

stareastnet

STAREASTnet.com Corporation
(Incorporated in the Cayman Islands with limited liability)

Quarterly Report

For the third quarter ended 31st December, 2000



www.stareastnet.com

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which 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.

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This announcement, for which the directors of STAREASTnet.com Corporation 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 giving information with regard to STAREASTnet.com Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

I have pleasure to present to shareholders the third quarterly results for the nine months from 1st April, 2000 to 31st December, 2000 of STAREASTnet.com Corporation (the "Company" or "STAREASTnet.com") and its subsidiaries (together, the "Group").

For the third quarter ended 31st December, 2000, the Group registered an increase in turnover which was mainly attributable to an increase in content sales revenue and the new source of revenue from information technology consulting services. Continuous strenuous attempt by the management to streamline operations resulted in substantial reduction of operating costs.

In spite of volatility of the global internet market prevailed throughout the period under review, STAREASTnet.com was able to make significant progress in content, service and product development. The launching of a mainland PRC-focused website and two superstar mega sites was another milestone to achieve our vision to become the preeminent vertically-integrated internet content provider for entertainment and lifestyle information for Chinese language users worldwide. With the tremendous support of over 180 contracted Asian celebrities, the Group produced the best selections of exclusive broadband-enabled Chinese entertainment content.

STAREASTnet.com's compelling and unique artiste-based entertainment content has provided the Group with revenue growth opportunity through sale of content and provision of one-stop customised entertainment marketing services which embrace both online and offline marketing and e-commerce.

FINANCIAL REVIEW

During the nine months ended 31st December, 2000, the Group achieved a turnover of approximately HK\$37,359,000, whereas a turnover of approximately HK\$1,733,000 was recognized during the nine months ended 31st December, 1999. As the Group was still in the stage of investment and development, a net loss of approximately HK\$139,215,000 was recorded for the nine months ended 31st December, 2000. The net loss for the nine months ended 31st December, 1999 was approximately HK\$34,252,000.

Turnover for the third quarter ended 31st December, 2000 has increased by approximately 20% as compared with the second quarter ended 30th September, 2000. The operating margins for the third quarter ended 31st December, 2000 has also improved by approximately 23% as compared with the second quarter ended 30th September, 2000. On the other hand, advertising and promotion expenses and administrative expenses have decreased in the third quarter ended 31st December, 2000 by approximately 65% and 5% respectively as compared with the second quarter ended 30th September, 2000.

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The cash and bank balance of the Group as at 31st December, 2000 amounted to approximately HK\$79 million.

OPERATIONS REVIEW

Despite significant competition, the Group managed to achieve satisfactory growth in both average page views and registered users. Average daily page views of STAREASTnet.com's websites increased from approximately 1.5 million in September 2000 to about 1.8 million in December 2000, with the highest exceeded 2.4 million during the three months ended 31st December, 2000. The Group had over 443,000 registered users as at 31st December, 2000 as compared to 404,000 registered users by the end of September 2000.

Content Development

In October 2000, the Group successfully launched jackiechan.stareastnet.com, an official mega site solely dedicated to the international superstar Jackie Chan. This official site provides privilege for users to access exclusive information about Jackie and the content is available in multi-languages including Chinese, English and Japanese. The launch of jackiechan.stareastnet.com was followed by the launch of teresa.stareastnet.com, the official mega site of the ever-lasting singer Teresa Teng, in November 2000. Users can learn more about their legendary singer Teresa and share their feelings among the online community.

Apart from mega site development, an exclusive programme hosted by Mr. Tinming Yang, a well-known Fung Shui expert and fortune teller, featuring Fung Shui oriented tutorials, question and answer, and face and hand analysis for celebrities was successfully launched in December 2000. To attract viewers, the online interactive game at "stock.stareastnet.com" was further enhanced. Participants can purchase and sell virtual stocks represented by popular artistes and top winners will be awarded with prizes.

Technological Development

In line with STAREASTnet.com's multimedia and e-commerce strategy, the Group is in the process of deploying a "Java" and "XML-based" content management solution. Through the use of up-to-date technology such as "Java" and "XML", it is expected that the Group's operation to manage all media types and website components to maximize content re-use and re-purposing will be enhanced, and operational efficiency will be increased.

In preparation for the impending broadband and 3G (third generation) community, the Group has begun the development and use of multimedia technology to enrich its websites. The Group currently focuses on building up expertise in the areas of 3D modeling and animations, VOD (video on demand), DRM (digital right management) and multimedia database management system. It is expected that through building up core competency in these areas, the Group's revenue stream will be broadened in the coming future.

By leveraging off the accumulated information technology experience and resources, the Group has been able to generate new stream of revenue by offering small and medium enterprises with information technology consulting services. The Group will continue to offer information technology consulting services including website set up and operating services, e-business solutions, web hosting and maintenance, infrastructure and network design, web page design and so on.

Overseas Expansion

The Group has successfully launched a mainland PRC-focused website in October 2000. In addition, the Group is in the process of further expanding its regional network by developing a Korean-focused website targeting the Korean community. Content translation and localization are being actively pursued to specifically tailor for the local community.

FUTURE PLANS AND DEVELOPMENTS

STAREASTnet.com remains optimistic about the growth potential of the Asia-Pacific internet market and believes that significant opportunities will emerge as a result of the consolidation of the global internet market. Building on its strong brand recognition and established foothold in the industry, the Group is well-positioned to seize the opportunities and extend its market leadership in the region. It is also the strategy of the Group to continue exploring potential strategic partnership opportunities that will create synergies with its core businesses and bring on substantial returns.

In order to stay ahead of competition, various initiatives have been planned by the Group to sustain competitive operating costs and to strive for scaleable revenue growth. Focus will remain on the Group's strategy of producing revenue-generating entertainment content. Significant revenue contribution is also expected to generate from the offering of information technology consulting services to other enterprises.

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It is anticipated that the imminent convergence of media and the proliferation of media platforms in Asia will spur demand for internet and multimedia content. By deploying multimedia content production capability, creativity and expertise of the Group's production workforce, STAREASTnet.com plans to offer an array of tailored multimedia content and services to suit different clients' need. STAREASTnet.com is now set to capture the ample opportunities in the broadband and wireless arena.

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and partners for their continuous support, to the management, celebrities and staff for their contributions and dedicated efforts throughout the period.

Tam Wing Lun, Alan
Chairman

Hong Kong, 12th February, 2001

3RD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 31ST DECEMBER, 2000

The unaudited consolidated results of the Group for the three months and nine months ended 31st December, 2000, together with the comparative unaudited figures for the corresponding periods in 1999 are as follows:

	Notes	Three months ended		Nine months ended	
		31st December, 2000	1999	31st December, 2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	15,832	1,733	37,359	1,733
Cost of sales		<u>(26,183)</u>	<u>(7,772)</u>	<u>(68,392)</u>	<u>(7,772)</u>
Gross loss		(10,351)	(6,039)	(31,033)	(6,039)
Advertising and promotion expenses		(4,062)	(6,401)	(37,441)	(9,062)
Administrative expenses		<u>(20,018)</u>	<u>(5,107)</u>	<u>(69,206)</u>	<u>(19,745)</u>
Loss from operations		(34,431)	(17,547)	(137,680)	(34,846)
Interest income		1,276	700	3,836	721
Interest expenses and finance lease charges		(1,836)	(32)	(5,200)	(127)
Share of loss of an associated company		<u>(171)</u>	<u>-</u>	<u>(171)</u>	<u>-</u>
Net loss for the period		<u><u>(35,162)</u></u>	<u><u>(16,879)</u></u>	<u><u>(139,215)</u></u>	<u><u>(34,252)</u></u>
Loss per share (cents) – basic	4	<u><u>(3.429)</u></u>	<u><u>(2.034)</u></u>	<u><u>(14.170)</u></u>	<u><u>(4.127)</u></u>

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 31st January, 2000.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's share on the Growth Enterprise Market ("GEM"), the Company became the holding company of the Group formed after the completion of the Group Reorganisation on 18th May, 2000.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated results of the Group for the three months and nine months ended 31st December, 2000 have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The results of the Group for the three months and nine months ended 31st December, 1999 has been prepared as if the Group Reorganisation had been effective since 1st April, 1999. The directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the companies now comprising the Group.

Details of the Group Reorganisation are set out in the Company's prospectus dated 23rd May, 2000.

The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited on 1st June, 2000.

2. Turnover

	Three months ended		Nine months ended	
	31st December, 2000	1999	31st December, 2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advertising revenues	10,123	1,733	28,366	1,733
Sales of goods, net of discounts and allowances	1,523	-	4,726	-
Content sales	1,318	-	1,399	-
Consulting services	2,868	-	2,868	-
	<u>15,832</u>	<u>1,733</u>	<u>37,359</u>	<u>1,733</u>
Total	<u>15,832</u>	<u>1,733</u>	<u>37,359</u>	<u>1,733</u>

3. Taxation

No provision for Hong Kong profits tax has been made as the Group incurred a tax loss for the periods under review.

No deferred tax asset has been recognized in the unaudited financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilized in the foreseeable future.

4. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31st December, 2000 is based on the respective unaudited consolidated loss attributable to shareholders of approximately HK\$35,162,000 and HK\$139,215,000 (1999: HK\$16,879,000 and HK\$34,252,000) and the weighted average number of approximately 1,025,500,000 shares and 982,443,000 shares (1999: 830,000,000 shares and 830,000,000 shares) in issue during the three months and nine months ended 31st December, 2000.

The weighted average number of 830,000,000 shares for the corresponding periods in 1999 is determined on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 530,000,000 shares of the Company had been effective since 1st April, 1999.

No amount has been presented for the diluted loss per share for the three months and nine months ended 31st December, 2000 as the exercise of the Company's outstanding share options would have an anti-dilutive effect on the loss per share for the three months and nine months ended 31st December, 2000.

5. Interim dividend

The board of directors does not recommend the payment of an interim dividend for the nine months ended 31st December, 2000 (1999: Nil).

DIRECTORS' INTEREST IN SHARES

As at 31st December, 2000, the interests of the directors and their respective associates in the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

Name of director	Name of company	Personal Interests	No. of shares		Other Interests
			Family interests	Corporate interests	

Tam Wing Lun, Alan	STAREASTnet.com Corporation	-	-	87,150,000	-
Chan Pak Cheung, Natalis	STAREASTnet.com Corporation	-	-	87,150,000	-

Note: These shares were beneficially owned by Gold Miracles Limited in which the relevant director holds one third of the issued share capital. Each director is therefore deemed to be interested in 87,150,000 shares.

Save as disclosed above, as at 31st December, 2000 none of the directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

OUTSTANDING SHARE OPTIONS

As at 31st December, 2000, options comprising an aggregate of 102,240,000 underlying shares granted pursuant to the Pre-IPO Share Option Scheme and the Employee Share Option Scheme were outstanding. All of these options are subject to the same limitations on the timing of exercise as detailed in the section headed "Directors' Rights to Acquire Shares".

Pre-IPO Share Option Scheme

As at 31st December, 2000, options comprising an aggregate of 96,660,000 underlying shares granted on 26th May, 2000 at an exercise price of HK\$1.18 per share were outstanding. These options were granted to the following categories of grantees:-

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options
Directors of the Group	17	68,200,000
Contracted celebrities	2	10,910,000
Employees	85	17,550,000
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	Total	96,660,000

Details of the grant to the directors of the Company are set out in the section headed "Directors' Rights to Acquire Shares". The following are details of the options granted to directors (including alternate directors) of the subsidiaries of the Company:

Name of director	No. of underlying shares comprised in the options
Tsang Chi Wai, Eric	10,000,000
Chau Mei Wah, Rosanna	2,000,000
Siu Mei Wai, Irene Olivia	2,000,000
Wong Yiu Hung	2,000,000
Wong Lai Kin, Elsa	1,000,000
Franky Tai	700,000
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Total	17,700,000

Subsequent to 30th September, 2000 and up to 31st December, 2000, options comprising a total of 1,730,000 underlying shares granted to 12 employees were lapsed when they ceased to be employed by the Group.

Employee Share Option Scheme

As at 31st December, 2000, options comprising an aggregate of 5,580,000 underlying shares granted to the full-time employees of the Group on 5th September, 2000 were outstanding. The scheme has a duration of 10 years from 15th May, 2000. Any option granted shall lapse when the relevant grantee ceases to be employed by the Group. The following are details of the outstanding options:-

Total no. of employees	No. of underlying shares comprised in the options	Exercise price Per share HK\$	Exercise period
16	5,580,000	1.75	5th September, 2000 to 4th September, 2005

Subsequent to 30th September, 2000 and up to 31st December, 2000, options comprising a total of 300,000 underlying shares granted to 3 employees were lapsed when they ceased to be employed by the Group.

Saved as disclosed, no option pursuant to the Pre-IPO Option Scheme and the Employee Share Option Scheme had been exercised, cancelled or lapsed during the nine months ended 31st December, 2000.

A summary of the major terms of each share option scheme is set out at pages 239-245 of the Company's prospectus dated 23rd May, 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Pre-IPO Share Option Scheme as described in the section headed "Outstanding Share Options" above, each director of the Company was granted options to subscribe for the following number of shares in the Company at an exercise price of HK\$1.18 per share:

Name of director	No. of underlying shares comprised in the options
Tam Wing Lun, Alan	12,500,000
Wong Kun To	12,500,000
Chan Pak Cheung, Natalis	12,500,000
Chan Kong Sang, Jackie	6,000,000
Peter Anthony Allen	1,000,000
Chung Cho Yee, Mico	1,000,000
Masahide Saito	1,000,000
Masanori Suzuki	1,000,000
Bradford Allen	1,000,000
Dominic Lai	1,000,000
Cheung Ting Kau, Vincent	1,000,000
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	Total 50,500,000

The options are exercisable in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period commencing 1 year after the date of grant and ending 5 years after the date of grant in accordance with the following schedule:

Period since date of grant	Percentage of shares comprised in options which become exercisable
Year 1	zero
Year 2	up to 25%
Year 3	up to 50% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Year 4	up to 75% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Year 5	all shares in respect of which the option has not been previously exercised

None of the above options, which are not exercisable in the first year of grant, has been exercised during the nine months ended 31st December, 2000.

During the nine months ended 31st December, 2000, no option had been granted to the directors of the Company under the Employee Share Option Scheme.

Save as disclosed above, at no time during the nine months ended 31st December, 2000 was the Company, its subsidiaries or holding company a party to any arrangements to enable the 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of shares held	Approximate percentage of shareholding
Hanny Holdings Limited ⁽¹⁾	225,760,000	22.01%
Hanny Magnetics (B.V.I.) Limited ⁽²⁾	225,760,000	22.01%
Genius Ideas Limited	225,760,000	22.01%
Star East Holdings Limited ⁽³⁾	367,690,000	35.85%
Star East (B.V.I.) Limited ⁽⁴⁾	367,690,000	35.85%
Star East Information Technology Management Co. Limited	332,000,000	32.37%
Li Tzar Kai, Richard ⁽⁵⁾	332,000,000	32.37%
Pacific Century Group Holdings Limited ⁽⁶⁾	332,000,000	32.37%
Pacific Century International Limited ⁽⁷⁾	332,000,000	32.37%
Pacific Century Group (Cayman Islands) Limited ⁽⁸⁾	332,000,000	32.37%
Anglang Investments Limited ⁽⁹⁾	332,000,000	32.37%
Pacific Century Regional Developments Limited ⁽¹⁰⁾	332,000,000	32.37%
Pacific Century CyberWorks Limited ⁽¹¹⁾	332,000,000	32.37%
Century Power Group Limited ⁽¹²⁾	332,000,000	32.37%
CyberVentures (Bermuda) Limited ⁽¹³⁾	332,000,000	32.37%
CyberWorks Ventures Limited ⁽¹⁴⁾	332,000,000	32.37%
Splendid Stars Group Limited ⁽¹⁵⁾	332,000,000	32.37%
Yasumitsu Shigeta ⁽¹⁶⁾	149,400,000	14.57%
Hikari Power, Limited ⁽¹⁷⁾	149,400,000	14.57%
Hikari Tsushin, Inc.	149,400,000	14.57%

Notes:

- (1) By reason of its 100% indirect interest in Genius Ideas Limited through Hanny Magnetics (B.V.I.) Limited.
- (2) By reason of its 100% direct interest in Genius Ideas Limited.
- (3) By reason of its 100% direct interest in Star East (B.V.I.) Limited.
- (4) Including direct interest and indirect interest through Star East Information Technology Management Co. Limited.
- (5) By reason of his over one-third interest in Pacific Century Group Holdings Limited.
- (6) By reason of its over one-third interest in Pacific Century International Limited.
- (7) By reason of its over one-third interest in Pacific Century Group (Cayman Islands) Limited.
- (8) By reason of its over one-third interest in Anglang Investments Limited and Pacific Century Regional Developments Limited.
- (9) By reason of its over one-third interest in Pacific Century Regional Developments Limited.
- (10) By reason of its over one-third interest in Pacific Century CyberWorks Limited
- (11) By reason of its over one-third interest in Century Power Group Limited.
- (12) By reason of its over one-third interest in CyberVentures (Bermuda) Limited.
- (13) By reason of its over one-third interest in CyberWorks Ventures Limited.
- (14) By reason of its over one-third interest in Splendid Stars Group Limited.
- (15) By reason of its 50% direct interest in Star East Information Technology Management Co. Limited.
- (16) By reason of his over one-third interest in Hikari Power, Limited.
- (17) By reason of its over one-third interest in Hikari Tsushin, Inc.

Save as disclosed above, the directors are not aware of any other person having an interest in shares representing 10% or more of the Company's issued share capital.

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 31st December, 2000 the following persons were entitled to exercise or control the exercise of five per cent or more of the voting power at general meetings of the Company and who are able, as a practical matter, to direct or influence the management of the Company:

Name of shareholder	Number of shares held	Approximate percentage of shareholding
Star East Information Technology Management Co. Limited	332,000,000	32.37%
Hanny Holdings Limited	225,760,000	22.01%
Genius Ideas Limited	225,760,000	22.01%
Star East Holdings Limited	201,690,000	19.67%
Star East (B.V.I.) Limited	201,690,000	19.67%
Pacific Century CyberWorks Limited	166,000,000	16.19%
Splendid Stars Group Limited	166,000,000	16.19%
Hikari Tsushin, Inc.	149,400,000	14.57%
Gold Miracles Limited	87,150,000	8.50%
Tam Wing Lun, Alan	87,150,000	8.50%
Chan Pak Cheung, Natalis	87,150,000	8.50%

SPONSORS' INTERESTS

As updated and notified by the Company's sponsors, BNP Paribas Peregrine Capital Limited and Tai Fook Capital Limited (the "Sponsors"), as at 31st December, 2000 neither of the Sponsors nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

Pursuant to the agreement dated 22nd May, 2000 entered into between the Company and the Sponsors, the Sponsors will receive a fee for acting as the Company's retained sponsors for the period from 22nd May, 2000 to 31st March, 2003.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which cause or may cause significant competition with the business of the Group.

YEAR 2000 COMPLIANCE

The Group reviewed all its computer hardware and application software to ensure that they were Year 2000 compliant. The directors believe that they have taken all necessary steps to ensure the computer systems of the Group are Year 2000 compliant. The Group has not experienced any problems with computer hardware and application software that relate to Year 2000 compliance issues so far.

AUDIT COMMITTEE

The Company established an audit committee on 15th May, 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive directors, namely, Mr. Bradford Allen, Mr. Dominic Lai and Mr. Cheung Ting Kau, Vincent.

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

The shares of the Company only commenced trading on GEM on 1st June, 2000. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31st December, 2000.

By Order of the Board
Tam Wing Lun, Alan
Chairman

Hong Kong, 12th February, 2001