



**Second Quarterly
Report**

2002

iLink Holdings Limited

合縱連網控股有限公司

(Incorporated in the Cayman Islands with limited liability)

**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 six months ended 30th June, 2002 amounted to HK\$31,597,000.
- Net loss attributable to shareholders for the six months ended 30th June, 2002 amounted to HK\$47,616,000 after the loss of disposal on certain fixed assets of HK\$1,646,000 and the provision for impairment losses of HK\$27,409,000 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, in June 2002, the Group participated in the network game industry by forming a joint venture with a game developer in the PRC. In August 2002, the Group will form another joint venture with another game developer in the PRC.
- The directors do not recommend the payment of a dividend for the six months ended 30th June, 2002.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months and six months ended 30th June, 2002

	For the three months ended 30th June,					
	Continuing Operations		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 (Note 2)	13,165	21,767	46	—	13,211	21,767
Cost of revenues	(10,881)	(16,730)	(338)	—	(11,219)	(16,730)
Gross profit (loss)	2,284	5,037	(292)	—	1,992	5,037
Selling and marketing expenses	(1,619)	(2,749)	(64)	(12)	(1,683)	(2,761)
General and administrative expenses	(8,865)	(8,910)	(689)	(4,385)	(9,554)	(13,295)
Other income (loss), net (Note 3)	—	4	(1,646)	—	(1,646)	4
Reversal of impairment losses in fixed assets (Note 3)	—	—	2,273	—	2,273	—
Loss from operations	(8,200)	(6,618)	(418)	(4,397)	(8,618)	(11,015)
Interest income	849	2,705	1	—	850	2,705
Loss before taxation	(7,351)	(3,913)	(417)	(4,397)	(7,768)	(8,310)
Taxation (Note 5)	—	—	—	—	—	—
Loss after taxation	(7,351)	(3,913)	(417)	(4,397)	(7,768)	(8,310)
Minority interests	—	—	—	—	—	—
Net loss attributable to shareholders	(7,351)	(3,913)	(417)	(4,397)	(7,768)	(8,310)
Loss per share						
— Basic (Note 6)					(0.15 cents)	(0.16 cents)
Loss per share						
— Diluted (Note 6)					N/A	N/A

	For the six months ended 30th June,					
	Continuing Operations		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 (Notes 2 & 10)	29,880	43,050	1,717	—	31,597	43,050
Cost of revenues	(24,114)	(31,275)	(3,658)	—	(27,772)	(31,275)
Gross profit (loss)	5,766	11,775	(1,941)	—	3,825	11,775
Selling and marketing expenses	(3,425)	(5,700)	(135)	(12)	(3,560)	(5,712)
General and administrative expenses	(18,348)	(19,186)	(2,194)	(4,385)	(20,542)	(23,571)
Other income (loss), net (Note 3)	6	4	(1,646)	—	(1,640)	4
Impairment losses in fixed assets (Note 3)	—	—	(27,409)	—	(27,409)	—
Loss from operations	(16,001)	(13,107)	(33,325)	(4,397)	(49,326)	(17,504)
Interest income	1,700	5,230	10	—	1,710	5,230
Loss before taxation	(14,301)	(7,877)	(33,315)	(4,397)	(47,616)	(12,274)
Taxation (Note 5)	—	—	—	—	—	—
Loss after taxation	(14,301)	(7,877)	(33,315)	(4,397)	(47,616)	(12,274)
Minority interests	—	—	—	—	—	—
Net loss attributable to shareholders	(14,301)	(7,877)	(33,315)	(4,397)	(47,616)	(12,274)
Loss per share						
— Basic (Note 6)					(0.90 cents)	(0.27 cents)
Loss per share						
— Diluted (Note 6)					N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2002

	As at 30th June, 2002 HK\$'000	As at 31st December, 2001 HK\$'000
NON-CURRENT ASSETS		
Fixed assets, net	58,859	91,966
Prepayment	4,200	5,600
Total non-current assets	<u>63,059</u>	<u>97,566</u>
CURRENT ASSETS		
Cash and bank deposits	202,523	216,829
Accounts receivable, net (<i>Notes 7 & 11</i>)	9,764	15,007
Amount due from a director	—	135
Other investment	3,900	3,900
Prepayments, deposits and other current assets (<i>Note 11</i>)	11,836	10,599
Total current assets	<u>228,023</u>	<u>246,470</u>
CURRENT LIABILITIES		
Accounts payable (<i>Notes 8 & 11</i>)	3,702	8,461
Accruals and other payables (<i>Note 11</i>)	9,658	10,156
Amounts due to directors	—	100
Total current liabilities	<u>13,360</u>	<u>18,717</u>
Net current assets	<u>214,663</u>	<u>227,753</u>
Total assets less current liabilities	<u>277,722</u>	<u>325,319</u>
NON-CURRENT LIABILITIES		
	—	—
MINORITY INTERESTS		
	—	—
Net assets	<u>277,722</u>	<u>325,319</u>
Representing:		
Share capital	105,347	105,347
Reserves (<i>Note 9</i>)	172,375	219,972
	<u>277,722</u>	<u>325,319</u>

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2002

	For the six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Opening balance — Total equity	325,319	236,667
Net gains and losses not recognized in the income statement		
— Currency translation differences	19	67
Net loss for the period	(47,616)	(12,274)
Conversion of convertible notes	—	(12,519)
Issue of share capital	—	136,022
Closing balance — Total equity	<u>277,722</u>	<u>347,963</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2002

	For the six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(13,426)	(18,733)
INVESTING ACTIVITIES		
Interest received	1,710	5,230
Purchase of fixed assets	(3,184)	(14,521)
Proceeds from disposal of fixed assets	575	8
	(899)	(9,283)
NET CASH OUTFLOW BEFORE FINANCING	(14,325)	(28,016)
FINANCING		
Proceeds from issuance of ordinary shares	—	140,800
Share issuance expenses	—	(17,297)
Repayment of capital element of obligation under a finance lease	—	(271)
	—	123,232
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,325)	95,216
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	19	67
CASH AND CASH EQUIVALENTS		
Beginning of period	216,829	160,573
End of period	202,523	255,856

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS:

1. Basis of Presentation

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by Hong Kong Society of Accountants, and The Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") and should be read in conjunction with the 2001 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 accounts for the year ended 31st December, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAP issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised): Presentation of financial statements

SSAP 11 (revised): Foreign currency translation

SSAP 15 (revised): Cash flow statements

SSAP 25 (revised): Interim financial statements

SSAP 33: Discontinuing operations

SSAP 34: Employee benefits

2. Turnover

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

3. Discontinuing operation

On 8th May, 2002, the Group approved a corporate restructuring and discontinued its data centre operation in Beijing, the PRC. Results of this discontinuing operation for the six months ended 30th June, 2002 are set out above.

As a result of the corporate restructuring, a provision for impairment losses in the amount of approximately HK\$29,682,000 has been made last quarter which represented the carrying amount of fixed assets for the data centre operation in

Beijing as at 31st March, 2002. For the current quarter, part of these fixed assets with net book values of approximately HK\$2,180,000 was sold for approximately HK\$542,000, resulting in a loss of approximately HK\$1,638,000 which is included in other loss for the period. Furthermore, impairment loss of HK\$93,000 was reversed because the related fixed assets can be used in the Group's other operation and, therefore, have been transferred to a fellow subsidiary at their net book values.

The cash outflow from operating activities of the operation in Beijing was approximately HK\$7,600,000 and its cashflow from investing, other than the proceeds of approximately HK\$542,000 received upon the aforesaid disposal, and financing activities was not significant for the six months ended 30th June, 2002.

4. Staff Costs

	For the six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)	<u>12,598</u>	<u>14,047</u>

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, 2002 and 2001.

A subsidiary, 北京合縱連橫科技有限公司 (the "Beijing Subsidiary"), is subject to the 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 the PRC enterprise income tax was made as the Beijing Subsidiary had no taxable income for the six months ended 30th June, 2002.

As at 30th June, 2002, the Group has not recorded deferred tax assets, mainly in respect of tax losses carried forward of approximately HK\$96,000,000 (31st December, 2001: HK\$88,000,000) for the operations in Hong Kong, subject to agreement by the Hong Kong Inland Revenue, due to the uncertainty that the resultant deferred tax asset will be recovered in the foreseeable future.

6. Loss per Share

The calculation of basic loss per share for the three months and six months ended 30th June, 2002 is based on the Group's unaudited consolidated net loss attributable to shareholders for the periods and 5,267,374,610 shares (for the three months and six months ended 30th June, 2001: weighted average of 5,267,374,610 and 4,590,472,140 shares respectively, which have been adjusted for the subdivision of shares of the Company in August 2001) 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 three months and six months ended 30th June, 2002 and 2001 would be anti-dilutive.

7. Accounts Receivable, net

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

	As at 30th June, 2002 HK\$'000	As at 31st December, 2001 HK\$'000
0 to 30 days	1,844	5,656
31 to 60 days	1,419	2,432
61 to 90 days	1,135	2,245
Over 90 days	14,820	14,013
	19,218	24,346
<i>Less: Provision for doubtful debts</i>	(9,454)	(9,339)
	<u>9,764</u>	<u>15,007</u>

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

8. Accounts Payable

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

	As at 30th June, 2002 HK\$'000	As at 31st December, 2001 HK\$'000
0 to 30 days	1,374	6,354
31 to 60 days	34	338
61 to 90 days	129	154
Over 90 days	2,165	1,615
	<u>3,702</u>	<u>8,461</u>

9. Reserves

Movements in reserves of the Group for the six months ended 30th June, 2002 and 2001 are as follows:

	For the six months ended 30th June, 2002					2001
	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000	Total HK\$'000
Balance, beginning of period	243,476	43,782	50	(67,336)	219,972	224,059
Issuance of ordinary shares	—	—	—	—	—	110,742
Capitalisation issue	—	—	—	—	—	(71,110)
Conversion of convertible notes	—	—	—	—	—	(8,868)
Exchange translation differences	—	—	19	—	19	67
Loss for the period	—	—	—	(47,616)	(47,616)	(12,274)
Balance, end of period	<u>243,476</u>	<u>43,782</u>	<u>69</u>	<u>(114,952)</u>	<u>172,375</u>	<u>242,616</u>

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.

10. 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 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:

	For the six months ended 30th June,					
	Hong Kong		The PRC		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	29,880	43,050	1,717	—	31,597	43,050
Result						
Segment result	(13,226)	(12,953)	(35,743)	(4,397)	(48,969)	(17,350)
Unallocated corporate expenses					(357)	(154)
Loss from operations					(49,326)	(17,504)
Interest income					1,710	5,230
Net loss attributable to shareholders					(47,616)	(12,274)
Other information						
Capital expenditures	2,140	11,662	1,044	2,859	3,184	14,521
Depreciation	5,882	5,048	778	4	6,660	5,052
Provision for doubtful debts	3,219	2,996	—	—	3,219	2,996
	As at 30th June, 2002 and 31st December, 2001					
	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,
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	277,885	276,532	13,197	67,504	291,082	344,036
Liabilities						
Segment liabilities	8,707	11,251	4,653	7,466	13,360	18,717

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.

11. Related Party Transactions

As at 30th June, 2002, the Group had the following significant current balances with related companies:

	As at 30th June, 2002 HK\$'000	As at 31st December, 2001 HK\$'000
Included in:		
Accounts receivable, net	918	4,263
Prepayment, deposits and other current assets	2,488	1,825
Accounts payable	37	292
Accruals and other payables	1,657	185

DIVIDEND

The directors do not propose any dividend for the six months ended 30th June, 2002 (2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th June, 2002, the Group achieved a turnover of approximately HK\$31,597,000 and recorded a net loss attributable to shareholders of approximately HK\$47,616,000.

In the period under review, the Group had discontinued its data centre operation in Beijing, the PRC and accordingly, a provision for impairment losses in the fixed assets for this operation amounting to approximately HK\$27,409,000 was made after the disposal and transfer of part of these fixed assets with net book values of approximately HK\$2,273,000 for approximately HK\$635,000 during this quarter. Nevertheless, this restructuring has effectively reduced the Group's loss from operations for this quarter.

The market remained difficult with most enterprises restricting their expenditures and the Group continued to experience pressure on pricing of its service revenue and renewal of the expiring service contracts became less certain. This together with the restructuring of operation in Beijing explained the drop in turnover of the Group by 28% from last quarter's HK\$18,386,000 to HK\$13,211,000 for the quarter. However, the Group's loss from operations other than provision for impairment losses and loss on disposal of fixed assets was also reduced by 16% from last quarter's HK\$11,032,000 to HK\$9,245,000 for the quarter.

While the Group focused on improving its core business in data centre operation, leveraging on its expertise and infrastructure, the Group also participated in the network game industry by forming joint ventures with game developers in the PRC. Different alternatives had also been implemented to try to control its operating costs.

OPERATION REVIEW

Strategic Development

Beijing

As explained last quarter, the Group has in May 2002 discontinued its data centre operation in Beijing, PRC 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 will be providing web-hosting, 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 an act of prudence by the management to cater for the existing business environment and the Group will also closely monitor the market and adjust

its strategy responsively to undertake any business opportunities arising. It is expected that no significant capital expenditures will be incurred for this new operation in Beijing.

The Group has also in June 2002 entered into a joint venture with independent third parties in Beijing, the PRC 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 will enter into 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 may not provide immediate return, the Group is optimistic about the network game industry and intends to establish a network game operation which ranges from development, distribution and deployment of network games in the PRC.

Shanghai

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

Taiwan, Singapore, Shenzhen and Guangzhou

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 soft market and the Group had completed its renovation and installation of the facilities in the expansion phase of the data centre at "The Center" in Hong Kong last year, no material costs were incurred this period for its infrastructure and facilities. The Group's hosting capacity reaches 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 period.

PROSPECT

While the different market segments in Hong Kong and worldwide remained difficult in the period, 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.

As already set out in the Company's last quarterly report, the directors believe in the first half of 2002, the Group will continue to experience more pressure on pricing of its service revenue and the level of bad debts will be at a relatively high level before the market rebounds. Nevertheless, the Group has taken every measure to increase its operating efficiency and to reduce its operating costs so as to increase its competitiveness. With a tightened credit control policy and the setting up of a task group enhancing its debt collectibility, it is expected that provision for bad debts will return to a lower level in the second half of 2002. On the other hand,

the Group has been launching more value-added services to its customers to broaden its revenue base. These are to make sure that the Group can be the first to benefit when the economy recovers.

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. The directors believe that the Group is well positioned to capture these opportunities. However, the economic recovery in the United States becomes less certain recently which casts doubt on whether the economy in Hong Kong has reached its bottom and may rebound in the second half of 2002. Nevertheless, the restructuring of its Beijing data centre operation has contributed positively to the Group's overall results. As a medium term investment, the Group has also been investing in the network game industry which hopefully will provide new drive to the Group's revenue growth.

PROGRESS AGAINST BUSINESS OBJECTIVES

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

BUSINESS OBJECTIVES

ACTUAL BUSINESS PROGRESS

Business Development

- | | |
|--|--|
| <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 expanding its ASP services and other value added data centre services to its customers. |
| <ul style="list-style-type: none">• Evaluate the feasibility of providing ASP services in other Asian cities. | <ul style="list-style-type: none">• Feasibility studies are underway. |
| <ul style="list-style-type: none">• Establish a certification lab to measure the performance, security and reliability of computer systems hosted at the Group's data centres. | <ul style="list-style-type: none">• The establishment has been suspended. |
| <ul style="list-style-type: none">• Recruit and train staff for operating data centre in Guangzhou. | <ul style="list-style-type: none">• Recruitment and training of staff for operating data centre in Guangzhou is pending until the establishment of data centre in Guangzhou. |
| <ul style="list-style-type: none">• Establish a technology knowledge centre to improve customer satisfaction. | <ul style="list-style-type: none">• The establishment has been suspended. |

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 postponed. It is believed that such delay 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 business in locations with present existence.

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.
- Potential partners are being identified.
- Potential partners are being identified.
- Potential partners are being identified.

Marketing Strategies

- Launch a marketing program on Internet security.
- 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.
- A secure broadband package was launched to customers during the period.
- The Group has arranged data centre visit and promoted our service with institutes in Hong Kong, including InvestHK, Hong Kong Polytechnic University and The Institution of Electrical Engineers Hong Kong.
- 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.

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"). Up to 30th June, 2002, the Group has applied the net proceeds as follows:

	Use of proceeds as stated in the Prospectus	Actual amount used for the eighteen months ended 30th June, 2002	
	<i>HK\$</i>	<i>HK\$</i>	<i>Notes</i>
Establish data centre in Taiwan in the first half of 2001	25,000,000	—	(a)
Establish data centre in Shenzhen in the second half of 2001	34,000,000	—	(a)
Operations of data centre and ASP businesses for the year ended 31st December, 2001	43,000,000	55,796,000	(b)
Marketing and promotional activities for the year ended 31st December, 2001	12,000,000	2,115,000	(c)
Working capital	7,000,000	—	
	<hr/>	<hr/>	
Total	<u>121,000,000</u>	<u>57,911,000</u>	(d)

Notes:

- (a) To cope with changes in the Group's development pace, the proceeds allocated for the establishment of its data centre in Taiwan and Shenzhen were still withheld and placed in banks to earn interest. The Group has no immediate plan in setting up further data centres at the moment.

- (b) HK\$42,389,000 was utilized to finance the operations of its data centres and ASP services for the year ended 31st December, 2001. For the six months ended 30th June, 2002, the Group incurred HK\$13,407,000 for the operations of its data centres and ASP services, which was funded by the internal resources.
- (c) To cope with market changes, the Group had restricted its expenditures in marketing and promotional activities for the year ended 31st December, 2001 from HK\$12,000,000 to HK\$2,096,000 with the balance kept as additional working capital. For the six months ended 30th June, 2002, the Group incurred HK\$19,000 for the marketing and promotional activities, which was funded by the internal resources.
- (d) Net proceeds received from the Placing amounted to HK\$123,503,000, which is HK\$2,503,000 in excess of the estimated amount as stated in the Prospectus. The unused proceeds were placed in bank to earn interest and will be used as additional working capital.

DIRECTORS' INTERESTS

As at 30th June, 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:

Name of directors	Personal interests	Family interests	Corporate interests	Other interests	Total
				<i>(Note)</i>	
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
Chen Johnson	—	—	—	400,500,000	400,500,000

Note: 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. Subsequent to 30th June, 2002, Mr. Chen Johnson ceased to be interested in the aforesaid shares held by HSBC Trustee.

Save as disclosed above, as at 30th June, 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, details of which have been set out in a circular of the Company to its shareholders dated 28th March, 2002, 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 33¹/₃%, 66²/₃% 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 period and as at 30th June, 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 including four executive directors of the Company, namely Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai, and a non-executive director, Mr. Cheung Sum, Sam, 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, including Mr. Chung Cho Yee, Mico, who is an executive director of both PCCW and the Company, and Mr. Chen Johnson, who is a non-executive director of the Company, for their contribution to the business development of the

Group before its listing and to the preparation for the listing. In addition, the Group also recommended to HSBC Trustee that 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 that of 12,816,000 shares and 43,654,500 shares to be sold to them respectively had been withdrawn during the period and subsequent to the period end.

As at 30th June, 2002, no shares have been sold to the beneficiaries under the aforesaid trust.

Save as disclosed above, at no time during the period was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable any of 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 30th June, 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 <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century Group Holdings Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century International Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century Group (Cayman Islands) Limited <i>(Note)</i>	2,523,150,000	47.90%
Anglang Investments Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century Regional Developments Limited <i>(Note)</i>	2,523,150,000	47.90%
PCCW <i>(Note)</i>	2,523,150,000	47.90%
Century Power Group Limited <i>(Note)</i>	2,523,150,000	47.90%
CyberVentures (Bermuda) Limited ("CyberVentures") <i>(Note)</i>	2,523,150,000	47.90%
CyberWorks Internet Ventures Limited <i>(Note)</i>	2,523,150,000	47.90%
Media Touch Group Limited ("Media Touch") <i>(Note)</i>	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 30th June, 2002.

COMPETING INTERESTS

PCCW is one of the substantial shareholders of the Company and in which Mr. Chung Cho Yee, Mico, an executive director of the Company, is an executive director. PCCW has interests in the following entities which are engaged in the data centre or related business:

- a 42.5% interest in 北京中關村數據科技有限公司, which provides IT and professional services.
- a 100% interest in an indirect subsidiary of PCCW, which provides data centre services under the brand name of Powerb@se.

The directors believe that there is a risk that such businesses may compete with those of the Group's. Details of the above competing interests have been disclosed in the section "Relationship with PCCW" on pages 114 to 119 of the Prospectus. Up to the date of this report, all information regarding the aforesaid competing interests and the arrangements in this connection as mentioned in the Prospectus remains unchanged except in relation to IDC Limited ("IDC") which is not included in the above description.

PCCW has a 50% interest in IDC which is an Internet data centre joint venture company with Telstra Corporation Limited ("Telstra"). IDC has never commenced operations. In view of the market conditions, PCCW has evaluated its investment in IDC and has subsequently agreed with Telstra to liquidate IDC. Accordingly, IDC is in the process of being liquidated.

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 Mr. Cheng Kai Ming and Mr. Wong Wing Shing, both of whom are independent non-executive directors of the Company. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.

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, 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 30th June, 2002.

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

During the six months ended 30th June, 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, 9th August, 2002