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If you are in any doubt as to any aspect about this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Codebank Limited, you should at once hand this document to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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[code / bank]

Codebank Limited

數碼庫有限公司

(Incorporated in Hong Kong with limited liability)

**Circular to shareholders including a letter from the
Independent Financial Adviser**



CENTURION CORPORATE FINANCE LIMITED

**regarding the conditional partial cash offer
to acquire not less than 60,000,000 issued shares and
up to 174,000,000 issued shares of CODEBANK LIMITED of
HK\$0.10 each at HK\$0.02 per share in the proportion of
29 out of every 100 shares and to cancel
up to 17,400,000 options to subscribe
for shares at HK\$0.001 per option
in the proportion of 29 out of every 100 options
in CODEBANK LIMITED
by Emperor Capital Limited
on behalf of
Polywise Limited**

The letter from the board of directors of Codebank Limited is set out on pages 1 to 9 of this document. The letter from Centurion Corporate Finance Limited is set out on pages 10 to 26 of this document.

This document will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting.

2 August 2002

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

CONTENTS

	<i>Page</i>
CHARACTERISTICS OF GEM	i
DEFINITIONS	iii
EXPECTED TIMETABLE	vii
LETTER FROM THE BOARD	
I. Introduction	1
II. The Share Offer	2
III. The Option Offer	4
IV. Conditions of the Partial Offers	5
V. Information on the Group	6
VI. Information on the Offeror	7
VII. Intentions of the Offeror Regarding the Future of the Group	7
VIII. Listing	8
IX. General	9
LETTER FROM CENTURION	10
APPENDIX I — FINANCIAL INFORMATION ON THE GROUP	27
APPENDIX II — GENERAL INFORMATION	59
APPENDIX III — ANNOUNCEMENT ISSUED BY THE COMPANY DATED 28 MAY 2002	66

DEFINITIONS

In this document, except where the context otherwise requires, the following expressions have the following meanings:

“Announcement”	announcement of renren in relation to the Partial Offers dated 6 June 2002
“Board”	the board of Directors
“Centurion”	Centurion Corporate Finance Limited, an investment adviser and a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser in respect of the Partial Offers
“Closing Date”	16 August 2002 or such other date as the Offeror shall determine and announce, being the closing date of the Partial Offers
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Codebank Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the GEM Board
“Completion”	completion of the Partial Offers on the Closing Date
“Directors”	directors of the Company
“Emperor Capital”	Emperor Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), being the financial adviser to the Offeror
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“GEM”	The Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Shareholders”	Shareholders who are not interested or involved in the Partial Offers, being Shareholders other than Super Code Limited, Hycomm Wireless Limited, their respective controlling shareholders, associates, other initial management Shareholders, significant Shareholders whose Shares are subject to restriction on disposal pursuant to the GEM Listing Rules and parties acting in concert with each of them (for the purpose of the Takeovers Code)
“Latest Practicable Date”	30 July 2002, being the latest practicable date prior to the despatch of this Offeree Document
“Listing Rules”	Rules Governing the Listing of Securities on the GEM board of the Stock Exchange
“Mr. Kam Chun Ying, Francis”	Mr. Kam Chun Ying, Francis resigned as a Director on 8 March 2002
“Mr. Mak”	Mr. Mak Chi Yeung, the chairman and the controlling shareholder of renren, is deemed to be interested in the shareholding of renren through an approximately 51.99% held by Rich Delta, a wholly owned subsidiary of Sky Concord which is a company wholly and beneficially owned by Mr. Mak
“Mr. Ng Wing Hong”	Mr. Ng Wing Hong is a former senior management member of the Company, who has since resigned
“Mr. Yu Hang Chung, Herman”	Mr. Yu Hang Chung, Herman is the former chairman of the Company, who resigned as chairman and a Director on 30 April 2002
“Offer Document”	the document in respect of the Partial Offers issued by Polywise to the Shareholders dated 27 June 2002 in accordance with the Takeovers Code
“Offer Options”	the 17,400,000 Options under the Option Offer
“Offer Prices”	HK\$0.02 per Share in cash and HK\$0.001 per Option in cash
“Offer Shares”	not less than 60,000,000 Shares and up to 174,000,000 Shares under the Share Offer

DEFINITIONS

“Offeree Document”	the response document in respect of the Partial Offers issued by the Company to the Shareholders dated 2 August 2002 in accordance with the Takeovers Code
“Option Offer”	the conditional cash offer made by the Offeror to cancel up to 17,400,000 Options in the proportion of 29 out of every 100 Options not already owned or agreed to be acquired by the Offeror and parties acting in concert with it at the Offer Price
“Optionholder(s)”	holder(s) of Options
“Options”	share options granted under the pre-IPO share option plan adopted on 7 December 2001 to the employees and executive Directors
“Partial Offers”	the Share Offer and the Option Offer
“Polywise” or “Offeror”	Polywise Limited, a company incorporated in the British Virgin Islands, a wholly owned subsidiary of renren
“PRC”	The People’s Republic of China
“Pre-Suspension Date”	13 May 2002, being the last trading day before the suspension of the trading of the Shares on the Stock Exchange
“Registrars”	Standard Registrars Limited, the share registrar of the Company in Hong Kong at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong
“renren”	renren Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Rich Delta”	Rich Delta Development Limited, a company incorporated on 21 March 2001 in the British Virgin Islands with limited liability, a wholly owned subsidiary of Sky Concord, a company wholly and beneficially owned by Mr. Mak. Rich Delta is interested in approximately 51.99 per cent. shareholding of renren
“SFC”	the Securities and Futures Commission

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Share Offer”	the conditional cash offer made by the Offeror to acquire all the Shares in the proportion of 29 out of every 100 Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it at the Offer Price
“Sky Concord”	Sky Concord Development Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Mak
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

EXPECTED TIMETABLE

2002

Partial Offers open (valid acceptance of the Partial Offers
shall be subject to conditions of the Partial Offers) Thursday, 27 June

Date of despatch of the Offeree Document Friday, 2 August

Closing Date Friday, 16 August

Return of Share certificate and forms of acceptance tendered
to the Offeror (assuming the conditions of the
Partial Offers are not fulfilled) on or before Monday, 26 August

Payment of the remittances under the Partial Offers
in respect of valid acceptances lodged on
16 August 2002 to be despatched on or before Monday, 26 August

Note: If the conditions of the Partial Offers are not fulfilled, all Share Certificates or other documents of title and forms of acceptance lodged with Registrars on or before 16 August 2002 will be returned by the Offeror in accordance with the above timetable.

[code / bank]
Codebank Limited
數碼庫有限公司
(Incorporated in Hong Kong with limited liability)

Directors:

Deng Yi
Cheng Yu Hong
Suen Kwok Kin

Registered Office:

39/F China Online Centre
333 Lockhart Road, Wanchai
Hong Kong

Non-executive Directors

Choy Mun Kei

2 August 2002

To the Shareholders and the Optionholders

Dear Sir or Madam,

CONDITIONAL PARTIAL CASH OFFER

I. INTRODUCTION

It was announced on 6 June 2002 that Polywise, a wholly owned subsidiary of renren, has proposed to the Directors to make the Share Offer to all the Shareholders in the proportion of 29 out of every 100 Offer Shares at HK\$0.02 each and the Option Offer to cancel the Options to all the Optionholders in the proportion of 29 out of every 100 outstanding Offer Options at HK\$0.001 each on the condition that the Partial Offers become unconditional.

You should now have received the Offer Document, which was despatched to Shareholders on 27 June 2002. You should read the Offer Document carefully and in particular the sections relating to the Offeror's intention for the Company.

Shareholders should note that the Partial Offers are unsolicited offers and are therefore perceived by the Board as hostile.

Messrs. Deng Yi, Cheng Yu Hong and Suen Kwok Kin are executive directors and salaried employees of the Company, and therefore are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Partial Offers. Mr. Choy Mun Kei, a non-executive Director, is connected to HyComm Wireless Limited, a substantial Shareholder, which has

LETTER FROM THE BOARD

introduced a potential investor. Accordingly, each of Messrs. Deng, Cheng, Suen and Choy is not considered to be independent under the Takeovers Code in so far as the Partial Offers are concerned and it is therefore, considered inappropriate for any of them to give any advice to the Independent Shareholders. Therefore, the independent board committee cannot be formed specifically to give advice and recommendation to the Independent Shareholders in this regard.

The Board has appointed Centurion to advise the Independent Shareholders regarding the terms of the Partial Offers.

The Board notes the intention of the Offeror to nominate two new Directors to join the Board following Completion and wishes to state that the Board would resist any Directors nominated by the Offeror. Messrs. Deng Yi, Cheng Yu Hong and Suen Kwok Kin have indicated to the Board that if the Partial Offers become or are declared unconditional, they intend to remain as Directors. In addition, Mr. Choy Mun Kei, a non-executive Director, has notified the Board that, he also intends to remain as a Director following Completion. The Board is in the process of identifying additional Directors, including the possible appointment of Mr. Chan Wing Nga as an independent non-executive Director. Mr. Chan, who represents a party which has a claim on the Company with respect to an alleged non receipt of 20 million new Shares.

The purpose of this Offeree Document is to provide you with further details of the Partial Offers and to set out the advice from Centurion to the Independent Shareholders in respect of the Partial Offers.

II. THE SHARE OFFER

The information contained in this section is derived from the letter from Emperor Capital set out on pages 10 and 11 of the Offer Document.

On behalf of the Offeror, Emperor Capital offered in the Offer Document to acquire, on the terms and conditions set out in the Offer Document and in the related form(s) of acceptance and transfer (which were enclosed in the Offer Document), all the Offer Shares on the following basis:

For each Offer Share HK\$0.02 payable in cash

Acceptance(s) of the Share Offer by any person(s) will be deemed to constitute a warranty by such person(s) to the Offeror that the Offer Shares acquired under the Share Offer are sold by such person free from third party rights, liens, claims, equities, charges and encumbrances and are sold by such person(s) together with all rights attaching thereto including the rights to receive all dividends and distribution declared, paid or made on or after Completion.

Seller's ad valorem stamp duty arising in connection with acceptances of the Partial Offers, amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable in respect of the relevant acceptance, will be payable by the

LETTER FROM THE BOARD

Shareholders who accept the Partial Offers. The Offeror will pay for such amount of stamp duty on behalf of the Shareholders who accept the Partial Offers. This amount of stamp duty will be deducted from the consideration payable on acceptance of the Partial Offers.

The Share Offer is conditional on the conditions set out in the section headed “Conditions of the Partial Offers”. The Share Offer and the Option Offer were originally scheduled to be closed at 4:00 p.m. on 25 July 2002. However, the despatch date of the Offeree Document is revised to 2 August 2002 and the closing of the Share Offer and Option Offer is revised to 16 August 2002. The delay in the despatch of the Offeree Document is due to the late appointment of an independent financial adviser as required under the Takeovers Code. Therefore the latest time for posting of remittances as mentioned above will be on Monday, 26 August 2002, if the Partial Offers become unconditional on 16 August 2002.

The Offer Price of HK\$0.02 per Share represents (i) a discount of approximately 64.29 per cent. to the closing price of HK\$0.056 per Share as quoted on the Stock Exchange on the Pre-Suspension Date; (ii) a discount of approximately 63.64 per cent. to the 10-day average closing price of HK\$0.055 per Share before the Pre-Suspension Date; and (iii) a discount of approximately 64.91 per cent. to the audited consolidated net asset value of approximately HK\$0.057 per Share as at 31 December 2001.

The Share Offer values the entire issued share capital of the Company at HK\$12 million on the basis of 600,000,000 Shares in issue as at the Latest Practicable Date. In the event of full acceptance of the Share Offer in respect of 320,082,267 Shares not subject to restriction on disposal (assuming that no further new Shares will be issued as a result of the exercise of the subscription rights attaching to the outstanding Options after the Latest Practicable Date and prior to the close of the Partial Offers) and full acceptance of the Option Offer, the consideration payable by the Offeror under the Partial Offers would be in the maximum of approximately HK\$3.5 million. Under this scenario, the maximum take-up for all the Shares tendered will be approximately 54.36%.

Further terms of the Share Offer are set out in the letter from Emperor Capital contained in the Offer Document and in the relevant form of acceptance and transfer enclosed therewith.

Shareholders may submit acceptances in respect of some or all of their shareholding in the Shares to sell to the Offeror 29 out of every 100 Shares they own.

As at the Latest Practicable Date, the Company has an issued share capital of 600,000,000 Shares. At the Offer Price of HK\$0.02 per Share and assuming that there will not be any change in the issued share capital of the Company, the Share Offer values the entire issued share capital of the Company at about HK\$12,000,000. In

LETTER FROM THE BOARD

addition, assuming all the 17,400,000 outstanding Options are tendered, the aggregate amount payable by the Offeror to the Optionholders under the Option Offer will be about HK\$17,400.

Pursuant to Rule 28.8 of the Takeovers Code, if valid acceptances are received for over 174,000,000 Offer Shares, tenders of Offer Shares by the Shareholders, to the extent they exceed their guaranteed entitlements (being 29 out of every 100 Offer Shares held at the close of the Partial Offers), the Offeror is required to accept from each such Shareholder in the same proportion as the number tendered to the extent necessary to enable the Offeror to acquire the maximum number of Offer Shares for which the Partial Offers are made. In such circumstances, Offer Shares validly tendered by a Shareholder in excess of his guaranteed entitlement will be accepted in accordance with the following formula:

$$\frac{(174,000,000 - A)}{B} \times C$$

- A: Total Offer Shares validly tendered by all accepting Shareholders and which form either all or part of their respective guaranteed entitlements (as the case may be)
- B: Total Offer Shares validly tendered by all accepting Shareholders in excess of their respective guaranteed entitlements
- C: Total Offer Shares validly tendered by the relevant Shareholder in excess of his guaranteed entitlement

Under Rule 28.7 of the Takeovers Code, a partial offer should not be declared unconditional if the acceptances are less than a precise number of shares. The Offeror expects that it may not be able to comply with Rule 28.7 of the Takeovers Code as 279,917,733 Shares (representing about 46.65% of the issued share capital in the Company) are subject to the restriction on disposal by the initial management Shareholders and the significant Shareholders as required under the GEM Listing Rules. Therefore, the Offeror has applied to the Executive for a waiver from strict compliance with Rule 28.7 of the Takeovers Code. No waiver has been applied for the Option Offer.

III. THE OPTION OFFER

As at the Latest Practicable Date, there were 60,000,000 outstanding Options granted by the Company to the employees of the Company and executive Directors. Emperor Capital, on behalf of the Offeror, is making the Option Offer to cancel up to 17,400,000 Options at a price of HK\$0.001 per Option pursuant to the Takeovers Code. The Optionholders may submit of acceptance for cancellation of some of their Options at 29 out of every 100 Options they own.

LETTER FROM THE BOARD

The Company has adopted a pre-IPO share option plan and a share option scheme on 7 December 2001. Under the terms of the pre-IPO share option plan and the share option scheme, the Board may, at their discretion, invite any full-time employees or directors of the Group to subscribe for Shares. The total maximum number of Shares in respect of which Options may be granted under the pre-IPO share option plan and the share option scheme may not exceed 30 per cent. of the issued share capital of the Company.

As at the Latest Practicable Date, Options to subscribe for an aggregate of 60,000,000 Shares at exercise prices ranging from HK\$0.15 to HK\$0.35 per Share have been granted by the Company on 7 December 2001 under the pre-IPO share option plan. The Options granted to the Directors are exercisable at any time within 9 years from 7 December 2002. Each of these Options shall lapse in accordance with the pre-IPO share option plan if the relevant grantee ceases to be employed by the Group. As at the Latest Practicable Date, none of these Options has been exercised and 29,340,000 Options have lapsed.

As at the Latest Practicable Date, no Option has been granted or agreed to be granted under the share option scheme.

As at the date of the Announcement, Mr. Suen Kwok Kin and Mr. Cheng Yu Hong, both being Directors, held a total of 12,482,500 Options to subscribe for 5,760,000 Shares and 6,722,500 Shares respectively. None of the above mentioned Directors has exercised his Options held and as such Options are still subject to restriction on disposal. Each of them indicated he will not accept the Partial Offers.

Other than the Options, the Company has no outstanding convertible securities, warrants, options or subscription rights in respect of any class of its equity share capital as at the Latest Practicable Date.

Optionholders who wish to accept the Option Offer are advised to study the acceptance and settlement procedures set out in the letter from Emperor Capital in the Offer Document.

IV. CONDITIONS OF THE PARTIAL OFFERS

The Share Offer is conditional on the following:

1. the Executive's consent to the Partial Offers and the granting of a waiver by the Executive from the strict compliance with the requirement under Rule 28.7 of the Takeovers Code and accordingly the Offeror will take up the Shares validly tendered to the Share Offer even in the event that the total number of the valid acceptance of the Share Offer is less than the total number of Offer Shares for which the Share Offer is made; and

LETTER FROM THE BOARD

2. valid acceptances being received from eligible Shareholders which will result in the Offeror's holding of the Offer Shares carrying not less than 10% and not more than 29% of the voting rights of the Company.

The Option Offer is conditional upon the Share Offer becoming unconditional.

An application for the Executive's consent to the Partial Offers and the waiver of the requirement under Rule 28.7 of the Takeovers Code has been made by the Offeror. The Executive has granted the consent to the Partial Offers and the waiver of the requirements under Rule 28.7 of the Takeovers Code. Therefore condition (1) of the Share Offer has been satisfied. The Share Offer is still subject to condition (2) of the Share Offer. The Offeror does not intend to waive condition (2).

V. INFORMATION ON THE GROUP

As at Latest Practicable Date, the Company has received one demand letter from its bank creditor and three writs of summons from other creditors. KPMG has recently been appointed as financial adviser to the Company on the possible restructuring of the Group. PricewaterhouseCoopers, the auditors of the Company, have notified the Company on 31 July 2002 that the Group's audited accounts for the year ended 31 December 2001 and published in the Company's annual report dated 25 March 2002 are qualified with an "adverse opinion". For details, please refer to the section headed "Financial Statements" in Appendix I. In view of the missing of funds of approximately HK\$10 million from the placing proceeds and other matters as announced by the Company on 28 May 2002, the Company is faced with financial difficulty.

The Board has since received a number of restructuring proposals, some of which are now under serious consideration. A number of these proposals (as they currently stand) involve (not necessarily in the order stated):—

- (i) subscription of new Shares;
- (ii) proposed reorganisation exercise so that new Shares could be issued at price below its par value of HK\$0.10 each;
- (iii) due diligence;
- (iv) additional management support; and
- (v) nomination of new Directors.

None of these proposals allows Shareholders to sell their existing Shares to the prospective investors upfront.

LETTER FROM THE BOARD

VI. INFORMATION ON THE OFFEROR

The Offeror is a wholly owned subsidiary of renren. renren is a company listed on the Stock Exchange and is principally engaged in the media and telecom business, in the operation of “renren.com”, the provision of Internet products and services and information technology business in Hong Kong and the PRC.

The board of directors of renren consists of Mr. Mak, the chairman of renren, Mr. Ha Wing Kuen, Mr. Lam Ho Fai, Mr. Lo Chi Man, Joseph and Mr. Wong Kwong Lung, Terence.

Neither the Offeror, renren, Mr. Mak and any parties acting in concert with any of them has any shareholding in the Company nor has dealt in any Shares during the period commencing six months prior to the date of Announcement and up to 26 June 2002.

The directors of renren also confirm that none of the Directors or substantial Shareholders is a director or a substantial shareholder of renren or the Offeror.

If all the Shareholders and Optionholders accept the Partial Offers and the Offer Shares are validly tendered and transferred, the Offeror will be interested in not more than 174,000,000 Shares, representing approximately 29% of the total issued share capital of the Company.

VII. INTENTIONS OF THE OFFEROR REGARDING THE FUTURE OF THE GROUP

As stated in their Offer Document, it is the intention of the Offeror to maintain the existing principal business of the Company in the Internet technology and platform provider in Hong Kong. The Offeror has no intention to inject any material assets or business into the Company or dispose of any material assets or business from the Company immediately after the Partial Offers. Subject to the approval by the Board, it is the intention of the Offeror that it will appoint two to four new Directors to the Board upon Completion. The new Directors will review the financial position, operations and business plan of the Company to determine if any change to the business plan of the Company is necessary to conform with the current financial status of the Company. The Offeror intends to formulate a long term strategy to strengthen the financial and profitability of the Group. The Offeror intends to continue the employment of the existing employees of the Group. The Offeror also intends to hold its interest in the Company as a long term investment.

If the Offeror fails to gain control of the Board, on the assumption that Super Code Limited will cast its voting rights to block any nomination of new Director(s) by the Offeror, the Board fails to see how the Offeror could formulate any long term strategy for the Group.

LETTER FROM THE BOARD

Upon Completion, the Offeror will hold not less than 10% of the issued share capital of the Company and becomes one of the substantial Shareholders. Assuming the initial management Shareholders and significant Shareholders have not disposed any Shares pursuant to the Partial Offers, the substantial Shareholders will be as follows:

Name of Shareholders	Percentage shareholding in the Company
Super Code Limited	31.04%
HyComm Wireless Limited	10.10%
Polywise	10% to 29%

Assuming the Offeror acquired 29 per cent. of the Shares in issue, public float will be reduced to approximately 24.35 per cent. following Completion.

Super Code Limited is a substantial and controlling Shareholder. Super Code Limited is held as to approximately 72.02 per cent., 8.22 per cent., 4.23 per cent., 4.11 per cent., 2.61 per cent. and 8.81 per cent. by Mr. Yu Hang Chung, Herman, Mr. Ng Wing Hong, Mr. Kam Chun Ying, Francis, Mr. Suen Kwok Kin, Ms. Lam Ching Shan and Digikap Asia Limited (whose beneficial shareholder is Mr. Cheng Yu Hong), respectively. In addition, Mr. Deng Yi's wife, Ms. Ma Lai Mary, is interested in 20 million Shares, representing approximately 3.3 per cent. of the total Shares in issue.

HyComm Wireless Limited is an initial management Shareholder, the shares of which are listed on the Stock Exchange. According to public records, the controlling shareholders of HyComm Wireless Limited are Justwell Limited and Justgood Limited. Mr. Lai Yiu Keung is the ultimate beneficial shareholder of Justgood Limited and Justwell Limited is held by a trustee for the benefit of a discretionary trust, the beneficiaries of which include family members of Mr. Lai Yiu Keung and Ms. Chung Lai Ha.

Further information of the proposed appointment of Directors is contained in the section headed "Appointment of Directors" in the Offer Document. Subject to the approval for the appointment of Directors nominated by the Offeror, the Board will consist of the existing Directors and two to four additional Directors to be nominated by the Offeror.

VIII. LISTING

Your attention is drawn to the section headed "Maintaining the Listing Status of Codebank" in the letter from the Offeror set out on page 8 of the Offer Document.

LETTER FROM THE BOARD

IX. GENERAL

Subject to the 12-month lock-up period, the initial management Shareholders and the significant Shareholders who collectively hold 279,917,733 Shares will not be able to participate in the Share Offer as these Shares are subject to the restriction on disposal.

As at the date of the Announcement, Mr. Suen Kwok Kin and Mr. Cheng Yu Hong, both being Directors, held a total of 12,482,500 Options to subscribe for 5,760,000 Shares and 6,722,500 Shares respectively. None of the above mentioned Directors has exercised the Options held and as such Options are still subject to restriction on disposal. Each of them indicates he will not accept the Partial Offers.

For the reasons cited earlier in this letter, the independent board committee cannot be formed. Your attention is drawn to the “Letter from Centurion” on pages 10 to 26 of this Offeree Document. Your attention is further drawn to the additional information set out in the appendices to the Offeree Document and to the Offer Document.

Yours faithfully,
For and on behalf of the Board of
Codebank Limited
CHENG Yu Hong
Executive Director

LETTER FROM CENTURION

The following is the text of the letter of advice to the Independent Shareholders from Centurion dated 2 August 2002 for incorporation in this Offeree Document:—



CENTURION CORPORATE FINANCE LIMITED 盛百利財務顧問有限公司

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14-24 Wellington Street
Central, Hong Kong

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威靈頓公爵大廈7樓

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2 August 2002

*To the Independent Shareholders of
Codebank Limited*

Dear Sir or Madam,

**CONDITIONAL PARTIAL CASH OFFER
BY EMPEROR CAPITAL LIMITED
ON BEHALF OF POLYWISE LIMITED
TO ACQUIRE NOT LESS THAN 60,000,000 ISSUED SHARES AND
UP TO 174,000,000 ISSUED SHARES OF CODEBANK LIMITED
OF HK\$0.10 EACH AT HK\$0.02 PER SHARE IN THE PROPORTION
OF 29 OUT OF EVERY 100 SHARES AND
TO CANCEL UP TO 17,400,000 OPTIONS TO SUBSCRIBE FOR SHARES
AT HK\$0.001 PER OPTION IN THE PROPORTION OF
29 OUT OF EVERY 100 OPTIONS IN CODEBANK LIMITED**

We refer to our engagement as the independent financial adviser to advise the Independent Shareholders in respect of the Partial Offers, details of which are contained in the offeree document dated 2 August 2002 to Shareholders (“Offeree Document”) of which this letter forms a part. We have been appointed to give an opinion as to whether the terms of the Partial Offers are in the interests of the Independent Shareholders and are fair and reasonable in so far as the Independent Shareholders are concerned as a whole. Details of which are contained in the “Letter from the Board” set out on pages 1 to 9 of the Offeree Document dated 2 August 2002 to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Offeree Document unless the context otherwise requires.

In respect of the Group’s financial position, we have relied principally on the audited consolidated accounts of the Group as at 31 December 2001 and 2000 respectively, all prepared by the Directors and for which they take full responsibility.

In formulating our opinion and recommendation, we have relied on the accuracy of the information, opinions and representations contained in the Offeree Document which have been provided to us by the Directors and for which they take full responsibility. We have

LETTER FROM CENTURION

assumed that all statements, information, opinions and representations made or referred to in the Offeree Document were true at the time they were made and continued to be true at the date of this Offeree Document. We have also assumed that all statements of belief, opinions and intention made by the Directors in the Offeree Document are reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have been advised by the Directors that no material facts have been omitted from the information provided and/or referred to in the Offeree Document.

Save and accept the audited accounts of the Group for the year ended 31 December 2001 (which were qualified on 31 July 2002), we consider that we have reviewed sufficient financial information to enable us to reach an informed view and to justify reliance on the accuracy of the financial information of the Group as contained in the Offeree Document. We have also not conducted any independent investigation into the business and affairs of the Group nor have we independently verified any of the information supplied to us.

It is our understanding that Mr. DENG Yi, Mr. CHENG Yu Hong and Mr. SUEN Kwok Kin are salaried executive Directors. Mr. CHOY Mun Kei, a non-executive Director, is connected to HyComm Wireless Limited (“HyComm”), a substantial Shareholder, which has introduced a potential investor. Accordingly, each of Messrs. Deng, Cheng, Suen and Choy is not considered to be independent under the Takeovers Code in so far as the Partial Offers are concerned and it is therefore, considered inappropriate for any of them to give any advice to the Independent Shareholders. As such, the independent board committee cannot be formed specifically to give advice and recommendation to the Independent Shareholders in respect of the Partial Offers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether or not the terms of the Partial Offers are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account, inter alia, the following principal factors and reasons:

1. Background

The Partial Offers are unsolicited offers in so far as the Company and the Board are concerned. As at the Latest Practicable Date, we were advised by the Board that there have been no discussions between the Offeror and the Company. As set out in the “Letter from the Board”, 279,917,733 Shares (representing approximately 46.65 per cent. of the issued share capital of the Company) are currently subject to restriction on disposal by the initial management Shareholders and the significant Shareholders of the Company.

On 6 June 2002, the directors of renren announced that Polywise, a wholly owned subsidiary of renren, proposed to make the Share Offer to all the Shareholders in the proportion

LETTER FROM CENTURION

of 29 out of every 100 Offered Shares at HK\$0.02 each and the Option Offer to all the Optionholders to cancel the Options in the proportion of 29 out of every 100 outstanding Offer Options at HK\$0.001 each. On behalf of the Offeror, Emperor Capital is making the Partial Offers on the terms and conditions as set out in the Offer Document. The Offeror further announced on 22 July 2002 that it will not extend the Partial Offers beyond 26 August 2002, being the 60th day after the despatch of the Offer Document on 27 June 2002.

The Share Offer is conditional on, inter alia, valid acceptances being received from eligible Shareholders which will result in the Offeror's holding of the Offer Shares carrying not less than 10 per cent. and not more than 29 per cent. of the voting rights of the Company. For details of the conditions, please refer to page 5 of the "Letter from the Board". The Option Offer is conditional upon the Share Offer becoming unconditional.

Upon valid acceptances being received from eligible Shareholders which will result in the Offeror's holding of the Offer Shares carrying not less than 10 per cent. and not more than 29 per cent. of the voting rights of the Company, the Share Offer by the Offeror for the Offer Shares at the Offer Price of HK\$0.02 each will become unconditional. Shareholders who tender their Offer Shares will then receive an amount from the Offeror at HK\$0.02 for each Offer Share successfully tendered. To the extent that Shareholders' acceptances under the Share Offer is not accepted in full or for Shareholders who do not submit any acceptances, such Shareholders will continue to have their retained interest in the Shares which are not successfully accepted or are not tendered under the Share Offer.

Similarly, upon the Share Offer becoming unconditional, holders of Offer Options who tender their acceptance will then receive an amount from the Offeror at HK\$0.001 for each Option successfully tendered. To the extent that Optionholders' acceptances under the Option Offer is not accepted in full or for Optionholders who do not submit any acceptances, such Optionholders will continue to have their retained interest in the Options which are not successfully accepted or are not tendered under the Option Offer.

2. Recent announcements and developments of the Company and their possible effects

On 14 May 2002, the Company announced that trading in the Shares was suspended pending the release of the Group's first quarter results for the three months ended 31 March 2002. The Company released the announcement dated 28 May 2002 as set out in Appendix III stating amongst other things, that:

- (i) a HK\$10 million loan purportedly borrowed by the Company was brought to the attention of the Company on 15 April 2002 and although the relevant loan agreement was without the approval of the Board, the loan was nevertheless repaid together with interest of HK\$0.7 million on 17 April 2002;
- (ii) on 16 April 2002, approximately HK\$10 million of the proceeds from the placing of new Shares in December 2001 was reported still outstanding from placee(s) by

LETTER FROM CENTURION

the former chairman of the Company (the Company stated in the same announcement that such proceeds were still outstanding);

- (iii) the Board was investigating a HK\$4.6 million payment for a project in Sichuan to purchase IT software and hardware; and
- (iv) that trading in the Shares will remain suspended pending the completion of investigation of these matters and the release of the first quarter results of the Group.

We would assume items (i) and (ii) above are probably connected, in view of the timing of their discovery by the Board. We have sought further clarifications from the Company and are given to understand by a Director that the loan referred to in item (i) above was “borrowed” from a private limited company and the proceeds “repaid” under the loan was then used to settle the proceeds from the placing of new Shares completed some four months ago in December 2001, as referred to in item (ii). We are however, unable to independently confirm this chain of events and whether or not items (i) and (ii) are connected. Item (iii) above is also under investigation, as announced by the Board.

The Board has not yet been able to provide more information on these matters to us. The interest of HK\$0.7 million paid on the HK\$10 million loan as mentioned in (i) above for the 49-day period between 28 February 2002 (being the date of the loan agreement) and 17 April 2002 amounts to an annualized interest rate of approximately 52 per cent. This interest rate is, in our opinion, excessive and unusual.

At the time of listing of the Shares on GEM in December 2001, 105,240,000 new Shares were placed to investors at HK\$0.50 each and the gross proceeds from such placing amounted to approximately HK\$52.6 million. As set out on page 118 of the prospectus of the Company dated 17 December 2001, the total commissions, professional fees and other expenses relating to the listing on GEM amounted to approximately HK\$14 million. The net proceeds from such placing are therefore, approximately HK\$38 million. We are given to understand by the Board that the entire HK\$38 million raised is either exhausted or as mentioned above, missing.

As at the Latest Practicable Date, the Company has received one demand letter and three writs of summons from its creditors and at the suggestion of a certain bank creditor, KPMG has been appointed as financial adviser to the Company on the possible restructuring of the Group. PricewaterhouseCoopers, the auditors of the Company, notified the Company on 31 July 2002 that the audited accounts of the Group for the year ended 31 December 2001 and published in the Company’s annual report dated 25 March 2002 (“Annual Report”) have been qualified.

LETTER FROM CENTURION

3. Recent financial performance of the Group

The audited results of the Group for the two financial years ended 31 December 2001 are set out below:

	For the year ended 31 December 2001	For the year ended 31 December 2000
	<i>HK'000</i>	<i>HK'000</i>
Turnover	14,426	8,967
Operating loss	51,539	90,905
Loss attributable to shareholders	52,810	90,906

For the financial year ended 31 December 2001, the Group recorded a turnover of about HK\$14.426 million and a loss attributable to the Shareholders of about HK\$52.81 million, which compared to a turnover of about HK\$8.967 million and a loss attributable to Shareholders of about HK\$90.906 million for the financial year ended 31 December 2000. Operating loss in the financial year ended 31 December 2001 was about HK\$51.539 million, a decrease of about 43.3 per cent. compared to the operating loss of about HK\$90.905 million for the financial year ended 31 December 2000. The following financial and business review are extracted from the Annual Report.

The increase in turnover for the year ended 31 December 2001 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 per cent. and 587 per cent. 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 per cent. 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 per cent. in the previous year to 33.8 per cent. for the year ended 31 December 2001. 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.

LETTER FROM CENTURION

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 Shares and charged as broadband procurement expenses in the Group's consolidated profit and loss account.

The significant improvement in loss attributable to Shareholders for the year ended 31 December 2001 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 2001. In 2000, the Company issued its shares to HyComm, a company listed on the Stock Exchange, 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 of in 2000 and 2001.

In view of the current financial difficulty faced by the Group and the resulting loss in experienced staff, we are of the view that past turnovers and earnings of the Group are not necessarily reliable indicators of the Group's future profitability. As set out above, the Company has not yet announced its first quarter results for the three months ended 31 March 2002, which is one of the reasons for the suspension of trading in the Shares. The Company has also not declared any dividends since its listing on the GEM. We therefore, find it reasonable to conclude that the Offer Prices are not based on the Group's past or prospective price-earnings multiples or dividend yields.

4. Offer Prices

Share Offer

The Share Offer is made to eligible Shareholders on the following basis:

For each Offer Share HK\$0.02 in cash

On the basis of this Offer Price, the valuation on the entire existing Shares is HK\$12 million.

In the following section, we compare the Offer Price of HK\$0.02 per Share against various parameters.

LETTER FROM CENTURION

Net asset and other intangible values

The Offer Price of HK\$0.02 per Share represents a discount of HK\$0.037 or 64.91 per cent. to the audited net asset value of the Group as at 31 December 2001 of about HK\$0.057 per Share. In the Company's prospectus dated 17 December 2001, the adjusted net tangible asset value per Share was HK\$0.063. Independent Shareholders should note that the HK\$0.057 net tangible asset per Share was extracted from the audited accounts of the Group for the year ended 31 December 2001, which was subsequently qualified on 31 July 2002.

Whilst we believe that given the rather unique circumstances and financial difficulty faced by the Group, any analysis based on comparable examples (i.e. similar business models) are likely to be inaccurate, we have nevertheless performed limited analyses of a few companies listed on GEM which we believe, are comparable with the Company for reference purpose below. These companies were generally trading at premia (ranging from approximately 27 per cent. to 257 per cent.) or at par to their respective audited net asset values as at Latest Practicable Date.

The following table summarises the comparison of last reported audited net asset value ("NAV").

	Closing price (as at Latest Practicable Date except the Company) <i>HK\$</i>	Market capitalisation <i>HK\$'M</i>	Last reported NAV <i>HK\$'M</i>	Premium/ (discount) to NAV %
The Company (<i>Note</i>)	0.056	33.6	34.48	(2.55)
Comparable companies (listed on GEM)				
EVI Education Asia Limited	0.045	180	50.35	257.5
System Information Technology (Holdings) Ltd.	0.052	53.9	61.10	(1.17)
ePRO Limited	0.081	89.42	70.65	26.57

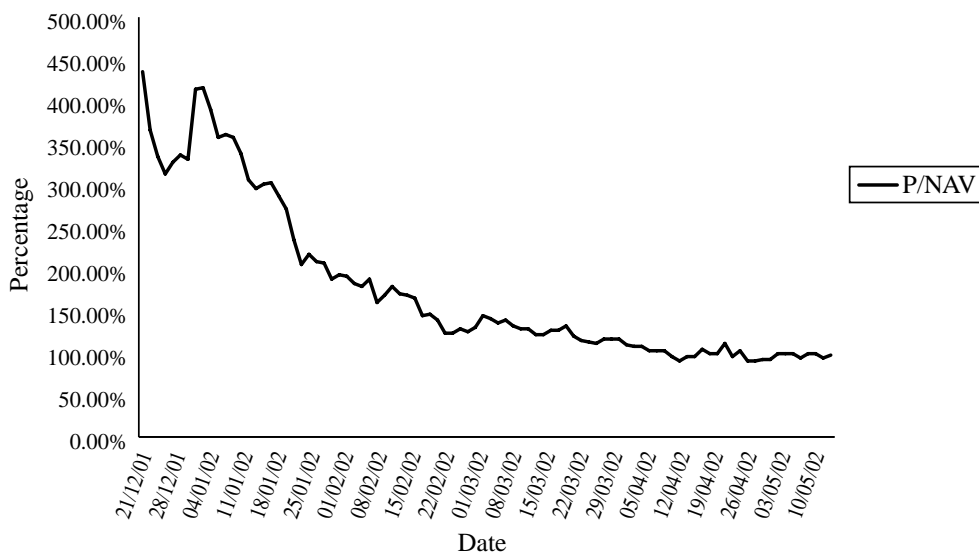
Notes: Since the Shares have been suspended in trading on the GEM since 14 May 2002, the closing price of the Shares as at Pre-Suspension Date is used instead.

From the table above, we find that the share prices of the comparable companies traded above their respective NAVs. Although the Shares last traded under its audited NAV, the discount is considered to be insignificant. Therefore, we believe that the fair market price of

LETTER FROM CENTURION

the Shares, in the absence of any financial difficulty, should trade at a level not less than the Group's audited NAV. The graph below illustrates the price of the Shares against the Company's audited NAV, which was HK\$0.057 per Share as at 31 December 2001.

Price to net asset value



Independent Shareholders should note that it is currently very difficult to predict (i) the extent of any recovery in the information technology sector in Hong Kong, upon which the Company's prospects are dependent; and (ii) when and how the Group can complete such a restructuring exercise with its financial creditors and new investor.

Whilst we generally do not regard net asset value in itself a reliable valuation methodology for information technology companies, we are of the view that, assuming the audited NAV of the Group as at 31 December 2001 of HK\$0.057 per Share is still reasonably accurate, the Offer Price per Share does not reflect the NAV of the Group. Independent Shareholders should also note that the Company's listing on GEM, for which the Company incurred a total expenses of HK\$14 million in cash during the listing of the Shares in December 2001, is generally regarded as having some kind of value, which is not reflected in the above NAV analysis. We are also of the view that the Group's track record in Internet technology and platform provider, in particular e-Education solutions, e-Business solutions and multiple access platform, is another intangible asset of the Group not reflected in the above NAV analysis. In light of the aforesaid, the Offer Price of HK\$0.02 per Share, which values the entire Company at HK\$12 million, is therefore unfair and unreasonable.

LETTER FROM CENTURION

Historical Share price performance

Although the historical Share price performance of the Company does not necessarily reflect the future share price of the Company, in the light of its current financial difficulty, it is nevertheless a useful reference for indirectly comparing the merits of the Offer Price.

The table below is a summary of the monthly highest and lowest closing prices, the closing prices of the last trading day and total trading volume of each of the 6 months preceding 13 May 2002 (being the last trading day for the Shares prior to its suspension in trading in the GEM).

	Highest closing price (HK\$)	Lowest closing price (HK\$)	Closing price (HK\$)	Total trading volume (Shares)	Percentage traded (Note 3) (%)
December 2001 (Note 1)	0.250	0.180	0.188	330,822,469	103.36
January 2002	0.239	0.108	0.111	397,153,198	124.08
February 2002	0.110	0.071	0.072	45,380,000	14.18
March 2002	0.083	0.064	0.067	30,284,000	9.46
April 2002	0.064	0.052	0.053	11,096,000	3.47
May 2002 (Note 2)	0.057	0.054	0.056	8,736,000	2.73

Note 1: The Shares were listed on the GEM on 21 December 2001.

Note 2: Up to and including 13 May 2002, the last trading day before the suspension of the trading in the Shares.

Note 3: Based on 320,082,267 Shares in public hands, being the total number of Shares in issue less the 279,917,733 Shares held by initial management Shareholders and the significant Shareholders as required under the GEM Listing Rules.

For illustration purpose, the Offer Price represents:

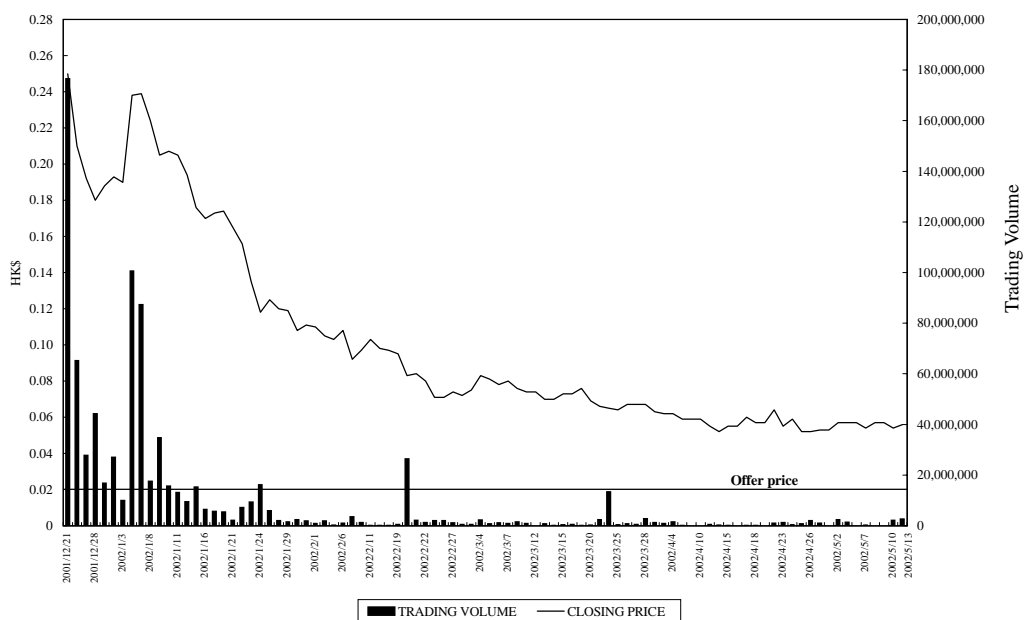
- (i) a discount of HK\$0.036 or approximately 64.29 per cent. over the closing price per Share on the Pre-Suspension Date of HK\$0.056;
- (ii) a discount of HK\$0.0355 or approximately 63.96 per cent. over the average closing price of the Shares for the 10 trading days up to and including the Pre-Suspension Date of approximately HK\$0.0555;
- (iii) a discount of HK\$0.0816 or approximately 80.31 per cent. over the average closing price of the Shares for the period from 21 December 2001 up to and including the Pre-Suspension Date of approximately HK\$0.1016;

LETTER FROM CENTURION

- (iv) a discount of HK\$0.032 or approximately 61.5 per cent. over the lowest closing price of the Shares for the period from 21 December 2001 up to and including the Pre-Suspension Date of HK\$0.052; and
- (v) a discount of HK\$0.23 or approximately 92 per cent. to the highest closing price of the Shares for the period from 21 December 2001 up to and including the Pre-Suspension Date of HK\$0.25.

As set out in the graph below, the Shares have never traded below the Offer Price since the Company's listing on GEM on 21 December 2001 and up to the Pre-Suspension Date.

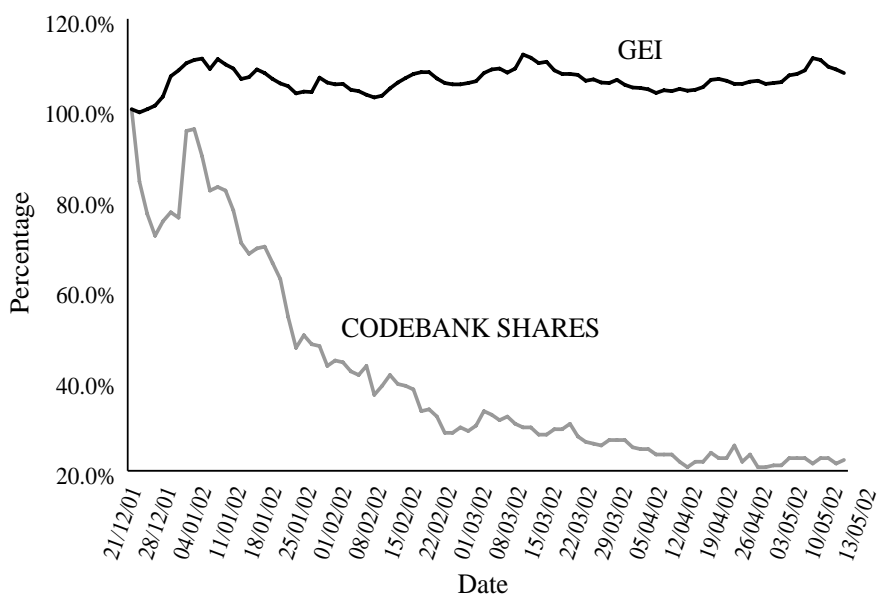
Share performance (closing price & volume) since 21 December 2001 and offer price



The graph below sets out the relative price performance of the Shares against the Growth Enterprise Index (“GEI”) since the Shares first traded on 21 December 2001 to the Pre-Suspension Date. The GEI was chosen as a measure to track the general share price movements of stocks belong to the GEI.

LETTER FROM CENTURION

Codebank Share performance against GEI since 21 December 2001



The price of the Shares has consistently underperformed the GEI since its listing on the GEM on 21 December 2001. The Shares lost half of the placing value on 21 December 2001, being the first date of trading of the Shares on the GEM, to close at HK\$0.25. In fact, the placing price of HK\$0.50 per Share during the listing of the Shares on the GEM was never achieved on or after the date of listing. We also note that there was a visible deterioration in the Share price since 8 January 2002, only weeks after the Company's listing. These are disturbing signs of the fundamental weakness of the Share prices.

The aforesaid weakness in Share price notwithstanding and whilst it is not possible to predict the future price levels at which the Shares will be traded (as such prediction would depend on a number of factors, including but not limited to the terms of any restructuring proposal and assets injection), on the basis of the aforesaid historical price levels achieved by the Shares, the Share Offer of HK\$0.02 is in our view, inadequate.

Liquidity

We have also considered the average monthly trading volume of the Shares for each of the 4 month periods as set out below.

	Monthly trading volume (Shares)	Percentage traded (Note) (%)
January 2002	397,153,198	124.08
February 2002	45,380,000	14.18
March 2002	30,284,000	9.46
April 2002	11,096,000	3.47

LETTER FROM CENTURION

Note: Based on 320,082,267 Shares in public hands, being the total number of Shares in issue less the 279,917,733 Shares held by initial management Shareholders and the significant Shareholders as required under the GEM Listing Rules.

Based on the table above, the monthly turnover of the Shares for April 2002 represented only 3.47 per cent. of the free float of the Shares held by the investing public. From the short trading history of the Shares, the monthly turnover of the Shares has decreased significantly for the last four months. Acceptance of the Share Offer would result in the Offeror and their concert parties being interested in between 10 to 29 per cent. of the issued share capital of the Company, thus reducing the free float further.

Whilst we believe that it is difficult to predict the level and volume at which the Shares will trade. In any event, given the relatively thin turnover of the Shares in April 2002 compounded by a smaller free float and as a result of the Offer Price, possibly a smaller market capitalisation after the Shares resume trading, there is a risk of limited liquidity and greater volatility in the price of the Shares following Completion.

Option Offer

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 under the pre-IPO share option plan adopted on 7 December 2001 to the employees and executive Directors. Since the Shares have been traded substantially below the respective exercise prices of the Options for a long period of time, we believe that these Options will remain out of the money in the near future unless the prospects of the Company significantly improve and/or it is taken over by a high profile investor proposing assets injection. We therefore, consider the offer price of HK\$0.001 per Option is fair and reasonable as far as the Optionholders are concern.

5. Other aspects of the Partial Offers

(i) Intention of the Offeror

The stated intentions of the Offeror as set out in the Offer Document are as follows:—

- to maintain the existing principal business of the Group in the Internet technology and platform provider business;
- no intention to inject any material assets or business into the Company;
- to nominate two to four directors to joint the Board (and assuming such directors are appointed as nominated, the new Board to formulate long term strategy of the Group);

LETTER FROM CENTURION

- existing employees of the Group will continue to be employed; and
- to hold its equity interest in the Company as a long term investment.

Independent Shareholders should note that the Partial Offers are unsolicited offers and are therefore, perceived by the Board as hostile. The Offeror proposed that Mr. Mak and Mr. Ha Wing Kuen will be nominated to join the Board as an executive Director following Completion. We are given to understand by the Board that it would resist any Director nominated by the Offeror. Given the maximum limit of 29 per cent. of the existing Shares which may be acquired by the Offeror under the Partial Offers (Super Code Limited, irrespective of the level of acceptance under the Partial Offers, shall remain as the single largest controlling Shareholder), and on the assumption that Super Code Limited will cast its voting rights to block any nomination of new Director(s) by the Offeror, we believe it would not be easy to gain control of the Board by the Offeror. If the Offeror fails to gain control of the Board, we do not see how the Offeror could formulate any long term strategy for the Group.

We also wish to bring to the attention of the Independent Shareholders that the Group currently requires a comprehensive solution which may include settlement agreement with its creditors, possible capital reorganisation and fund raising exercise, asset or business injection and recovery of funds reportedly missing, in order to address its financial difficulty and to preserve shareholder value. The Partial Offers deal with the existing Shares and Options only and no new funds will be injected into the Company. The intention (if any) of the Offeror with respect to injecting new funds into the Company is unknown to us. In short, Shareholders who tender their Shares in acceptance of the Partial Offers will not be better off in so far as their remaining interests in the Company are concerned.

(ii) *Implications at various levels of acceptances*

Shareholders may accept the Share Offer in respect of some or all of their shareholding in the Company. In the event that valid acceptances are received for up to 174,000,000 Offer Shares, such acceptances will be accepted in full.

If valid acceptances are received for more than 174,000,000 Shares, each Shareholder to whom the Share Offer is made has a guaranteed entitlement to have a valid acceptance in respect of up to 29 per cent. of his/her total shareholding accepted in full. On this basis, Shareholders should note that even in the event that their entire shareholdings are tendered for acceptance, the resultant percentage of their shareholdings being accepted would range from 29 per cent up to 100 per cent., subject to the extent of the valid acceptances tendered. They should also

LETTER FROM CENTURION

note that for each board lot of 4,000 Shares, a Shareholder is entitled to a guaranteed acceptance of about 1,160 Shares. The excess represented by the Shares tendered over the guaranteed entitlements will be scaled down on an equitable basis in proportion to the number of Offer Shares remaining after satisfying the guaranteed entitlements. In this respect, Independent Shareholders should note that there will be a possibility that any retained shareholding will include an odd lot, which would usually be less marketable and consequently, with negative effect on their realisable price.

To the extent that Shareholders wish to accept the Share Offer, the following may be useful:

- *Opportunity to sell odd lots*

This may be an opportunity to sell less marketable odd lot holdings. However, there is no assurance, in so tendering, that their odd lots will be fully accepted as valid acceptances in respect of over 29 per cent of Shareholder's interest may be subject to scaling down where acceptances in aggregate exceed 174,000,000 Shares.

- *Maximising successful acceptance*

As noted, only 29 per cent. of your total shareholding is guaranteed under the Share Offer to be accepted in full. Nevertheless, where aggregate acceptances to the Share Offer amount to 174,000,000 Offer Shares or less, all acceptances tendered will be accepted in full. On this basis, Shareholders wishing to maximise the level of successful acceptances may wish to consider tendering in respect of more than the 29 per cent. guaranteed acceptance level.

(iii) *No withdrawal of acceptance tendered*

Independent Shareholder accepting the Share Offer shall not be entitled to withdraw his/her acceptance once the form(s) of acceptance and transfer have been tendered. As the Share Offer is still subject to condition (2) under the section headed "Conditions of the Partial Offers" in the letter from the Board, Shareholders who wish to accept the Share Offer in respect of some or all of their shareholdings are accordingly advised not to tender their Offer Shares immediately and instead, monitor the market price for the Shares in case they resume trading in order to find out if they are able to realise their holdings in the open market at a price which exceeds the Offer Price and if they are unable to do so, then they could tender their Offer Shares just prior to the Closing Date.

6. Future prospects of the Company

To go forward, the Company requires new funds to be injected in a timely manner and ideally, the rescue proposal should also include ways and means to enhance and preserve the Group's position as an Internet technology and platform provider. The Board has had received a number of approaches from prospective investors and as at the Latest Practicable Date, a number of investors are negotiating with the Board. We take the view that with a proper and timely rescue proposal, the Company could be rescued and hopefully, the Shares could then be traded at price levels which would better reflect the Group's underlying value. However, if the Company fails to secure a rescue proposal which is acceptable to the Shareholders, creditors and other relevant parties, the Share prices will continue to be depressed and in a worst case liquidation scenario, the Shares will be worthless. Any rescue proposal at this stage will in one way or the other, dilute the existing Shareholder value. Unless a legally binding agreement is entered into in relation to a rescue proposal, we would not be able to quantify the exact impact of such rescue proposal, including the resulting dilution on Shareholders' interest.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following summary:

- (i) the Company's Share price collapsed on the first date of its listing debut;
- (ii) the Group's principal business is unable to generate sufficient cash flow to meet its current working capital requirement;
- (iii) the Group's first quarter results for the three months ended 31 March 2002 have not yet been released, the HK\$10 million placing proceeds reportedly missing and other irregularities announced shortly after the Company's listing debut suggest possible deficiency in the corporate governance of the Group;
- (iv) comparisons of Offer Price per Share based on historical data of the Group and Share prices inherently assume that the Company is a going concern, the validity of which depends on the Group attaining future cash injection and/or cash flow generating businesses;
- (v) all the rescue proposals the Group received thus far are preliminary and involve subscription of large number of new Shares so that equity control could be acquired, the result of which would dilute Shareholders' interest. None of these proposals allows the Shareholders to sell their existing shareholding to the investor upfront and trading in the Shares has been suspended since 14 May 2002; and

LETTER FROM CENTURION

- (vi) no definitive restructuring/rescue agreement has yet been entered into and as such, we are unable to ascertain if and when the Group would undergo a restructuring/rescue exercise (please refer to page 6 of the Letter from the Board for details on the proposals presented to the Board).

In light of the above, whilst we find the Offer Price of HK\$0.02 per Share is unfair and unreasonable in a number of respects, when compare with the past data and Share price performance, we are not prepared to recommend outright rejection of the Partial Offers to the Independent Shareholders either. We take the view that the Partial Offers do offer an exit for Independent Shareholders to realise their shareholdings, albeit at a depressed price.

Independent Shareholders who are unable or unwilling to wait for a comprehensive restructuring/rescue proposal to be agreed on and carried out by the relevant parties, which could take months to complete (and there is no assurance that such completion will take place), could reduce their risk (or loss) by tendering part or all of their Offer Shares in acceptance of the Share Offer. Our view notwithstanding, the decision to accept the Partial Offers is therefore, subject to the individual circumstances and objectives of the Independent Shareholders.

RECOMMENDATIONS

Independent Shareholders should note that the Company is in discussion with other prospective investors and any rescue proposal will need to be undertaken in an urgent manner in order to preserve Shareholder value. As at the Latest Practicable Date, the Company has yet to enter into a definitive agreement with any of the prospective investors. The entering into of a definitive agreement is only the first step in a corporate restructuring exercise, as such agreement still requires the respective approvals from Shareholders, regulators and in this case, the Company's creditors. Even if trading in the Shares is resumed, it is likely that such trading will be volatile, possibly even at prices lower than those achieved prior to the Pre-Suspension Date and given the lack of liquidity in the Shares, exiting from the Shares by Independent Shareholder en masse would not be easy.

We are of the opinion that the Partial Offers are unfair and unreasonable, when compared with historical data and Share price performance. In particular, the total cost incurred by the Company for listing of the Shares on the GEM alone was HK\$14 million some seven months ago and in comparison, the Share Offer values 100 per cent. of the Company at HK\$12 million only. Independent Shareholders should however, note that (i) the assumption that the Company is on a going concern basis is only valid if the Company could obtain cash injection in the near future; (ii) throughout its short history as a listed company, the Company has visible and material deficiency in corporate governance; (iii) none of the current rescue proposals offers any exit for Independent Shareholders to sell their Shares to the investor upfront; and (iv) in the meantime, the business contacts and track record of the Group in its Internet technology and platform provider sector may be encroached.

LETTER FROM CENTURION

As mentioned in the section above headed “Summary”, Independent Shareholders who are unwilling or unable to wait for the Company to be rescued and restructured could take advantage of the Partial Offers in order to dispose some of their Shares, or if trading of the Shares is resumed, sell in the marketplace if the net proceed from such sale exceeds those offered under the Share Offer. In this regard, Independent Shareholders should note that Offer Shares tendered in acceptance of the Share Offer will attract seller’s stamp duty only (and not brokerage, transaction levy and other expenses which will be incurred under the market disposal route). Independent Shareholders who wish to accept the Share Offer is advised not to tender their Offer Shares immediately and instead, tender their Offer Shares just prior to the Closing Date, so that they may benefit from any further development in the market place.

Independent Shareholders who are prepared to take the completion risk associated with a rescue proposal should note that (i) it will take at least months for such a proposal to be fully implemented; (ii) following completion of such proposal, their current shareholding in the Shares could be materially diluted; and (iii) their exit from their remaining Shares will depend on the then market price per Share and the level of liquidity.

In view of the fact that the Shares have been trading substantially below the exercise prices to subscribe new Shares pursuant to the Options, we consider the offer price of HK\$0.001 to cancel an Option fair and reasonable. Neither the Share Offer nor the Option Offer has any benefit to the Company in so far as injection of new funds is concerned. As set out above in this letter, it would not be easy for the Offeror to gain control of the Board, given that the Offeror will not be the largest Shareholder following the successful completion of the Partial Offers and the Board has stated its intention to resist any Director nominated by the Offeror. If the Offeror fails to gain control of the Board, it would not be able to formulate any long term strategy for the Group.

Yours faithfully,
for and on behalf of
Centurion Corporate Finance Limited
Baldwin Lee
Managing Director

1. SHARE CAPITAL AND OPTIONS

(i) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:-

<i>Authorised:</i>	<i>HK\$</i>
1,000,000,000 Shares	100,000,000
<i>Issued and fully paid up:</i>	
600,000,000 Shares	60,000,000

Note: All of the existing issued Shares rank pari passu in all respects.

Each share entitles the holder to attend and vote at general meetings. Each Shareholder being present and voting at a general meeting is entitled to one vote on a show on hands and, on a poll, to one vote for every Share held. Entitlements to dividends and to return of capital on winding up are in proportion to the amounts paid up on the relevant Shares.

Since 31 December 2001 (the date to which the latest audited accounts of the Company were made up), there has been no alteration to the authorised and issued share capital of the Company.

(ii) Options

The Company has adopted a pre-IPO share option plan and a share option scheme on 7 December 2001. Under the terms of the pre-IPO share option plan and the share option scheme, the Board may, at their discretion, invite any full-time employees or directors of the Group to subscribe for Shares. The total maximum number of Shares in respect of which Options may be granted under the pre-IPO share option plan and the share option scheme may not exceed 30 per cent. of the issued share capital of the Company.

As at the Latest Practicable Date, 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 pre-IPO share option 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 pre-IPO share option plan if the relevant grantee ceases to be employed by the Group. As at the Latest Practicable Date, none of these Options has been exercised and 29,340,000 Options have lapsed.

As at the Latest Practicable Date, no Option has been granted or agreed to be granted under the share option scheme.

As at the Latest Practicable Date, there were Options, granted under the pre-IPO share option plan, outstanding entitling the Optionholders to subscribe for an aggregate of 30,660,000 Shares with details as follows:—

Exercise price <i>HK\$</i>	Exercise period	Number of Options held
0.35	7 December 2002 to 6 December 2011	4,930,000
0.25	7 December 2002 to 6 December 2011	19,950,000
0.15	7 December 2002 to 6 December 2011	5,780,000

Save as disclosed above, none of the unissued Share or loan capital of the Company is under Options or agreed, conditionally or unconditionally, to be put under Option.

2. FINANCIAL STATEMENTS

The Group's audited accounts for the year ended 31 December 2001 were qualified on 31 July 2002, the following is the qualified auditors' report received from PricewaterhouseCoopers:—

REVISED 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 of the annual report of Codebank Limited (the "Company") dated 25 March 2002 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below. We issued an unqualified opinion ("our Previous Opinion") on these accounts on 25 March 2002. However, the matters discussed in the public announcement made by the Company on 28 May 2002 (the "28 May Announcement"), and our discussions of these matters with certain previous and current directors, now cause us to believe that some evidence provided to us by the Company during our audit is unlikely to be reliable and is therefore not a satisfactory basis for our Previous Opinion. Accordingly, we have decided to revise our opinion on these accounts. In addition, the 28 May Announcement includes discussion of certain other matters which will be the subject of further investigation by the existing directors. The outcome of this investigation is uncertain.

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 which 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.

Revised opinion – Adverse opinion

We have been informed by certain previous and current directors that outstanding proceeds from the December 2001 listing totalling HK\$10 million, which were included as part of prepayments, deposits and other receivables in the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2001, and which we previously had been led to believe had been received in February 2002, have not been received and may not be collected. Accordingly, full provision of HK\$10 million should have been made, increasing the Group's loss for the year and reducing the net assets of the Group and the Company at 31 December 2001 by that amount. We understand that the Company will conduct an investigation on this matter.

In addition to the matter referred to above, we have also been informed by certain previous and current directors that the Company and the Group are currently unable to fulfil certain loan obligations. Nonetheless, the accounts have been prepared on a going concern basis. In view of the non-availability of additional funding for the Group's operations, we believe that the going concern basis should not be used. Had the going concern basis not been used, adjustments would have to be made in the accounts to reclassify non-current assets as current assets, long-term liabilities as current liabilities, reduce the value of assets to their recoverable amounts and provide for any future liabilities which might arise. Such adjustments may have a consequential significant effect on the Group's loss for the year ended 31 December 2001 and the net assets of the Group and the Company as at 31 December 2001.

In view of the significance of the matters referred to in the preceding two paragraphs, in our opinion, the accounts do not 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 as to whether the accounts have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 31 July 2002

I. PROFIT AND LOSS ACCOUNTS

The following is a summary of the consolidated results of the Group for the two years ended 31 December 2001, which have been extracted from the audited consolidated accounts of the Group.

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	2	14,426	8,967
Cost of sales		<u>(9,543)</u>	<u>(3,441)</u>
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		<u>(4,673)</u>	<u>(2,155)</u>
Operating loss	5	(51,539)	(90,905)
Finance costs	6	(933)	(1,439)
Share of losses of associated companies		<u>(338)</u>	<u>(662)</u>
Loss for the year		(52,810)	(93,006)
Minority interests		<u>—</u>	<u>2,100</u>
Loss attributable to shareholders	8	<u><u>(52,810)</u></u>	<u><u>(90,906)</u></u>
Loss per share — basic	9	HK11 cents	HK33 cents
— diluted	9	<u>HK11 cents</u>	<u>HK33 cents</u>
Dividends		Nil	Nil
Dividends per share		Nil	Nil

II. BALANCE SHEETS

The following is a summary of the audited consolidated balance sheets of the Group as at 31 December 2000 and 31 December 2001 (the date to which the latest audited accounts were made up).

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
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
		<u>41,128</u>	<u>5,930</u>
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	—
		<u>15,353</u>	<u>16,030</u>
Net current assets/(liabilities)		<u>25,775</u>	<u>(10,100)</u>
		<u>36,417</u>	<u>1,452</u>
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
		<u>36,417</u>	<u>1,452</u>

III. CASH FLOW STATEMENTS

The following is a summary of the audited consolidated cash flow statements of the Group for the two years ended 31 December 2001 (the date to which the latest audited accounts were made up).

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
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)
	<u>9,312</u>	<u>441</u>
Cash and cash equivalents at 31 December	<u><u>9,312</u></u>	<u><u>441</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	10,204	2,617
Bank overdrafts, secured	(892)	(2,176)
	<u><u>9,312</u></u>	<u><u>441</u></u>

IV. NOTES TO THE LATEST AUDITED ACCOUNTS OF THE GROUP

The following notes to the financial information of the Group have been extracted from the audited financial statements of the Group for the year ended 31 December 2001.

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.

(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.

(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.

(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.

(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.

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	<u>14,459</u>	<u>8,974</u>

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	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>19,221</u>	<u>24,750</u>

6. Finance costs

	2001	2000
	<i>HK\$'000</i>	<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
	<u>933</u>	<u>1,439</u>

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(I)(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).

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

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.

(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	—
	<u>922</u>	<u>692</u>

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	<u>2,601</u>	<u>—</u>

13. Fixed assets

	Group			Total <i>HK\$'000</i>
	Leasehold improvements <i>HK\$'000</i>	Furniture, fixture and equipment <i>HK\$'000</i>	Computer equipment <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	<u>1,753</u>	<u>953</u>	<u>10,595</u>	<u>13,301</u>
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	<u>696</u>	<u>453</u>	<u>4,111</u>	<u>5,260</u>
Net book value:				
At 31 December 2001	<u>1,057</u>	<u>500</u>	<u>6,484</u>	<u>8,041</u>
At 31 December 2000	<u>1,426</u>	<u>611</u>	<u>8,399</u>	<u>10,436</u>

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).

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

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 (<i>note (i)</i>)	4,396	—
Due from subsidiaries (<i>note (i)</i>)	34,338	26,503
Provision for long-term loan and other amounts due from subsidiaries	(35,621)	(26,503)
	<u>3,113</u>	<u>—</u>

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

(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%

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
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 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
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)	—
	<u>—</u>	<u>218</u>
	<u>—</u>	<u>218</u>
	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Investment in an associated company	1,000	1,000
Due from an associated company	196	—
Due to an associated company	—	(300)
	<u>1,196</u>	<u>700</u>
Provision for diminution in value of investment and amount due from an associated company	(1,196)	(662)
	<u>—</u>	<u>38</u>
	<u>—</u>	<u>38</u>

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%

Name	Place of incorporation	Principal activities	Issued and paid up share capital	Interest held
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.

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)	—
	<u>—</u>	<u>898</u>

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
	<u>6,193</u>	<u>2,714</u>
Less: provision on doubtful debts	(3,029)	(1,169)
	<u>3,164</u>	<u>1,545</u>

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	—	—	—
	<u>399</u>	<u>346</u>	<u>—</u>	<u>346</u>

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
	<u>3,821</u>	<u>931</u>

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		<u>100,000,000</u>	<u>10,000</u>	<u>5,000,000</u>	<u>500</u>	<u>—</u>	<u>—</u>
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		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,000,000,000</u>	<u>100,000</u>
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		<u>2,930,601</u>	<u>293</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
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		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>600,000,000</u>	<u>60,000</u>

(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.
- (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.

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	<u>81,981</u>	<u>68</u>	<u>(1)</u>	<u>(91,038)</u>	<u>(8,990)</u>
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	<u>118,270</u>	<u>68</u>	<u>(12)</u>	<u>(143,848)</u>	<u>(25,522)</u>

(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)
	<u>81,981</u>	<u>(96,524)</u>	<u>(14,543)</u>
At 31 December 2000	<u>81,981</u>	<u>(96,524)</u>	<u>(14,543)</u>
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)
	<u>118,270</u>	<u>(151,702)</u>	<u>(33,432)</u>
At 31 December 2001	<u>118,270</u>	<u>(151,702)</u>	<u>(33,432)</u>

25. Long-term liabilities

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loan, secured (See note 26)	3,379	4,180	3,379	2,510
Obligations under finance leases	1,358	4,087	1,358	3,483
	<u>4,737</u>	<u>8,267</u>	<u>4,737</u>	<u>5,993</u>
Current portion of long-term liabilities	(2,798)	(4,999)	(2,798)	(4,035)
	<u>1,939</u>	<u>3,268</u>	<u>1,939</u>	<u>1,958</u>

	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
	<u>3,379</u>	<u>4,180</u>	<u>3,379</u>	<u>2,510</u>
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
	<u>1,358</u>	<u>4,087</u>	<u>1,358</u>	<u>3,483</u>
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)
	<u>1,939</u>	<u>3,268</u>	<u>1,939</u>	<u>1,958</u>

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.

29. Notes to the consolidated cash flow statement**(a) Reconciliation of operating loss to net cash outflow from operating activities**

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(51,319)</u>	<u>(22,829)</u>

(b) Acquisition of a subsidiary

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
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)

(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	<u>23,277</u>	<u>6,881</u>	<u>3,267</u>
At 31 December 2000	<u><u>82,274</u></u>	<u><u>6,881</u></u>	<u><u>9,564</u></u>
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	<u>63,822</u>	<u>(250)</u>	<u>(1,721)</u>
At 31 December 2001	<u><u>178,270</u></u>	<u><u>—</u></u>	<u><u>7,297</u></u>

(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	<u><u>1,200</u></u>	<u><u>—</u></u>

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

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:

	Note	2001 HK\$'000	2000 HK\$'000
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	—
		<u>1,493</u>	<u>240</u>

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.

3. INDEBTEDNESS

As at the close of business on the Latest Practicable Date, the total indebtedness owed by the Group to its creditors was approximately HK\$5.2 million.

Save as disclosed and apart from intra-group liabilities as at the Latest Practicable Date, the Group had no material outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loan and other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances, guarantees or other material contingent liabilities.

4. MATERIAL CHANGES

Save as disclosed in the Company's announcement dated 28 May 2002, which includes the missing of placing proceeds and other matters, the Directors are not aware of any material change in the financial or trading positions or prospects of the Group since 31 December 2001, the date to which the latest audited accounts of the Group were made up.

1. RESPONSIBILITY STATEMENT

This document for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (i) the information contained in this document is accurate and complete in all material respects and not misleading;
- (ii) there are no other matters the omission of which would make any statement in this document misleading; and
- (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Interests in the Company

(i) *Directors' interests in Shares and Options*

As at the Latest Practicable Date, the beneficial interests of the Directors in the share capital of the Company which were notified to the Company and the Stock Exchange pursuant to section 28 or section 31 of the SDI Ordinance, or were required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein were as follows:—

Interest in Shares

Name of Directors	Number of Shares Held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Suen Kwok Kin	3,039,173	—	7,653,128 <i>(Note 1)</i>	—	10,692,301
Mr. Cheng Yu Hong	—	—	27,060,330 <i>(Note 2)</i>	—	27,060,330
Mr. Deng Yi	—	20,000,000 <i>(Note 3)</i>	—	—	20,000,000

Note 1: These shares are held by Super Code Limited (“Super Code”), in which Mr. Suen Kwok Kin is a shareholder holding approximately 4.11 per cent. of its issued share capital.

Note 2: These 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 per cent. of its share capital, and Digikap is wholly owned by Mr. Cheng Yu Hong.

Note 3: These shares are held by Mr. Deng Yi’s wife, Ms. Ma Lai Mary.

Interests in Options

Name of directors	Exercise price <i>HK\$</i>	Number of shares subject to options granted on 7 December 2001 and outstanding as at 31 December 2001
Mr. Suen Kwok Kin	0.35	1,280,000
	0.15	4,480,000
Mr. Cheng Yu Hong	0.25	5,422,500
	0.15	1,300,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their executive had, or was deemed to have any interest in the Shares and its associated corporations (as defined in the SDI Ordinance) which was required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were taken or deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance; or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which was required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(ii) Substantial Shareholders

As at the Latest Practicable Date, save for the interests of the Directors disclosed above, according to the register kept by the Company under section 16(1) of the SDI Ordinance and so far as the Directors were aware, the following persons were the only persons who directly or indirectly held or

were interested in Shares representing 10 per cent. or more of the issued share capital of the Company:—

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

(b) Interests in the Offeror

Neither the Company nor any of the Directors has any interest in the shares of the Offeror, nor has any of them dealt in any of the shares of the Offeror during the period between 6 December 2001, being the date six months prior to the Announcement, and the Latest Practicable Date (the “Period”).

(c) Dealing in Shares

None of the Directors, their respective associates or persons acting in concert with any of them had dealt in any Shares during the Period.

(d) Miscellaneous

- (i) As at the Latest Practicable Date, no pension fund of the Company or of any of its subsidiaries owned or controlled any Shares nor has any of them dealt for value in any Shares during the Period.
- (ii) As at the Latest Practicable Date, none of the subsidiaries of the Company owned or controlled any Shares nor has any of them dealt for value in any Shares during the Period.
- (iii) As at the Latest Practicable Date, Centurion did not own or control any Shares and has not dealt for value in any Shares during the Period.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Group within the two years immediately preceding the date of the Offeree Document and are or may be material:—

- (a) a letter agreement dated 15 September 2000 entered into between the Company and Digikap Asia Limited wherein the Company appointed Digikap Asia Limited as financial adviser to the Group with respect to the placing;

- (b) a shares subscription agreement dated 15 December 2000 entered into between the Company and Allied Luck Company Limited wherein Allied Luck Company Limited subscribed for 162,995 Class A shares of HK\$0.10 each in the Company at a consideration of HK\$6,500,000;
- (c) a shares subscription agreement dated 5 January 2001 entered into between the Company and Bestcharm Holdings Limited wherein Bestcharm Holdings Limited subscribed for 81,498 Class A shares of HK\$0.10 each in the Company for a total consideration of HK\$3,250,000;
- (d) a shares subscription agreement dated 7 February 2001 entered into between the Company and AsiaMediaShop Limited wherein AsiaMediaShop Limited subscribed for 193,072 Class A shares of HK\$0.10 each in the Company for HK\$6,500,000;
- (e) a shares subscription agreement dated 1 March 2001 entered into between the Company and CBC Information Technology Limited wherein CBC Information Technology Limited subscribed for 193,072 Class A shares of HK\$0.10 each in the Company at a consideration of HK\$6,500,000;
- (f) a subscription and shareholders agreement dated 16 March 2001 entered into between HTC Partners, L.P., MAP, the Company and iAssociates Limited wherein HTC Partners, L.P. subscribed for 2,857,143 redeemable preference shares in MAP for US\$500,000;
- (g) a shares subscription agreement dated 11 April 2001 entered into between the Company, One Trend Net Holdings Limited, Mr. Yu Hang Chung, Herman, Mr. Kam Chun Ying, Francis, Mr. Ng Wing Hong, Mr. Suen Kowk King, Digikap Asia Limited and HyComm and wherein One Trend Net Holdings Limited subscribed for 433,383 Class A shares of HK\$0.10 each in the Company for HK\$30,000,000;
- (h) an agreement dated 11 April 2001 entered into between the Company, One Trend Net Holdings Limited and Aionnet, wherein Aionnet has agreed to procure network service providers to provide the Company with high speed circuits linking up various cities in the PRC;
- (i) a sale and purchase agreement dated 17 July 2001 entered into between the Company and Cyber Campus Networks Limited wherein the Company acquired 5,000,000 shares in Campus Online Limited in consideration of the transfer of 2,556,400 shares in Corpmart.com Limited and the allotment and issue of 78,009 Shares to Cyber Campus Networks Limited;

- (j) a sale and purchase agreement dated 19 July 2001 entered into between the Company and Mr. Yu Hang Chung, Herman wherein the Company acquired from Mr. Yu Hang Chung, Herman 1,860,000 shares in Corpmart.com Limited in consideration of the Company issuing a promissory note in favour of Mr. Yu Hang Chung, Herman of HK\$2,281,600;
- (k) a capitalisation deed dated 19 July 2001 entered into between the Company and Mr. Yu Hang Chung, Herman pursuant to which the Company has agreed to capitalise an outstanding promissory note by the allotment and issue of 77,417 Shares to Mr. Yu Hang Chung, Herman credited as fully paid;
- (l) a deed dated 29 November 2001 entered into between, the Company, One Trend Net Holdings Limited, Aionnet, Super Code Limited, Mr. Yu Hang Chung, Herman, Mr. Kam Chun Ying, Francis, Mr. Ng Wing Hong, Mr. Suen Kwok Kin, Digikap Asia Limited and HyComm, in relation to the amendments of certain terms of the shares subscription agreement and the agreement mentioned in (g) and (h) above respectively;
- (m) the placing and underwriting agreement dated 17 December 2001 entered into between inter alia, the Company, the initial management Shareholders and the underwriters relating to the placing;
- (n) the Deed of Indemnity dated 17 December 2001 entered into between Super Code Limited, HyComm, Mr. Cheng Yu Hong, Mr. Suen Kwok Kin, Mr. Kam Chun Ying, Francis, Mr. Ng Wing Hong, Ms. Lam Ching Shan and Mr. Yu Hang Chung, Herman and the Company; and
- (o) on 28 February 2002, Mr. Yu Hang Chung, Herman (the former chairman of the Company) entered into a loan agreement on behalf of the Company without its prior approval with Trump Union Limited (“Trump Union”) under which the Company purportedly borrowed a loan of HK\$10 million from Trump Union.

4. LITIGATION

Save as described below, the Directors are not aware that any member of the Group is a party engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance is pending or threatened against any member of the Group as at the Latest Practicable Date:

- (a) On 14 May 2002, HSBC issued a demand letter for the repayment of banking facilities in the principal sum of HK\$3,176,480. The Company intends to negotiate with HSBC for a settlement of these sums.

- (b) On 2 June 2002, CIT Financial (Hong Kong) Limited (“CIT”) issued a writ of summons against the Company in respect of the leasing of various computers and accessories in the principal sum of HK\$837,300. As no defense or counterclaim was filed by the Company on or before 31 July 2002, default judgement has been entered into by CIT.
- (c) On 13 June 2002, Jaffe Development Limited (“Jaffe”) issued a writ of summons against the Company in respect of overdue rental payments in the principal sum of HK\$246,350. As no defense or counterclaim was filed by the Company on or before 31 July 2002, default judgement has been entered into by Jaffe. Furthermore, the Company has not filed any affirmation supporting their opposition of Jaffe’s application of interim payment of rent on or before 7 August 2002.
- (d) On 19 June 2002, Landscape Surveyors Limited issued a writ of summons against the Company in respect of agency commission in the principal sum of HK\$100,000. Defense is required to be filed on or before 7 August 2002.

5. CONSENT

Centurion has given and has not withdrawn its written consent to the issue of the Offeree Document with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

6. DIRECTORS

- (a) None of the Directors has any service contract with the Company or any of its subsidiaries or associated companies in force which has more than 12 months to run, or which has been entered into or amended within 6 months before the Announcement.
- (b) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office or otherwise in connection with the Partial Offers.
- (c) There is no agreement or arrangement between any Director and any other person which is conditional on the outcome of the Partial Offers or otherwise connected with the Partial Offers.
- (d) None of the Directors has a material personal interest in any material contract entered by the Offeror subsisting at the date of the Offeree Document.

7. MISCELLANEOUS

- (a) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person acting in concert with it.
- (b) As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Group.
- (c) As at the Latest Practicable Date, save as disclosed in section 1(ii) of Appendix I, there were no options, warrants and conversion rights affecting the Shares.
- (d) Centurion, who has given opinions or advice which is contained in the Offeree Document, is an investment adviser and a securities dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong).
- (e) The English text of the Offeree Document shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office and the principal place of business of the Company in Hong Kong at 39/F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong, while the Share Offer and Option Offer remain open for acceptance:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual report of the Company for the two years ended 31 December 2001 and 31 December 2000 respectively;
- (c) the letter from Centurion, the text of which is set out in the Offeree Document;
- (d) copies of the material contracts specified in paragraph 3 of this Appendix; and
- (e) the written consent from Centurion referred to in paragraph 5 of this Appendix.

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[code/bank]
Codebank Limited
數碼庫有限公司

(incorporated in Hong Kong with limited liability)

**CLARIFICATION OF PRESS ARTICLE
AND RECENT DEVELOPMENTS OF THE COMPANY**

The directors (“Directors”) of Codebank Limited (the “Company”) would like to inform shareholders of the Company of certain recent events which are under investigation by the Directors and the current developments of the Company.

Trading in the shares of the Company was suspended on 14 May 2002 and will remain suspended pending the completion of investigation of the above matters and the release of the first quarter results of the Company and its subsidiaries for the three months ended 31 March 2002.

The Stock Exchange is looking into these matters and has indicated that it reserves the right to take any appropriate action.

The Directors of the Company would like to inform shareholders of the Company of certain recent events which are under investigation by the Directors and the current developments of the Company.

Newspaper articles dated 24 May and 25 May 2002

The Directors have noted two newspaper articles on 24 May and 25 May 2002 which reported, amongst other things, that an amount of HK\$10 million is allegedly missing from the Company. The Directors are currently investigating the matter.

The Directors would like to inform shareholders of the Company of the following:

- In December 2001, 105,240,000 new shares (“Shares”) of the Company were placed to investors in respect of the placing (“Placing”) of the Shares at the time of listing on 21

December 2001 (the “Listing”) of the Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited to raise gross proceeds of HK\$52,620,000 for the Company.

- As at 31 December 2001, there was an amount of about HK\$20.6 million receivable (the “Receivable”) by the Group which represented part of the proceeds (the “Proceeds”) from the Placing. In early March, based on the bank statement records of the Company, the management of the Company believed that all the Proceeds had been received.
- On 15 April 2002, Mr. Yu Hang Chung, Herman (“Mr. Yu”), the former chairman and executive Director of the Company, faxed to the Company a loan agreement dated 28 February 2002 under which the Company purportedly borrowed a loan of HK\$10 million from a third party lender; such loan to be repaid with fixed interest of HK\$700,000 on 16 April 2002 (the “Loan Agreement”). Mr. Yu requested the management of the Company to repay the HK\$10 million loan together with interest to the lender. The Loan Agreement was entered into without any approval by the board of Directors. To avoid the Company incurring further interest charges, the board of Directors, including one independent non-executive Director, approved the repayment of the HK\$10 million loan and interest to the lender. The principal and interest of the loan were duly repaid on 17 April 2002.
- On 16 April 2002, Mr. Yu disclosed to the management that HK\$10 million of the Proceeds is still outstanding from placee(s). In this connection, upon reviewing the status of collection in respect of the Receivable, it is now confirmed that the Company had in fact received payments totaling in aggregate about HK\$10.6 million during the period January to March 2002. The Company has already started an investigation into this matter and will be considering proper courses of action when their enquiries are finalised and will make an announcement in due course.

Claim by CBC Information Technology Limited (“CBC”)

The Company received letters dated 19 December 2001 and 9 May 2002 from CBC, a shareholder of the Company holding about 3.42% of the issued share capital of the Company as disclosed in the prospectus (“Prospectus”) of the Company dated 17 December 2001, claiming that certain obligations of the Company to allot shares were not fulfilled under the share subscription agreement (“Share Subscription Agreement”) made between the Company and CBC dated 1 March 2001 (the “Claim”). In CBC’s letter dated 19 December 2001, CBC alleged that the Company should allot and issue further shares to CBC pursuant to the Share Subscription Agreement. Having obtained legal advice from the Company’s solicitors (“Company Lawyers”) involving in the Listing confirming the Company’s position, the Company considers that it is under no obligation whatsoever to allot and issue further shares to CBC pursuant to the terms of the Share Subscription Agreement. The Company Lawyers informed CBC on 14 May 2002 accordingly. On 17 May 2002, the Company received another letter from CBC indicating that it will seek a declaration of the court in relation to the Claim. The Company is currently seeking legal advice in respect of the Claim but has not yet taken any action. Further announcement will be made by the Company in respect of any development.

Amount of HK\$4.6 million in respect of the project in Sichuan

On 15 April 2002, a PRC subsidiary of the Company paid an amount of about HK\$4.6 million to a PRC company based in Beijing. The payment was approved by Mr. Yu and Mr. Deng Yi (“Mr. Deng”), the general manager of the Company in the PRC, for a project in Sichuan to purchase IT software and hardware. The board of Directors is investigating how the amount of HK\$4.6 million was actually applied.

The Company will be considering proper courses of action when their enquiries are finalised and will make an announcement in due course.

Change of Directors and members of the senior management

Subsequent to the Listing on 21 December 2001, a number of Directors and members of the senior management of the Group have resigned. Among the executive Directors, Mr. Kam Chun Ying Francis and Mr. Yu, resigned on 8 March 2002 and 30 April 2002 respectively. Mr. Cheung Chun Ying, Victor and Mr. Lau Wah Sum, both independent non-executive Directors, resigned on 19 April 2002 and 7 May 2002 respectively. As a result of the resignation by the two independent non-executive Directors, the Company does not have any independent non-executive Directors and is unable to form an audit committee. The Company is therefore unable to comply with Rules 5.05 and 5.23 of the Rules Governing the Listing of Securities of GEM (the “GEM Listing Rules”).

Mr. Suen Kwok Kin, an executive Director, and Mr. Woo Chia Wei, a non-executive Director tendered their resignations respectively on 13 May and 15 May 2002. Mr. Woo Chia Wei resigned due to, among other reasons, the recent resignations of other Directors of the Company, while Mr. Suen Kwok Kin resigned for personal reasons. However, such resignations have not yet been approved by the board of Directors. The qualified accountant and company secretary of the Company resigned on 16 May 2002. The Company intends to appoint a replacement qualified accountant and company secretary as soon as possible.

In addition to the resignation of the Directors, certain members of the senior management of the Group as disclosed in the Prospectus including Mr. Ng Wing Hong, Mr. Lo Hoi Keung, Mr. Chan Kwok Wai, Andrew, Mr. Au-Yeung Hui, Simon have also resigned subsequent to the Listing. There were also two key accounting staff resigning in January 2002 and April 2002 respectively. Due to the lack of accounting staff, the Company has been unable to publish its first quarter results for the three months ended 31 March 2002. The Company will publish its first quarter results as soon as practicable.

Mr. Deng was duly appointed as an executive Director of the Company on 30 April 2002. An announcement was made by the Company on 3 May 2002 regarding his appointment. On 10 May 2002, the Company received a letter from Mr Deng’s solicitors claiming that Mr Deng has not accepted such appointment. The Company received a further letter from Mr Deng’s

solicitors dated 27 May 2002 claiming that the “nomination” by the Company of him as the general manager of a PRC subsidiary of the Company was invalid, and giving notice to the Company of Mr Deng’s intention to resign as general manager of the said company (should such nomination be effective) and any other position in which the Company may consider Mr Deng to be employed.

The Company wishes to inform shareholders of the Company that a contract of employment was signed by Mr Deng on or about 15 March 2002 confirming and accepting his employment as general manager of the Company in the PRC region. Furthermore, Mr Deng signed a written consent to act as director of the Company (Form D3 - Consent to Act as a Director) on 30 April 2002.

The Company regards the letter from Mr Deng’s solicitors dated 27 May 2002 as Mr Deng’s notice of resignation of his positions as executive Director and general manager of the Company. The board of Directors will convene a board meeting to consider Mr Deng’s resignation as executive Director of the Company.

As at the date of this announcement, a total of seven Directors have either resigned or tendered their resignations. The remaining members of the board of Directors and senior management staff of the Group are: Mr. Cheng Yu Hong, an executive Director, Mr. Choy Mun Kei, a non-executive Director, Mr. Tang Gan Gene, Mr. Jiang Jing Hua, and Ms. Lam Ching Shan, all of whom are members of the senior management of the Group. For the qualifications of the members of the senior management of the Group, please refer to pages 83 to 84 of the Prospectus.

Business, operations and development of the Company subsequent to the Listing

As at 16 May 2002, the total cash and bank balances of the Group amounted to about HK\$1.38 million.

Due to the tight cash position of the Group, the Company has postponed monthly loan repayments in respect of the months of March and April 2002 of about HK\$140,000 each to The Hongkong and Shanghai Banking Corporation Ltd (“HSBC”). On 14 May 2002, HSBC served a statutory demand on the Company pursuant to section 178 of the Companies Ordinance (Cap 32) in respect of credit facilities granted by the bank to the Company in the amount of approximately HK\$3.18 million as at 13 May 2002. In addition, HSBC had also withdrawn the banking facilities of the Company. The Company intends to negotiate with HSBC regarding the banking facilities. The Company has also received a demand for payment from another financial institution in respect of a loan of about HK\$140,000. Save as disclosed above, the Directors are so far not aware of any other demand for repayments from banks and other financial institutions.

The Directors believe that the daily operations of the Company may be affected by the tight cash position of the Company and the series of resignation of Directors and members of the senior management of the Group.

The Company is currently in preliminary discussions with potential investor(s) of the Company in relation to the proposed issue of new Shares or other securities of the Company. However, no terms have yet been agreed between the Company and the potential investor. Further announcement will be made as and when appropriate.

Trading in the shares of the Company was suspended on 14 May 2002 and will remain suspended pending the completion of investigation of the above matters and the release of the first quarter results of the Company and its subsidiaries for the three months ended 31 March, 2002.

The Stock Exchange is looking into the above matters and has indicated that it reserves the right to take any appropriate action.

By order of the Board
Codebank Limited
Cheng Yu Hong
Director

Hong Kong, 28 May 2002

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

This announcement will remain on the “Latest Company Announcements” page on the GEM website for at least seven days from its date of publication.”