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Codebank Limited

數碼庫有限公司

(Incorporated in Hong Kong with limited liability)

RESULTS ANNOUNCEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

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.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-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.

This announcement, for which the directors (the “Directors”) of Codebank 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 (“GEM Listing Rules”) for the purpose of giving information with regard to Codebank Limited. 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 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.

HIGHLIGHTS

- The Group recorded a total turnover of HK\$14.4 million, representing a 60.9% increase over the previous year.
- The loss attributable to shareholders was HK\$52.8 million, a significant improvement as compared to the loss of HK\$90.9 million in the previous year.
- On 21 December 2001, the Group was successfully listed on the GEM of the Stock Exchange by way of placing and obtained net proceeds, after deducting related expenses, of approximately HK\$40 million.

ABOUT CODEBANK LIMITED

Codebank Limited (the “Company” and together with its subsidiaries, the “Group”) is one of the leading Internet technology and platform providers in Hong Kong, with a focus on e-Business solutions, e-Education solutions and multiple access platform. The Group mainly engages in the design, development and implementation of Internet technology solutions to enable governmental departments, statutory bodies, business entities in the different industries, education institutions and telecommunication carriers to integrate the technologies in their operations.

On 21 December 2001, the Group was successfully listed on the GEM of the Stock Exchange by way of placing and obtained net proceeds, after deducting related expenses, of approximately HK\$40 million.

RESULTS

The board of directors (the “Board”) of the Company announces the audited consolidated results of the Group for the year ended 31 December 2001 together with the comparative audited figures for the corresponding period in 2000 as follows:

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	2	14,426	8,967
Cost of sales		(9,543)	(3,441)
Gross profit		4,883	5,526
Other revenue	2	33	7
Research and development expenses		(437)	(5,362)
Administrative expenses		(31,401)	(30,520)
Net realised and unrealised holding loss on trading investments	3	(590)	(58,401)
Broadband procurement expenses	4	(30,000)	—
Other operating income		10,646	—
Other operating expenses		(4,673)	(2,155)
Operating loss	5	(51,539)	(90,905)
Finance costs		(933)	(1,439)
Share of losses of associated companies		(338)	(662)
Loss for the year		(52,810)	(93,006)
Minority interests		—	2,100
Loss attributable to shareholders		(52,810)	(90,906)
Loss per share – basic	7	HK11 cents	HK33 cents
– diluted	7	HK11 cents	HK33 cents

Notes:

1. Basis of preparation

The Company was incorporated in Hong Kong on 23 July 1999 as a limited liability company and listed on the GEM of the Stock Exchange on 21 December 2001.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The financial statements are prepared under the historical cost convention except that trading investments are stated at fair value.

In the current year, the Group adopted the Statement of Standard Accounting Practice (“SSAP”) No. 30 “Business combinations” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2001.

2. Turnover

Turnover, revenue and segment information

The Group is principally engaged in the provision of internet and intranet development services and the provision of design, development and deployment of the voice and wireless technology services. Revenues recognised during the year were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover		
Rendering of services	14,426	8,967
Other revenue		
Interest income	33	7
	<u>14,459</u>	<u>8,974</u>
Total revenues		

During the year, the Group’s operations were primarily based in Hong Kong. Consequently, no geographical segmental information is presented.

3. Net realised and unrealised holding loss on trading investments

Included in the balance was net realised and unrealised holding loss of approximately HK\$54,000 (2000: HK\$58,401,000) on the trading investments, comprising 30,650,000 shares in HyComm Wireless Limited (formerly known as Plotio Holdings Limited) (“HyComm”), a third party and a company listed on the Main Board of the Stock Exchange. The Company was allotted these shares in consideration for the issuance of 267,606 Class A ordinary shares of HK\$0.1 each in the Company to HyComm in 2000. All the shares in HyComm were disposed by the Group during the current and previous years.

4. Broadband procurement expenses

Pursuant to an agreement entered into by the Company with Aionnet Telecommunications Limited (“Aionnet”) and One Trend Net Holdings Limited (“One Trend”), a fellow subsidiary of Aionnet, in April 2001, the Company has engaged Aionnet to procure one or more network service providers to provide the Group with high speed circuits linking up various cities in The People’s Republic of China (the “PRC”) for a period of 20 years (the “Term”) starting from 11 April 2001. Under the terms of this agreement, Aionnet shall be responsible for all the payments during the Term for charges, expenses and outgoings for the setting up, installation and linking up the connections points as designed by the Group. The total cash consideration for the above services (the “broadband procurement services”) to be provided by Aionnet is HK\$30,000,000. The consideration had been paid to Aionnet by the Group using the cash proceeds of HK\$30,000,000, received from One Trend for the subscription of 433,383 Class A ordinary shares of HK\$0.1 each of the Company (equivalent to approximately 46 million ordinary shares of HK\$0.1 each after the Company listed on the GEM of the Stock Exchange) in May 2001. In view of uncertainties on the future inflow of economic benefits to the Group from the broadband procurement services, the underlying charge was expensed in the consolidated profit and loss account of the Group for the year ended 31 December 2001. On 29 November 2001, the Company entered into a deed with Aionnet and One Trend to amend the Term from 20 years to 9 years.

5. Operating loss

Operating loss is stated after crediting and charging the following:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
<i>Crediting:</i>		
Gain on disposal of certain interests in a subsidiary	6,750	—
Gain on dilution of interests in a subsidiary	3,896	—
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<i>Charging:</i>		
Auditors’ remuneration	600	43
Amortisation of goodwill	468	—
Depreciation		
– owned fixed assets	1,718	1,318
– leased fixed assets	1,489	906
Loss on disposal of fixed assets	37	11
Loss on disposal of other investment	296	—
Operating lease rental in respect of		
– leased lines and server storage	2,720	375
– land and buildings	2,143	1,626
Provision for bad and doubtful debts	1,860	2,283
Provision for diminution in value of other investment	2,346	—
Staff costs (including directors’ emoluments)	19,221	24,750
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6. Taxation

- (i) No provision for Hong Kong profits tax has been made in these financial statements as the companies within the Group operating in Hong Kong have no estimated assessable profits for both the financial years ended 31 December 2001 and 2000.
- (ii) The Company's subsidiaries established in PRC are subject to PRC income tax at the rate of 33%. No provision for PRC income tax has been made in these financial statements as these subsidiaries had no assessable income for both the financial years ended 31 December 2001 and 2000.
- (iii) During the year, there was no material unprovided deferred tax assets or liabilities which are expected to crystallize in the foreseeable future.

7. Loss per share

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$52,810,000 (2000: HK\$90,906,000) and on the weighted average number of 471,536,684 (2000: 278,599,506) shares in issue during the year. The weighted average number of shares in issue during the year has taken into account the subdivision of one ordinary share of HK\$1.00 each into 10 ordinary shares of HK\$0.10 each of the Company on 3 March 2000.

Diluted loss per share is the same as the basic loss per share as there is no dilution effect arising from the share options granted by the Company.

8. Reserves

There has been no transfer to or from reserves in both financial years ended 31 December 2001 and 2000.

FINAL DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31 December 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

For the year ended 31 December 2001, the Group recorded a total turnover of HK\$14.4 million, representing a 60.9% increase from HK\$8.96 million in the previous year. The loss attributable to shareholders for the year ended 31 December 2001 was HK\$52.8 million, which is a significant improvement as compared to the loss of HK\$90.9 million in the previous year.

The increase in turnover was mainly due to the increase in sales of the Group's e-Business solutions and the Group's multiple access platform by 20.2% and 587% respectively. The increase in sales of e-Business solutions was mainly attributable to the acceptance of a large project during the last quarter of the current year. The strong growth in sales of the multiple access platform was mainly attributable to the share of gross income generated from ring-tone downloads through the implementation of the music platform jointly operated by the Group and eolasia.com Limited. However, sales of the Group's e-Education solutions decreased by 19% due to

the delay of the Hong Kong Government in granting the “ED5” education funding to schools in Hong Kong during the current year.

The gross profit of the Group dropped from 61.6% in the previous year to 33.8% in the current year. It was mainly attributable to the combined effect of the reduction in fees charged to clients and the increase in hardware costs. As a result of the downturn of the global market, the Group reduced its fee charged to its client, however, the Group was required to supply additional hardware to its clients pursuant to certain contracts entered into during the year.

During the year ended 31 December 2001, the Group procured network service provider(s) to install and implement an extensive private broadband network platform covering 53 cities in the PRC. The consideration of HK\$30 million was settled by the issuance of the Company’s shares and charged as broadband procurement expenses in the Group’s consolidated profit and loss account according to applicable accounting standards.

The significant improvement in loss attributable to shareholders this year was mainly brought about by the saving in research and development expenses as well as the decrease in net realised and unrealised holding loss on trading investments. As a result of the completion of major products and technological developments of the Group in 2000, the research and development expenses was substantially decreased from approximately HK\$5,362,000 in the previous year to approximately HK\$437,000 in the current year. In 2000, the Company issued its shares to HyComm Wireless Limited (“HyComm”), a company listed on The Stock Exchange of Hong Kong Limited, in consideration of the allotment of shares in HyComm. Owing to the continued decline in the market price of HyComm’s shares subsequent to the transaction, the Group suffered a total realised and unrealised loss of approximately HK\$58 million in the previous year. All the shares in HyComm were subsequently disposed.

The Group generally finances its operations and meets its debts with cash generated from its operations and credit facilities provided by its bankers. As at 31 December 2001, the Group had bank balances and cash of HK\$10.2 million (2000: HK\$1.3 million) and all the bank balances were placed in short term deposit accounts.

As at 31 December 2001, the Group had total outstanding borrowings of approximately HK\$8,189,000 in Hong Kong dollars, comprising secured long-term bank loan of approximately HK\$3,379,000, secured short-term bank loan and overdrafts of approximately HK\$2,202,000, other short-term loan of approximately HK\$1,250,000 and obligations under finance lease of approximately HK\$1,358,000. Apart from the non-current portion of the long-term bank loan amounting to HK\$1,939,000 which is repayable in 2003 and 2004, all other borrowings amounting to HK\$6,250,000 are repayable within one year.

Apart from the other short-term loan of approximately HK\$1,250,000 which is charged at an interest rate of 1% per annum, other bank loans and overdraft are charged at prevailing market interest rates.

As at 31 December 2001, the Group’s banking facilities of approximately HK\$6.4 million, of which HK\$5.6 million were utilized as at 31 December 2001, were secured by the following:

- (i) personal guarantee of Mr. Yu Hang Chung, Herman, the director of the Company, for HK\$5,000,000 and HK\$2,900,000;
- (ii) the assignment of all benefits of the keyman insurance policy totaling approximately HK\$4,001,000 in the name of Mr. Yu Hang Chung, Herman;
- (iii) a legal charge over a property held by Ms. Lai Sin Yee, Mr. Yu Hang Chung, Herman’s mother.

Subsequent to 31 December 2001, the personal guarantee of HK\$2,900,000 in (i) above and the legal charge in (iii) above were released and replaced by corporate guarantee of the Company and a charge over the Group's bank deposit of HK\$2,250,000. In addition, the Group is now in the process of arranging the release of personal guarantee of HK\$5,000,000 in (i) above. The guarantee will be replaced by a charge over the Company's bank deposit of HK\$1.8 million.

The Group's other short-term loan of approximately HK\$1,250,000 was granted from an independent third party and interest is calculated at 1% of the loan. The loan is secured by corporate guarantees given by certain subsidiaries of the Group.

The Group computes its gearing ratio as a percentage of bank borrowings, other short-term loan and obligations under finance lease over total assets. As at 31 December 2001, the Group's gearing ratio was 15.8% (2000: 64.5%). The improvement in gearing ratio was mainly due to proceeds raised from the listing of the Company on the GEM of the Stock Exchange.

As a majority of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, the exchange rate risks of the Group are considered to be minimal.

The Group employed a total of 43 staffs as at 31 December 2001, of which 28 and 15 were located in Hong Kong and PRC respectively. Each of the operating subsidiaries of the Group has implemented a provident fund scheme for its employees in Hong Kong and has followed the mandatory central pension scheme operated by the PRC government for its employees in the PRC. The Group has adopted a Pre-IPO share option plan and a share option scheme for its employees.

Future Prospects

With the advance of the new information technology era, there is a growing need for education institutions and business entities to respond to the impact of the changing environment by integrating technologies in the management of information, the sharing of resources and the conduct of daily operations.

The official endorsement in both Hong Kong and the PRC of a policy to implement IT in education is expected to generate substantial demand for e-Education solutions that introduce an interactive way of communication among students, teachers, parents and schools and innovative approaches in resources sharing and management. Internet technological advances have also led business entities and professional organisations to explore opportunities of providing internet-based applications and services both within the organisations and externally to customers and business partners. The directors have also identified voice and wireless internet enabling solutions to be one of the fastest growing areas in internet applications.

It is the mission of the Group to become the leading internet technology and platform provider in the Asia Pacific region with a focus on e-Education solutions, e-Business solutions and multiple access platform. In late 2001, the Group entered into an co-operative agreement with 長城計算機軟件與系統有限公司(Great Wall Software and Systems Integration Limited) and 重慶市渝北區電化教育中心(Chongqing Yubei District Electronic Education Centre) to provide e-Education solutions to primary and secondary schools in the PRC. The directors consider that it is a major milestone for the Group to explore the market in other regions outside Hong Kong.

On 21 December 2001, the Group was successfully listed on the GEM of the Stock Exchange. Following the listing, the Group will continue to cautiously monitor the market environment and to strengthen its business foundations by focusing on its existing business and implementing prudent cost control strategies to protect the interests of its shareholders.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress of the Group compared with the business objectives set out in the prospectus of the Company dated 17 December 2001 (the “Prospectus”).

Business objectives for the period from 11 December 2001 (the latest practicable date of the Prospectus) to 31 December 2001

Actual progress

e-Education platform product development

Develop the simplified Chinese version of OpenCampus

The Group has completed the development of simplified Chinese version of Open Campus. The enhancement work as set out in Year 2002 business objective has also started.

e-Business solutions product development

Customise e-Business products

The Group has commenced the customisation of its e-Business products. The development work for the e-Business products to be launched in Year 2002 has also been initiated.

Multiple access platform

Complete the development of the multiple access music station

The Group has completed the development of multiple access music station and launched the product by 31 December 2001.

Sales and marketing

Organise seminars in Hong Kong

The Group did not organise any seminar during the period. As an alternative, the Group has allocated sales resources towards new markets in South East Asian countries such as Philippines, Malaysia, Singapore and Thailand to promote its e-Education products and multiple access platform products. These activities included meetings with a number of potential customers and business partners in these South East Asian countries to promote the Group’s products with a view to negotiating long term sales contracts.

Investments/Alliances

Identify potential strategic investments

The Group has identified potential strategic investments and has commenced preliminary discussions.

Identify alliances with hardware vendors and content providers

The Group has commenced discussions with hardware vendors and content providers for possible strategic alliances.

Resources employment

Establish an office in Shenzhen

The Group has not yet established an office in Shenzhen. The plan for establishing an office in Shenzhen has been delayed as the management considers that there is not an immediate need to open such office. The Group is also considering to establish an office in other Southern PRC cities as an alternative.

USE OF PROCEEDS

The Company obtained net proceeds, after deducting related expenses, of approximately HK\$40 million from the new issue of shares by way of placing. During the period from 21 December 2001 (the date of listing of the Company's shares on GEM) to 31 December 2001, the Group has applied the net proceeds as follows:

	Budgeted amount to be used up to 31 December 2001 as extracted from the Prospectus HK\$ million	Actual amount used up to 31 December 2001 HK\$ million	Note
Customisation and development of new products			
– e-Education	0.1	1.5	1
– e-Business	0.2	1.1	2
– Multiple access platform	0.2	0.2	
Sales and marketing	0.1	0.4	3
Investments/Alliances	—	2.75	4
Resources employment	0.2	—	5
Repayment of a shareholder's loan	1.4	1.4	
General working capital purposes	5.8	3.8	6
Total	<u>8.0</u>	<u>11.15</u>	
Total Proceeds not yet utilised		<u>28.85</u>	

Notes:

1. The Group has completed the development of the simplified Chinese version of OpenCampus which has utilized about HK\$0.6 million. In addition, the Group has engaged a contractor to commence the enhancement work and paid a deposit of HK\$0.9 million for the simplified Chinese version of OpenCampus which was originally scheduled for the first half of 2002.
2. The Group has utilized about HK\$0.2 million for the customisation of its e-Business products including webproject and webbuilder. In addition, the Group has also engaged a contractor and paid a deposit of HK\$0.9 million to commence the development work for webproject version 2.0, webbuilder version 2.0 and webchannel which are scheduled to be launched in 2002.
3. The Group did not organise any seminars during the period. As an alternative, the Group has allocated sales resources towards new markets in South East Asian countries such as Philippines, Malaysia, Singapore and Thailand to promote its e-Education products and multiple access platform products. These activities included meetings with a number of potential customers and business partners in these South East Asian countries to promote the Group's products with a view to negotiating long term sales contracts.
4. The Group has paid a sum of HK\$2.75 million as escrow money for a potential strategic investment. The escrow money paid is returnable should the parties fail to enter into any formal agreement.
5. The Group has not yet established an office in Shenzhen.
6. The fund has been mainly used for payment of rental of office premises and staffing costs.

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

During the period from 21 December 2001 (the date of listing of the Company's shares on the GEM of the Stock Exchange ((the "Listing Date")) to 31 December 2001, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

AUDIT COMMITTEE

Pursuant to the GEM Listing Rules, an audit committee, comprising two independent non-executive directors, namely, Mr. Lau Wah Sum and Mr. Cheung Chun Ying, Victor and one executive director, namely, Mr. Kam Chun Ying, Francis, was established on 7 December 2001. Subsequent to the resignation of Mr. Kam Chun Ying, Francis as executive director of the Company on 8 March 2002, Mr Cheng Yu Hong has been appointed as one of the members of the Audit Committee.

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews and supervises the effectiveness of the financial reporting process and the adequacy of the Group's internal controls.

BOARD PRACTICES AND PROCEDURES

From the Listing Date to the date of this announcement, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board
Yu Hang Chung, Herman
Chairman

Hong Kong, 25 March 2002

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