



## **iLink Holdings Limited**

**合縱連網控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

### **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2002**

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

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## **HIGHLIGHTS**

- Turnover for the year ended 31st December, 2002 amounted to HK\$54,736,000.
- Net loss attributable to shareholders for the year ended 31st December, 2002 amounted to HK\$104,220,000 after (i) the provision for impairment losses of HK\$35,800,000 in the fixed assets for its data centre operation in Hong Kong and (ii) the loss of disposal on certain fixed assets of HK\$2,773,000 and the provision for impairment losses of HK\$25,802,000 in the remaining fixed assets for its data centre operation in Beijing, The People's Republic of China (the "PRC"), which was discontinued following a corporate restructuring of the Group.
- To broaden its revenue base and to leverage on its expertise and infrastructure, the Group participated in the network game industry by forming joint ventures with the game developers in the PRC in 2002.
- The directors do not recommend the payment of a dividend for the year ended 31st December, 2002.

## FINANCIAL RESULTS

The board of directors (the “Board”) of the Company announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2002 together with the comparative audited figures for the corresponding period in 2001 as follows:

	Continuing Operation		Discontinuing Operation (Data Centre at Beijing)		The Group	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover ( <i>Notes 2 &amp; 8</i> )	<b>52,975</b>	78,898	<b>1,761</b>	3,003	<b>54,736</b>	81,901
Cost of revenues	<b>(45,275)</b>	(58,481)	<b>(3,658)</b>	(4,872)	<b>(48,933)</b>	(63,353)
Gross profit / (loss)	<b>7,700</b>	20,417	<b>(1,897)</b>	(1,869)	<b>5,803</b>	18,548
Selling and marketing expenses	<b>(6,542)</b>	(10,194)	<b>(102)</b>	(258)	<b>(6,644)</b>	(10,452)
General and administrative expenses	<b>(38,729)</b>	(41,041)	<b>(3,294)</b>	(9,547)	<b>(42,023)</b>	(50,588)
Other expenses, net ( <i>Note 4</i> )	<b>(274)</b>	(823)	<b>(3,116)</b>	-	<b>(3,390)</b>	(823)
Impairment losses in fixed assets ( <i>Notes 3 &amp; 4</i> )	<b>(35,800)</b>	-	<b>(25,802)</b>	-	<b>(61,602)</b>	-
Operating loss	<b>(73,645)</b>	(31,641)	<b>(34,211)</b>	(11,674)	<b>(107,856)</b>	(43,315)
Interest income	<b>3,259</b>	8,345	<b>13</b>	69	<b>3,272</b>	8,414
Loss before taxation	<b>(70,386)</b>	(23,296)	<b>(34,198)</b>	(11,605)	<b>(104,584)</b>	(34,901)
Taxation ( <i>Note 5</i> )	-	-	-	-	-	-
Loss after taxation	<b>(70,386)</b>	(23,296)	<b>(34,198)</b>	(11,605)	<b>(104,584)</b>	(34,901)
Minority interests	<b>364</b>	-	-	-	<b>364</b>	-
Net loss attributable to shareholders ( <i>Notes 7 &amp; 8</i> )	<b>(70,022)</b>	(23,296)	<b>(34,198)</b>	(11,605)	<b>(104,220)</b>	(34,901)
Dividend					-	-
Loss per share - Basic ( <i>Note 6</i> )					<b>(2 cents)</b>	(0.7 cents)
Loss per share - Diluted ( <i>Note 6</i> )					N/A	N/A

*Notes:*

**1. Basis of Presentation**

The financial statements of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants (“HKSA”), the disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”). They have been prepared under the historical cost convention.

**2. Turnover**

Turnover represents income earned from the provision of Internet connectivity, server hosting and co-location, other value-added services and sales of equipment and software.

**3. Impairment losses in the fixed assets of the Hong Kong data centres**

Revised management’s forecast showed that the economic performance of the Group’s data centres in Hong Kong was worse than originally expected and updated analyses were then prepared to determine if there was an impairment of the underlying assets by assessing their value in use. In assessing the value in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflected the then current market assessments of the time value of money and the risk specific to the asset. As a result of the assessment, the Group recognized an impairment loss of HK\$35,800,000 and the fixed assets of the Hong Kong data centres were written down to their recoverable value of approximately HK\$20,313,000.

**4. Discontinuing Operation**

On 8th May, 2002, the Group approved a corporate restructuring to discontinue its data centre operation in Beijing, the PRC. Results of this discontinuing operation for the year ended 31st December, 2002 are set out above.

As a result of the corporate restructuring, a provision for impairment losses in the amount of approximately HK\$25,802,000 has been made which represented the carrying amount of fixed assets for the data centre operation in Beijing as at 31st December, 2002. For the year ended 31st December, 2002, part of the fixed assets with net book values of approximately HK\$4,241,000 were sold for approximately HK\$1,468,000, resulting in a loss on disposal of approximately HK\$2,773,000.

**5. Taxation**

No provision for Hong Kong profits tax was made as the Group had no estimated assessable profits in Hong Kong for the years ended 31st December, 2002 and 2001.

The subsidiaries in Beijing (the “Beijing Subsidiaries”) are subject to PRC enterprise income tax on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. No provision for PRC enterprise income tax was made as the Beijing Subsidiaries had no taxable income for the years ended 31st December, 2002 and 2001.

The Group has not recorded deferred tax assets, mainly in respect of the tax losses for the operation in Hong Kong due to the uncertainty that the resultant deferred tax asset will be recovered in the foreseeable future. Tax losses for the operation in Hong Kong were approximately HK\$108,000,000 (2001: HK\$88,000,000), subject to agreement by relevant tax authority.

## 6. Loss per Share

The calculation of basic loss per share is based on the Group's consolidated net loss attributable to shareholders and 5,267,374,610 shares (2001: weighted average of approximately 4,931,705,000 shares which have been adjusted for the capitalization issue and the subdivision of shares of the Company in 2001) in issue during the year.

Diluted loss per share is not presented because the effect of the assumed conversion of all potential dilutive securities during the years ended 31st December, 2002 and 2001 would be anti-dilutive.

## 7. Reserves

Movements in reserves of the Group for the years ended 31st December, 2002 and 2001 are as follows:

	<u>2002</u>					<u>2001</u>
	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Exchange translation reserve</b>	<b>Accumulated deficit</b>	<b>Total</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance, beginning of year</b>	<b>243,476</b>	<b>43,782</b>	<b>50</b>	<b>(67,336)</b>	<b>219,972</b>	224,059
Issuance of ordinary shares	-	-	-	-	-	110,742
Capitalization issue	-	-	-	-	-	(71,110)
Conversion of convertible note	-	-	-	-	-	(8,868)
Exchange translation differences	-	-	<b>12</b>	-	<b>12</b>	50
Loss for the year	-	-	-	<b>(104,220)</b>	<b>(104,220)</b>	(34,901)
<b>Balance, end of year</b>	<b>243,476</b>	<b>43,782</b>	<b>62</b>	<b>(171,556)</b>	<b>115,764</b>	219,972

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31st December, 2002, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$116,500,000 (2001: HK\$246,700,000), subject to the restriction stated above.

## 8. Segment Information

The Group's principal activities are conducted mainly in Hong Kong and the PRC and it has 2 reportable segments based on the Group's operations in these two geographical areas. The Group has only one major business segment engaged in the provision of Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software. An analysis by geographical segment is as follows:

	Hong Kong		The PRC		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>						
External sales	<u>52,846</u>	<u>78,898</u>	<u>1,890</u>	<u>3,003</u>	<u>54,736</u>	<u>81,901</u>
<b>Result</b>						
Segment result	<u>(61,738)</u>	<u>(30,053)</u>	<u>(43,592)</u>	<u>(12,622)</u>	<u>(105,330)</u>	<u>(42,675)</u>
Unallocated corporate expenses					<u>(2,526)</u>	<u>(640)</u>
Operating loss					<u>(107,856)</u>	<u>(43,315)</u>
Interest income					<u>3,272</u>	<u>8,414</u>
Minority interests					<u>364</u>	<u>-</u>
Net loss attributable to shareholders					<u>(104,220)</u>	<u>(34,901)</u>
<b>Other information</b>						
Capital expenditures	<u>5,790</u>	<u>12,890</u>	<u>1,453</u>	<u>14,187</u>	<u>7,243</u>	<u>27,077</u>
Depreciation	<u>11,954</u>	<u>10,777</u>	<u>826</u>	<u>1,055</u>	<u>12,780</u>	<u>11,832</u>
Amortisation charge	<u>-</u>	<u>-</u>	<u>114</u>	<u>-</u>	<u>114</u>	<u>-</u>
Provision for doubtful debts	<u>3,181</u>	<u>9,014</u>	<u>-</u>	<u>-</u>	<u>3,181</u>	<u>9,014</u>
Impairment losses in fixed assets in the income statement	<u>35,800</u>	<u>-</u>	<u>25,802</u>	<u>-</u>	<u>61,602</u>	<u>-</u>

The Group does not have any material inter-segment sales. Revenues generated by the Hong Kong and the PRC reportable segments are mainly from customers located in the respective geographical areas.

## **DIVIDEND**

The directors do not propose any dividend for the year ended 31st December, 2002 (2001: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the year ended 31st December, 2002, the Group achieved a turnover of approximately HK\$54,736,000 and recorded a net loss attributable to shareholders of approximately HK\$104,220,000.

During the year, the market remained difficult and most enterprises restricted their expenditures. As a result, the Group continued to experience much pressure on pricing of its core services upon renewal of the expiring service contracts, although the effect of which was partly compensated by its value-added services provided. This together with the restructuring of operation in Beijing explained the drop in turnover of the Group by 33.2% from last year's HK\$81,901,000 to HK\$54,736,000 for this year. A provision for impairment losses of approximately HK\$25,802,000 in the fixed assets for the data centre operation in Beijing was made after the disposal and transfer of part of these fixed assets with net book values of approximately HK\$4,241,000 for approximately HK\$1,468,000. To be prudent, the Group had also, after an extensive review of its data centre operation in Hong Kong in accordance with the requirements of SSAP No. 31 "Impairment of Assets" issued by HKSA, made a provision for impairment losses of HK\$35,800,000 in the fixed assets for its data centre operation in Hong Kong. As a result, the Group recorded an increase in net loss attributable to shareholders for the year ended 31st December, 2002 by 198.6% as compared to last year's. However, these provisions will not affect the Group's cashflows or its operations; and the Group's financial position remains healthy.

### **Financial Resources and Liquidity**

As at 31st December, 2002, shareholders' funds of the Group amounted to approximately HK\$221,111,000. Current assets amounted to approximately HK\$210,237,000, of which approximately HK\$195,470,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately HK\$10,490,000, mainly its trade payables and accruals. The Group did not have any bank borrowings for the year ended 31st December, 2002. The Group financed its operations primarily with internally generated cash flow and the net proceeds from the new issue of the Company's shares by way of placing. The net asset value per share of the Company was approximately HK\$0.042. The gearing ratio was 4.7% on the basis of total liabilities divided by shareholders' funds.

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its Beijing Subsidiaries which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

For the year ended 31st December, 2002, there were no significant investments in securities made by the Group, and other than the discontinued data centre operation in Beijing and the joint

ventures for network game operations detailed below, there were no material acquisition or disposal of subsidiaries and affiliated companies for this year.

As at 31st December, 2002, the Group did not have any material contingent liabilities nor any charges on its assets.

## **Segment Information**

The Group has only one major business segment engaged in the provision of Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software.

Out of the turnover of the Group for the year, HK\$52,846,000, representing 96.5% of the total turnover, was derived from its Hong Kong operation with the balance from its operation in the PRC.

The Group does not have any material inter-segment sales. Revenue generated by the Hong Kong and the PRC reportable segments are mainly from customers located in the respective geographical areas.

## **Operation Review**

### ***Strategic Development***

#### *Beijing*

During the year, the Group discontinued its data centre operation in Beijing through 北京合縱連橫科技有限公司, a wholly-owned subsidiary of the Company registered in the PRC.

On the other hand, the directors believe that Beijing and the other major cities of the PRC are still areas for growth for the Group and hence, a new operation has been established in Beijing which provides online storage and secure mailing system to its customers. The Group has also engaged a strategic partner in Beijing for the provision of data centre services to its customers. The restructuring of its operation is undertaken by the management in response to the business environment and the Group will also closely monitor the market and adjust its strategy responsively to undertake any business opportunities arising.

The Group has also in June 2002 formed a joint venture with independent third parties in Beijing for the development of network games. The Group is committed to contribute USD256,001 for 80% interest in the joint venture. In August 2002, the Group formed another joint venture with other independent third parties in Beijing for the development of network games. The Group is committed to contribute USD300,001 for 70% interest in this joint venture. While it does not provide immediate significant return, the Group is optimistic about the network game industry and intends to establish a network game operation which ranges from development, distribution and operation of network games in the PRC.



### *Shanghai, Taiwan, Singapore, Shenzhen and Guangzhou*

The Group has engaged a strategic partner in providing data centre services in Shanghai. Having considered the oversupply situation there at the moment, it is expected that the delay in establishing its own data centre will not materially affect the Group's operation.

Strategic partners have been engaged in Singapore and identified in Taiwan, Shenzhen and Guangzhou for the provision of data centre services. In view of the downturn of economy in Taiwan and Singapore and the market conditions in Shenzhen and Guangzhou, the Group will take a very cautious approach and closely monitor the market conditions before establishing data centres there to minimise the potential risks to the Group. It is expected that the delay in establishing its own data centres there will not materially affect the Group's operation.

### ***Infrastructure and facilities development***

In view of the poor market and the occupancy of the Group's facilities in Hong Kong, no material costs were incurred this year for its infrastructure and facilities. The Group's hosting capacity remains approximately 1,300 racks in Hong Kong.

### ***Business development***

The Group continued to expand its existing data centre services and strengthened its managed/ASP services in the year. Online storage and secure mailing system have been launched both in Hong Kong and Beijing in 2002.

### **Staff**

As at 31st December, 2002, the Group employed approximately 121 (2001: 118) staff, out of which 75 (2001: 85) were for Hong Kong data centre operation, with total remuneration for the year amounting to approximately HK\$26,133,000 (2001: HK\$27,773,000). The Group ensures that the pay levels of its employees are generally in line with the market trend and the employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

To maintain its standard of services and to develop its staff, the Group has been providing a comprehensive range of on-the-job trainings to its staff. The Group also sponsored its staff to attend seminars and training courses held by professional bodies. Staff training is always provided as and when required.

The Group operates a defined contribution pension scheme for its qualifying employees, pursuant to which the Group makes contribution at 8% to 12% on the employees' salary or eligible employees may elect to join its defined contribution Mandatory Provident Fund since 1st December, 2000 and to which the Group makes monthly contributions based on the relevant regulations. The Group is also required to contribute to a state-sponsored retirement plan for its PRC employees at 19% of their basic salary. The Company has adopted a new share option scheme on 3rd May, 2002 in compliance with the requirement of the GEM Listing Rules. During

the year and as at 31st December, 2002, no option has been granted or agreed to be granted under the said share option scheme.

Nevertheless, in view of the difficult economic situation in Hong Kong, the Group has taken some measures to control its operating costs, including voluntary redundancy. The executive directors have waived their entitlement to a monthly director's fee of HK\$15,000 each commencing on February 2002. An executive director has also entered into a supplementary agreement with the Group to reduce his monthly salary by HK\$33,000 with effect from January 2002. On 23rd December, 2002, the executive directors entered into new service agreements with the Company to renew their services for another two years ending on 31st December, 2004. In the renewed service agreements, the executive directors are no longer entitled to any director's fee. Further, all Hong Kong staff, including the executive directors, were not paid any year-end bonus for 2002 and their salaries have also been adjusted downwards by an overall average of about 8% commencing on January 2003.

## **Prospect**

While the different market segments in Hong Kong and worldwide were difficult in the year, the Group has no immediate plan in setting up further data centres across the Asia Pacific region and has adopted a more flexible strategy in providing its customers data centre services throughout the region by forming alliances with other data centre operators in Beijing, Shanghai, Tokyo, Singapore, Manila and Bangkok. The directors believe it is in the Group's interest to slow its pace of business development and the Group will pursue its business objectives cautiously taking into account of the latest market development.

During the year, the Group continued to experience pressure on pricing of its service revenue. Nevertheless, the Group has taken every measure to increase its operating efficiency and to reduce its operating costs so as to increase its competitiveness. The Group has also successfully controlled its level of bad debts during the year by adopting a tightened credit control policy and setting up a task group for debt collection. The restructuring of its Beijing data centre operation has contributed positively to the Group's overall results. At the same time, the Group has broadened its revenue base by launching different value-added services to its customers and by investing in network game business. However, the uncertainty created by the worry over a war between the United States and Iraq has severely affected the world economy and also the Hong Kong market. On the other hand, the directors have comprehensively reviewed the Group's service orders on hand and the latest market condition and consequentially made a provision for impairment losses of HK\$35,800,000 in the fixed assets for its data centre operation in Hong Kong. However, the directors are of the view that this provision made will not affect the Group's cashflows or its operations; the Group's financial position remains healthy.

Nevertheless, the growth in e-commerce and Internet usage has stimulated the demand for Internet hosting, co-location, managed services and other value-added services throughout the world in the long-run and the directors believe that the Group is well positioned to capture these opportunities. The directors are also optimistic about the development in the network game industry.

## **PROGRESS AGAINST BUSINESS OBJECTIVES**

The following is the comparison of the Group's business objectives for the periods from 1st January, 2002 to 30th June, 2002 and from 1st July, 2002 to 31st December, 2002 as set out in the Company's Prospectus (the "Prospectus") dated 28th February, 2001 with the actual business progress up to 31st December, 2002.

*1st January, 2002 to 30th June, 2002*

### **BUSINESS OBJECTIVES**

#### ***Business Development***

- Continue to launch additional ASP services and other value added data centre services.
- Evaluate the feasibility of providing ASP services in other Asian cities.
- Establish a certification lab to measure the performance, security and reliability of computer systems hosted at the Group's data centres.
- Recruit and train staff for operating data centre in Guangzhou.
- Establish a technology knowledge centre to improve customer satisfaction.

### **ACTUAL BUSINESS PROGRESS**

- The Group is continuously expanding its ASP services and other value added data centre services to its customers during the first half of the year.
- Business opportunities are being monitored by participating exhibitions, business seminars and conferences and through business contacts.
- After a review for this service, the establishment has been suspended until more demand is noted.
- Recruitment and training of staff for operating data centre in Guangzhou is suspended after the establishment of data centre in Guangzhou being suspended.
- After a review for this service, the establishment has been abandoned while monthly customer satisfaction survey is carried out to enhance customer satisfaction.

### ***Geographical expansion***

- Reach agreement with local partners in Guangzhou and launch a data centre in Guangzhou with estimated capital investment by the Group of approximately HK\$34 million.
- Evaluate the feasibility of expanding the Group's businesses in locations with present existence.
- Considering the current market conditions, the development of data centre in Guangzhou has been suspended. It is believed that it will not have any significant impact on the Group's business development. Nevertheless, the Group has identified a strategic partner for the provision of data centre services there.
- Considering the current market conditions, the Group has no intention to expand its data centre operation in locations with present existence by establishing its own ones.

### ***Strategic development***

- Seek to form alliances with local companies in India where the Group has plans to establish a data centre in the second half of 2002.
- Continue to seek to form alliance with local companies in other Asian cities and software vendors to broaden the range of services.
- Seek to form alliances with video/audio content production companies.
- Seek to form alliance with hardware manufacturers.
- Considering the current market conditions, the Group has suspended its plan to establish a data centre there in the second half of 2002 until market improves and more demand is noted.
- Potential partners are being identified in the PRC, Philippines, Singapore and Thailand.
- After a review on the market demand for video/audio contents, the project has been suspended until more demand is noted.
- Potential partners are being identified in the PRC and Singapore.

### ***Marketing strategies***

- Launch a marketing program on Internet security.
- Continue to cooperate with business partners to carry out joint marketing programs.
- A secure broadband package was launched to customers in June 2002.
- The Group has arranged data centre visit and promoted our services with institutes in Hong Kong, including InvestHK, The Hong Kong Polytechnic University and The Institution of Electrical Engineers Hong Kong, in April and May 2002.

- Continue to employ a broad range of marketing communications and public relations activities, with focus on regional coverage.
- Facing the market change, the Group has focused its marketing resources in Hong Kong and promoted its services through local media channels. The Group also held some customer retention programs with its customers to maintain good communications with them.

*1st July, 2002 to 31st December, 2002*

### ***Business Development***

- Continue to launch additional ASP services and other value added data centre services.
- The Group has launched Fax2email, Voice2email and eCard package in December 2002, and is continuously expanding its ASP services and other value added data centre services, such as, online storage and secure mailing system to its customers during the year.
- Establish a digital media management centre as a value added service.
- Considering the current market conditions, the project has been suspended until more demand is noted.
- Launch database hosting and management services.
- Considering the current market conditions, the services will be abandoned. It is believed that it will not have any significant impact on the Group's business development.
- Launch bandwidth management services to ensure quality services over the Group's international networks.
- Services have been launched during the year.
- Launch wireless gateways to increase customers' penetration.
- Considering the current market conditions, the services will be abandoned. It is believed that it will not have any significant impact on the Group's business development.
- Provide data synchronisation services which enable customers to link their data stored on different devices such as PC, personal digital assistant and mobile phone, etc.
- Considering the current market conditions, launching of the services have been abandoned. It is believed that it will not have any significant impact on the Group's business development

### ***Geographical expansion***

- Launch a data centre in India once the local partner has been identified with capital investment by the Group of approximately HK\$25 million. Similar to the proposed arrangement for Taiwan and Singapore, it is intended that the potential partner in India will be responsible for most of the capital expenditures for building the data centre and the Group will then lease the data centre from the potential partner.
- Evaluate the feasibility of expanding the Group's business in Asia with no present existence.
- Considering the current market conditions, the development of data centre in India has been suspended until market improves and more demand is noted. It is believed that it will not have any significant impact on the Group's business development.
- Considering the current market conditions, the Group has no intention to expand its data centre operation in Asia with no present existence by establishing its own ones.

### ***Strategic Development***

- Seek to form alliances with regional ISPs.
- Seek to form alliances with bandwidth providers.
- Continue to seek to form alliance with local companies in other Asian cities.
- Potential partners in the PRC, Philippines, Singapore and Thailand are being identified.
- Potential partners are being identified in Hong Kong, Philippines, the PRC, Singapore and Thailand.
- Potential partners are being identified in the PRC, Singapore, and Thailand.

### ***Marketing Strategies***

- Launch marketing program in India to promote the new data centre of the Group.
- Continue to cooperate with business partners to carry out joint marketing programs.
- Not applicable as the establishment of data centre in India has been suspended.
- Negotiation with Netters World Limited to promote our online storage and secure mailing system is under progress.

- Continue to employ a board range of marketing communications and public relations activities with focus on regional coverage.
- The Group employed the following marketing communications and public relations activities in the second half of 2002:
  - Public relations: company visit for iULife, held by The Hong Kong Polytechnic University, in August 2002.
  - Customer Retention program: Golfing Day in November 2002.
  - Booth exhibition at KAMEX in Korea in December 2002 to promote data center services.

## **USE OF PROCEEDS**

The Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$123,503,000, which is HK\$2,503,000 in excess of the estimated amount as stated in the Prospectus from the new issue of shares by way of placing (the “Placing”). As disclosed in the Company’s annual report for the year ended 31st December, 2001 and the second quarterly report for the six months ended 30th June, 2002, part of the net proceeds received from the Placing amounting to HK\$44,485,000 had been utilized for the purposes set out in the Prospectus and an aggregate amount of HK\$59,000,000 that was originally planned for the establishment of data centres in Taiwan and Shenzhen respectively, which were suspended, together with the unused proceeds of HK\$20,018,000 were kept for working capital and had been placed in banks to earn interest.

## **DIRECTORS’ INTERESTS IN EQUITY SECURITIES**

As at 31st December, 2002, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) or as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.40 to 5.49 of the GEM Listing Rules were as follows:

<b>Name of directors</b>	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Other interests</b> <i>(Note 1)</i>	<b>Total</b>
Chung Cho Yee, Mico	-	-	-	400,500,000	400,500,000
Tam Wai Keung, Billy	1,081,350,000	-	-	-	1,081,350,000
Lee Brandon	-	-	-	400,500,000	400,500,000
Leung Man Leuk, Tommy	-	-	-	400,500,000	400,500,000
Hui Kwai	-	-	-	400,500,000	400,500,000
Tang King Fai	-	-	-	400,500,000	400,500,000
Cheung Sum, Sam	-	-	-	400,500,000	400,500,000

*Notes:*

1. These directors are deemed to be interested in 400,500,000 shares of the Company held by HSBC International Trustee Limited (“HSBC Trustee”), the trustee of a discretionary trust named The RadarNet Trust, by virtue of being the beneficiaries under such discretionary trust.
2. Mr. Hubert Chak, the newly appointed non-executive director of the Company on 13th March, 2003, is also deemed to be interested in 400,500,000 shares of the Company held by HSBC Trustee by virtue of being one of the beneficiaries of The RadarNet Trust.

Save as disclosed above, as at 31st December, 2002, none of the directors, chief executives of the Company or their associates had any interests in any securities of the Company or its associated corporations as defined in the SDI Ordinance.

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

### **Share Option Scheme**

The Company has terminated its share option scheme adopted on 22nd February, 2001 (the “Old Share Option Scheme”) and adopted a new share option scheme (the “New Share Option Scheme”) on its 2002 Annual General Meeting on 3rd May, 2002 (the “Approval Date”).

Pursuant to the New Share Option Scheme, any individual being an employee, officer or consultant of the Group, including any executive or non-executive director of the Company and its subsidiaries may be granted options to subscribe for the shares of the Company. Up to 33 $\frac{1}{3}$ %, 66 $\frac{2}{3}$ % and 100% of any option offered under the New Share Option Scheme may respectively be exercised after one year, two years and three years from the date of offer of an option is made, but not later than 10 years from the date of offer. The subscription price on the exercise of an option shall be at least the highest of (i) the closing price of the Company’s shares quoted on the GEM on the date of offer, (ii) the average closing price of the Company’s shares quoted on the GEM for the five business days immediately preceding the date of offer, and (iii) the nominal value of the Company’s shares.



As at the Approval Date, no options had been granted or agreed to be granted under the Old Share Option Scheme. During the year and as at 31st December, 2002, no option has been granted or agreed to be granted under the New Share Option Scheme.

### **Trust Scheme**

The RadarNet Trust is a discretionary trust which was set up by RadarNet Limited, the then substantial shareholder of the Company, on 9th August, 2000. HSBC Trustee was appointed as the trustee. Under The RadarNet Trust, HSBC Trustee may at its discretion to sell the shares of the Company to certain beneficiaries who are directors, employees or consultants of the Group and its holding companies, shareholders or associated companies. The objective of establishing The RadarNet Trust is to incentivise the beneficiaries who have contributed to the business development of the Group before its listing and to the preparation for the listing of the Company's shares.

Since The RadarNet Trust is a discretionary trust, HSBC Trustee has the absolute discretion in deciding the manner and terms of the sale of the shares comprised therein to any beneficiary. However, the Group has recommended to HSBC Trustee the manner and terms by which any shares to be sold to the beneficiaries. The Group has recommended to HSBC Trustee to sell 200,250,000 shares of the Company representing 50% of the shares comprised in the trust property to 56 then full-time employees, and the remaining 50% of such shares to 14 then full-time employees of PCCW Limited (formerly known as Pacific Century CyberWorks Limited) ("PCCW"), one of the substantial shareholders of the Company, for their contribution to the business development of the Group before its listing and to the preparation for the listing. Five executive directors of the Company, namely Mr. Chung Cho Yee, Mico, who is also an executive director of PCCW, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai, and two non-executive directors of the Company, namely Mr. Hubert Chak and Mr. Cheung Sum, Sam, are the beneficiaries of The RadarNet Trust. Any shares to be sold by HSBC Trustee to the beneficiaries should be at a cost of HK\$0.0334 per share. All dividends derived from the shares received by HSBC Trustee will be retained by HSBC Trustee and form part of the trust fund under The RadarNet Trust.

Following the resignation of several employees from the Group and PCCW, as at 1st January, 2002, the recommendation of 2,002,500 shares to be sold to them had been withdrawn and another 64,080,000 shares to be sold to them had also been withdrawn during the year. On the other hand, the Group has recommended to HSBC Trustee to sell 26,032,500 shares to its employees. Subsequent to 31st December, 2002, the recommendation of 1,401,750 shares to be sold to an employee had been withdrawn upon his resignation.

As at 31st December, 2002, no shares have been sold to the beneficiaries under the aforesaid trust.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other

body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 2002, the interests of substantial shareholders in the Company's shares as recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance were as follows:

Name	Number of shares	Approximate percentage of shareholding
Li Tzar Kai, Richard <sup>(Note)</sup>	2,523,150,000	47.90%
Pacific Century Group Holdings Limited <sup>(Note)</sup>	2,523,150,000	47.90%
Pacific Century International Limited <sup>(Note)</sup>	2,523,150,000	47.90%
Pacific Century Group (Cayman Islands) Limited <sup>(Note)</sup>	2,523,150,000	47.90%
Anglang Investments Limited <sup>(Note)</sup>	2,523,150,000	47.90%
Pacific Century Regional Developments Limited <sup>(Note)</sup>	2,523,150,000	47.90%
PCCW <sup>(Note)</sup>	2,523,150,000	47.90%
Century Power Group Limited <sup>(Note)</sup>	2,523,150,000	47.90%
CyberVentures (Bermuda) Limited ("CyberVentures") <sup>(Note)</sup>	2,523,150,000	47.90%
CyberWorks Internet Ventures Limited <sup>(Note)</sup>	2,523,150,000	47.90%
Media Touch Group Limited ("Media Touch") <sup>(Note)</sup>	2,523,150,000	47.90%
Tam Wai Keung, Billy	1,081,350,000	20.53%

*Note:* Media Touch is wholly-owned by CyberWorks Internet Ventures Limited which is, in turn, wholly-owned by CyberVentures. The entire issued share capital of CyberVentures is held by Century Power Group Limited and the entire issued share capital of Century Power Group Limited is held by PCCW. Therefore, CyberWorks Internet Ventures Limited, CyberVentures, Century Power Group Limited and PCCW are deemed to be interested in the shares held by Media Touch for the purposes of the SDI Ordinance.

PCCW is a subsidiary of Pacific Century Regional Developments Limited. Approximately 37.5% and 37.8% of Pacific Century Regional Developments Limited's issued share capital are held by Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited respectively. Anglang Investments Limited is wholly-owned by Pacific Century Group (Cayman Islands) Limited whilst the latter is wholly-owned by Pacific Century International Limited. In turn, Pacific Century International Limited is wholly-owned by Pacific Century Group Holdings Limited, the entire issued share capital of which is held by Mr. Li Tzar Kai, Richard. Therefore, Pacific Century Regional Developments Limited, Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited, Pacific Century Group Holdings Limited and Mr. Li Tzar Kai, Richard are all deemed to be interested in the shares held by Media Touch for the purposes of the SDI Ordinance.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2002.

## **COMPETING INTERESTS**

PCCW is a substantial shareholder of the Company and Mr. Chung Cho Yee, Mico, an executive director of the Company, is also an executive director of PCCW. PCCW has interests, either directly or indirectly, in businesses which are providing IT and professional services and data centre services (details of which have not materially changed since its first disclosure in the Prospectus with the exception of changes relating to IDC Limited (“IDC”) as below) and also in business which is developing online games activities. The directors believe that there is a risk that such businesses may compete with those of the Group.

IDC was an Internet data centre joint venture company of PCCW and Telstra Corporation Limited, which did not commence trading, and which was dissolved on 27th December, 2002.

Save as disclosed above, none of the directors, the management shareholders or the substantial shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee (the “Audit Committee”) on 22nd February, 2001 which comprises two independent non-executive directors of the Company, namely Mr. Wong Wing Shing and Mr. Cheng Kai Ming. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the HKSA.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. Regular meetings have been held by the Audit Committee since its establishment and four meetings were held during the year.

## **BOARD PRACTICES AND PROCEDURES**

In the opinion of the directors, throughout the year, the Company was in compliance with the “Board Practices and Procedures” as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, except that the independent non-executive directors are not required for a specific term but are subject to the retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s Articles of Association.

## **INTEREST OF SPONSOR**

As notified by BNP Paribas Peregrine Capital Limited (the “Sponsor”), the Company’s sponsor,

neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31st December, 2002.

Pursuant to the agreement dated 13th February, 2001 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 9th March, 2001, the date on which the shares of the Company are listed, until 31st December, 2003.

Save for the above, the Sponsor has no other interest in the Company as at 31st December, 2002.

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

During the year ended 31st December, 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board  
**TAM Wai Keung, Billy**  
*Director and Chief Executive Officer*

Hong Kong, 13th March, 2003

*This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the date of its publication and the Company's website at [www.iLink.net](http://www.iLink.net).*