



Codebank Limited

(incorporated in Hong Kong with limited liability)

Annual Report
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.

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Board of Directors

Executive Directors

Mr. Yu Hang Chung, Herman (*Chairman*)
Mr. Cheng Yu Hong
Mr. Suen Kwok Kin

Non-executive Directors

Mr. Woo Chia-wei
Mr. Choy Mun Kei

Independent Non-executive Directors

Mr. Lau Wah Sum
Mr. Cheung Chun Ying, Victor

Compliance Officer

Mr. Cheng Yu Hong

Members of Audit Committee

Mr. Lau Wah Sum (*Chairman*)
Mr. Cheung Chun Ying, Victor
Mr. Cheng Yu Hong

Company Secretary

Mr. Wong Chi Keung (*FCCA, AHKSA*)

Authorised Representatives

Mr. Yu Hang Chung, Herman
Mr. Cheng Yu Hong

Qualified Accountant

Mr. Wong Chi Keung (*FCCA, AHKSA*)

Sponsor

Deloitte & Touche Corporate Finance Ltd
21/F., Wing On Centre
111 Connaught Road Central
Hong Kong

Legal Advisers to the Company

As to Hong Kong law:

Richards Butler
20/F., Alexandra House
16-20 Chater Road
Central, Hong Kong

As to PRC law:

Commerce & Finance Law Offices
Room 714, Huapu International Plaza
No. 19, Chaowai Avenue
Chaoyang District
Beijing 100020
People's Republic of China

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22/F., Prince's Building
Central, Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
The Bank of China (Hong Kong) Limited

Share Registrar and Transfer Office

Standard Registrars Limited
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Registered Office and Principal Place of Business

Unit 2801-2805, 28th Floor
Island Place Tower, Island Place
510 King's Road
North Point
Hong Kong

Website of the Company

www.code-bank.com

GEM Stock Code 8162

CHAIRMAN'S STATEMENT

On behalf of Codebank Limited, I am pleased to present the first annual report of Codebank Limited ("Codebank" or the "Company").

BUSINESS OVERVIEW

Our corporate mission is to be the leading Internet technology and platform provider in Hong Kong and the People's Republic of China (the "PRC"), with a focus on e-Business solutions, e-Education solutions and multiple access platform. We are mainly engaged in the design, development and implementation of Internet technology solutions to enable governmental departments, statutory bodies, business entities in different industries, education institutions and telecommunication carriers to integrate the technologies into their operations.

To implement such a mission, Codebank has three subsidiaries, CBIT Corporation Limited, an e-Business Solutions Provider; Campus Online Limited, an e-Education Solutions Provider; and MAP Technologies Limited, a Multiple Access Platform Provider. Since the establishment of the Group in 1997, we have been focusing on extending the benefits of internet technologies to business, education and community to bring the world together.

The Company was successfully listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 December, 2001, raising net proceeds of approximately HK\$ 40 million. This significant milestone helped us stay focused in providing quality solutions and services in Hong Kong and the PRC.

RESULTS

I am pleased to report that the turnover of the Company and its subsidiaries ("the Group") increased significantly from HK\$8.97 million in 2000 to HK\$14.4 million this year, representing a significant growth of 60.9%. Such an encouraging figure is a result from the increase in sales of e-Business solutions and multiple access platform amidst the worldwide economic downturn.

The loss attributable to shareholders in 2001 decreased from HK\$93 million in 2000 to HK\$52.8 million in 2001, which represents the Group's another significant improvement.

MILESTONES

The year 2001 was a difficult one for many industries in Hong Kong. The already sluggish economy worldwide was further damaged by the tragic September 11 incident. Competition is even keener than ever. We are dedicated to stay competitive in such an environment and are able to secure significant projects and cooperative agreements in Hong Kong and the PRC during 2001.

In the e-Business solutions sector, we have cooperated with the China World Trade Corporation, a listed company in the Nasdaq, to create a B2B platform for enterprises to explore investment and business opportunities in China. This platform bridges the small and medium enterprises in China with businesses in other member countries of the World Trade Corporation. This is especially crucial as China becomes a member of the World Trade Organization (WTO).

In the e-Education solutions sector, we have captured a significant market share in Hong Kong, having about 780 primary schools, secondary schools and other education institutions using the Group's e-Education solutions in Hong Kong. We have also commenced our business in the PRC during this year. We have entered into a cooperative agreement with Great Wall Computer Software and Systems Integration Limited (長城計算機軟件與系統有限公司) to become its exclusive supplier of e-Education solutions for primary and secondary schools in various cities in the PRC. We have also commenced cooperation with Chongqing Yubei District Electronic Education Center (重慶市渝北區電化教育中心) to provide e-Education solutions for primary and secondary schools in Yubei district of Chongqing city.

For the multiple access platform, we have entered into an agreement with eolasia.com Limited and developed a ring-tone music download platform — “Ringtone King”. “Ringtone King” service is supported by our mobile music service platform developed to provide updated music content for subscribers to download. Such value-added mobile service creates a recurring and increasing revenue for the company.

FUTURE PLANS

By the year 2001, the Group has established its solid foundation in providing quality Internet solutions for e-Business, e-Education and Multiple Access Platform arenas. The Group will continue to position itself as one of the leading Internet technology and platform provider in these three focuses.

In the coming years, the Group continues to extend its reach in the PRC. In the next five to ten years, approximately 90% of primary and secondary schools in the PRC will implement Intranet or Internet and the “校校通工程” (Schools Network Program) according to the plan of the Ministry of Education of the PRC. We target to provide our e-Education solutions to more provinces in the PRC in the coming years and expect to secure more cooperative agreements with the education departments of different provinces.

Besides e-Education solutions, we will also extend the reach of our e-Business solutions and Multiple Access Platform solutions to the PRC in 2002. Leveraging on the broad project implementation experience and leading technology, the Group continues to increase market shares in Hong Kong and the PRC and forges business alliances to expand the PRC market.

CHAIRMAN'S STATEMENT

We have responded swiftly to the change of the market needs and changed our pricing policies to accommodate the sluggish market. In the coming year, we will continue to apply a tighter cost control measures and productivity enhancement measures to optimize our resources so as to protect the interests of our shareholders. We also believe that a strong management team will enhance the effectiveness and competitiveness of the Group. Therefore, we will take measures such as training and seeking professional advice to strengthen the management team. Opportunities to make acquisition or investments that are complementary to the Group's Internet enabling technologies business are also identified to be another measure for the Group to stay competitive.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend my gratitude to all directors and major shareholders for their continuous support, valuable insights and guidance throughout the year. I would also like to express my heartfelt thanks to all the staff of the Group for their dedication, perseverance and hard work to achieve the results. The continuous support of our business partners are also very much appreciated.

Yu Hang Chung, Herman

Chairman

Hong Kong, 25 March, 2002

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\$8.97 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of Hong Kong Limited. 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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Actual progress

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' 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 <i>HK\$ million</i>	Actual amount used up to 31 December 2001 <i>HK\$ million</i>	<i>Note</i>
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	8.0	11.15	
Total Proceeds not yet utilised		28.85	

Notes:

1. The Group has completed the development of the simplified Chinese version of OpenCampus which has utilised 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 utilised 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.

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. Yu Hang Chung, Herman, aged 28, established the Group in April 1997 and is the chairman and chief executive officer of the Codebank Limited. He is responsible for the overall strategic planning and management of the Group. Mr. Yu graduated from the Chinese University of Hong Kong in 1995 with a degree of bachelor of social science. Mr. Yu set up Codebank IMA Limited (formerly known as IMA Communications Limited), a business engaged in website design and the development of intranet systems prior to incorporation of the Company. With over four years of experience in the Internet industry, Mr. Yu has expanded the business of the Group from website design to the development of e-Business and e-Education solutions.

Mr. Cheng Yu Hong, aged 33, joined the Group in May 2001 and is the chief investment officer and compliance officer of the Company who is responsible for overseeing the Group's overall strategic investment planning and the operations of the Group's portfolio companies. Prior to joining the Group, Mr. Cheng was the vice president of Amroc Investments Asia Limited. Mr. Cheng has also worked with Fuji International Finance (HK) Limited (the investment banking arm of Fuji Bank Limited) as assistant director of the trading group of that company. Mr. Cheng had also worked for Dresdner Bank AG in Singapore and Lehman Brothers Asia Limited.

Mr. Kam Chun Ying, Francis, aged 35, joined the Group in June 1999 and resigned in March 2002. Mr. Kam was the director in charge of accounting and finance of the Group. He participated in the management and has been a key member of the senior management of the Group since June 1999. He established the accounts and administration systems of the Group and is involved in the overall financial and administration functions of the Group. Mr. Kam previously worked for Credit Lyonnais Securities (Asia) Limited. With over 14 years of experience in finance and accounting, Mr. Kam is responsible for the Group's financial, administrative and secretarial affairs. He is a fellow member of the Association of Chartered Certified Accountants, an associate of The Hong Kong Society of Accountants and a member of the Hong Kong Securities Institute.

Mr. Suen Kwok Kin, aged 26, joined the Group in August 1999 and is the chief creative officer of the Company. Mr. Suen is responsible for managing the creative and graphical design of IT projects and product development. He had participated in various website designs such as www.stareastnet.com, www.hkevents.net, www.lib.ouhk.edu.hk and www.towrylaw.com.hk. Prior to joining the Group in August 1999, Mr. Suen worked at PowerPhone Network Limited. Mr. Suen has over four years of experience in the Internet industry.

Non-executive Directors

Professor Woo Chia-wei, aged 64, was appointed as a non-executive director of Codebank Limited on 7th December, 2001. Professor Woo has been founding president of Hong Kong University of Science and Technology since September 1988. In 1983, he became president of San Francisco State University, the first Chinese-American president of a large university in the US. Professor Woo also serves on the Commission on Strategic Development of Hong Kong and the Chinese People's Political Consultative Conference. Professor Woo also acts as an independent non-executive director for First Shanghai Investments Limited and Shanghai Industrial Holdings Limited, a company the securities of which are listed on the Main Board of the Stock Exchange.

Mr. Choy Mun Kei, aged 37, joined the Group as a non-executive director on 7th December, 2001 and is the company secretary of HyComm Wireless Limited. Mr. Choy graduated from City Polytechnic of Hong Kong (now known as City University of Hong Kong) in 1989 with a professional diploma in accountancy. He is an associate member of The Hong Kong Society of Accountants and a fellow member of The Association of Chartered Certified Accountants.

Independent non-executive Directors

Dr. Lau Wah Sum, aged 73, was appointed as an independent non-executive director of Codebank Limited on 7th December, 2001. Dr. Lau is a registered investment adviser and a fellow member of the Hong Kong Society of Accountants. He is currently a director of W S Lau & Associates Limited and chairman of Equity Financial Press Limited. He is also a chairman of the Board of the Urban Renewal Authority and a court member of Hong Kong University of Science and Technology. He also sits on the board of directors of several listed companies in Hong Kong.

Mr. Cheung Chun Ying, Victor, aged 27, was appointed as an independent non-executive director of the Company on 7th December, 2001. Mr. Cheung is a dealing director of TradingGuru.com Securities Limited. Prior to that, Mr. Cheung worked in Lehman Brothers Japan Inc. in Tokyo. Mr. Cheung graduated with a Bachelor of Arts degree from Harvard University and was awarded a Yale MBA scholarship for 1999-2000 academic years at the Yale School of Management. Mr. Cheung is a certified public accountant in the US.

MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. Wong Chi Keung, aged 35, joined the Group in March 2002, is the group financial controller, qualified accountant and company secretary of Codebank Limited. He has over 10 years of working experience in an international accounting firm. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Wong graduated from the Australian Graduate School of Management with a master degree of business administration. He also obtained a bachelor degree of business administration majoring in accounting from the Chinese University of Hong Kong.

Ms. Lam Ching Shan, aged 30, is the executive vice president of Campus Online Limited (COL) and is responsible for sales and marketing as well as the overall business development of COL, focusing on the online learning platforms market. Ms. Lam obtained a degree of Bachelor of Arts from the Chinese University of Hong Kong in 1995 and a degree of Master of Arts in environmental management from the University of Nottingham, United Kingdom in 1997. She is experienced in sales and marketing in the Internet industry. Prior to joining the Group in January 2000, Ms. Lam was the manager (Education) of the sales department of PSINET Hong Kong Limited.

Mr. Tang Gan Gene, aged 28, joined the Group in June 2001 and is the president of CBIT Corporation Limited (CBIT). Mr. Tang is responsible for operations, including technology development, business development and resources allocation. Mr. Tang has been in the Internet technology industry for over two years. Prior to joining the Group, he was the chairman of Family Online Corporation Limited and chief operating officer of Corpmart.com Limited. Mr. Tang obtained a bachelor degree of electrical engineering and a degree of Bachelor of Science in 1997 from the University of Melbourne, Australia.

Mr. Lo Hoi Keung, aged 36, is the chief executive officer and chief technology officer of MAP Technologies Limited (MAP). He graduated from City University of Hong Kong in 1996 with a bachelor degree of science in computer studies and higher diploma in applied science from Hong Kong Polytechnic in 1988. He is currently attending a master of science Internet computing at the University of Hong Kong. Mr. Lo joined the Group in September 2000. Prior to joining the Group in September 2000, Mr. Lo was a senior manager of multimedia services department of Mandarin Communications Limited. He was the product development manager of Hong Kong Telecom CSL and the vice president (Telephony System Group) of HK Star Internet Ltd.

Mr. Chan Kwok Wai, Andrew, aged 31, joined the Group in November 2000 and is the chief operations officer of MAP Technologies Limited (MAP). Mr. Chan graduated from the University of California, Los Angeles, the U.S., in 1994 with a bachelor degree of arts majoring in geographical environmental studies. Mr. Chan is in charge of business development and the management of multiple access platform. Prior to joining the Group, Mr. Chan was an accounts manager of the Sundaywin department of Mandarin Communications Limited.

Mr. Jiang Jing Hua, aged 68, joined the Group in August 2000 and is the vice chairman of Campus Online (Shanghai) Limited. Mr. Jiang is responsible for the overall business development in the PRC and liaising with education institutions in the PRC. Prior to joining the Group, Mr. Jiang was the vice chairman and general manager of China Hi-Tech Group Co., Ltd., a publicly listed company in Shanghai. Mr. Jiang also worked for the National Education Committee in Beijing. He was 中華人民共和國國家教育委員會條件裝備司司長 (the director of conditioning & equipment department) of the National Education Committee, the PRC, assistant professor of Tsinghua University, chairman of the second board of governors of 全國高等學校實驗室工作研究會 (China University & College Laboratory Institute), chairman of 中國教學儀器設備行業協會 (China Instrument Industry Association) and chairman of the first board of governors of 中國高校校辦產業協會 (China University & College Enterprise Association).

Mr. Wang Jing, aged 31, is the president of Codebank (Beijing) Technology Limited. Mr. Wang oversees all aspects of operations, business development and resources allocation in the PRC. Prior to joining the Group in January 2001, Mr. Wang was the general manager of 中教科技實業有限公司 (Sinotech Enterprise Limited). Mr. Wang plays an important role in expanding the Group's e-Education business in the PRC. He has also worked as the branch manager in Beijing of 深圳中教育星軟件有限公司 (Shenzhen Educational Software Enterprise Limited) from 1995 to 1998. Mr. Wang obtained his bachelor of computer science degree from Tsinghua University, the PRC and his master of economics degree from 中國社會科學院研究生院 (the China Academy of Social Sciences, the PRC).

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Codebank Limited (“the Company”) will be held at 39th Floor, China Online Centre, No. 333 Lockhart Road, Wanchai, Hong Kong on Monday, 22nd April 2002 at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31st December 2001;
2. To re-elect the retiring directors and to authorise the Board of Directors to fix the remuneration of the directors;
3. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration;
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (a) subject to paragraph (c) of this resolution and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“the GEM”) on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or options warrants, or similar rights to subscribe for any shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of the shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) any Share Option Scheme (as hereinafter defined) of the Company; or (iii) any scrip dividend or other similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company pursuant to the Articles of Association of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the shares of the Company in issue at the date of passing this resolution; and

- (d) 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 revocation or variation of the authority given under this resolution by Ordinary Resolution of the shareholders in a general meeting; 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 or any applicable laws to be held.

“Rights Issue” means an offer of shares open for a period fixed by the directors to holders of shares of the Company on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions of other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); and

“Share Option Scheme” means a share option scheme or similar arrangement for the time being, as varied from time to time, adopted for the grant or issue to executive directors and employees of the Company and its subsidiaries of rights to acquire shares of the Company.”;

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on the GEM of the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised for this purpose by the Securities and Futures Commission and the Stock Exchange, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange as amended from time to time be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of the shares of the Company to be repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the shares of the Company in issue at the date of passing this resolution; 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 revocation or variation of the authority given under this resolution by Ordinary Resolution of the shareholders in a general meeting; 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 or any applicable laws to be held.";

6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** conditional upon the passing of Ordinary Resolutions 4 and 5 as set out in the notice convening this meeting, the general mandate granted to the directors to allot, issue and dispose of additional shares in the capital of the Company pursuant to Ordinary Resolution 4 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 5 set out in the notice convening this meeting provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the shares of the Company in issue at the date of passing this resolution."

On Behalf of the Board
Yu Hang Chung, Herman
Chairman

Hong Kong, 25th March 2002

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (a) The register of members will be closed from Friday, 19th April 2002 to Monday, 22nd April 2002, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend the 2002 Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Standard Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Thursday, 18th April 2002.
- (b) A member entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
- (c) To be valid, the Instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of authority, must be lodged with the Company's Share Registrar, Standard Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned meeting thereof.
- (d) The annual report of the Company for the year ended 31st December 2001 containing this notice together with a circular giving further information regarding Resolutions 4 to 6 as required by the GEM Listing Rules will be despatched to shareholders as soon as practicable.

REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Group are the provision of internet and intranet development services and the provision of design, development and deployment of the voice and wireless technology services. The activities of the subsidiaries are set out in note 14 to the accounts.

An analysis of the Group's performance for the year by principal activities is set out in note 2 to the accounts.

RESULTS

The results of the Group for the year are set out in the consolidated profit and loss account on page 31.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company had no distributable reserves calculated under section 79B of the Companies Ordinance (2000: nil).

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2001 are set out in notes 25 to 28 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Hong Kong.

FINANCIAL SUMMARY

The summary of the published results and of the assets and liabilities of the Group for the financial years since the date of incorporation of the Company is set out as follow:

	Year ended 31 December 2001 <i>HK\$'000</i>	Year ended 31 December 2000 <i>HK\$'000</i>	Period from 23 July 1999 to 31 December 1999 <i>HK\$'000</i>
Results			
Loss attributable to shareholders	(52,810)	(90,906)	(132)
As at 31 December			
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Assets and liabilities			
Total assets	51,770	17,482	1,168
Total liabilities	(17,292)	(26,179)	(1,050)
	34,478	(8,697)	118

REPORT OF THE DIRECTORS

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 Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (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.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors

Mr. Yu Hang Chung, Herman	
Mr. Kam Chun Ying, Francis	(resigned on 8 March 2002)
Mr. Suen Kwok Kin	
Mr. Cheng Yu Hong	(appointed on 17 April 2001)
Mr. Ng Wing Hong, Conwell	(resigned on 5 October 2001)

Non-executive directors

Mr. Woo Chia-wei	(appointed on 7 December 2001)
Mr. Choy Mun Kei	(appointed on 7 December 2001)

Independent non-executive directors

Mr. Lau Wah Sum	(appointed on 7 December 2001)
Mr. Cheung Chun Ying, Victor	(appointed on 7 December 2001)

In accordance with Articles 120 and 121 of the Company's Articles of Association, Mr. Suen Kwok Kin and Mr. Choy Mun Kei retire by rotation and, being eligible, offer themselves for re-election.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yu Hang Chung, Herman, Mr. Suen Kwok Kin, Mr. Kam Chun Ying, Francis and Mr. Cheng Yu Hong, being the executive directors, has entered into a service contract with the Company, which will commence on the Listing Date, for a term of two years subject to termination thereafter by not less than three months' notice in writing served by either party on the other. Mr. Kam Chun Ying, Francis resigned as executive director on 8 March 2002 and his service contract was terminated on the same date.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the "Related party transactions" set out in note 31 to the accounts, no other contracts of significance in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 13 to 16.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2001, the interests of the directors and chief executives in the shares and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

(a) **Ordinary shares of HK\$ 0.1 each**

Name of directors	Note	Number of shares				Total
		Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yu Hang Chung, Herman	(1)	nil	nil	134,106,639 (Note 1)	nil	134,106,639
Mr. Kam Chun Ying, Francis	(2)	3,120,201	nil	7,876,577 (Note 2)	nil	10,996,778
Mr. Suen Kwok Kin	(3)	3,039,173	nil	7,653,128 (Note 3)	nil	10,692,301
Mr. Cheng Yu Hong	(4)	nil	nil	27,060,330 (Note 4)	nil	27,060,330
		6,159,374	nil	176,696,674	nil	182,856,048

Note 1: These shares are held by Super Code Limited ("Super Code"), in which Mr. Yu Hang Chung, Herman is a shareholder holding approximately 72.02% of its issued share capital.

Note 2: These shares are held by Super Code, in which Mr. Kam Chun Ying, Francis is a shareholder holding approximately 4.23% of its issued share capital.

Note 3: These shares are held by Super Code, in which Mr. Suen Kwok Kin is a shareholder holding approximately 4.11% of its issued share capital.

Note 4: There are 16,404,880 shares and 10,655,450 shares held by Super Code and Digikap Asia Limited ("Digikap") respectively. Digikap is a shareholder of Super Code holding approximately 8.81% of its share capital, and Digikap is wholly owned by Mr. Cheng Yu Hong.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)*

(b) Share options

The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 7 December 2001. Under the terms of the Plan and the Scheme, the board of directors of the Company may, at their discretion, invite any full-time employees or directors of the Group to subscribe for ordinary shares of HK\$0.1 each in the Company. The total maximum number of shares in respect of which options may be granted under the Plan and the Scheme may not exceed 30% of the issued share capital of the Company.

As at 31 December 2001, options to subscribe for an aggregate of 60,000,000 shares at an exercise price ranging from HK\$0.15 to HK\$0.35 per share have been granted by the Company on 7 December 2001 under the Plan. The options granted are exercisable at any time within 9 years from 7 December 2002. Each of these options shall lapse in accordance with the Plan if the relevant grantee ceases to be employed by the Group. As at 31 December 2001, none of these options has been exercised or has lapsed.

As at 31 December 2001, no option has been granted or agreed to be granted under the Scheme.

Particulars of the options granted to the directors of the Group under the Plan during the year are set out below:

Name of directors	Exercise price HK\$	No. of shares subject to options granted on 7 December 2001 and outstanding as at 31 December 2001
Mr. Yu Hang Chung, Herman	0.35	1,280,000
	0.15	6,400,000
Mr. Suen Kwok Kin	0.35	1,280,000
	0.15	4,480,000
Mr. Kam Chun Ying, Francis	0.35	1,280,000
	0.15	4,480,000
Mr. Cheng Yu Hong	0.25	5,422,500
	0.15	1,300,000
Mr. Woo Chia-wei	0.35	2,000,000

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (continued)

(b) Share options (continued)

No options were waived or exercised during the year and up to the date of this report.

Save as disclosed above, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18 had any right to subscribe for the shares of the Company, or had exercised any such right.

Save as disclosed above, neither the directors nor the chief executive, nor any of their associates, had any interests in any shares of the Company or any of its associated corporations as defined by the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Number of Shares	Percentage of issued share capital as at 31 December 2001
Super Code Limited	186,207,496	31.04%
HyComm Wireless Limited	60,584,726	10.10%

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	11.74%
— five largest suppliers combined	34.30%
Sales	
— the largest customer	16.20%
— five largest customers combined	51.61%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

BOARD PRACTICES AND PROCEDURES

From the Listing Date to the date of this report, 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.

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, an executive director, 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

Each of the directors and the initial management shareholders of the Company and their respective associates (as defined in the Company's Prospectus dated 17 December 2001 and the GEM Listing Rules) has confirmed that, none of them had any business or interest in companies that competes or may compete with the business of the Group.

SPONSOR'S INTEREST

Pursuant to the agreement dated 17 December 2001 entered into between the Company and Deloitte & Touche Corporate Finance Ltd. ("Deloitte & Touche"), Deloitte & Touche is entitled to receive a fee in respect of the appointment by the Company as the sponsor of the Company as required under the GEM Listing Rules for the period from 21 December 2001 to 31 December 2003.

As at 31 December 2001, neither Deloitte & Touche, its directors, employees nor their associates, had any interest in any securities of the Company or any of its associated companies.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors

Yu Hang Chung, Herman

Director

Hong Kong, 25 March 2002



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF CODEBANK LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 31 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts that give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
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	6	(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	8	(52,810)	(90,906)
Loss per share - basic	9	HK11 cents	HK33 cents
- diluted	9	HK11 cents	HK33 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Goodwill	12	2,601	—
Fixed assets	13	8,041	10,436
Associated companies	15	—	218
Other investments	16	—	898
Current assets			
Accounts receivable	17	3,164	1,545
Prepayments, deposits and other receivables		27,080	1,422
Due from a shareholder	18	281	—
Trading investments	19	399	346
Bank balances and cash	20	10,204	2,617
		41,128	5,930
Current liabilities			
Accounts payable	21	3,821	931
Other payables and accruals		5,282	6,627
Current portion of long-term liabilities	25	2,798	4,999
Short-term bank loan, secured	26	1,310	1,297
Bank overdrafts, secured	26	892	2,176
Other short-term loan, secured	27	1,250	—
		15,353	16,030
Net current assets/(liabilities)		25,775	(10,100)
		36,417	1,452
Financed by:			
Share capital	22	60,000	293
Reserves	24	(25,522)	(8,990)
		34,478	(8,697)
Advances from shareholders	28	—	6,881
Long-term liabilities	25	1,939	3,268
		36,417	1,452

Yu Hang Chung, Herman
Director

Cheng Yu Hong
Director

BALANCE SHEET

As at 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Fixed assets	13	1,631	1,903
Subsidiaries	14	3,113	—
Associated companies	15	—	38
Other investments	16	—	898
Current assets			
Prepayments, deposits and other receivables		26,420	899
Due from a shareholder	18	281	—
Trading investments	19	—	346
Bank balances and cash		5,665	37
		32,366	1,282
Current liabilities			
Other payables and accruals		4,305	4,214
Current portion of long-term liabilities	25	2,798	4,035
Bank overdrafts, secured	26	250	1,283
Other short-term loan, secured	27	1,250	—
		8,603	9,532
Net current assets/(liabilities)		23,763	(8,250)
		28,507	(5,411)
Financed by:			
Share capital	22	60,000	293
Reserves	24	(33,432)	(14,543)
		26,568	(14,250)
Advances from shareholders	28	—	6,881
Long-term liabilities	25	1,939	1,958
		28,507	(5,411)

Yu Hang Chung, Herman
Director

Cheng Yu Hong
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash outflow from operating activities	29(a)	(51,319)	(22,829)
Returns on investments and servicing of finance			
Interest income		244	7
Interest expenses		(933)	(1,439)
Net cash outflow from returns on investments and servicing of finance		(689)	(1,432)
Investing activities			
Net cash outflow from acquisition of a subsidiary	29(b)	—	(1,528)
Purchase of fixed assets		(863)	(5,964)
Sale of fixed assets		14	158
Purchase of associated companies		—	(1,000)
Advance (to)/from an associated company		(498)	120
Purchase of additional interest in other investment		—	(258)
Sale of other investment		94	—
Sale of trading investments		292	—
Purchase of other investment		—	(390)
Net cash outflow from investing activities		(961)	(8,862)
Net cash outflow before financing		(52,969)	(33,123)
Financing	29(c)		
Issue of ordinary shares, net of share issue expenses		63,822	23,277
Advances from shareholders		—	6,881
Repayment of advances from shareholders		(250)	—
New bank loans		1,263	7,797
Repayment of bank loans		(801)	(2,320)
Repayment of capital elements of finance leases		(2,183)	(2,210)
Net cash inflow from financing		61,851	33,425
Increase in cash and cash equivalents		8,882	302
Cash and cash equivalents at 1 January		441	140
Effect of foreign exchange rate changes		(11)	(1)
Cash and cash equivalents at 31 December		9,312	441
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		10,204	2,617
Bank overdrafts, secured		(892)	(2,176)
		9,312	441

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Capital reserve arising from acquisition of a subsidiary	24	—	68
Exchange loss arising from the translation of the accounts of subsidiaries	24	(11)	(1)
Net (loss)/gain not recognised in the profit and loss account		(11)	67
Loss attributable to shareholders		(52,810)	(90,906)
Total recognised loss		(52,821)	(90,839)

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts 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 accounts are prepared under the historical cost convention except that trading investments are stated at fair value.

The effect of adopting 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) is set out in the accounting policies below.

(b) Consolidation

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are companies in which the Group, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.
- (ii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.
- (iii) All significant intercompany transactions and balances within the Group are eliminated on consolidation.
- (iv) The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill/negative goodwill which was not previously charged or recognised in the consolidated profit and loss account or retained earnings.
- (v) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.
- (vi) In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated results include the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investments in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) Fixed assets

Fixed assets, comprising leasehold improvements, furniture and fixtures and equipment and computer equipment, are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rate is 25%.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

1. PRINCIPAL ACCOUNTING POLICIES *(continued)***(e) Assets under leases***(i) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Goodwill on acquisition

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised using the straight-line method over its estimated useful life of three years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill on acquisition that occurred prior to 1 January 2001 was transferred to reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously transferred to reserves has not been restated.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Other investments

Other investments represent the investment in club debentures and unlisted shares and are stated at cost less provision for diminution in value, if necessary, for any diminution in value other than temporary in nature.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below their carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Trading investments

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprises cash on hand, deposits held at call with banks and bank overdrafts.

(k) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. During the year, all the research and development costs have been expensed.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)***(l) Borrowing costs**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except for those borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales, which are capitalised as part of the cost of that asset. During the year, all borrowing costs have been expensed.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(n) Retirement benefit costs

The Group's contributions to the retirement schemes are expensed as incurred.

(o) Revenue recognition

(i) Revenue from the provision of internet and intranet development services and the provision of design, development and deployment of the voice and wireless technology services is recognised when services are rendered, having regard to the total costs attributable to the proportion of the total contract which has been completed at the balance sheet date.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(p) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

NOTES TO THE ACCOUNTS

2. 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 are as follows:

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

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 of Hong Kong Limited (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 (*note 22(II)(a)*).

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 proceed 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 (*note 22(II)(h)*). 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 HK\$'000	2000 HK\$'000
Crediting:		
Gain on disposal of certain interests in a subsidiary	6,750	—
Gain on dilution of interests in a subsidiary	3,896	—
Charging:		
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

NOTES TO THE ACCOUNTS

6. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts	584	969
Interest on other loans	34	157
Interest element of finance leases	315	132
Interest on late payment of finance leases	—	181
	933	1,439

7. TAXATION

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

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$55,178,000 (2000: loss of HK\$96,392,000).

9. 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: loss of 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\$1.0 each into 10 ordinary shares of HK\$0.1 each of the Company on 3 March 2000 (*note 22(l)(a)*).

Diluted loss per share is the same as the basic loss per share as there is no dilution effect arising from the share options (*note 23*) granted by the Company.

10. RETIREMENT BENEFIT COSTS

The Group did not operate any retirement scheme up to 30 November 2000. With effect from 1 December 2000, a Mandatory Provident Fund scheme ("MPF Scheme") has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Scheme Ordinance (the "MPF Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's contribution to the MPF Scheme charged to the profit and loss account during the year amounted to approximately HK\$524,000 (2000: HK\$52,000).

NOTES TO THE ACCOUNTS

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	28	—
Other emoluments:		
Basic salaries, allowances and benefits in kind	3,745	3,540
Retirement scheme contributions	53	—
	3,826	3,540

Directors' fees of HK\$7,000 (2000: Nil) and HK\$21,000 (2000: Nil) were paid to one non-executive director and two independent non-executive directors respectively during the year.

During the year, each of the executive directors of the Company received emoluments from the Group of approximately HK\$1,078,000 (2000: HK\$906,000), HK\$805,000 (2000: HK\$785,000), HK\$805,000 (2000: HK\$752,000), HK\$561,000 (2000: HK\$285,000) and HK\$549,000 (2000: HK\$812,000) respectively.

In addition to the directors' emoluments disclosed above, during the year, 27,922,500 options were granted to four executive directors and one non-executive director under the share option scheme as disclosed in note 23 to the accounts. During the year, no options had been exercised by these directors.

No directors waived or agreed to waive any of their emoluments in respect of the year ended 31 December 2001 and 2000.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2000: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2000: one) individual during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	910	692
Retirement scheme contributions	12	—
	922	692

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement or upon joining the Group, or as compensation for loss of office.

12. GOODWILL

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
At 1 January	—	—
Acquisition of additional interest in a subsidiary	3,069	—
Amortisation for the year	(468)	—
At 31 December	2,601	—

NOTES TO THE ACCOUNTS

13. FIXED ASSETS

	Group			
	Leasehold improvements	Furniture, fixture and equipment	Computer equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At 1 January 2001	1,706	842	9,974	12,522
Additions	47	111	705	863
Disposals	—	—	(84)	(84)
At 31 December 2001	1,753	953	10,595	13,301
Accumulated depreciation				
At 1 January 2001	280	231	1,575	2,086
Charge for the year	416	222	2,569	3,207
Disposals	—	—	(33)	(33)
At 31 December 2001	696	453	4,111	5,260
Net book value:				
At 31 December 2001	1,057	500	6,484	8,041
At 31 December 2000	1,426	611	8,399	10,436

At 31 December 2001, the net book value of fixed assets held by the Group under finance leases was approximately HK\$4,217,000 (2000: HK\$5,706,000).

13. FIXED ASSETS (continued)

	Company			
	Leasehold improvements	Furniture, fixture and equipment	Computer equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 1 January 2001	1,327	379	576	2,282
Additions	—	—	349	349
At 31 December 2001	1,327	379	925	2,631
Accumulated depreciation				
At 1 January 2001	221	61	97	379
Charge for the year	332	95	194	621
At 31 December 2001	553	156	291	1,000
Net book value:				
At 31 December 2001	774	223	634	1,631
At 31 December 2000	1,106	318	479	1,903

14. SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Investments in subsidiaries, at cost	5,915	2,011
Provision for diminution in value of investments	(5,915)	(2,011)
Long-term loan to a subsidiary (note (i))	4,396	—
Due from subsidiaries (note (i))	34,338	26,503
Provision for long-term loan and other amounts due from subsidiaries	(35,621)	(26,503)
	3,113	—

Note (i): The long-term loan and other amounts due from subsidiaries are unsecured and interest-free.

NOTES TO THE ACCOUNTS

14. SUBSIDIARIES (continued)

(ii) As at 31 December 2001, the Company held interests in the following subsidiaries:—

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
Held directly:				
CBIT Corporation Limited	Hong Kong	Provision of internet and intranet development services in Hong Kong	10,000 Ordinary shares of HK\$0.1 each	100%
Codebank IMA Limited	Hong Kong	Investment holding in Hong Kong	10,000 Ordinary shares of HK\$1 each	100%
MAP Technologies Limited	Hong Kong	Provision of design, development and deployment of the voice and wireless technology services in Hong Kong	20,000,000 Ordinary shares of HK\$0.1 each 2,857,140 Convertible, voting and redeemable preference shares of HK\$0.1 each	61.25%
數碼庫(北京)科技 有限公司	The PRC	Trading of hardware and software and provision of consultancy services in the PRC	Registered capital of US\$500,000	100%
Held indirectly:				
Campus Online Limited	Hong Kong	Provision of internet and intranet development services for educational institutions in Hong Kong	100,000,000 Ordinary shares of HK\$0.1 each	90%
校園在綫信息技術 (上海)有限公司	The PRC	Provision of internet and intranet development services for educational institutions in the PRC	Registered capital of US\$1,000,000	83.25%

15. ASSOCIATED COMPANIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	—	338
Due from an associated company	378	—
Due to associated companies	—	(120)
Provision for amount due from an associated company	(378)	—
	—	218
	Company	
	2001 HK\$'000	2000 HK\$'000
Investment in an associated company	1,000	1,000
Due from an associated company	196	—
Due to an associated company	—	(300)
	1,196	700
Provision for diminution in value of investment and amount due from an associated company	(1,196)	(662)
	—	38

As at 31 December 2001, the Group held interests in the following associated companies:

Name	Place of incorporation	Principal activities	Issued and paid up share capital	Interest held
Held directly:				
Family Online Corporation Limited	Hong Kong	Provision of internet and intranet development services in Hong Kong	2,500,000 Ordinary shares of HK\$1 each	40%
Held indirectly:				
Campus Smart Limited	British Virgin Islands	Sale of smartcard to educational institutions in Hong Kong up to May 2001	10,000 Ordinary shares of US\$1 each	49%

In May 2001, pursuant to an agreement entered into between Campus Online Limited, one of the Company's subsidiaries, which holds 49% equity interest directly in Campus Smart Limited, and the 51% shareholder of Campus Smart Limited, it was agreed that the business of Campus Smart Limited would cease immediately.

NOTES TO THE ACCOUNTS

16. OTHER INVESTMENTS

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	2,346	508
Club debentures, at cost	—	390
Provision for diminution in value of investment	(2,346)	—
	—	898

As at 31 December 2001, unlisted shares represented 13.7% equity interests in Corpmart.com Limited, which was incorporated in Hong Kong and is principally engaged in the provision of corporate intranet and communication platform and other e-business solutions.

17. ACCOUNTS RECEIVABLE

The Group normally grants credit period ranging from 7 days to 30 days to its trade debtors. At 31 December 2001, the ageing analysis of accounts receivable is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	2,149	381
31 - 60 days	752	804
61 - 90 days	399	65
Over 90 days	2,893	1,464
	6,193	2,714
Less: provision on doubtful debts	(3,029)	(1,169)
	3,164	1,545

18. DUE FROM A SHAREHOLDER — GROUP AND COMPANY

The amount due from Super Code Limited which is owned as to 72.02% by Mr. Yu Hang Chung, Herman ("Mr. Yu"), 4.23% by Mr. Kam Chun Ying, Francis ("Mr. Kam") and 4.11% by Mr. Suen Kwok Kin ("Mr. Suen") and 8.81% by Digikap Asia Limited ("Digikap"), a company wholly owned by Mr. Cheng Yu Hong ("Mr. Cheng"). Mr. Yu, Mr. Kam, Mr. Suen and Mr. Cheng are all executive directors of the Company. Mr. Kam resigned as an executive director on 8 March 2002. Amount due is unsecured, interest free and has no fixed terms of repayment.

19. TRADING INVESTMENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity securities, at fair value				
— shares listed in Hong Kong	—	346	—	346
— shares listed overseas	399	—	—	—
	399	346	—	346

20. BANK BALANCES AND CASH — GROUP

As at 31 December 2001, RMB4,727,000 (2000: RMB8,000) of the Group's bank balances and cash were denominated in Renminbi and kept in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21. ACCOUNTS PAYABLE

At 31 December 2001, the ageing analysis of accounts payable is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	1,941	40
31 - 60 days	598	32
61 - 90 days	245	611
Over 90 days	1,037	248
	3,821	931

NOTES TO THE ACCOUNTS

22. SHARE CAPITAL

	Note	Class A		Class B		Ordinary shares of HK\$0.1 each	
		No. of shares	HK\$'000	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:							
As at 1 January 2000		1,000,000	1,000	500,000	500	—	—
Subdivision of shares into HK\$0.1 each	(I)(a)	9,000,000	—	4,500,000	—	—	—
Increase of authorised share capital	(I)(b)	90,000,000	9,000	—	—	—	—
As at 31 December 2000		100,000,000	10,000	5,000,000	500	—	—
As at 1 January 2001, HK\$0.1 each		100,000,000	10,000	5,000,000	500	—	—
Cancellation of Class B shares and conversion of Class A shares into ordinary shares	(I)(c)	(100,000,000)	(10,000)	(5,000,000)	(500)	100,000,000	10,000
Increase of authorised share capital	(I)(d)	—	—	—	—	900,000,000	90,000
As at 31 December 2001		—	—	—	—	1,000,000,000	100,000
Issued:							
As at 1 January 2000		250,000	250	—	—	—	—
Subdivision of Class A shares into HK\$0.1 each	(I)(a)	2,250,000	—	—	—	—	—
Issue of Class A shares	(II)(a), (II)(b)	430,601	43	—	—	—	—
As at 31 December 2000		2,930,601	293	—	—	—	—
As at 1 January 2001, HK\$0.1 each		2,930,601	293	—	—	—	—
Issue of Class A shares	(II)(c) to (II)(h)	1,247,212	125	—	—	—	—
Conversion of Class A shares into ordinary shares	(I)(c)	(4,177,813)	(418)	—	—	4,177,813	418
Issue of ordinary shares	(II)(i), (II)(j) and (II)(n)	—	—	—	—	105,396,018	10,539
Capitalisation of advances from shareholders	(II)(k), (II)(l)	—	—	—	—	318,992	32
Capitalisation issue	(II)(m)	—	—	—	—	490,107,177	49,011
As at 31 December 2001		—	—	—	—	600,000,000	60,000

22. SHARE CAPITAL *(continued)*

- (I) Authorised share capital
- (a) On 3 March 2000, the authorised share capital of the Company was subdivided from 1,000,000 Class A shares of HK\$1 each and 500,000 Class B shares of HK\$1 each into 10,000,000 Class A shares of HK\$0.1 each and 5,000,000 Class B shares of HK\$0.1 each respectively.
 - (b) Also on 3 March 2000, the authorised share capital of the Company was increased from HK\$1,500,000 to HK\$10,500,000 by the creation of 90,000,000 new Class A shares of HK\$0.1 each.
 - (c) Pursuant to a shareholders' resolution passed on 6 July 2001, all Class B shares of HK\$0.1 each in the authorised share capital of the Company were cancelled and all Class A shares of HK\$0.1 each was converted into ordinary shares of HK\$0.1 each.
 - (d) On 7 December 2001, the authorised share capital of the Company was increased from HK\$10,000,000 to HK\$100,000,000 by the creation of 900,000,000 additional shares of HK\$0.1 each to rank pari passu with the existing shares in all respects.
- (II) Issued share capital
- (a) On 8 June 2000 and 7 September 2000, a total of 267,606 Class A shares of HK\$0.10 each in the Company were allotted and issued to HyComm in consideration of the allotment and issue of 30,650,000 shares in the capital of HyComm at HK\$2.50 each credited as fully paid to the Company (*See note 3*).
 - (b) On 22 December 2000, 162,995 Class A shares of HK\$0.10 each in the Company were allotted and issued to Allied Luck Company Limited ("Allied Luck") at a cash consideration of HK\$6,500,000.
 - (c) On 5 January 2001, 81,498 Class A shares of HK\$0.1 each in the Company were allotted and issued to Bestcharm Holdings Limited ("Bestcharm") at a total cash consideration of HK\$3,250,000.
 - (d) On 17 January 2001, 262,067 Class A shares of HK\$0.1 each in the Company were allotted and issued to Digikap at par credited as fully paid as partial consideration in respect of the provision of consultancy services by Digikap to the Group.
 - (e) On 28 February 2001, 193,072 Class A shares of HK\$0.1 each in the Company were allotted and issued to AsiaMediaShop Limited at a total cash consideration of HK\$6,500,000.

22. SHARE CAPITAL *(continued)*

- (II) Issued share capital *(continued)*
- (f) Also on 28 February 2001, additional 30,077 and 15,038 Class A shares of HK\$0.1 each in the Company were allotted and issued respectively to Allied Luck and Bestcharm at par credited as fully paid so as to maintain their then existing shareholding interests in the Company at 4.95% and 2.475% respectively.
 - (g) On 1 March 2001, 193,072 and 39,005 Class A shares of HK\$0.1 each in the Company were allotted and issued respectively to CBC Information Technology Limited, a third party and Digikap for cash consideration of HK\$6,500,000 and HK\$1,000,000 respectively.
 - (h) On 11 April 2001, 433,383 Class A shares of HK\$0.1 each in the Company were allotted and issued to One Trend for a total cash consideration of HK\$30,000,000. The cash proceed was received in May 2001 (*See also note 4*).
 - (i) On 9 July 2001, 78,009 shares of HK\$0.1 each in the Company were allotted and issued to Ms. Lam Ching Shan, senior management of the Group, at par for cash.
 - (j) On 17 July 2001, 78,009 shares of HK\$0.1 each in the Company were allotted and issued to Cyber Campus Network Limited ("CCNL") as part consideration for the acquisition by the Group of a 10% equity interest in Campus Online Limited, a subsidiary of the Company.
 - (k) On 19 July 2001, the Company allotted and issued 131,083, 17,824, 12,174, 8,912 and 71,582 ordinary shares to Mr. Yu, Mr. Ng Wing Hong ("Mr. Ng"), Mr. Kam, Mr. Suen and HyComm respectively as consideration for the capitalisation of shareholders' loans in the aggregate amount of HK\$6,631,046.
 - (l) On 19 July 2001, 77,417 shares were allotted and issued to Mr. Yu credited as fully paid for the capitalisation of a promissory note amounting to HK\$2,282,000 issued by the Company to Mr. Yu.
 - (m) Pursuant to the resolutions passed by the shareholders of the Company on 7 December 2001, an amount of HK\$49,010,718 standing to the credit of the share premium account of the Company is capitalised and applied to pay up in full at par a total of 490,107,177 ordinary shares for allotment and issue to holders of shares on the register of members of the Company as at the close of business on 14 December 2001 in proportion to their then shareholdings in the Company.
 - (n) On 21 December 2001, the Company issued 105,240,000 ordinary shares of HK\$0.1 each at a subscription price of HK\$0.5 per share to the public through placement prior to the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange (the "Listing"). The Group raised approximately HK\$40 million net of related expenses by way of this placing.

23. SHARE OPTIONS

The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 7 December 2001. Under the terms of the Plan and the Scheme, the board of directors of the Company may, at their discretion, invite any full time employees or executive directors of the Group to subscribe for ordinary shares of HK\$0.1 each in the Company. The maximum number of ordinary shares in respect of which options may be granted under the Plan and the Scheme may not exceed 30% of the issued share capital of the Company.

As at 31 December 2001, options to subscribe for an aggregate of 60,000,000 shares at an exercise price ranging from HK\$0.15 to HK\$0.35 per share have been granted by the Company to certain directors and employees of the Group on 7 December 2001 under the Plan. These options granted are exercisable at any time within 9 years from 7 December 2002. Each of these options shall lapse in accordance with the Plan if the relevant grantee ceases to be employed by the Group. As at 31 December 2001, none of these options has been exercised or has lapsed.

As at 31 December 2001, no option has been granted or agreed to be granted under the Scheme.

No options were waived or exercised up to the date of this report.

NOTES TO THE ACCOUNTS

24. RESERVES

(a) Group

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2000	—	—	—	(132)	(132)
Premium arising from the issue of shares, net of share issue expenses (notes 22 (II)(a) and (II)(b))	81,981	—	—	—	81,981
Premium arising from acquisition of a subsidiary	—	68	—	—	68
Arising from the translation of the accounts of subsidiaries	—	—	(1)	—	(1)
Loss for the year	—	—	—	(90,906)	(90,906)
At 31 December 2000	81,981	68	(1)	(91,038)	(8,990)
At 1 January 2001	81,981	68	(1)	(91,038)	(8,990)
Premium arising from the issue of shares, net of share issue expenses (notes 22 (II)(c), (II)(e), (II)(f), (II)(g), (II)(h), (II)(j), (II)(k) and (II)(l))	55,901	—	—	—	55,901
Arising from the translation of the accounts of subsidiaries	—	—	(11)	—	(11)
Capitalisation issue (note 22 (II)(m))	(49,011)	—	—	—	(49,011)
Issue of shares upon the listing of the Company's shares, net of share issue expenses (note 22(II)(n))	29,399	—	—	—	29,399
Loss for the year	—	—	—	(52,810)	(52,810)
At 31 December 2001	118,270	68	(12)	(143,848)	(25,522)

24. RESERVES (continued)

(b) Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2000	—	(132)	(132)
Premium arising from the issue of shares, net of share issue expenses (notes 22 (II)(a) and (II)(b))	81,981	—	81,981
Loss for the year	—	(96,392)	(96,392)
At 31 December 2000	81,981	(96,524)	(14,543)
At 1 January 2001	81,981	(96,524)	(14,543)
Premium arising from the issue of shares, net of share issue expenses (notes 22 (II)(c), (II)(e), (II)(f), (II)(g), (II)(h), (II)(j), (II)(k) and (II)(l))	55,901	—	55,901
Capitalisation issue (note 22 (II)(m))	(49,011)	—	(49,011)
Issue of shares upon the listing of the Company's shares, net of share issue expenses (note 22(II)(n))	29,399	—	29,399
Loss for the year	—	(55,178)	(55,178)
At 31 December 2001	118,270	(151,702)	(33,432)

NOTES TO THE ACCOUNTS

25. LONG-TERM LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loan, secured (<i>See note 26</i>)	3,379	4,180	3,379	2,510
Obligations under finance leases	1,358	4,087	1,358	3,483
	4,737	8,267	4,737	5,993
Current portion of long-term liabilities	(2,798)	(4,999)	(2,798)	(4,035)
	1,939	3,268	1,939	1,958
	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The analysis of the above is as follows:				
Bank loans, secured				
— repayable within one year	1,440	2,270	1,440	1,910
— repayable in the second to fifth years inclusive	1,939	1,910	1,939	600
	3,379	4,180	3,379	2,510
Obligation under finance leases				
— repayable within one year	1,358	2,729	1,358	2,125
— repayable in the second to fifth years inclusive	—	1,358	—	1,358
	1,358	4,087	1,358	3,483
Total long-term liabilities	4,737	8,267	4,737	5,993
Current portion of long-term liabilities	(2,798)	(4,999)	(2,798)	(4,035)
	1,939	3,268	1,939	1,958

26. BANKING FACILITIES

- (a) As at 31 December 2001, the Group's banking facilities of approximately HK\$5.6 million were secured by the following:
- (i) personal guarantees of Mr. Yu for HK\$7,900,000;
 - (ii) the assignment of all benefits of the keyman insurance policy totalling approximately HK\$4,001,000 in the name of Mr. Yu.
 - (iii) a legal charge over a property held by Ms. Lai Sin Yee, Mr. Yu's mother.
- (b) As at 31 December 2001, the Company's banking facilities of approximately HK\$3.4 million were secured by the personal guarantees of Mr. Yu for HK\$5,000,000;
- (c) Subsequent to 31 December 2001, part of the personal guarantee of HK\$2,900,000 under note (a)(i) and the legal charge under note (a)(iii) above were released and replaced by the following:
- (i) corporate guarantee of the Company; and
 - (ii) a charge over the Group's bank deposit of HK\$2,250,000.

The Group is now in the process of arranging the release of personal guarantee of the remaining HK\$5,000,000 under note(a)(i) and note(b) above. This guarantee will be replaced by a charge over the Company's bank deposit of HK\$1,800,000.

27. OTHER SHORT-TERM LOAN, SECURED

Pursuant to a loan agreement entered into by the Company and Pioneer Capital (L) Limited ("Pioneer"), an independent third party, dated 16 July 2001, Pioneer granted an interest bearing loan of HK\$1,250,000 to the Company. The interest is calculated at 1% of the loan. The loan is secured by corporate guarantees given by certain subsidiaries of the Company and is repayable in full on 15 July 2002 together with interest.

28. ADVANCES FROM SHAREHOLDERS

The amounts due were unsecured and interest-free. The amounts due have been capitalised into the Company's shares during the current year.

NOTES TO THE ACCOUNTS

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Operating loss	(52,810)	(90,906)
Amortisation of goodwill	469	—
Depreciation of owned fixed assets	1,718	1,318
Depreciation of leased assets	1,489	906
Loss on disposal of fixed assets	37	11
Loss on disposal of other investments	296	—
Net realized and unrealized holding loss on trading investment	590	58,401
Provision for diminution in value of other investments	2,346	—
Provision for amount due from an associated company	378	—
Share of losses of associated companies	338	662
Increase in accounts receivables, other receivables, prepayment and deposits, including amounts due from a shareholder	(7,885)	(1,508)
Increase in accounts payables, other payables and accruals	1,026	6,855
Interest income	(244)	(7)
Interest expenses	933	1,439
Net cash outflow from operating activities	(51,319)	(22,829)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Net assets acquired		
Fixed assets	—	568
Accounts receivables	—	688
Prepayments, deposits and other receivables	—	158
Due from related company	—	701
Bank balances and cash	—	13
Accounts payables	—	(34)
Other payables and accruals	—	(319)
Due to shareholders	—	(166)
Short-term bank loan	—	(600)
Bank overdrafts	—	(931)
	—	78
Capital reserve arising from acquisition	—	(68)
Satisfied by cash	—	10
Analysis of the net cash outflow in respect of the acquisition of a subsidiary:		
Cash consideration	—	(10)
Bank balances and cash acquired	—	13
Bank loan and overdrafts acquired	—	(1,531)
Net cash outflow in respect of the acquisition of a subsidiary	—	(1,528)

NOTES TO THE ACCOUNTS

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Advances from shareholders <i>HK\$'000</i>	Loans and obligations under finance leases <i>HK\$'000</i>
At 1 January 2000	250	—	—
Inception of finance leases	—	—	6,297
Issue of shares for non-cash considerations (<i>note 22 (II)(a)</i>)	58,747	—	—
Net cash inflow from financing	23,277	6,881	3,267
At 31 December 2000	82,274	6,881	9,564
At 1 January 2001	82,274	6,881	9,564
Capitalisation of advances from shareholders (<i>note 22(II)(k)</i>)	6,631	(6,631)	—
Issue of shares for non-cash considerations (<i>notes 22(II)(d), (II)(f), (II)(j), (II)(l) & (II)(m)</i>)	4,935	—	—
Net proceeds receivable from issue of shares (<i>notes 22(II)(i) & (II)(n)</i>)	20,608	—	—
Obligation under finance leases overdue and reclassified as other payables	—	—	(546)
Net cash inflow/(outflow) from financing	63,822	(250)	(1,721)
At 31 December 2001	178,270	—	7,297

(d) Major non-cash transactions

Apart from those disclosed under note 29(c) above, other major non-cash transaction represented the settlement of accounts receivable of approximately HK\$935,000 by the issuance of certain overseas equity shares by the underlying trade debtor.

30. COMMITMENTS

(a) Capital commitments

As at 31 December 2001, the Group in the ordinary course of business had the following capital commitments contracted but not provided for:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Purchases of software	1,200	—

(b) Operating lease commitments

As at 31 December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2001		2000	
	Not later than one year <i>HK\$'000</i>	Later than one year not later than five years <i>HK\$'000</i>	Not later than one year <i>HK\$'000</i>	Later than one year not later than five years <i>HK\$'000</i>
Operating leases in respect of:				
— land and buildings	1,770	350	1,400	1,750
— leased lines and server	159	—	422	154
	1,929	350	1,822	1,904

NOTES TO THE ACCOUNTS

31. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 4 and 18, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Services rendered to associated companies	(a)	178	120
Services rendered to a related company	(b)	960	120
Consultancy fees paid to a related company	(c)	355	—
		1,493	240

Note:

- (a) It represents services rendered to the Group's associated companies, Family Online Corporation Limited and Campus Smart Limited, in accordance with the terms of the underlying agreement.
- (b) It represents services rendered to Corpmart.com, in which Mr. Yu had certain equity interest, in accordance with the terms of the underlying agreement.
- (c) It represents consultancy services rendered by Digikap, in which Mr. Cheng, the director of the Company, is also its shareholder and director in accordance with the terms of the underlying agreement.

In addition, on 19 July 2001, the Company acquired 11.41% equity interest in Corpmart.com from Mr. Yu at a consideration of HK\$2,281,600 which was satisfied by the issuance of 77,417 ordinary shares of HK\$0.1 each in the Company to Mr. Yu.

In the opinion of the directors of the Company, the above transactions were carried out in the normal course of business of the Group.

The abovementioned transactions have discontinued subsequent to the Listing.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25 March 2002.