cayman Islands on 16 March 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company became the holding company of the Group on 26 August 2000 through a reorganisation (the “Reorganisation”).

(b) Basis of presentation

The Company and its subsidiaries (the “Group”) resulting from the Reorganisation has been regarded as a continuing group. Accordingly the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 26 August 2000. Furthermore, the results of the Group for the periods ended 30 September 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

All significant intra-group transactions and balances have been eliminated in the preparation of the consolidated results.

2 Turnover

An analysis of the turnover by principal activities of the operations of the Group during the reporting periods is as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Principal activities</i>				
Systems development	4,382	4,083	10,264	8,079
Sales of software products	2,972	938	6,961	1,856
Professional service fees	1,497	1,989	3,507	3,936
Training fees	764	796	1,790	1,574
Technical support fees	148	130	347	257
Others	566	27	1,325	56
	<u>10,329</u>	<u>7,963</u>	<u>24,194</u>	<u>15,758</u>

3 Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after charging:

	Three months ended 30 September		Six months ended 30 September	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Interest on borrowings	362	17	540	31
Depreciation	273	142	546	284
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4 Taxation

	Three months ended 30 September		Six months ended 30 September	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Hong Kong taxation	—	—	101	145
Overseas taxation	—	—	—	354
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Deferred taxation	—	—	101	499
	(453)	73	263	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>(453)</u>	<u>73</u>	<u>364</u>	<u>499</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16% (1999: 16%) to the profits for the six months ended 30 September 2000. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that would be applicable to the relevant countries.

A subsidiary with research and development operating in PRC, is exempted from PRC income tax for two years commencing from the first profit making year and is entitled to a 50% relief from PRC income tax for the following three years, after which the profits are subject to PRC income tax at the standard rate of 33%. The subsidiary sustained losses during the reporting periods and the two-year tax exemption period has not been commenced.

5 Earnings per share

The companies comprising the Group underwent a reorganisation on 26 August 2000 to rationalise the Group's structure in preparation for the listing of the Company's shares on the GEM.

The calculation of basic earnings per share is based on the consolidated loss/profit attributable to shareholders for the three months and six months ended 30 September 2000 of HK\$(2,025,000) and HK\$2,121,000 respectively divided by the weighted average number of approximately 666,666,628 shares and 633,333,285 shares in issue during the three months and six months ended 30 September 2000.

The calculation of loss/earnings per share for the three months and six months ended 30 September 1999 is based on the combined loss/profit attributable to shareholders of (HK\$760,000) and HK\$960,000 for the three months and six months ended 30 September 1999 respectively divided by 599,999,942 shares in issue prior to the placing of 236,375,000 shares on 8 September 2000.

There were no potential dilutive ordinary shares in issue during the periods ended 30 September 1999 and 2000.

6 Reserves

	Share premium	Exchange reserves	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2000	—	41	7,373	7,414
Premium on issue of shares	—	—	—	—
Interest on proceeds from placing of shares	—	—	—	—
Shares issue expenses	—	—	—	—
Capitalisation issue	—	—	—	—
Exchange differences	—	—	—	—
Profit for the period	—	—	4,146	4,146
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2000	—	41	11,519	11,560
Premium on issue of shares	127,839	—	—	127,839
Shares issue expenses	(15,162)	—	—	(15,162)
Capitalisation issue	(79,306)	—	—	(79,306)
Exchange differences	—	(4)	—	(4)
Profit for the period	—	—	(2,025)	(2,025)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2000	<u>33,371</u>	<u>37</u>	<u>9,494</u>	<u>42,902</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

General

The Group is an Internet technology provider engaged in the design, development and deployment of Internet enabling software solutions and the provision of IT consulting and e-business innovation services. The major customers include commercial enterprises and government entities seeking to deploy and improve their use of the Internet and e-business application.

The mission of the Group is to be a world class leader in e-business enabling software technology.

Financial Performance

For the six months ended 30 September 2000, the Group recorded a turnover of approximately HK\$24,194,000 representing an increase of 53.53% over the same period in 1999. Profit attributable to the shareholders for the six month ended 30 September 2000 was approximately HK\$2,121,000, representing an increase of 120.94% as compared to a profit of approximately HK\$960,000 for the same period in 1999. The revenue from sales of software product represented 28.77% of the Group's turnover for the six month period ended 30 September 2000, compared to 11.78% for the corresponding period in 1999. The strong growth in turnover of the Group was mainly attributable to increased sales of the developed software and related system developments.

During the reporting periods,

- (a) The Group received strong demand for its e-business innovation services as its core clientele in the banking and finance sector were actively seeking new IT solutions in response to new business development. Effort has been made to step up the resources required to accommodate this increase in demand;
- (b) The sales of software especially WinVest were also in great demand. WinVest is designed to interface with the AMS/3 with additional features, such as Interactive voice response ("IVR") and mobile interface, credit check, management report generation and risk management system, to eliminate the processing and settlement inefficiencies of brokers and trading houses. As the stock markets in Asia (excluding Japan) will continue to be active and the brokers are increasingly striving towards trading efficiency, thereby creating ample room for the growth of the WinVest and BIX series.

For the three months ended 30 September 2000, the Group recorded a turnover of approximately HK\$10,329,000, representing an increase of 29.71% over the same period in 1999. Gross profit for the three months period ended 30 September 2000 increased 41.12% to HK\$5,395,000, representing a gross profit margin of 52.23% as compared with a gross profit margin of 48.01% for the same period in 1999. Owing to our planned expansion, the Group has incurred extra costs in general and administration, staff and research and development costs. Therefore, profit attributable to the shareholders for the three months period ended 30 September 2000 has recorded a net loss of HK\$2,025,000. Despite the attributable loss for the three months period, our half year combined results still recorded an encouraging attributable profit of HK\$2,121,000, representing an impressive increase of 120.94% over the same period in 1999. The Directors are of the opinion that the extra costs incurred for the three months ended 30 September 2000 will bring about a long term economic benefit to the Group and should be reflected in our expected increase in market share.

Prospect

Existing Business

During the reporting periods, the Group has engaged in several major contracts including the implementation of WinVest, ezConnect, SecurTrac and has performed related consulting services. The Group has increasingly focused its marketing and business development efforts in search of strategic alliances so as to build up its distribution channels. The Group has also entered into strategic alliances with well-known international companies such as Baltimore Technologies Limited, IBM World Trade Corporation, IBM China/Hong Kong Limited, Oracle Systems Hong Kong Limited and Unisys China Limited.

Research and Development

Focusing on e-commerce and Internet related technology, the Group continues to devote its research efforts in Internet collaboration, XML technology, wireless technology, Internet and messaging security, and financial technology.

In addition to the development of new products, the research and development staff are also responsible for the enhancement of the Group's existing products and services. During the reporting periods, the Group had been continuously working on the enhancement of WinVest Release 2.0 and Release 2.2. In addition, the Group developed WinVest C, the Chinese version of WinVest, mainly for distribution in the PRC. Furthermore, there was continuous development of additional modules for ezXML, ezConnect and SecurTrac during the reporting period.

Marketing and Business Development

The Directors consider that participating in international and local information technology conferences and trade shows from time to time is an effective means of promoting the Group's products and services. During the reporting period, the Group participated in various trade shows and conferences hosted by IBM, Lotus and Microsoft.

World Trade Organisation issues

The PRC's entry into World Trade Organisation ("WTO") will gradually open up opportunities in the market, particularly in the financial and brokerage industry. Foreign financial and brokerage institutions attempting to establish presence in the PRC will create additional sources of demand for software products such as WinVest. When encountering foreign competition, local financial and brokerage institutions in the PRC will require more efficient, comprehensive and sophisticated information technology services and software products. The Group considers that, with its solid track record and visionary strategic planning, it is well positioned to rise to the challenges ahead.

COMPARISON OF BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business objectives up to 31 March 2001 as stated in the prospectus	Actual business progress up to 30 September 2000
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(a) Product enhancement and development

Financial Technology Unit

- Launch WinVest Release 2.5 and 3.0 to the market and develop Release 4.0
- The Group has successfully completed the development of WinVest R2.5 to support AMS/3. The Group is currently in the process of implementing WinVest R2.5 for all existing customers and has also started the development of WinVest R3.0 which is on schedule. The development of Release 4.0 has not been commenced yet but the Directors believe that will be developed on schedule.

- Implement WAP function for WinVest

The Group has successfully completed the development of WAP functions and it is the process of integration with WinVest.
- Launch BIX Releases 1.5 and 2.0 to the local market and develop Release 2.5

BIX R1.5 has been soft-launch in August 2000 and it is now being integrated with WinVest R2.0 and implemented at certain customers' sites. In addition, the Group has commenced the development of BIX R2.5.

Internet Interactive Technology Unit

- Launch ezConnect Release 3.0

The Group has successfully launched ezConnect R3.0 and has engaged two major channels in Asia to market and sell ezConnect. Initial customer and market feedback are extremely positive.
- Continue the development of additional ezXML products and launch to the market when appropriate

The development of ezXML engine has been completed and the development of ezXML gateways is progressing well.
- Finalise the design of knowledge management software and commence application development

The design of knowledge management software is near completion. The Group is planning to start the development of a knowledge management application as part of the overall Internet Interactive Technology road map.

Internet and Messaging Security Unit

- **Launch SecurTrac Release 2.0, develop Release 3.0 and commence the design of Release 4.0**
The Group has successfully launched SecurTrac R2.0 and has engaged marketing channels in Asia to market and sell SecurTrac R2.0 in Asia. The Group has commenced the development of SecurTrac R2.5 as planned. The feedback from the product launched has been very favourable. The development of Release 3.0 and Release 4.0 have not been commenced yet.

(b) Provision of e-business Innovation Services

- **Design and launch Internet portals for the clients**
The Group has successfully completed the design and development of a portal for certain customers in the Insurance industry. The Group has also successfully completed the development and implementation of six e-business turnkey projects.
- **Develop a global intranet system for a major client**
The Group has successfully completed the implementation of an investment related intranet system for certain international banking customer.

(c) Marketing and Distribution

- **Establish the international distribution network of software vendors, distributors and resellers**
The Group has engaged two major resellers in Asia to market its software products. The Group is in progress of selecting and engaging potential resellers in European countries, including Italy, German, Spain and the United Kingdom, and in North America including Canada and US.

- Promote new releases of software products through marketing tours, advertising on IT magazines and participating IT conferences and trade shows

The Group has visited distribution channel partners in Europe, North America and Asia. The Group is aggressively promoting ezXML and SecurTrac through trade shows, conferences, resellers visits and advertising its products via magazines in European countries, including Italy, German, Spain and United Kingdom, and in North America including Canada and US.
- Formulate the strategy of building the “SYSTEK” brand

The Group has engaged an international I.T. research and marketing firm to formulate the strategy of building the “SYSTEK” brand name.
- Establish a sales and technical support center in North America

The Group is in the process of hiring sales and technical support personnel in the US. The Group is also searching for a sales office in the US.
- Formulate plans for user group Organisation

As part of the initiative to work with an international I.T. research firm to develop a product and market positioning strategy, the Group is planning to formulate a strategy and approach to create user groups for Systek products.

(d) Corporate Development and Strategic Alliance

- Set up a commercialisation center to improve user friendliness of software products

The Group is in the process of setting up Commercialization Centres to improve user friendliness of software products. User Interface will be reviewed and user ability testing will be conducted for future product releases with the intention to improve user friendliness. The process of setting up a commercialization center is expected to be completed by March 2000.

- Establish a market intelligence and research unit in the US

The Group continues to conduct market intelligence collection in the US. The plan is to establish a research unit as part of the North America Sales and Technical Support Office.
- Commence operation of an Internet interactive centre in HK

The Group has successfully set up an Internet Interactive Centre in the HK headquarter office. Operation of the Internet Interactive Centre will commence before the end of year 2000.
- Complete the establishment of Internet interactive centres in Beijing and Shanghai, the PRC

Work is in progress to establish Internet Interactive Centres in both Beijing and Shanghai. These centres will be used as show rooms for Internet Call Centre Solutions and other Systek products.
- Establish research and development co-operations with Universities in the PRC

The Group has started feasibility studies for the set up of research and development co-operative programs with universities in PRC.
- Conduct feasibility studies on the establishment of Internet portal and ASP services

Initiatives are underway to develop and deploy Internet Portal and ASP Service. The Group is currently analyzing different ASP offerings and various revenue/business models. The plan is to complete the feasibility study by the end of year 2000.
- Identify potential IT companies with product synergy for acquisition or alliance

The Group is currently searching for potential IT companies as acquisition target and performing initial assessment with product synergy for acquisition or alliance.

Human Resources Deployment

	No. of staff		Increase	Expected human resources deployment as at
	March 2000	September 2000		31 March 2001
Sales and marketing	3	4	1	18
Product and software development	68	83	15	72
Maintenance services and technical support	6	6	—	13
Research and development	26	60	34	180
General administration, finance and accounting	6	11	5	5
	<u>109</u>	<u>164</u>	<u>55</u>	<u>288</u>

Comparison of Cost of Implementation of Business Objectives to Actual Cost Used

	Expected use of cost of implementation from the Latest Practicable Date to 31 March 2001 per Prospectus (HK\$million)	Use of cost of implementation up to 30 September 2000 (HK\$million)
Product upgrade and enhancement	16.1	1.0
Research and development	14.1	0.3
Software commercialisation centre and Internet interactive centres	5.0	—
Strategic investments and business collaborations	14.0	—
Marketing and promotion	14.1	—
	<u>63.3</u>	<u>1.3</u>

Use of Proceeds

Since the Group was listed on 8 September 2000, a majority of the proceeds of the new issue and placing of shares have not been used during the reporting period. Only a small portion of the proceeds has been used for research and development purpose, as follows:—

	Expected use of proceeds from Latest Practicable Date to 31 March 2001 per Prospectus (HK\$million)	Use of proceeds up to 30 September 2000 (HK\$million)
Product upgrade and enhancement	8.6	0.1
Research and development	0.8	0.1
Software commercialisation centre and Internet interactive centres	5.0	—
Strategic investments and business collaborations	14.0	—
Marketing and promotion	14.1	—
	<u>42.5</u>	<u>0.2</u>

DIRECTORS' INTEREST IN SECURITIES

As at 30 September 2000, according to the register to be kept under Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance"), the interests of directors, chief executive director and their associates in shares of the Company were as follows:

The Company

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total Interest
Mr. To Cho Kei ("Mr. To") (Note 1)	—	—	469,421,914	—	469,421,914
Chan Kai Yan	1,165	—	—	—	1,165

Telecare Limited

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total Interest
Yuen Tat Man, Sidney (Note 2)	—	—	2,000	—	2,000

Notes:

- (1) The interest of Mr. To is held through Trouble Free Technology Limited which is wholly owned by Mr. To.
- (2) The interest of Yuen Tat Man, Sidney is held through Lextra Limited, which is owned as to 50% by each of Yuen Tat Man, Sidney and his wife.

Save as disclosed above, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

The Company has conditionally adopted the Share Option Scheme ("Scheme") pursuant to which full-time employees and directors of the Company and its subsidiaries, excluding non-executive directors and independent non-executive directors of the Group, may be granted options to subscribe for shares. The Scheme became effective upon the listing of the Company's shares on the GEM on 8 September 2000. During the period from 26 August 2000 to 30 September 2000, no options were granted by the Company under the Scheme.

Apart from the foregoing, at no time during the six months ended 30 September 2000 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate within the Group.

SUBSTANTIAL SHAREHOLDERS

Other than interest disclosed above in respect of directors and their associates, at 30 September 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 percent or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage of shareholding
Trouble Free Technology Limited (<i>Note 1</i>)	469,421,914	45.29%

Note:

- (1) Mr. To holds the shares through Trouble Free Technology Limited which is 100 per cent. beneficially owned by him.

SHARE OPTION SCHEME

On 26 August 2000, the company conditionally adopted the Share Option Scheme, the principal terms of which are set out in the Company's prospectus dated 4 September 2000.

During the period from 26 August 2000 to 30 September 2000, no options were granted by the Company under the Share Option Scheme.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

From the date of listing on 8 September 2000 to 30 September 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTEREST OF SPONSOR

The Sponsor of the Company, Core Pacific - Yamaichi Capital Limited, its directors, employees and associates, as at 30 September 2000 and as at 3 November 2000, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Core Pacific - Yamaichi Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Core Pacific - Yamaichi Capital Limited will act as the Company's continuing sponsor for the period from 4 September 2000 to 31 March 2003.

COMPETING INTERESTS

Mr. To Cho Kei being the controlling shareholder of the Group, effectively owns 100 per cent. of Extracomm Technologies Incorporation ("Extracomm Technologies"), the business of which constitutes a competing business with that of the Group, under the Growth Enterprise Market Listing Rules ("GEM Listing Rules").

Pursuant to a non-competition undertaking dated 26 August 2000, each of Trouble Free and Mr. To Cho Kei has irrevocably undertaken to the Company that each of them will not, and will use their best endeavours to procure that none of their respective associates will, carry on or be engaged, concerned, interested, or assist whether directly or indirectly, whether as a shareholder, director, executive partner, agent or otherwise, in any business of Extracomm Technologies which is the distribution and marketing of Extrafax.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the board of Directors.

By Order of the Board
To Cho Kei
Chairman

Hong Kong, 9 November 2000