



iLink Holdings Limited

合縱連網控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

QUARTERLY RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

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This announcement, for which the directors of iLink Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover for the six months ended 30th June, 2003 amounted to HK\$19,938,000.
- Net loss attributable to shareholders for the six months ended 30th June, 2003 amounted to HK\$21,785,000 after the impairment losses of HK\$7,300,000 in the fixed assets for its data centre operation in Hong Kong provided for the period.
- The directors do not recommend the payment of a dividend for the six months ended 30th June, 2003.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th June, 2003

	For the three months ended 30th June,					
	Continuing Operations		Discontinuing Operation (Data Centre at Beijing)		The Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover (<i>Note 2</i>)	10,019	13,165	-	46	10,019	13,211
Cost of revenues	(7,825)	(10,881)	-	(338)	(7,825)	(11,219)
Gross profit / (loss)	2,194	2,284	-	(292)	2,194	1,992
Selling and marketing expenses	(1,365)	(1,619)	-	(64)	(1,365)	(1,683)
General and administrative expenses	(7,979)	(8,865)	-	(689)	(7,979)	(9,554)
Other (expenses) / income, net	(1,333)	-	1	(1,646)	(1,332)	(1,646)
(Impairment losses) / reversal of impairment losses in fixed assets (<i>Notes 3 & 7</i>)	(7,300)	-	-	2,273	(7,300)	2,273
(Loss) / profit from operations	(15,783)	(8,200)	1	(418)	(15,782)	(8,618)
Interest income	541	849	-	1	541	850
(Loss) / profit before taxation	(15,242)	(7,351)	1	(417)	(15,241)	(7,768)
Taxation (<i>Note 5</i>)	-	-	-	-	-	-
(Loss) / profit after taxation	(15,242)	(7,351)	1	(417)	(15,241)	(7,768)
Minority interests	224	-	-	-	224	-
Net (loss) / profit attributable to shareholders	(15,018)	(7,351)	1	(417)	(15,017)	(7,768)
Loss per share						
- Basic (<i>Note 6</i>)					(0.29 cents)	(0.15 cents)
Loss per share						
- Diluted (<i>Note 6</i>)					N/A	N/A

	For the six months ended 30th June,					
	Continuing Operations		Discontinuing Operation (Data Centre at Beijing)		The Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover (Notes 2, 11 & 12)	19,938	29,880	-	1,717	19,938	31,597
Cost of revenues (Note 12)	(15,309)	(24,114)	-	(3,658)	(15,309)	(27,772)
Gross profit / (loss)	4,629	5,766	-	(1,941)	4,629	3,825
Selling and marketing expenses	(2,782)	(3,425)	-	(135)	(2,782)	(3,560)
General and administrative expenses (Note 12)	(16,455)	(18,348)	(11)	(2,194)	(16,466)	(20,542)
Other (expenses) / income, net	(1,336)	6	13	(1,646)	(1,323)	(1,640)
Impairment losses in fixed assets (Notes 3 & 7)	(7,300)	-	-	(27,409)	(7,300)	(27,409)
(Loss) / profit from operations (Note 11)	(23,244)	(16,001)	2	(33,325)	(23,242)	(49,326)
Interest income (Note 11)	1,104	1,700	-	10	1,104	1,710
(Loss) / profit before taxation	(22,140)	(14,301)	2	(33,315)	(22,138)	(47,616)
Taxation (Note 5)	-	-	-	-	-	-
(Loss) / profit after taxation	(22,140)	(14,301)	2	(33,315)	(22,138)	(47,616)
Minority interests (Note 11)	353	-	-	-	353	-
Net (loss) / profit attributable to shareholders (Note 11)	(21,787)	(14,301)	2	(33,315)	(21,785)	(47,616)
Loss per share - Basic (Note 6)					(0.41 cents)	(0.90 cents)
Loss per share - Diluted (Note 6)					N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2003 and 31st December, 2002

	As at 30th June, 2003 HK\$'000	As at 31st December, 2002 HK\$'000
NON-CURRENT ASSETS		
Intangible assets, net	-	1,503
Fixed assets, net (<i>Note 7</i>)	11,304	20,600
Total non-current assets	11,304	22,103
CURRENT ASSETS		
Cash and bank deposits	184,579	195,470
Accounts receivable, net (<i>Notes 8 & 12</i>)	2,289	2,506
Other investment	3,900	3,900
Prepayments, deposits and other current assets (<i>Note 12</i>)	7,932	8,361
Total current assets	198,700	210,237
CURRENT LIABILITIES		
Accounts payable (<i>Notes 9 & 12</i>)	(1,046)	(1,345)
Accruals and other payables (<i>Note 12</i>)	(9,241)	(9,045)
Amounts due to directors	-	(100)
Total current liabilities	(10,287)	(10,490)
Net current assets	188,413	199,747
Total assets less current liabilities	199,717	221,850
Financed by:		
Share capital	105,347	105,347
Reserves (<i>Note 10</i>)	93,984	115,764
Shareholders' funds	199,331	221,111
Minority interests	386	739
	199,717	221,850

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

	For the six months ended	
	30th June,	
	2003	2002
	HK\$'000	HK\$'000
Opening balance – Total equity	221,111	325,319
Net gains and losses not recognized in the income statement		
- Exchange translation differences	5	19
Net loss for the period	(21,785)	(47,616)
Closing balance – Total equity	199,331	277,722

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

	For the six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(11,695)	(13,426)
INVESTING ACTIVITIES		
Interest received	1,104	1,710
Purchase of fixed assets	(335)	(3,184)
Proceeds from disposal of fixed assets	30	575
	799	(899)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,896)	(14,325)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	5	19
CASH AND CASH EQUIVALENTS		
Beginning of period	195,470	216,829
End of period	184,579	202,523

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS:

1. Basis of Presentation

The unaudited condensed financial statements of the Company and its subsidiaries (the “Group”) have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by Hong Kong Society of Accountants (“HKSA”), the accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance, and The Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”).

These unaudited condensed financial statements should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2002 except that the Group has changed certain of its accounting policies following its adoption of SSAP 12, Income Taxes, and SSAP 34 (Revised), Employee Benefits, issued by HKSA which are effective for accounting periods commencing on or after 1st January, 2003.

2. Turnover

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

3. Discontinuing Operation

In 2002, the Group discontinued its data centre operation in Beijing, The People’s Republic of China (the “PRC”). The results and cashflows from this discontinuing operation in Beijing were not significant for the six months ended 30th June, 2003. As at 30th June, 2003, this operation had no significant assets or liabilities.

4. Staff Costs

	For the six months ended 30th June,	
	2003	2002
	HK\$’000	HK\$’000
Staff costs (including directors’ emoluments)	11,561	12,598

5. Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong for the six months ended 30th June, 2003 and 2002.

The Group's subsidiaries in Beijing (the "Beijing Subsidiaries"), are subject to the PRC enterprise income tax on the taxable income as reported in their 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 six months ended 30th June, 2003.

The Group has not recorded deferred tax assets, mainly in respect of tax losses carried forward of approximately HK\$116,000,000 (31st December, 2002: HK\$108,000,000) for the operations in Hong Kong, subject to agreement by the Hong Kong Inland Revenue Department, due to the uncertainty that the resultant deferred tax asset will be recovered in the foreseeable future. These tax losses have no expiry date.

6. Loss per Share

The calculation of basic loss per share is based on the Group's unaudited consolidated net loss attributable to shareholders for the six months ended 30th June, 2003 and 2002 and 5,267,374,610 shares in issue during the periods.

Diluted loss per share is not presented because the effect of the assumed conversion of all potential dilutive securities during the six months ended 30th June, 2003 and 2002 would be anti-dilutive.

7. Fixed Assets, net

In addition to the impairment losses of HK\$35,800,000 made for the fixed assets for the data centre operation in Hong Kong in 2002, the management's latest revised forecast showed that the economic performance of the Group's data centre operation in Hong Kong was not in line with the original budget, and updated analyses were then prepared to determine if there was further 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 reflects 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 additional impairment loss of HK\$7,300,000 for the period to write down the fixed assets for the data centre operation in Hong Kong to their estimated recoverable value of approximately HK\$10,998,000.

8. Accounts Receivable, net

An aging analysis of accounts receivable of the Group is set out below:

	As at 30th June, 2003 HK\$'000	As at 31st December, 2002 HK\$'000
0 to 30 days	1,639	1,676
31 to 60 days	244	506
61 to 90 days	187	130
Over 90 days	2,710	4,031
	<hr/>	<hr/>
	4,780	6,343
<i>Less: Provision for doubtful debts</i>	<i>(2,491)</i>	<i>(3,837)</i>
	<hr/>	<hr/>
	2,289	2,506
	<hr/> <hr/>	<hr/> <hr/>

The normal credit period granted by the Group is 30 days.

9. Accounts Payable

An aging analysis of accounts payable of the Group is set out below:

	As at 30th June, 2003 HK\$'000	As at 31st December, 2002 HK\$'000
0 to 30 days	629	718
31 to 60 days	-	165
61 to 90 days	-	64
Over 90 days	417	398
	<hr/>	<hr/>
	1,046	1,345
	<hr/> <hr/>	<hr/> <hr/>

10. Reserves

Movements in reserves of the Group for the six months ended 30th June, 2003 and 2002 are as follows:

	For the six months ended 30th June,					2002 Total HK\$'000
	2003				Total HK\$'000	
	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	Accumulated deficit HK\$'000		
Balance, beginning of period	243,476	43,782	62	(171,556)	115,764	219,972
Exchange translation differences	-	-	5	-	5	19
Loss for the period	-	-	-	(21,785)	(21,785)	(47,616)
Balance, end of period	243,476	43,782	67	(193,341)	93,984	172,375

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.

11. Segment Information

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

	For the six months ended 30th June,					
	Hong Kong		The PRC		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	19,912	29,880	26	1,717	19,938	31,597

For the six months ended 30th June,						
	Hong Kong		The PRC		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Result						
Segment result	(15,451)	(13,226)	(6,949)	(35,743)	(22,400)	(48,969)
Unallocated corporate expenses					(842)	(357)
Loss from operations					(23,242)	(49,326)
Interest income					1,104	1,710
Minority interests					353	-
Net loss attributable to shareholders					(21,785)	(47,616)
Other information						
Capital expenditures	216	2,140	119	1,044	335	3,184
Depreciation	2,224	5,882	82	778	2,306	6,660
Amortization charge	-	-	170	-	170	-
Provision for doubtful debts	208	3,219	-	-	208	3,219
Impairment losses in fixed assets	7,300	-	-	27,409	7,300	27,409
Impairment losses in intangible assets	-	-	1,333	-	1,333	-

As at 30th June, 2003 and 31st December, 2002						
	Hong Kong		The PRC		Total	
	As at	As at	As at	As at	As at	As at
	30th	31st	30th	31st	30th	31st
	June,	December,	June,	December,	June,	December,
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	203,996	222,817	6,008	9,523	210,004	232,340
Liabilities						
Segment liabilities	7,555	7,428	1,913	1,550	9,468	8,978
Unallocated corporate liabilities					819	1,512
Consolidated total liabilities					10,287	10,490

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

12. Related Party Transactions

- (a) During the period, the Group had the following significant transactions with related parties, all being subsidiaries, jointly-controlled entity, associated companies or former associated companies of PCCW Limited (“PCCW”), a substantial shareholder of the Company:

	For the six months ended 30th June,	
	2003	2002
	HK\$’000	HK\$’000
Operating lease rental for Internet connectivity bandwidth and leased lines paid or payable	2,196	5,247
Operating lease rental for buildings and related charges paid or payable	1,868	2,182
Insurance premium paid or payable	183	103
Service income received or receivable	392	3,590

The above transactions were carried out after negotiation between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors of the Company.

- (b) As at 30th June, 2003, the Group had the following significant current balances with the aforesaid related parties:

	As at 30th June, 2003	As at 31st December, 2002
	HK\$’000	HK\$’000
Included in:		
Accounts receivable, net	30	19
Prepayment, deposits and other current assets	265	20
Accounts payable	150	416
Accruals and other payables	1,049	8

13. Contingent Liability

In 2002, a contractor filed a lawsuit against iLink.net Limited, an indirect wholly-owned subsidiary of the Company, to claim for an amount of approximately HK\$1,383,000 for providing additional services under some alleged variation orders in respect of one of the Group’s data centres in Hong Kong.

The directors are of the opinion that the possibility of an outflow of resources embodying economic benefits is remote, therefore, no provision has been made in the financial statements of the Group as at 30th June, 2003 (31st December, 2002: Nil).

DIVIDEND

The directors do not propose any dividend for the six months ended 30th June, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

For the six months ended 30th June, 2003, the Group achieved a turnover of approximately HK\$19,938,000 and recorded a net loss attributable to shareholders of approximately HK\$21,785,000 after the impairment losses of HK\$7,300,000 in the fixed assets for its data centre operation in Hong Kong provided for the period.

During the period, affected by the war between the United States and Iraq and the outbreak of the Atypical Pneumonia in early 2003, the market became even more difficult and most enterprises continued to restrict their expenditures. As a result, the Group experienced even more pressure on securing new service contracts and also on the pricing of its services which explained the majority of the decrease of 36.9% of the turnover from that of the corresponding period of last year while the Group managed to maintain a slightly higher gross profit compared to that of the corresponding last period. On the other hand, although measures had been taken to control its operating costs, the general and administrative expenses and the selling and marketing expenses did not show a proportional reduction as a desired level of cost was needed to maintain the Group's existing level of activities.

As required under the requirements of SSAP 31, Impairment of Assets, issued by HKSA, the Group has been regularly reviewing the carrying values of its fixed assets for its data centre operation in Hong Kong and as a result, made impairment losses of HK\$7,300,000 in the fixed assets for its data centre operation in Hong Kong for the period. However, this provision does not affect the Group's cash flows or its operations; and the Group's financial position remains healthy. For the corresponding period of the last year, the Group had made impairment losses of HK\$27,409,000 in the remaining fixed assets for its data centre operation in Beijing.

Strategic Development

Beijing

Following the restructuring of the Group's operation in Beijing in 2002, the Group has discontinued its data centre operation in Beijing, and engaged a strategic partner in Beijing to provide data centre services to its customers. During the period, the Group's wholly-owned subsidiary, 北京合縱連橫科技有限公司, which operated the discontinued data centre in Beijing was in the process of winding up in the PRC.

During the period, as the result of its first self-developed network game launched was not satisfactory, the Group had reviewed its strategy of diversifying into the network game industry. It was then decided to cease this operation. Other than the impairment losses in the goodwill and

patents and trademarks associated with the game operation of HK\$1,333,000, the Group did not incur any significant cost as a result of this.

On the other hand, the Group has been promoting online storage and secure mailing system to its customers in Beijing. The Group will closely monitor the market and adjust its strategy responsively to undertake any business opportunities arising whereas more strengthened measures have been implemented to control its operating costs there.

Shanghai, Taiwan, Singapore, Shenzhen, Guangzhou, India and other areas in Asia Pacific Region

The Group has engaged strategic partners in providing data centre services in Shanghai and Singapore, and has identified strategic partners in Taiwan, Shenzhen and Guangzhou for the provision of data centre services. Establishments in India and other areas in Asia Pacific region have been suspended.

In view of the market conditions of the respective areas, the Group will take a very cautious approach and closely monitor the market conditions before establishing any data centres to minimise the potential risks to the Group. It is expected that the change in strategy in establishing its own data centres there will not materially affect the Group's operation.

Business Development

The Group continued to expand its existing data centre services and strengthened its managed/ASP services in the period. Research and development on certain ASP services and other value added data centre services are underway and yet to be launched.

Staff

As at 30th June, 2003, the Group employed 101 (31st December, 2002: 121) staff, out of which 63 (31st December, 2002: 75) were for Hong Kong data centre operation, with total remuneration for the six months ended 30th June, 2003 amounting to approximately HK\$11,561,000 (2002: HK\$12,598,000). There were no material changes to the Group's employee benefits and remuneration policies as disclosed in the Company's 2002 annual report for the period.

Financial Resources and Liquidity

As at 30th June, 2003, shareholders' funds of the Group amounted to approximately HK\$199,331,000 (31st December, 2002: HK\$221,111,000). Current assets amounted to approximately HK\$198,700,000 (31st December, 2002: HK\$210,237,000), of which approximately HK\$184,579,000 (31st December, 2002: HK\$195,470,000) were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately HK\$10,287,000 (31st December, 2002: HK\$10,490,000), mainly its trade payables and accruals. The Group did not have any bank borrowings as at 30th June, 2003 (31st December, 2002: Nil). The Group financed its operations primarily with internally generated cash flows and the net proceeds from the new issue of the Company's shares by way of

placing in 2001 (the “Placing”). The net asset value per share of the Company was approximately HK\$0.038 (31st December, 2002: HK\$0.042). The gearing ratio was approximately 5.2% (31st December, 2002: 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 operations through its subsidiaries in Beijing which are subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

For the six months ended 30th June, 2003, there were no significant investments in securities made by the Group, nor material acquisition or disposal of subsidiaries and affiliated companies.

As at 30th June, 2003, 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 six months ended 30th June, 2003, HK\$19,912,000 (2002: HK\$29,880,000), representing 99.9% (2002: 94.6%) 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.

Prospect

During the period, although the United States has declared victory over its war against Iraq and the Atypical Pneumonia has been brought under control, recovery of economy is yet to be seen. However, the Group was able to maintain this quarter’s turnover at the same level of the last, comparing a decreasing trend over the last year. The Group will continue to take every measure to increase its operating efficiency and to reduce its operating costs so as to increase its competitiveness.

In view of the difficult business conditions, the Group has no immediate plan in setting up further data centres across the Asia Pacific region at the moment. Instead, the Group has been continuously adopting 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 consolidate its existing operation and the Group will pursue its business objectives cautiously taking into account of the latest market development.

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.

PROGRESS AGAINST BUSINESS OBJECTIVES

The following is the comparison of the Group's business objectives for the period from 1st January, 2003 to 30th June, 2003 as set out in the Company's prospectus dated 28th February, 2001 (the "Prospectus") with the actual business progress up to 30th June, 2003.

BUSINESS OBJECTIVES

ACTUAL BUSINESS PROGRESS

Business Development

- | | |
|--|---|
| <ul style="list-style-type: none"> • Introduce interactive media content to enhance traditional media. | <ul style="list-style-type: none"> • After a review of this service, the establishment has been suspended until demand is noted. |
| <ul style="list-style-type: none"> • Provide real time quotation, news feeds as portal clip-on. | <ul style="list-style-type: none"> • After a review of these services, the establishment has been abandoned as it is currently not considered cost-effective even demand is noted. |
| <ul style="list-style-type: none"> • Continue to launch additional ASP services and other value added data centre services. | <ul style="list-style-type: none"> • The Group is continuously enhancing its existing ASP services and other value added data centre services to its customers. Research and development on certain ASP services and other value added data centre services are underway and yet to be launched. |
| <ul style="list-style-type: none"> • Renovate and install facilities at a third data centre in Hong Kong. | <ul style="list-style-type: none"> • Considering the current market conditions, the establishment of the third data centre in Hong Kong has been abandoned. |

Geographical Expansion

- | | |
|--|--|
| <ul style="list-style-type: none"> • Continue to seek expansion opportunity in Asia Pacific where the Group has no present existence. | <ul style="list-style-type: none"> • Considering the current market conditions, the Group has no intention to expand its business establishment in Asia Pacific with no present existence. Strategic partners will be engaged should demand be noted. |
|--|--|

Strategic Development

- | | |
|---|--|
| <ul style="list-style-type: none"> • Continue the strategic development activities from previous period. | <ul style="list-style-type: none"> • The Group has decided to consolidate its existing operation. |
|---|--|

BUSINESS OBJECTIVES

Marketing Strategies

- Continue to cooperate with business partners to carry out joint marketing programs.
- Continue to employ a broad range of marketing communications and public relations activities with focus on regional coverage.

ACTUAL BUSINESS PROGRESS

- In view of the slow market, any joint marketing programs were suspended except some marketing funds were allocated for promoting its online storage and secure mailing system.
- In view of the slow market, marketing fund was restricted and any marketing communications and public relations activities with focus on regional coverage were withheld.

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 Placing. As disclosed in the Company's annual report for the year ended 31st December, 2001, 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' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June, 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by the directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules were as follows:

Name of Director	Note	Interests in Shares	Interests in Underlying Shares	Aggregate Long Position	% of Issued Share Capital
Chung Cho Yee, Mico	1	400,500,000	-	400,500,000	7.60%
Tam Wai Keung, Billy	2	1,081,350,000	-	1,081,350,000	20.53%
Lee Brandon	1	400,500,000	-	400,500,000	7.60%
Leung Man Leuk, Tommy	1	400,500,000	-	400,500,000	7.60%
Hui Kwai	1	400,500,000	-	400,500,000	7.60%
Tang King Fai	1	400,500,000	-	400,500,000	7.60%
Chak Hubert	1	400,500,000	-	400,500,000	7.60%
Cheung Sum, Sam	1	400,500,000	-	400,500,000	7.60%

Notes:

1. These directors are deemed to be interested in the 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. Details of The RadarNet Trust was disclosed in the below paragraph “Trust Scheme”.
2. The 1,081,350,000 shares are held personally by Mr. Tam Wai Keung, Billy, who is also the chief executive officer of the Company. By virtue of his interests in the Company, he is a substantial shareholder of the Company.
3. There was no debenture issued by the Group at any time during the period.
4. No short position in the shares or underlying shares of the Company was recorded in the register of the Company required to be kept under section 352 of the SFO.

Save as disclosed above, as at 30th June, 2003, none of the directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

SHAREHOLDERS' INTERESTS AND OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

As at 30th June, 2003, the interests and short positions of the persons in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Notes	Interests in Shares	Interests in Underlying Shares	Aggregate Long Position	% of Issued Share Capital
Li Tzar Kai, Richard	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Pacific Century Group Holdings Limited ("PCGH")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Pacific Century International Limited ("PCI")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Pacific Century Group (Cayman Islands) Limited ("PCG")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Anglang Investments Limited ("Anglang")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Pacific Century Regional Developments Limited ("PCRD")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
PCCW	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Century Power Group Limited ("CPG")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
CyberVentures (Bermuda) Limited ("CyberVentures")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
CyberWorks Internet Ventures Limited ("CIV")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Media Touch Group Limited ("Media Touch")	1 & 2	2,923,650,000	-	2,923,650,000	55.50%
Tam Wai Keung, Billy	3	1,081,350,000	-	1,081,350,000	20.53%
Pau Ieng Mei, Leslie	3	1,081,350,000	-	1,081,350,000	20.53%
Lee Shau Kee	4	468,639,845	-	468,639,845	8.89%
Rimmer (Cayman) Limited ("Rimmer")	4	468,639,845	-	468,639,845	8.89%
Riddick (Cayman) Limited ("Riddick")	4	468,639,845	-	468,639,845	8.89%
Hopkins (Cayman) Limited ("Hopkins")	4	468,639,845	-	468,639,845	8.89%
Henderson Development Limited ("HD")	4	468,639,845	-	468,639,845	8.89%
Henderson Land Development Company Limited ("HLD")	4	468,639,845	-	468,639,845	8.89%
Kingslee S.A.	4	468,639,845	-	468,639,845	8.89%
Henderson Investment Limited ("HI")	4	468,639,845	-	468,639,845	8.89%
Midlink Pacific Limited ("Midlink")	4	468,639,845	-	468,639,845	8.89%
Datacom Technology Limited ("Datacom")	4	468,639,845	-	468,639,845	8.89%
Newspeed Technology Limited ("Newspeed")	4	468,639,845	-	468,639,845	8.89%

Name of Shareholder	Notes	Interests in Shares	Interests in Underlying Shares	Aggregate Long Position	% of Issued Share Capital
HSBC Trustee	5	400,500,000	-	400,500,000	7.60%
RadarNet Limited	5 & 6	400,500,000	-	400,500,000	7.60%
Teng Wan	5 & 6	400,500,000	-	400,500,000	7.60%

Notes:

1. Media Touch is wholly-owned by CIV which is, in turn, wholly-owned by CyberVentures. The entire issued share capital of CyberVentures is held by CPG and the entire issued share capital of CPG is held by PCCW. Therefore, CIV, CyberVentures, CPG and PCCW are deemed to be interested in the 2,523,150,000 shares held by Media Touch for the purposes of the SFO.

Approximately 32.8% of PCCW's issued share capital is held by PCRD. Approximately 37.5% and 37.8% of PCRD's issued share capital are held by PCG and Anglang respectively. Anglang is wholly-owned by PCG whilst the latter is wholly-owned by PCI. In turn, PCI is wholly-owned by PCGH, the entire issued share capital of which is held by Mr. Li Tzar Kai, Richard. Therefore, PCRD, Anglang, PCG, PCI, PCGH and Mr. Li Tzar Kai, Richard are all deemed to be interested in the 2,523,150,000 shares held by Media Touch for the purposes of the SFO.

2. Media Touch is the protector of a discretionary trust, The RadarNet Trust, which was set up by RadarNet Limited, the then substantial shareholder of the Company, on 9th August, 2000. For the purposes of the SFO, Media Touch is deemed to be interested in the 400,500,000 shares held by HSBC Trustee, the trustee of The RadarNet Trust.

Therefore, Media Touch, CIV, CyberVentures, CPG, PCCW, PCRD, Anglang, PCG, PCI, PCGH and Mr. Li Tzar Kai, Richard are all deemed to be interested in the 400,500,000 shares held by HSBC Trustee for the purposes of the SFO.

3. Ms. Pau Ieng Mei, Leslie is the wife of Mr. Tam Wai Keung, Billy, who is a director, the chief executive officer and a substantial shareholder of the Company. Therefore, Ms. Pau Ieng Mei, Leslie is deemed to be interested in the 1,081,350,000 shares held by Mr. Tam Wai Keung, Billy for the purposes of the SFO.

4. Newspeed is wholly-owned by Datacom, which entire issued share capital is held by Midlink, a wholly-owned subsidiary of HI. Approximately 73.5% of HI is held by Kingslee S.A., which entire issued share capital is held by HLD, which approximately 65.2% interest is held by HD. Therefore, Newspeed, Datacom, Midlink, HI, Kingslee S.A., HLD and HD are deemed to be interested in the 468,639,845 shares held by Newspeed for the purposes of the SFO.

Rimmer and Riddick, as trustees of respective discretionary trusts, hold units in a unit trust (the "Unit Trust"). Hopkins as trustee of the Unit Trust owns all the issued ordinary shares of HD. The entire issued share capital of Rimmer, Riddick and Hopkins are owned by Mr. Lee Shau Kee. Therefore, Rimmer, Riddick, Hopkins and Mr. Lee Shau Kee are deemed to be interested in the 468,639,845 shares held by Newspeed for the purposes of the SFO.

5. HSBC Trustee was appointed as the trustee of The RadarNet Trust to hold the 400,500,000 shares under the terms of The RadarNet Trust.
6. RadarNet Limited, which is wholly-owned by Mr. Teng Wan, was the founder of the RadarNet Trust. Therefore, RadarNet Limited, by virtue of its capacity as the founder, and Mr. Teng Wan are deemed to be interested in the 400,500,000 shares held by HSBC Trustee for the purposes of the SFO.
7. No short position in the shares or underlying shares of the Company was recorded in the register of the Company to be kept under section 336 of the SFO.

Save as disclosed above, as at 30th June, 2003, the Company has not been notified of any other interests and short positions in any shares or underlying shares of the Company which is to be disclosed under the SFO.

SHARE OPTION SCHEME

The Company has its existing share option scheme (the “Share Option Scheme”) adopted on its Annual General Meeting on 3rd May, 2002 (the “Approval Date”).

Pursuant to the 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 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. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not represent more than 10% of the nominal amount of the issued share capital of the Company as at the Approval Date.

During the period and as at 30th June, 2003, no option has been granted or agreed to be granted under the 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, 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. Chak Hubert 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.

During the period, changes in the number of shares of the Company to be sold under the recommendations given by the Group to HSBC Trustee are as follows:

	<u>Number of Shares</u>
As at 1st January, 2003	360,450,000
Recommendation withdrawn	(60,174,500)
	<hr/>
As at 30th June, 2003	300,275,500
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As at 30th June, 2003, no shares have been sold to the beneficiaries, including the directors of the Company, under the aforesaid trust. Subsequent to the period end, a recommendation in respect of 4,005,000 shares was also withdrawn.

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.

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 been disclosed in the Company's Prospectus and updated in the Company's 2002 Annual Report) 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.

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 audit committee of the Company 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 HKSA.

The audit committee provides an important link between the board of directors 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.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, throughout the period, 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 30th June, 2003.

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 had no other interest in the Company as at 30th June, 2003.

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

During the six months ended 30th June, 2003, 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, 8th August, 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.