

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

17th December, 2001

The Directors

Codebank Limited

Deloitte & Touche Corporate Finance Ltd

Dear Sirs,

We set out below our report on the financial information relating to Codebank Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and its associated companies for inclusion in the prospectus of the Company dated 17th December, 2001 (the "Prospectus") in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Hong Kong on 23rd July, 1999 as a limited liability company. The Company is principally engaged in the provision of internet and intranet development services in Hong Kong. As at the date of this report, the Company has direct and indirect interests in the following subsidiaries and associated companies:

	Country/place and date of incorporation/ establishment	Issued and paid up share capital	Attributable equity interest %	Principal activities and place of operations
Subsidiaries				
<i>Held directly:</i>				
CBIT Corporation Limited	Hong Kong 19th April, 2000	Ordinary HK\$1,000	100	Provision of internet and intranet development services in Hong Kong
Codebank IMA Limited (formerly known as IMA Communications Limited)	Hong Kong 25th April, 1997	Ordinary HK\$10,000	100 (Note (a))	Provision of internet and intranet development services in Hong Kong up to 31st December, 2000 and, thereafter, investment holding

	Country/place and date of incorporation/ establishment	Issued and paid up share capital	Attributable equity interest %	Principal activities and place of operations
Subsidiaries				
<i>Held directly:</i>				
MAP Technologies Limited	Hong Kong 3rd May, 2000	Ordinary HK\$2,000,000 Convertible, voting and redeemable preference shares HK\$285,714	61.25 (Note (b))	Provision of design, development and deployment of the voice and wireless technology services in Hong Kong
數碼庫(北京)科技 有限公司	The People's Republic of China (the "PRC") 9th March, 2001	Registered US\$500,000 Paid up capital US\$500,000	100 (Note (c))	Trading of hardware and software and provision of consultancy services in the PRC
<i>Held indirectly:</i>				
Campus Online Limited	Hong Kong 17th November, 1999	Ordinary HK\$10,000,000	90 (Notes (a) and (d))	Provision of internet and intranet development services for educational institutions in Hong Kong
校園在綫信息技術 (上海)有限公司	The PRC 27th November, 2000	Registered US\$1,000,000 Paid up capital US\$1,000,000	83.25 (Note (e))	Provision of internet and intranet development services for educational institutions in the PRC
Associated companies				
<i>Held directly:</i>				
Family Online Corporation Limited	Hong Kong 17th May, 2000	Ordinary HK\$2,500,000	40	Provision of internet and intranet development services in Hong Kong
<i>Held indirectly:</i>				
Campus Smart Limited	British Virgin Islands 22nd August, 2000	Ordinary US\$10,000	49 (Note (f))	Sale of smartcard to educational institutions in Hong Kong up to May 2001 when it became inactive

Notes:

- (a) Codebank IMA Limited and its subsidiary, Campus Online Limited, were acquired by the Company in January 2000 and accordingly, the Company consolidated the results of Codebank IMA Limited and Campus Online Limited from the date of acquisition.
- (b) Pursuant to an agreement entered into between the Company and a third party (the "preference shareholder") on 16th March, 2001, MAP Technologies Limited ("MAP") issued 2,857,143 convertible, voting and redeemable preference shares of HK\$0.1 each at HK\$1.37 per share for cash to that third party on 11th April, 2001. These preference shares shall rank in priority to the ordinary shares of MAP in respect of the return of capital and will entitle the preference shareholder non-cumulative dividends of US\$0.01575 per share in respect of any financial year. These preference shares can be converted into one ordinary share of MAP per each preference share at the option of the preference shareholder before the filing of an application for the listing of MAP on The Stock Exchange of Hong Kong Limited. The preference shareholder will also be entitled to the same voting rights as for the holders of ordinary shares at any general meetings of MAP. In addition, the Company has also granted the preference shareholder a put option whereby this shareholder will have the right to require the Company to purchase all or any of its preference shares then in issue at HK\$1.37 per share when MAP is unable to redeem these preference shares. Subsequent to the issuance of these preference shares, the Company's effective equity interest in MAP was reduced from 70% to 61.25%.
- (c) 數碼庫(北京)科技有限公司 was established as a wholly foreign owned enterprise in the PRC for a term of 20 years commencing from 9th March, 2001.
- (d) The Group previously held 70% equity interest in Campus Online Limited through Codebank IMA Limited. Pursuant to an agreement entered into between Codebank IMA Limited, the Company and the minority shareholder of Campus Online Limited on 17th July, 2001, Codebank IMA Limited acquired 10% equity interest in Campus Online Limited from that minority shareholder, in consideration for the issuance of 78,009 ordinary shares of HK\$0.1 each of the Company to that minority shareholder and the transfer of the Company's 15.68% equity interest in Corpmart.com Limited (see 5(0)) to that minority shareholder. Also on 17th July, 2001, Campus Online Limited issued 50,000,000 shares of HK\$0.10 each to Codebank IMA Limited at par for cash. Subsequent to the completion of these transactions, the Group's interests in Campus Online Limited were increased to 90%.
- (e) 校園在綫信息技術(上海)有限公司 was established as a wholly foreign owned enterprise in the PRC for a term of 20 years, commencing from 27th November, 2000.
- Pursuant to an agreement dated 8th June, 2001 entered into between Campus Online Limited and CBH Limited ("CBH"), a third party, Campus Online Limited sold a 7.5% equity interest in 校園在綫信息技術(上海)有限公司 to CBH for a cash consideration of HK\$6,750,000, which was paid to the Group on 8th June, 2001. Subsequent to the completion of this transaction and those as described in note (d) above, the Group's effective interest in 校園在綫信息技術(上海)有限公司 was reduced to 83.25%.
- (f) In May 2001, pursuant to an agreement entered into between Campus Online Limited and the 51% shareholder in Campus Smart Limited, a third party, it was agreed that the business of Campus Smart Limited would cease immediately.

All companies comprising the Group have adopted 31st December as their financial year end date.

No audited accounts have been prepared for 校園在綫信息技術(上海)有限公司, 數碼庫(北京)科技有限公司, Family Online Corporation Limited and Campus Smart Limited, since the dates of their respective incorporation or establishment as they were newly incorporated or established and have not been involved in any significant business transactions since incorporation or establishment.

We have acted as auditors of the Company, CBIT Corporation Limited, Codebank IMA Limited, MAP Technologies Limited and Campus Online Limited for the year/period ended 31st December, 2000 and the period ended 30th September, 2001. The following accounts were not audited by PricewaterhouseCoopers but by other auditors as detailed below:

Company	Auditors	Financial period	
		From	To
Codebank Limited	Ernst & Young	23rd July, 1999 (date of incorporation)	31st December, 1999

For the purpose of this report, we have carried out an independent audit of the accounts of Codebank Limited for the period ended 31st December, 1999 in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants.

We have examined the audited accounts or, where appropriate, the management accounts of all companies comprising the Group for the period from 23rd July, 1999 (being the date of incorporation of the Company) to 31st December, 1999, the year ended 31st December, 2000 and the period from 1st January, 2001 to 30th September, 2001 (the "Relevant Periods") and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The financial information as set out in sections 1 to 7 ("Financial Information"), has been prepared based on the audited accounts or, where appropriate, management accounts of all companies comprising the Group. The directors of the respective group companies are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company (the "Directors") are responsible for the Financial Information. It is our responsibility to form an independent opinion on the consolidated results of the Group for the Relevant Periods and the consolidated net assets of the Group and the net liabilities of the Company as at 30th September, 2001.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in section 3 below, gives a true and fair view of the consolidated results of the Group for the Relevant Periods and of the consolidated net assets of the Group and the net liabilities of the Company as at 30th September, 2001.

1 RESULTS

The following is a summary of the consolidated results of the Group for the Relevant Periods prepared on the basis set out in section 3 below:

		Period from 23rd July, 1999 to 31st December, 1999 <i>HK\$'000</i>	Year ended 31st December, 2000 <i>HK\$'000</i>	Period from 1st January, 2001 to 30th September, 2001 <i>HK\$'000</i>
Turnover	5(a)	1,375	8,967	8,162
Cost of sales		(685)	(3,441)	(5,172)
Gross profit		690	5,526	2,990
Other revenue	5(a)	–	7	26
Research and development expenses		–	(5,362)	(850)
Administrative expenses		(822)	(30,520)	(23,910)
Net realised and unrealised holding loss on trading investments	5(b)	–	(58,401)	(54)
Broadband procurement expenses	5(c)	–	–	(30,000)
Other operating revenue	5(d)	–	–	10,646
Other operating expenses		–	(2,155)	(4,444)
Operating loss	5(d)	(132)	(90,905)	(45,596)
Finance costs	5(e)	–	(1,439)	(701)
Share of losses of associated companies		–	(662)	(338)
Loss for the period/year		(132)	(93,006)	(46,635)
Minority interests		–	2,100	–
Loss attributable to shareholders		<u>(132)</u>	<u>(90,906)</u>	<u>(46,635)</u>
Loss per share (Hong Kong Dollars)	5(h)	<u>(0.83)</u>	<u>(34.92)</u>	<u>(11.43)</u>

2 NET ASSETS

The following is a summary of the consolidated net assets of the Group and the net liabilities of the Company as at 30th September, 2001 prepared on the basis set out in section 3 below:

	<i>Note</i>	Group		Company
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Goodwill	5(k)		2,856	–
Fixed assets	5(l)		8,891	1,795
Subsidiaries	5(m)		–	–
Associated companies	5(n)		–	–
Other investment	5(o)		–	–
Current assets				
Accounts receivable		2,423		97
Prepayments, deposits and other receivables		5,333		4,669
Bank balances and cash		960		114
		<u>8,716</u>		<u>4,880</u>
Current liabilities				
Accounts payable		1,396		600
Other payables and accruals		9,521		5,983
Obligations under finance lease	5(p)	1,779		1,779
Current portion of long-term bank loan, secured	5(q)	1,296		1,296
Short-term bank loan and overdraft, secured	5(r)	2,546		219
Other short-term loan, secured	5(s)	1,250		1,250
		<u>17,788</u>		<u>11,127</u>
Net current liabilities			<u>(9,072)</u>	<u>(6,247)</u>
Total assets less current liabilities			2,675	(4,452)
Long-term bank loan, secured	5(q)		<u>(1,956)</u>	<u>(1,956)</u>
Net assets/(liabilities)			<u>719</u>	<u>(6,408)</u>

3 BASIS OF PREPARATION

The Group reported a net loss of HK\$46,635,000 for the nine months ended 30th September, 2001 and at that date, its consolidated current liabilities exceeded its consolidated current assets by HK\$9,072,000. As at 30th September, 2001, the Company's total liabilities exceeded its total assets by HK\$6,408,000. Nevertheless, the Financial Information has been prepared on a going concern basis, which the Directors believe to be appropriate because:

- (a) majority of the shareholders of the Company as at the date of this report have agreed to provide continuing financial support to the Company up to the date of the listing of the Company's shares on the GEM; and
- (b) the Company is planning a listing of the Company's shares on the GEM, from which the estimated net proceeds of HK\$40 million are intended to be applied to fund the Group's capital expenditure and for working capital purposes.

4 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted by the Group in the preparation of the Financial Information in this report are set out below. These policies conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The Financial Information in this report is prepared under the historical cost convention as modified by the revaluation of trading investments.

(a) Consolidation

Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the Board of directors. The results of subsidiaries acquired or disposed of during the year/period 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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) 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 Relevant Periods, and the consolidated net assets includes the Group's share of the net assets of these associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill on acquisition

Goodwill on acquisition represents the excess of the purchase consideration over the fair values ascribed to the net assets of a subsidiary acquired and is amortised by equal annual instalments over its estimated useful economic life of three years.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives to the Group on a straight-line basis. The principal annual rate is 25%.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of 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 rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) 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.

(g) Other investment

Other investment represents the investment in unlisted shares and are stated at cost less any provision for diminution in value.

The carrying amount of this investment is reviewed at each balance sheet date to assess whether its fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of this 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 consolidated balance sheet are stated net of such provision.

(i) 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.

(j) 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 Relevant Periods, all the research and development costs have been expensed.

(k) 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 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 accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary, the cumulative related exchange difference is taken to the profit and loss account as part of the gain or loss on disposal.

(l) Revenue recognition

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.

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

5 NOTES TO FINANCIAL INFORMATION

(a) Turnover and revenues

The Group is 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 Relevant Periods are as follows:

	Period from 23rd July, 1999 to 31st December, 1999 HK\$'000	Year ended 31st December, 2000 HK\$'000	Period from 1st January, 2001 to 30th September, 2001 HK\$'000
Turnover			
Rendering of services	1,375	8,967	8,162
Other revenue			
Interest income	—	7	26
	<u>1,375</u>	<u>8,974</u>	<u>8,188</u>
Total revenues	<u>1,375</u>	<u>8,974</u>	<u>8,188</u>

During the Relevant Periods, all the Group's turnover was generated in Hong Kong and accordingly, no geographical segmental information is presented.

(b) Net realised and unrealised holding loss on trading investments

The balance represents net realised and unrealised holding loss 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 Company was allotted with 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 Relevant Periods.

(c) 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 PRC for a period of 20 years (the "Term") starting from 11th 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 connection points as designated by the Group. The total cash consideration for the 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 in May 2001. In view of uncertainties on the future inflow of economic benefits to the Group from the broadband procurement services, the underlying charge was expensed in the consolidated profit and loss account of the Group for the nine months ended 30th September, 2001. On 29th November, 2001, the Company entered into a deed with Aionnet and One Trend to amend the Term from 20 years to 9 years.

(d) Operating loss

The operating loss is stated after charging and crediting the following:

	Period from 23rd July, 1999 to 31st December, 1999 HK\$'000	Year ended 31st December, 2000 HK\$'000	Period from 1st January, 2001 to 30th September, 2001 HK\$'000
Charging:			
Auditors' remuneration	40	43	100
Amortisation of goodwill	–	–	213
Depreciation			
– owned fixed assets	–	1,318	1,297
– leased fixed assets	–	906	1,065
Loss on disposal of fixed assets	–	11	34
Staff costs (including directors' emoluments)	309	24,750	15,753
Operating lease rentals in respect of			
– leased lines and server storage	–	375	2,031
– land and buildings	–	1,626	1,538
Provision for bad and doubtful debts	136	2,283	782
Provision for diminution in value of other investment	–	–	2,346
Crediting:			
Gain on disposal of certain interests in a subsidiary	–	–	6,750
Gain on dilution of interests in a subsidiary	–	–	3,896
	<u>–</u>	<u>–</u>	<u>3,896</u>

(e) Finance costs

	Period from 23rd July, 1999 to 31st December, 1999 HK\$'000	Year ended 31st December, 2000 HK\$'000	Period from 1st January, 2001 to 30th September, 2001 HK\$'000
Interest on bank loans and overdrafts	–	969	459
Interest on other loans	–	157	31
Interest element of finance leases	–	132	211
Interest on late payments of finance leases	–	181	–
	<u>–</u>	<u>1,439</u>	<u>701</u>

(f) Taxation

The companies comprising the Group operating in Hong Kong are subject to Hong Kong profits tax at the rate of 16%. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits during the Relevant Periods.

The Company's subsidiaries established in the PRC are subject to the PRC income tax at the rate of 33%. No provision for PRC income tax has been made as these subsidiaries had no assessable income during the Relevant Periods.

During the Relevant Periods, there were no material unprovided deferred tax assets or liabilities which are expected to be crystallised in the foreseeable future.

(g) Dividends

No dividends had been paid or declared by the Company during the Relevant Periods.

(h) Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$46,635,000 (2000: HK\$90,906,000), (1999: HK\$132,000) and on the weighted average number of 4,081,356 (2000: 2,603,477) (1999:158,951) shares in issue during the year/period.

(i) Emoluments of directors and employees

(i) The aggregate amounts of emoluments paid and payable to the directors of the Company for the Relevant Periods are as follows:

	Period from 23rd July, 1999 to 31st December, 1999 <i>HK\$'000</i>	Year ended 31st December, 2000 <i>HK\$'000</i>	Period from 1st January, 2001 to 30th September, 2001 <i>HK\$'000</i>
Basic salaries, allowances and benefit in kind	433	3,540	2,480
Bonuses	–	–	–
Provident fund contributions	–	–	41
	<u>433</u>	<u>3,540</u>	<u>2,521</u>

Each of the five directors of the Company received emoluments from the Group of approximately HK\$165,000, HK\$124,000, HK\$100,000, HK\$44,000 and HK\$nil respectively for the period from 23rd July, 1999 to 31st December, 1999, approximately HK\$906,000, HK\$812,000, HK\$785,000, HK\$752,000 and HK\$285,000 respectively for the year ended 31st December, 2000 and approximately HK\$689,000, HK\$519,000, HK\$519,000, HK\$519,000 and HK\$275,000 respectively for the nine months ended 30th September, 2001.

No Directors waived any emoluments during the Relevant Periods.

(ii) The five individuals whose emoluments were the highest in the Group are as follows:

	Period from 23rd July, 1999 to 31st December, 1999 <i>HK\$'000</i>	Year ended 31st December, 2000 <i>HK\$'000</i>	Period from 1st January, 2001 to 30th September, 2001 <i>HK\$'000</i>
Directors	3	4	4
Employees	2	1	1
	<u>5</u>	<u>5</u>	<u>5</u>

Details of the emoluments of employees as mentioned above are as follows:

	Period from 23rd July, 1999 to 31st December, 1999 <i>HK\$'000</i>	Year ended 31st December, 2000 <i>HK\$'000</i>	Period from 1st January, 2001 to 30th September, 2001 <i>HK\$'000</i>
Basic salaries, allowances and benefit in kind	199	692	631
Bonuses	–	–	–
Provident fund contributions	–	–	9
	<u>199</u>	<u>692</u>	<u>640</u>

The emoluments of each of the above employees for the Relevant Periods were below HK\$1,000,000.

- (iii) During the Relevant Periods, no emoluments have been paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

(j) Retirement benefit costs

The Group did not operate any retirement scheme up to 30th November, 2000. With effect from 1st December, 2000, a Mandatory Provident Fund (“MPF”) scheme has been set up for employees, including executive Directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Fund 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 31st December, 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested with the employees as accrued benefits once they are paid. The total contribution to the MPF scheme paid and payable by the Group for the period ended 30th September, 2001 amounted to HK\$408,090 and for the year ended 31st December, 2000 amounted to HK\$51,902.

(k) Goodwill

Group
HK\$'000

Cost

Arising from the acquisition of additional interest in
a subsidiary, Campus Online Limited

3,069

Accumulated amortisation

(213)

At 30th September

2,856

(l) Fixed assets

	Group		
	Cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Leasehold improvements	1,678	581	1,097
Computer equipment	10,677	3,454	7,223
Furniture, fixtures and equipment	952	381	571
	<u>13,307</u>	<u>4,416</u>	<u>8,891</u>

As at 30th September, 2001, the aggregate net book value of the Group's computer equipment held under finance leases was approximately HK\$4,247,000.

	Company		
	Cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Leasehold improvements	1,327	470	857
Computer equipment	924	233	691
Furniture, fixtures and equipment	380	133	247
	<u>2,631</u>	<u>836</u>	<u>1,795</u>

(m) Subsidiaries – Company

	<i>HK\$'000</i>
Investments in unlisted subsidiaries, at cost	5,915
Provision for diminution in value of investments	(5,915)
	<u>–</u>
Long term loan to a subsidiary (<i>note (i)</i>)	4,396
Due from subsidiaries (<i>note (ii)</i>)	26,711
Provision for long term loan to and amounts due from subsidiaries	(31,107)
	<u><u>–</u></u>

(i) The loan is due from MAP, a 61.25% owned subsidiary. The loan is unsecured and interest-free.

(ii) The amounts due from subsidiaries are unsecured and interest-free.

(n) Associated companies

	Group <i>HK\$'000</i>
Share of net assets	–
Due from an associated company	378
Provision for amount due from an associated company	(378)
	<u>–</u>
	<u><u>–</u></u>
	Company <i>HK\$'000</i>
Investment in an associated company, at cost	1,000
Provision for diminution in value of investment	(1,000)
	<u>–</u>
	<u><u>–</u></u>

(o) Other investment – Group and Company

	<i>HK\$'000</i>
Unlisted shares, at cost	2,346
Provision for diminution in value of investment	(2,346)
	<u>–</u>
	<u><u>–</u></u>

As at 30th September, 2001, unlisted shares represented 13.70% 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.

(p) Obligations under finance lease

Pursuant to a finance lease agreement entered into between the Company and CIT Financial (Hong Kong) Limited, an independent leasing company, dated 11th December, 2000, this finance lease is secured by a joint and several guarantee given by Mr. Yu Hang Chung, Herman (“Mr. Yu”), Campus Online Limited, one of the Company’s subsidiaries, and a director of HyComm.

Subsequent to 30th September, 2001, the leasing company has agreed in principal that the above guarantee will be released upon the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(q) Long-term bank loan – Group and Company

	Secured bank loan HK\$'000
Amounts repayable:	
Within one year	1,296
In the second year	1,296
In the third to fifth year	660
	<hr/>
	3,252
Amounts due within one year classified as current liabilities	<hr/>
	(1,296)
	<hr/>
	<u>1,956</u>

Details of securities for banking facilities are set out in section 5(r) below

(r) Banking facilities

- (1) As at 30th September, 2001, the Group's banking facilities of approximately HK\$5.8 million were secured by the following:
 - (i) personal guarantees of Mr. Yu, one of the directors and shareholders of the Company, 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; and
 - (iii) a legal charge over a property held by Ms. Lai Sin Yee, Mr. Yu's mother.
- (2) As at 30th September, 2001, the Company's bank facilities of approximately HK\$3.5 million were secured by the following:
 - (i) personal guarantees of Mr. Yu, one of the directors and shareholders of the Company for HK\$5,000,000; and
 - (ii) the assignment of all benefits of the keyman insurance policy totalling approximately HK\$4,001,000 in the name of Mr. Yu
- (3) Subsequent to 30th September, 2001, the underlying banks have agreed in principle that the above personal guarantees and charge will be released and replaced by a charge over the Company's bank deposit of HK\$1.8 million and other security and guarantees to be provided by the Group upon the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

(s) 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 16th July, 2001, Pioneer granted an interest bearing loan of HK\$1,250,000 to the Company, 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 15th July, 2002 together with interest. The loan was drawn down by the Company on 23rd July, 2001.

(t) Reserves

	Group			
	Share Premium <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>
Loss for the period ended 31st December, 1999	–	–	–	(132)
At 1st January, 2000	–	–	–	(132)
Premium arising on the issue of shares, net of share issue expenses	81,982	–	–	–
Premium arising on acquisition of a subsidiary	–	–	68	–
Arising from the translation of the accounts of subsidiaries	–	(1)	–	–
Loss for the year	–	–	–	(90,906)
At 31st December, 2000	81,982	(1)	68	(91,038)
At 1st January, 2001	81,982	(1)	68	(91,038)
Premium arising on the issue of shares, net of share issue expenses	55,900	–	–	–
Arising from the translation of the accounts of subsidiaries	–	(22)	–	–
Loss for the period	–	–	–	(46,635)
At 30th September, 2001	137,882	(23)	68	(137,673)

	Company	
	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>
Loss for the period ended 31st December, 1999	–	(132)
At 1st January, 2000	–	(132)
Premium arising on the issue of shares, net of share issue expenses	81,982	–
Loss for the year	–	(96,393)
At 31st December, 2000	81,982	(96,525)
At 1st January, 2001	81,982	(96,525)
Premium arising on the issue of shares, net of share issue expenses	55,900	–
Loss for the period	–	(48,230)
At 30th September, 2001	137,882	(144,755)

(u) Commitments*(i) Commitments under operating leases*

At 30th September, 2001, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	Within one year HK\$'000	In the second to fifth years inclusive HK\$'000	Within one year HK\$'000	In the second to fifth years inclusive HK\$'000
Operating leases in respect of :				
– land and buildings	1,899	700	1,400	700
– leased lines and server	801	–	150	–
	<u>2,700</u>	<u>700</u>	<u>1,550</u>	<u>700</u>

(ii) Capital commitments

At 30th September, 2001, the Group and the Company had no material capital commitments.

(v) Contingent liabilities

As at 30th September, 2001, the Group and the Company had no material contingent liabilities.

(w) Distributable reserves

As at 30th September, 2001, the Company had no reserves available for distribution to its shareholders as at that date.

(x) Related party transactions

Apart from those disclosed under 5(c), 5(p) and 5(r), during the Relevant Periods, the Group undertook the following transactions with related companies in the normal course of its business:

	Period from	Year ended	Period from
	23rd July, 1999		1st January, 2001
	to		to
	31st December,	31st December,	30th September,
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Management fee paid to Codebank IMA Limited (<i>Note a</i>)	1,000	–	–
Services rendered to associated companies (<i>Note b</i>)	–	120	178
Services rendered to a related company (<i>Note c</i>)	–	120	520
Consultancy fees paid to a related company (<i>Note d</i>)	–	–	355
	<u>–</u>	<u>–</u>	<u>355</u>

- (a) Codebank IMA Limited was owned and controlled by Mr. Yu before January 2000 when the Company acquired 100% interests in Codebank IMA Limited. During the period ended 31st December, 1999, Codebank IMA Limited provided management and administrative services to the Company in return for a fixed fee of HK\$1,000,000 on a cost reimbursement basis.
- (b) 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.
- (c) It represents services rendered to Corpmart.com Limited (see 5(o)), in which Mr. Yu had certain equity interest, in accordance with the terms of the underlying agreement.
- (d) It represents consultancy services rendered by Digikap Asia Limited, in which Mr. Cheng Yu Hong, the director of the Company, is also its shareholder and director in accordance with the terms of the underlying agreement.

In addition, on 19th July, 2001, the Company acquired 11.41% equity interest in Corpmart.com Limited (see 5(o)) 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 directors of the Company also confirmed that the abovementioned transactions will not continue subsequent to the listing of the Company's shares on the GEM.

6 SUBSEQUENT EVENTS

Subsequent to 30th September, 2001, except as disclosed elsewhere in this report, a shareholder loan of approximately HK\$1.4 million was granted from Mr. Yu for working capital purpose. The loan is unsecured, interest-free and repayable upon the listing of the Company's shares on the GEM. This loan repayment will be financed by the net proceeds from the issuance of the shares of the Company for the purpose of the listing of the Company's shares on the GEM.

Save as aforesaid, no other material events took place subsequent to 30th September, 2001.

7 SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of its subsidiaries in respect of any period subsequent to 31st December, 2000 and no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 30th September, 2001.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong