

Annual 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”)

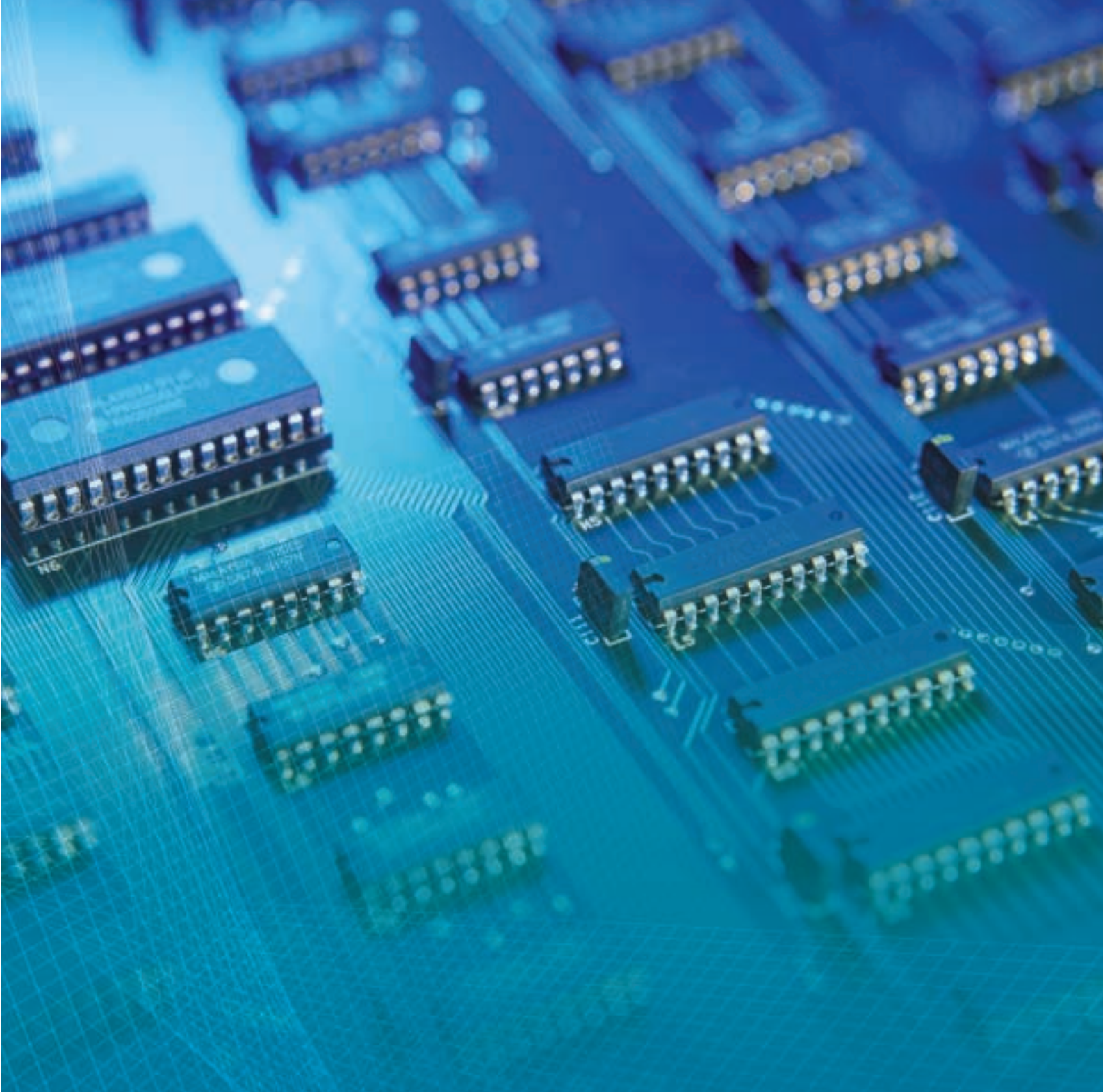
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▪ **CORPORATE INFORMATION**

▪ **DIRECTORS AND SENIOR MANAGEMENT
PROFILE**

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHUNG Cho Yee, Mico (*Chairman*)
TAM Wai Keung, Billy (*Chief Executive Officer*)
LEE Brandon
LEUNG Man Leuk, Tommy
HUI Kwai
TANG King Fai

Non-Executive Directors

CHAK Hubert
CHEN Johnson
CHEUNG Sum, Sam

Independent Non-Executive Directors

WONG Wing Shing
CHENG Kai Ming, *SBS, JP*

COMPLIANCE OFFICER

TANG King Fai

QUALIFIED ACCOUNTANT

LAM Yuk Lau, *FCCA, AHKSA*

COMPANY SECRETARY

LAM Yuk Lau, *FCCA, AHKSA*

AUDIT COMMITTEE

WONG Wing Shing
CHENG Kai Ming, *SBS, JP*

AUTHORISED REPRESENTATIVES

TAM Wai Keung, Billy
LAM Yuk Lau

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309 George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

56th Floor
The Center
99 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street, P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

SPONSOR

BNP Paribas Peregrine Capital Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

As to Hong Kong Law
Richards Butler
Sidley Austin Brown & Wood

As to Cayman Islands Law
Maples and Calder Asia

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited

WEBSITE

www.iLink.net

STOCK CODE

8107

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. CHUNG Cho Yee, Mico, aged 42, is the Chairman of the Company and has joined the Board since August 2000. Mr. Chung is an executive director of PCCW Limited (formerly known as Pacific Century CyberWorks Limited) (“PCCW”) responsible for mergers and acquisitions activities of the PCCW group. He is a qualified solicitor by profession. Mr. Chung graduated from University College, University of London, United Kingdom (“UK”) with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited, the investment banking arm of Standard Chartered Bank, in 1988. He became a director and the general manager of Bond Corporation International Ltd. in 1990 and left to join China Strategic Holdings Limited in January 1992. Mr. Chung joined the PCCW group in March 1999.

Mr. TAM Wai Keung, Billy, aged 39, is the Chief Executive Officer of the Group and has joined the Board since August 2000. Mr. Tam is the founder of iLink.net Limited (“iLink.net”), a wholly owned subsidiary of the Company. He was elected one of Hong Kong’s “Ten Outstanding Young Digi Persons” in 2001. Mr. Tam was previously Deputy Director of Cable Multimedia Services of Hong Kong Cable Television Limited (“Cable Television”) and was responsible for developing Cable Modem Broadband Multimedia Services, including broadband Internet, Voice-over-IP and other value-added multimedia services. Mr. Tam is a pioneer in launching and implementing cable modem technology in Hong Kong and a veteran in the technical field of the Internet industry. Mr. Tam was one of the founders of Hong Kong Star Internet Limited and Star Interactive TV Limited, which was awarded one of the two Video On Demand Licences in Hong Kong to offer broadband Internet services. Mr. Tam was educated in the United States (“US”) and obtained a bachelor degree in electrical engineering from Seattle University, US. After graduation in 1988, he spent six years as a design engineer, and subsequently senior design engineer with an aerospace company in US employing 6,000 employees.

Mr. LEE Brandon, aged 35, has joined the Board since December 2000. He is currently the Chief Technology Officer and Chief Operating Officer of the Group, responsible for the Group’s technology implementation, research and development, and strategic planning, along with its data centre operations. Prior to joining iLink.net in November 2000, Mr. Lee was a principal architect of the Interactive Television Division of Oracle Corporation where he led the development of real time capturing and playback of digital compressed video. He represented Oracle Corporation in the MPEG International Organization for Standards Committee. Mr. Lee also supervised its strategic interactive television deployments around the world including the Chung Hwa Telecom Media On Demand project in Taiwan, the Malaysia Telecom I-Choose project in Malaysia and the Open Interactive project in UK. Before joining Oracle Corporation,

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Lee was a lead engineer at the Ames Research Center of the National Aeronautics and Space Administration responsible for the development of an advanced flight control system for the X-36 tailless agile aircraft. Mr. Lee holds a Bachelor of Science degree from California Institute of Technology, US, and a Master of Science degree from Stanford University, US.

Mr. LEUNG Man Leuk, Tommy, aged 47, has joined the Board since August 2000. He is currently the Director of Business Development of the Group, responsible for exploring and managing new strategic investments for the Group. He joined iLink.net in December 1999. Mr. Leung has extensive experience in the telecommunications industry. Mr. Leung began his career with Hutchison Telecom Limited, where he worked from 1979 to 1988. During that period, he held several positions including Operations Manager, Facilities Manager and General Administration Manager. Mr. Leung then joined Star Telecom Limited in 1989 as Operations Director leading a team of experts in managing and operating its call centres. Mr. Leung has extensive experience in customer services, information technology, radio frequency engineering, switching, product maintenance, and sales and marketing. Mr. Leung holds a Master of Business Administration degree from University of Hull, UK and a professional diploma in training management from The Chinese University of Hong Kong. He is also a member of the Chartered Institute of Personnel and Development, UK and the Hong Kong Institute of Human Resource Management.

Mr. HUI Kwai, aged 40, has joined the Board since August 2000. He is the Director of Sales and Marketing of the Group, responsible for the Group's overall strategic planning and formulation of strategy in the sales and marketing. Mr. Hui has extensive experience in sales and marketing. Before joining iLink.net in March 2000, he worked for several multinational companies. Mr. Hui is also experienced in setting up and managing overseas sales offices and warehousing facilities. Mr. Hui holds a Bachelor of Arts degree in Business Administration from University of Washington, Seattle, US.

Mr. TANG King Fai, aged 39, has joined the Board since August 2000. He is the Director of Corporate Communications of the Group, responsible for general publicity and media relations. Prior to joining iLink.net in May 2000, Mr. Tang was the anchorman and principal reporter of Asia Television Limited, responsible for producing and anchoring newscasts and public affairs programs. Mr. Tang has extensive experience in media, research, and marketing, having worked at some senior positions at Asia Television Limited and at KTSF-TV, San Francisco, US. Mr. Tang holds a Bachelor of Arts degree in Broadcast Journalism from University of Washington, Seattle, US. Mr. Tang is also the Compliance Officer of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Non-Executive Directors

Mr. CHAK Hubert, aged 41, has joined the Board since March 2003. Mr. Chak joined PCCW in October 1999 and is currently the Director of Mergers and Acquisitions. Mr. Chak has extensive experience in corporate finance transactions and has previously worked for a number of international investment banks and a well-known CPA firm in Hong Kong. Mr. Chak holds a Master of Business Administration degree and a Bachelor of Science degree in Mechanical Engineering from the University of Wales Institute of Science and Technology in the United Kingdom.

Mr. CHEN Johnson, aged 30, has joined the Board since August 2000. Mr. Chen is the founder of Clearbridge Partners Limited, a private equity firm, and Managing Director of Nature Food International Limited. Mr. Chen is also the co-founder of two Internet startup companies. Mr. Chen joined PCCW in July 1999 and was the President of CyberWorks Ventures, where he oversaw the direct investment arm of PCCW. Before joining PCCW, Mr. Chen was the Deputy Chief Financial Officer of Hong Kong Star Internet Limited where he was involved in the building of the company's on-line stock trading capability and Star Interactive's Video on-demand and broadband Internet business planning and development. Prior to joining Hong Kong Star Internet Limited, he was a Management Consultant with the Asia Strategy practice of Andersen Consulting Strategic Services. Mr. Chen holds a Master's degree in Manufacturing Engineering and Business Studies, Master of Arts degree and a Bachelor degree in Manufacturing Engineering Tripos (MET) from University of Cambridge, UK.

Mr. CHEUNG Sum, Sam, aged 38, has joined the Board since August 2000. Mr. Cheung is currently an Executive Director and the Chief Financial Officer of Pacific Century Insurance Holdings Limited ("PCI"). Prior to joining PCI, Mr. Cheung was a Director – Mergers and Acquisitions at PCCW. Mr. Cheung has extensive experience in investment banking, having worked at Credit Suisse First Boston, BZW and Deutsche Morgan Grenfell before joining PCCW in April 2000. Mr. Cheung holds a Bachelor of Science degree from London School of Economics and Political Science, University of London, UK. Mr. Cheung is a fellow of The Association of Chartered Certified Accountants, UK and an associate of Hong Kong Society of Accountants.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Independent Non-Executive Directors

Mr. WONG Wing Shing, aged 51, has joined the Board since November 2000. Professor Wong is a Professor of Information Engineering and has been the Chairman of the Department of Information Engineering at The Chinese University of Hong Kong since 1995. He graduated from Yale University with a combined Master and B.A. degree and obtained his Ph.D. degree from Harvard University, US. He is an IEEE Fellow and Fellow of the Hong Kong Institution of Engineers. His current research interests include mobile communication, nonlinear filter, and Internet search engine.

Mr. CHENG Kai Ming, *SBS, JP*, aged 58, has joined the Board since November 2000. Professor Cheng is the Chair Professor of Education and Pro-Vice-Chancellor at The University of Hong Kong. He is also currently a Visiting Professor at the Harvard Graduate School of Education. Trained in undergraduate studies as a mathematician at The University of Hong Kong, Professor Cheng taught Physics and Mathematics in secondary schools and was once a school principal. He was then attracted to study educational administration, planning and policy analysis, and did his PhD at the University of London Institute of Education. Professor Cheng has been awarded Fellowship by several esteemed academic institutions, including the London Institute of Education and the Commonwealth Council for Educational Administration. Locally, he serves on major policy advisory bodies including the Education Commission and the Advisory Committee on Teacher Education and Qualifications, and has been instrumental in the current reform of the education system of Hong Kong.

COMPANY SECRETARY

Mr. LAM Yuk Lau, aged 39, is the Chief Financial Officer of the Group. Prior to joining iLink.net in January 2001, Mr. Lam was the assistant general manager and company secretary of a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), responsible for its project investments. Mr. Lam has extensive experience in accounting, auditing and corporate finance, having worked at an international accounting firm and the Stock Exchange. Mr. Lam holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong and a Master of Business Administration degree from University of Western Sydney, Nepean, Australia. He is an associate of Hong Kong Society of Accountants, a fellow of The Association of Chartered Certified Accountants, UK, and a certified public accountant in Hong Kong. Mr. Lam is also the Qualified Accountant of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. CHEUNG Yung, aged 33, is the Vice President of Corporate Sales and Business Development and is responsible for sales strategy planning and implementation. Mr. Cheung joined iLink.net in December 1999. He has extensive experience in computer network, Internet and e-commerce sales and marketing. Prior to joining iLink.net, Mr. Cheung was an Internet solution manager with Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) ("HKT"), as a consultant to corporate customers on Internet and Intranet solutions. Before joining HKT, Mr. Cheung was an Internet sales manager at Hong Kong Star Internet Limited for four years. Mr. Cheung holds a Bachelor of Arts degree in computing studies from The Hong Kong Polytechnic University.

Mr. LAM Wo Shing, aged 33, is the Manager, Network and Systems and is responsible for research and development. Mr. Lam has extensive technology experience in the telecommunications and Internet industry, with expertise in the area of Internet Protocol technology. Prior to joining iLink.net in January 2000, Mr. Lam was the Operation Assistant Manager at Cable Multimedia Services of Cable Television, responsible for the daily operation of its data centre. Before joining Cable Television, Mr. Lam had spent over three years with Hong Kong Star Internet Limited, where he assisted in the operation of that Internet company.

Mr. WONG Wai Lim, aged 27, is the Sales Manager and is responsible for sales strategy planning and implementation. Mr. Wong joined iLink.net in January 2000. He has extensive sales and marketing experience gained from several local and multinational companies. Prior to joining iLink.net, he worked for an international imaging and electronic device firm and was responsible for its major account management and developing its distributorship of The People's Republic of China market. Mr. Wong holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

Ms. YEUNG Chung Ting, Athena, aged 31, is the Marketing Manager and is responsible for formulating and implementing marketing strategies and communication programs. Ms. Yeung joined iLink.net in November 1999. She has extensive marketing experience and gained Internet knowledge working for Internet service providers. Prior to joining iLink.net, Ms. Yeung was an assistant marketing manager with HKT's IMS department, responsible for the marketing support on Internet access applications, online interactive services promotion and events planning. Before joining HKT, Ms. Yeung spent two years with Hong Kong Star Internet Limited, where she was involved in the successful bidding of the Video on Demand Licences. Ms. Yeung holds a Bachelor of Arts degree in philosophy from The University of Hong Kong.

Ms. YUNG Hong Yee, Connie, aged 31, is the Manager, Finance and joined iLink.net in January 2000. Ms. Yung has extensive accounting, financial management and tax planning experience gained from working at multi-national corporations and audit firms. Prior to joining iLink.net, Ms. Yung spent two years with Arthur Andersen LLP in Canada where she was with the Asian Enterprise Group. Before that, Ms. Yung was with another firm of chartered accountants in Canada. Ms. Yung holds a Bachelor of Commerce degree in accounting and finance from The University of Birmingham, UK and a Master of Arts degree in Information Technology from The University of Nottingham, UK. Ms. Yung is an associate of Hong Kong Society of Accountants and a member of The American Institute of Certified Public Accountants.



▪ CHAIRMAN'S STATEMENT

▪ MANAGEMENT DISCUSSION AND ANALYSIS

CHAIRMAN'S STATEMENT

I present the annual report for the year ended 31st December, 2002 of iLink Holdings Limited (the "Company").

RESULTS OF OPERATION

The Company and its subsidiaries (the "Group") recorded a turnover of approximately HK\$54,736,000 for the year ended 31st December, 2002, which represents a decrease of 33.2% as compared to that of the last year. The loss attributable to shareholders for the year ended 31st December, 2002 was approximately HK\$104,220,000, an increase of 198.6% as compared to the loss in 2001. The increase was mainly attributable to the respective provisions for impairment losses of approximately HK\$25,802,000 and HK\$35,800,000 in the fixed assets for the data centre operations in Beijing and Hong Kong. These provisions will not affect the Group's cash flows or its operation; and the Group's financial position remains healthy.

BUSINESS REVIEW

In the year 2002, while the Group continued to focus on improving its core operation and introduce more value added services to the customers, the Group had also critically reviewed its data centre operation in Beijing and the market situation there. It was then decided to discontinue such data centre operation in May 2002. This restructuring has effectively reduced the Group's operating costs while the current coverage of the Group's services has not been affected.

In the second half of 2002, the Group participated in the network game industry by forming joint ventures with some game developers in Beijing. This move aimed to broaden the Group's revenue base and to leverage on its expertise and infrastructure.

The Group had also carried out an extensive review of its service orders on hand and the latest market condition in Hong Kong and, to be prudent, made a provision for impairment losses in the fixed assets for its data centre operation in Hong Kong.

PROSPECT

The new network game business and the introduction of different value added services have broadened the revenue base of the Group. The restructuring of data centre operations and other measures have also reduced its operating costs.

However, in view of the current economic and market situation, in particular, having regard to the uncertainty created by the worry over a war between the United States and Iraq, it is

CHAIRMAN'S STATEMENT

uncertain when Hong Kong's economy will rebound from the bottom. Therefore, the Group remains more conservative in the development of business and some of the investments as scheduled in the Group's business plan have been suspended or abandoned. It is believed that it is in the Group's interest to slow down the pace of its business development during the difficult time.

Lastly, I would like to extend my thanks to my fellow directors and staff for their commitment, effort and contribution to the operation of the Group and to our shareholders for their support in the listing of the Company's shares.

CHUNG Cho Yee, Mico

Chairman

Hong Kong, 13th March, 2003

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, The People's Republic of China (the "PRC") 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 Statement of Standard Accounting Practice No. 31 "Impairment of Assets" issued by the Hong Kong Society of Accountants, 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 cash flows 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 flows and the net proceeds from the new issue of the Company's shares by way of placing in 2001. 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 operations through its subsidiaries in Beijing which are subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 (including the provision for unutilised annual leaves first made in 2002) 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 down the pace of its 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 cash flows 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**

▪ **USE OF PROCEEDS**

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 dated 28th February, 2001 to the actual business progress up to 31st December, 2002.

1st January, 2002 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 during the first half of the year. |
| <ul style="list-style-type: none">• Evaluate the feasibility of providing ASP services in other Asian cities. | <ul style="list-style-type: none">• Business opportunities are being monitored by participating exhibitions, conferences and through business contacts. |
| <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">• After a review for these services, the establishment has been suspended until more demand is noted. |
| <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 suspended after the establishment of data centre in Guangzhou being suspended. |
| <ul style="list-style-type: none">• Establish a technology knowledge centre to improve customer satisfaction. | <ul style="list-style-type: none">• After a review for this service, the establishment has been abandoned while monthly customer satisfaction survey is carried out to enhance customer satisfaction. |

PROGRESS AGAINST BUSINESS OBJECTIVES

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 People's Republic of China (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.

PROGRESS AGAINST BUSINESS OBJECTIVES

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 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.
- 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.
- Establish a digital media management centre as a value added service.
- Launch database hosting and management 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.
- Considering the current market conditions, the project has been suspended until demand is noted.
- 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.

PROGRESS AGAINST BUSINESS OBJECTIVES

- Launch bandwidth management services to ensure quality services over the Group's international networks.
- Launch wireless gateways to increase customers' penetration.
- 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.
- Services have been launched during the year.
- 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.
- 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.

PROGRESS AGAINST BUSINESS OBJECTIVES

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.
- Continue to employ a board range of marketing communications and public relations activities with focus on regional coverage.
- 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.
- 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 centre 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 Company's prospectus dated 28th February, 2001 (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.

- **REPORT OF THE DIRECTORS**
- **FINANCIAL STATEMENTS**
- **FINANCIAL SUMMARY**
- **NOTICE OF ANNUAL GENERAL MEETING**



REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements of iLink Holdings Limited (the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the financial statements. The Group discontinued its data centre operation in the People’s Republic of China during the year.

An analysis of the Group’s performance for the year by geographical segment is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 38.

The directors do not recommend the payment of a dividend.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and turnover for the year attributable to the Group’s major suppliers and customers are as follows:

Purchases

– the largest supplier	18.3%
– five largest suppliers combined	52.7%

Turnover

– the largest customer	7.4%
– five largest customers combined	23.9%

One of the five largest suppliers and one of the five largest customers are subsidiaries of PCCW Limited (formerly known as Pacific Century CyberWorks Limited) (“PCCW”), one of the substantial shareholders of the Company. In addition, one of the five largest suppliers is a jointly-controlled entity of PCCW.

REPORT OF THE DIRECTORS

Save as disclosed above, none of the directors of the Company, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had an interest in the major suppliers and customers noted above.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year ended 31st December, 2002 and up to the date of this report were:

Executive Directors

Chung Cho Yee, Mico (*Chairman*)
Tam Wai Keung, Billy (*Chief Executive Officer*)
Lee Brandon
Leung Man Leuk, Tommy
Hui Kwai
Tang King Fai

Non-Executive Directors

Chak Hubert (appointed on 13th March, 2003)
Chen Johnson
Cheung Sum, Sam

Independent Non-Executive Directors

Wong Wing Shing
Cheng Kai Ming

REPORT OF THE DIRECTORS

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs. Tam Wai Keung, Billy, Tang King Fai, Chak Hubert and Chen Johnson will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Directors' Service Contracts

Five executive directors of the Company namely, Mr. Tam Wai Keung, Billy, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai had entered into service agreements with the Company on 22nd February, 2001. Particulars of these agreements are in all material respects identical and are set out below:

Each of the above named persons is appointed under the agreement as an executive director of the Company for an initial term of two years commencing on 1st January, 2001 and his appointment shall continue thereafter for such further term as the parties shall agree. Each of them shall be entitled to a monthly salary and a monthly director's fee of HK\$15,000 and in addition he shall be entitled to the reimbursement of all reasonable expenses properly incurred by him in the performance of his duties as an executive director of the Company. Each of them is required to work full time for the Company.

Each service agreement can be terminated by the Company by 6 months' written notice but cannot be terminated by the relevant executive director prior to the expiry of the term. In certain other circumstances, each agreement can also be terminated by the Company, including but not limited to, serious breaches of the director's obligations under the agreement or serious misconduct.

During the year, they waived their monthly director's fees commencing on 1st February, 2002 and pursuant to a supplementary agreement, Mr. Tam Wai Keung, Billy had further reduced his monthly basic salary by HK\$33,000 commencing on 1st January, 2002.

On 23rd December, 2002, the aforesaid service agreements were renewed for another two years ending on 31st December, 2004 on substantially the same terms except: (i) they will no longer be entitled to any director's fee and (ii) the renewed service agreements can be terminated by either party prior to the expiry of the term by 6 months' written notice.

Save as disclosed above, none of the directors of the Company, including those being proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

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 of Hong Kong Limited (the "Stock Exchange") pursuant to rules 5.40 to 5.49 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules") were as follows:

Name of directors	Personal interests	Family interests	Corporate interests	Other interests (Note 1)	Total
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, or had been granted, or exercised, any rights to subscribe for securities of the Company or its associated corporations as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS

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 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. The total number of shares which may be issued upon exercise of all options to be granted under the New 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.

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 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.

REPORT OF THE DIRECTORS

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 its 56 then full-time employees, and the remaining 50% of such shares to 14 then full-time employees of PCCW 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 some 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 of the Group 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.

REPORT OF THE DIRECTORS

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 <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 31st December, 2002.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

During the year, the Group has entered into certain continuing connected transactions (the "Continuing Connected Transactions") as defined under the GEM Listing Rules, details of the transactions are set out below:

	<i>HK\$</i>
Operating lease rental for buildings and related charges paid or payable to: – Beijing Jing Wei House & Land Estate Development Co. Ltd., an indirect wholly-owned subsidiary of PCCW, a substantial shareholder of the Company <i>(Note 1)</i>	3,603,000
Service income received or receivable from: – Associates of PCCW <i>(Note 1)</i>	3,501,000
Operating lease rental for Internet connectivity bandwidth paid or payable to: – Reach Services Hong Kong Limited ("Reach"), a jointly-controlled entity of PCCW <i>(Note 2)</i>	2,940,000
Operating lease rental for leased lines paid or payable to: – PCCW-HKT Limited, an indirect wholly-owned subsidiary of PCCW <i>(Note 3)</i>	5,518,000

Notes:

1. The Group had been granted a waiver (the "Waiver") by the Stock Exchange upon its listing from the strict compliance of the disclosure requirements set out in the GEM Listing Rules for the above for the period up to 31st December, 2003. Details of these had been set out in the Company's prospectus dated 28th February, 2001.
2. The provision of Internet connectivity bandwidth services was approved and ratified by the shareholders of the Company at the extraordinary general meeting held on 13th September, 2002. Details of which had been set out in the Company's circular dated 23rd August, 2002 (the "Circular"). Such services were terminated upon expiry of the then approved contract on 21st October, 2002.
3. The provision of leased line services for the three years ending 31st December, 2004 had been approved by the shareholders of the Company at the extraordinary general meeting held on 13th September, 2002. Details of which had been set out in the Circular.

REPORT OF THE DIRECTORS

Pursuant to the Waiver and Rule 20.27, the Continuing Connected Transactions for the year have been reviewed by the independent non-executive directors of the Company. In their opinion, these transactions entered into by the Group were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties;
- (c) in accordance with the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) the Group shall continue with the agreements for the Continuing Connected Transactions.

As the relevant cap amounts for the above Continuing Connected Transactions approved by the Stock Exchange and the shareholders are larger than the higher of HK\$10 million or 3% of the net tangible assets of the Group for the year, the Continuing Connected Transactions, except for the provision of Internet connectivity bandwidth services by Reach which has been terminated, and the cap amounts will be considered and, if thought fit, re-approved by the independent shareholders of the Company in the forthcoming annual general meeting.

Save as disclosed therein, there were no other discloseable connected transactions in accordance with the requirements of the GEM Listing Rules and there was no other contracts of significance in relation to the Group's business to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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.

REPORT OF THE DIRECTORS

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 Hong Kong Society of Accountants.

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 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 appointed 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

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.

REPORT OF THE DIRECTORS

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 has purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Arthur Andersen & Co in July 2002), who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

TAM Wai Keung, Billy

Director and Chief Executive Officer

Hong Kong, 13th March, 2003

AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
羅兵咸永道會計師事務所
22nd Floor Prince's Building
Central Hong Kong
香港中環太子大廈二十二樓

AUDITORS' REPORT TO THE SHAREHOLDERS OF iLINK HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 38 to 73 of iLink Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

AUDITORS' REPORT

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the Group's loss and cash flows for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PRICEWATERHOUSECOOPERS

Certified Public Accountants

Hong Kong, 13th March, 2003

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2002

	Note(s)	Continuing Operation		Discontinuing Operation (Data Centre at Beijing)		The Group	
		2002	2001	2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3, 5 & 13	52,975	78,898	1,761	3,003	54,736	81,901
Cost of revenues	13	(45,275)	(58,481)	(3,658)	(4,872)	(48,933)	(63,353)
Gross profit/(loss)		7,700	20,417	(1,897)	(1,869)	5,803	18,548
Selling and marketing expenses	13	(6,542)	(10,194)	(102)	(258)	(6,644)	(10,452)
General and administrative expenses	13	(38,729)	(41,041)	(3,294)	(9,547)	(42,023)	(50,588)
Other expenses, net	4	(274)	(823)	(3,116)	–	(3,390)	(823)
Impairment losses in fixed assets	3, 4 & 15	(35,800)	–	(25,802)	–	(61,602)	–
Operating loss	6	(73,645)	(31,641)	(34,211)	(11,674)	(107,856)	(43,315)
Interest income	5	3,259	8,345	13	69	3,272	8,414
Loss before taxation		(70,386)	(23,296)	(34,198)	(11,605)	(104,584)	(34,901)
Taxation	9	–	–	–	–	–	–
Loss after taxation		(70,386)	(23,296)	(34,198)	(11,605)	(104,584)	(34,901)
Minority interests		364	–	–	–	364	–
Net loss attributable to shareholders	3, 10 & 21	(70,022)	(23,296)	(34,198)	(11,605)	(104,220)	(34,901)
Dividend	12					–	–
Loss per share – Basic	11					(2.0 cents)	(0.7 cents)
Loss per share – Diluted	11					N/A	N/A

BALANCE SHEETS

AS AT 31ST DECEMBER, 2002

		The Group		The Company	
	Note(s)	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS					
Intangible assets, net	14	1,503	–	–	–
Fixed assets, net	15	20,600	91,966	–	–
Investments in subsidiaries, net	16	–	–	223,366	352,092
Prepayment		–	5,600	–	–
Total non-current assets		<u>22,103</u>	<u>97,566</u>	<u>223,366</u>	<u>352,092</u>
CURRENT ASSETS					
Cash and bank deposits		195,470	216,829	–	–
Accounts receivable, net	13 & 17	2,506	15,007	–	–
Amount due from a director		–	135	–	–
Other investment	18	3,900	3,900	–	–
Prepayments, deposits and other current assets	13	8,361	10,599	–	–
Total current assets		<u>210,237</u>	<u>246,470</u>	<u>–</u>	<u>–</u>
CURRENT LIABILITIES					
Accounts payable	13 & 19	(1,345)	(8,461)	–	–
Accruals and other payables	13	(9,045)	(10,156)	(1,412)	–
Amounts due to directors	13	(100)	(100)	(100)	–
Total current liabilities		<u>(10,490)</u>	<u>(18,717)</u>	<u>(1,512)</u>	<u>–</u>
Net current assets/(liabilities)		<u>199,747</u>	<u>227,753</u>	<u>(1,512)</u>	<u>–</u>
Total assets less current liabilities		<u>221,850</u>	<u>325,319</u>	<u>221,854</u>	<u>352,092</u>
Financed by:					
Share capital	20	105,347	105,347	105,347	105,347
Reserves	21	115,764	219,972	116,507	246,745
Shareholders' funds		<u>221,111</u>	<u>325,319</u>	<u>221,854</u>	<u>352,092</u>
Minority interests		739	–	–	–
		<u>221,850</u>	<u>325,319</u>	<u>221,854</u>	<u>352,092</u>

CHUNG Cho Yee, Mico
Chairman

TAM Wai Keung, Billy
Director and Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2002

	<i>Note(s)</i>	2002 HK\$'000	2001 HK\$'000
Total equity as at 1st January		325,319	236,667
Exchange differences arising on translation of the financial statements of foreign subsidiaries		12	50
Issue of ordinary shares	20(c)	–	140,800
Share issue expenses	20(c)	–	(17,297)
Net loss for the year		(104,220)	(34,901)
Total equity as at 31st December		<u>221,111</u>	<u>325,319</u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2002

	<i>Note</i>	2002 HK\$'000	2001 HK\$'000 (Note 26)
OPERATING ACTIVITIES			
Net cash outflow from operating activities	25	<u>(18,051)</u>	<u>(44,485)</u>
INVESTING ACTIVITIES			
Interest received		3,272	8,414
Purchase of fixed assets		(7,243)	(27,077)
Sale of fixed assets		1,391	35
Purchase of intangible assets		(745)	–
Increase in other investment		–	(3,900)
		<u>–</u>	<u>(3,900)</u>
Net cash outflow from investing activities		<u>(3,325)</u>	<u>(22,528)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(21,376)</u>	<u>(67,013)</u>
FINANCING ACTIVITIES			
Issue of ordinary shares		–	140,800
Share issue expenses		–	(17,297)
Interest element of finance lease payments		–	(13)
Capital element of finance lease payments		–	(271)
Investments from minority shareholders in subsidiaries		5	–
		<u>5</u>	<u>–</u>
Net cash inflow from financing		<u>5</u>	<u>123,219</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(21,371)	56,206
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		216,829	160,573
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>12</u>	<u>50</u>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		<u><u>195,470</u></u>	<u><u>216,829</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PRINCIPAL ACTIVITIES

iLink Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 10th August, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. On 10th August, 2000, it acquired the entire issued share capital of NetFort Offshore Limited through a share exchange (the “Reorganisation”) and consequently became the holding company of NetFort Offshore Limited and its subsidiaries (together with the Company, collectively referred to as the “Group”).

The Reorganisation has been accounted for as a reorganisation of the Group as a continuing entity and, accordingly, the financial statements have been prepared and presented using the merger basis of accounting as if the current group structure had been in existence since its commencement of operations.

The Company’s ordinary shares have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited since 9th March, 2001 (the “Listing”).

The Group is principally engaged in the provision of Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software. The Group discontinued its data centre operation in The People’s Republic of China (the “PRC”) during the year.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAPs”) 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. They have been prepared under the historical cost convention except that, as disclosed in the accounting policy below, other investment is stated at fair value.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(a) Basis of preparation *(Cont'd)*

In the current year, the Group adopted the following SSAPs issued by the HKSA 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 33	Discontinuing operations
SSAP 34 (revised)	Employee benefits

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 5 years.

(ii) Patents and trademarks

Expenditures on acquired patents and trademarks are capitalised and amortised using the straight-line method over their estimated useful lives of 5 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of intangible asset is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

(i) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, beyond its originally assessed standard performance, the expenditure is capitalised as an additional cost of the fixed asset.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Fixed assets (Cont'd)

(i) Fixed assets and depreciation (Cont'd)

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Data centres and related equipment	
– Leasehold improvements	7% to 10% (over lease terms)
– Computer and other equipment	20%
Office leasehold improvements	7% to 10% (over lease terms)
Furniture, fixtures and office equipment	20%
Computer equipment	20%
Motor vehicle	20%

The useful lives of assets and depreciation method are reviewed periodically.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(ii) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing companies are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing companies are charged to the income statement on a straight-line basis over the lease periods.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(f) Other investment

Other investment is carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investment is recognised in the income statement. Gain or loss on disposal of other investment, representing the difference between the net sales proceed and the carrying amount, is recognised in the income statement as it arises.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(j) Employee benefits *(Cont'd)*

(ii) Bonus plans

Provision for bonus plans due wholly within twelve months after balance sheet date is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group operates a number of defined contribution plans in Hong Kong and the PRC, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(k) Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes at rates of the respective jurisdictions.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(m) Contingent liabilities and contingent assets *(Cont'd)*

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Revenue recognition

Service income from the provision of Internet connectivity, server hosting and co-location services, and other value-added services is recognised as the services are rendered.

Revenue from the sale of equipment and software is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the respective income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(o) Translation of foreign currencies *(Cont'd)*

In prior years, the income statements of foreign enterprises were translated at closing rate. This is a change in accounting policy; however, the translation of the income statements of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format since the Group has only one business segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to intangible assets and fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION

The Group's principal activities are conducted mainly in Hong Kong and in 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 which is 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 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover						
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>
Result						
Segment results	<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>
Assets						
Segment assets	<u>222,817</u>	<u>276,532</u>	<u>9,523</u>	<u>67,504</u>	<u>232,340</u>	<u>344,036</u>
Liabilities						
Segment liabilities	<u>7,428</u>	<u>11,251</u>	<u>1,550</u>	<u>7,466</u>	<u>8,978</u>	<u>18,717</u>
Unallocated corporate liabilities					<u>1,512</u>	<u>-</u>
Consolidated total liabilities					<u>10,490</u>	<u>18,717</u>
Other information						
Capital expenditures	<u>5,790</u>	<u>12,890</u>	<u>2,198</u>	<u>14,187</u>	<u>7,988</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>
Impairment losses in intangible assets in the income statement	<u>-</u>	<u>-</u>	<u>226</u>	<u>-</u>	<u>226</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION *(Cont'd)*

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.

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 in the consolidated income statement, whereas the cash flows and net assets were as follows:

	For the year ended	
	31st December, 2002 HK\$'000	31st December, 2001 HK\$'000
Net operating cash outflow	(7,823)	(6,461)
Net investing cash inflow/(outflow)	354	(9,215)
Net financing cash inflow	–	23,397
	<hr/>	<hr/>
Total net cash (outflow)/inflow	<u>(7,469)</u>	<u>7,721</u>
	At	At
	31st December, 2002 HK\$'000	31st December, 2001 HK\$'000
Fixed assets	–	29,664
Current assets	450	12,071
	<hr/>	<hr/>
Total assets	450	41,735
Total liabilities	(785)	(6,720)
	<hr/>	<hr/>
Net (liabilities)/assets	<u>(335)</u>	<u>35,015</u>

Part of the fixed assets with net book value of approximately HK\$4,241,000 were sold or transferred to a fellow subsidiary for approximately HK\$1,468,000, resulting in a loss on disposal of approximately HK\$2,773,000.

NOTES TO THE FINANCIAL STATEMENTS

4. DISCONTINUING OPERATION *(Cont'd)*

As a result of the corporate restructuring, impairment losses 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. 北京合縱連橫科技有限公司, an indirect wholly-owned subsidiary of the Group which was principally engaged in the Beijing data centre operation, was in the process of winding up as at 31st December, 2002.

5. TURNOVER AND REVENUES

Turnover and revenues comprise:

	2002 HK\$'000	2001 HK\$'000
Internet connectivity, server hosting and co-location services	44,182	50,195
Other value-added services	6,389	21,316
Sales of equipment and software	4,165	10,390
	<hr/>	<hr/>
Total turnover	54,736	81,901
Interest income	3,272	8,414
	<hr/>	<hr/>
Total revenues	58,008	90,315
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING LOSS

Operating loss is stated after charging and crediting the following:

	2002	2001
	HK\$'000	HK\$'000
Charging:		
Staff costs (including directors' emoluments):		
– Wages and salaries	23,455	25,861
– Unutilised annual leave	777	–
– Pension costs – defined contribution plans (<i>Note 8</i>)	1,901	1,912
Operating lease:		
– Buildings and racks	14,167	16,377
– Internet connectivity bandwidth and leased lines	16,837	22,807
Depreciation (<i>Note 15</i>):		
– Owned fixed assets	12,780	11,773
– Leased fixed assets	–	59
Impairment losses in fixed assets (<i>Note 15</i>):		
– Continuing operation	35,800	–
– Discontinuing operation (<i>Note 4</i>)	25,802	–
Amortisation of intangible assets (included in general and administrative expenses) (<i>Note 14</i>):		
– Goodwill	105	–
– Patents and trademarks	9	–
Impairment losses in intangible assets (included in other expenses) (<i>Note 14</i>):		
– Patents and trademarks	226	–
Provision for doubtful debts	3,181	9,014
Interest expense on a finance lease	–	13
Loss on disposal of fixed assets, net	2,836	823
Net exchange losses	–	106
Auditors' remuneration	502	500
	<u>502</u>	<u>500</u>
Crediting:		
Net exchange gains	38	–
	<u>38</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments (including the provision for unutilised annual leaves first made in 2002) paid or payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees*	175	1,000
Other emoluments		
– Basic salaries and allowances	5,478	7,520
– Pension scheme contributions	515	776
	<u>6,168</u>	<u>9,296</u>

* Other than HK\$50,000 each payable to two independent non-executive directors, all fees were paid to executive directors.

The individual emoluments for the five (2001: six) paid executive directors for the year ended 31st December, 2002 were approximately HK\$2,261,000 (2001: HK\$2,644,000), HK\$1,019,000 (2001: HK\$1,113,000), HK\$943,000 (2001: HK\$1,032,000), HK\$929,000 (2001: HK\$1,032,000), HK\$917,000 (2001: HK\$1,032,000), HK\$ Nil (2001: HK\$2,343,000) and no emoluments were paid to the remaining directors, other than the independent non-executive directors for the years ended 31st December, 2002 and 2001.

- (b) All executive directors have agreed to waive their director's fee commencing on 1st February, 2002.

An executive director has also entered into a supplementary agreement to reduce his monthly basic salary by HK\$33,000 from the amount stated in his service contract, commencing on 1st January, 2002.

On 23rd December, 2002, the service contracts with the executive directors were renewed for another two years ending on 31st December, 2004 on substantially the same terms, except that the executive directors will no longer be entitled to any director's fee.

NOTES TO THE FINANCIAL STATEMENTS

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Cont'd)*

- (c) The five (2001: seven) individuals whose emoluments were the highest in the Group for the year include four (2001: six) directors whose emoluments are reflected in the analysis presented above. The emoluments (including the provision for unutilised annual leaves first made in 2002) payable to the remaining one (2001: one) individual during the year are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries and other allowances	1,068	987
Pension scheme contributions	83	67
	<u>1,151</u>	<u>1,054</u>

The emolument fell within the following band:

	Number of individual	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS

8. PENSION SCHEME

The Group operates a defined contribution pension scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. The pension cost charged to the income statement represents contributions payable by the Group at 8% to 12% on the employees' salaries. Where employees leave the scheme prior to the full vesting of their contributions, the amount of forfeited contributions is used to reduce the future contributions payable by the Group. The pension scheme contributions for the year ended 31st December, 2002 were approximately HK\$1,783,000 (2001: HK\$1,825,000). The forfeited contributions for the year ended 31st December, 2002 were approximately HK\$343,000 (2001: HK\$94,000).

The Group has participated in the defined contribution Mandatory Provident Fund (the "MPF") in Hong Kong since 1st December, 2000, in which employees in Hong Kong joined subsequent to this date are entitled to join this scheme. Under this scheme, the Group makes monthly contributions to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK\$12,000 per annum per person. During the year, the Group's contributions to the MPF were approximately HK\$27,000 (2001: HK\$32,000). The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

As stipulated by the rules and regulations in the PRC, the subsidiaries in Beijing ("the Beijing Subsidiaries"), are required to contribute to a state-sponsored retirement plan for their PRC employees at 19% of their basic salary. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Beijing Subsidiaries have no further obligations for the actual pension payments or other post-retirement benefit beyond the annual contributions. For the year ended 31st December, 2002, the Beijing Subsidiaries' retirement plan contributions were approximately RMB97,000 (HK\$91,000) (2001: RMB59,000 (HK\$55,000)).

9. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

9. TAXATION *(Cont'd)*

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

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$130,238,000 (2001: HK\$640,000).

11. 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 ordinary shares (2001: weighted average of approximately 4,931,705,000 ordinary shares which have been adjusted for the capitalisation issue and the subdivision of ordinary shares as set out in note 20(d) and note 20(f) respectively) 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.

12. DIVIDEND

The directors do not propose any dividend in respect of the year ended 31st December, 2002 (2001: Nil).

13. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

NOTES TO THE FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS (Cont'd)

- (a) During the year, the Group had the following significant transactions with related parties:

	2002 HK\$'000	2001 HK\$'000
Advertising fees paid or payable to:		
– A former associated company of DotCom Pacific Ventures Limited (“DotCom Pacific”), a former substantial shareholder of the Company	–	421
Operating lease rental for Internet connectivity bandwidth and leased lines paid or payable to:		
– Subsidiaries of PCCW Limited (formerly known as Pacific Century CyberWorks Limited) (“PCCW”), a substantial shareholder of the Company	5,518	6,854
– A jointly-controlled entity of PCCW	2,940	4,301
Telephone charges paid or payable to:		
– A former associated company of PCCW	14	155
Operating lease rental for buildings and related charges paid or payable to:		
– Beijing Jing Wei House & Land Estate Development Co. Ltd. (“Jing Wei House”), a subsidiary of PCCW (see Note (c) below)	3,603	6,141
– DotCom Pacific (see Note (d) below)	–	1,532
Service fee paid or payable to:		
– A subsidiary of DotCom Pacific	–	193
Insurance premium paid or payable to:		
– A fellow subsidiary of PCCW	240	325
Service income received or receivable from:		
– Subsidiaries of PCCW	3,469	20,526
– Associated companies of PCCW	607	1,824
– A former associated company of PCCW	453	–
– A subsidiary of DotCom Pacific	–	301
– An associated company of DotCom Pacific	–	33
– A former associated company of DotCom Pacific	–	246
– A company wholly-owned by a former non-executive director of the Company	–	88

The above transactions were carried out after negotiations 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.

NOTES TO THE FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS (Cont'd)

- (b) As at 31st December, 2002, the Group had the following significant current balances with related companies:

	2002 HK\$'000	2001 HK'000
Included in:		
Accounts receivable, net	19	4,263
Prepayment, deposits and other current assets	20	1,825
Accounts payable	416	292
Accruals and other payables	8	185

The Group's current balances with related companies are unsecured, non-interest bearing and repayable according to the trading terms between the Group and the related companies.

- (c) Pursuant to a leasing agreement entered into between Jing Wei House, and iLink.net (Beijing) Limited, an indirect wholly-owned subsidiary of the Company, dated 1st January, 2001, Jing Wei House leased to iLink.net (Beijing) Limited premises (with net floor area of approximately 2,617 square meters) for a monthly rental of US\$25 per square meter, exclusive of management fee and air-conditioning charges of US\$20 per square meter per month. The tenancy was for a term of five years commencing on 1st January, 2001 and with three options to renew the lease of three years each. Commencing on 1st October, 2002, the monthly rental together with management fee and air-conditioning charges have been reduced.
- (d) Pursuant to a sub-lease agreement entered into between DotCom Pacific and iLink.net Limited, an indirect wholly-owned subsidiary of the Company, dated 19th February, 2001, DotCom Pacific sub-leased to iLink.net Limited premises (with net floor area of approximately 6,200 square feet). The sub-lease commenced on 1st January, 2001 and was terminated on 13th September, 2001. On the same day, a deed of novation was signed by DotCom Pacific, iLink.net Limited and the landlord of the premises which effectively transferred the rights and obligations of DotCom Pacific under the original lease agreement with the landlord of the premises to iLink.net Limited.
- (e) Pursuant to a deed of settlement dated 9th August, 2000, certain directors and employees of the Group were named as beneficiaries of a discretionary trust and the independent trustee may at its discretion sell and transfer the ordinary shares of the Company to the beneficiaries at prices to be determined by the trustee. As at 31st December, 2002, no shares had been sold by the trust to the beneficiaries (2001: same). As at 31st December, 2002, this trust held approximately 7.6% (2001: 7.6%) of the issued share capital of the Company.
- (f) During the year ended 31st December, 2001, PCCW and the Company entered into an agreement providing for cross referral of customers, with effect from the Listing, subject to prospective customers' requirements and final decisions.

NOTES TO THE FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS *(Cont'd)*

The cooperation arrangements apply to all the data centre businesses of PCCW over which it has absolute control by the fact that it or its subsidiaries holding 35% or more of the share capital of the companies owning the relevant data centre businesses and it or its subsidiaries being the single largest shareholder of such companies. The cooperation arrangement, however, will be terminated if PCCW or its subsidiaries (i) cease to hold 35% or more of the share capital of the companies owning the relevant data centre businesses or (ii) cease to be the single largest shareholder of companies owning such data centre businesses or (iii) cease to hold 35% or more of the issued share capital of the Company.

- (g) Amounts due to directors

The outstanding balances with directors represent fees payable to the two independent non-executive directors. These balances are unsecured, non-interest bearing and payable on demand.

14. INTANGIBLE ASSETS, NET

	The Group		
	Goodwill	Patents and trademarks	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost	1,098	745	1,843
Amortisation charge for the year	(105)	(9)	(114)
Impairment charge for the year	–	(226)	(226)
Net book value as at 31st December, 2002	<u>993</u>	<u>510</u>	<u>1,503</u>
Net book value as at 31st December, 2001	<u>–</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

15. FIXED ASSETS, NET

Movements in fixed assets of the Group are as follows:

	2002						2001		
	Data centres and related equipment		Office leasehold improve- ments	Furniture, fixtures and office equipment		Computer equipment	Motor vehicle	Total	Total
	Leasehold improvements	Computer and other equipment		Computer equipment	Motor vehicle				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost									
At 1st January	64,222	35,292	3,303	1,913	4,919	296	109,945	83,980	
Additions	43	4,154	175	489	2,382	-	7,243	27,077	
Disposals	(34)	(4,477)	-	(7)	(110)	-	(4,628)	(1,112)	
At 31st December	64,231	34,969	3,478	2,395	7,191	296	112,560	109,945	
Accumulated depreciation and impairment									
At 1st January	6,848	8,809	633	597	1,003	89	17,979	6,401	
Charge for the year	4,541	6,225	386	399	1,170	59	12,780	11,832	
Impairment charge	41,767	14,100	1,502	929	3,209	95	61,602	-	
Disposals	(9)	(370)	-	(2)	(20)	-	(401)	(254)	
At 31st December	53,147	28,764	2,521	1,923	5,362	243	91,960	17,979	
Net book value									
At 31st December	<u>11,084</u>	<u>6,205</u>	<u>957</u>	<u>472</u>	<u>1,829</u>	<u>53</u>	<u>20,600</u>	<u>91,966</u>	
At 1st January	<u>57,374</u>	<u>26,483</u>	<u>2,670</u>	<u>1,316</u>	<u>3,916</u>	<u>207</u>	<u>91,966</u>	<u>77,579</u>	

NOTES TO THE FINANCIAL STATEMENTS

15. FIXED ASSETS, NET (Cont'd)

In addition to the impairment losses of approximately HK\$25,802,000 made for the fixed assets of the Beijing data centre as mentioned in note 4, management's revised forecast showed that the economic performance of the Group's data centre operation in Hong Kong is 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 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 recognised an impairment loss of approximately HK\$35,800,000 to write down the fixed assets for the data centre operation in Hong Kong to their estimated recoverable value of approximately HK\$20,313,000.

16. INVESTMENTS IN SUBSIDIARIES, NET

In the Company's balance sheet, investments in subsidiaries comprise:

	2002	2001
	HK\$'000	HK\$'000
Unlisted share, at cost	46,887	46,887
Amounts due from subsidiaries	304,190	305,205
	351,077	352,092
Less: Impairment losses	(127,711)	–
	<u>223,366</u>	<u>352,092</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and without fixed repayment terms.

The directors of the Company are of the opinion that after the impairment losses, the underlying value of the subsidiaries is not less than their carrying value as at 31st December, 2002.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES, NET *(Cont'd)*

The following is a list of the significant subsidiaries at 31st December, 2002:

Name	Place and date of incorporation/ registration, and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Directly held:</i>				
NetFort Offshore Limited	The British Virgin Islands (the "BVI"), 24th August, 1999, limited liability company	US\$ 100,000	100%	Investment holding
All Cyber Holdings Inc.	The BVI, 2nd February, 2000, limited liability company	US\$ 1	100%	Investment holding
<i>Indirectly held:</i>				
Asia Guide International Limited ("Asia Guide")	The BVI, 10th June, 2002, limited liability company	US\$ 1,000	70%	Investment holding
Cyber Space Innovations Limited	The BVI, 14th April, 2000, limited liability company	US\$ 1	100%	Investment holding
Honor Spirit Investment Limited ("Honor Spirit")	The BVI, 15th April, 2002, limited liability company	US\$ 1,000	80%	Investment holding
iLink Business Solutions Limited (formerly known as Logain Limited)	Hong Kong, 13th May, 2002, limited liability company	HK\$ 2	100%	Provision of IT business solutions and consultation services in Hong Kong
iLink IP Limited	Isle of Man, 12th July, 2002, limited liability company	GBP 1	100%	Investment holding
iLink Network Games Holdings Limited	The BVI, 8th May, 2002, limited liability company	US\$ 1	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES, NET *(Cont'd)*

Name	Place and date of incorporation/ registration, and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
iLink.net Limited (formerly known as Verona Limited)	Hong Kong, 11th August, 1999, limited liability company	HK\$ 2	100%	Provision of Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software in Hong Kong
iLink.net (Beijing) Limited (formerly known as Cyber Starlight Limited)	The BVI, 28th June, 2000, limited liability company	US\$ 1	100%	Investment holding
iLink.net (China) Limited (formerly known as Wealthy Millennium Limited)	The BVI, 20th April, 2000, limited liability company	US\$ 1	100%	Investment holding
iLink.net Intellectual Property Limited	Isle of Man, 4th April, 2001, limited liability company	GBP 1	100%	Investment holding
iLink.net (Shanghai) Holdings Limited (formerly known as Phonic Spirit Inc.)	The BVI, 12th January, 2000, limited liability company	US\$ 1	100%	Investment holding
北京合縱連橫科技有限公司	The PRC, 6th April, 2001, wholly foreign-owned enterprise	US\$ 5,000,000 (US\$ 2,999,981 contributed)	100%	Provision of Internet connectivity, server hosting and co-location services and other value-added services in Beijing, and was in the process of winding up as at 31st December, 2002 <i>(Note 4)</i>

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES, NET (Cont'd)

Name	Place and date of incorporation/ registration, and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
北京合縱連訊網絡技術有限公司	The PRC, 18th June, 2002, wholly foreign-owned enterprise	US\$ 150,000	100%	Provision of online storage and secure mailing system services in Beijing
北京數碼仙境娛樂科技有限公司	The PRC, 2nd August, 2002, wholly foreign-owned enterprise	US\$ 250,000 (US\$ 150,000 contributed)	80%	Development, distribution and operation of network games in Beijing
北京樂樂在綫娛樂軟件有限公司	The PRC, 29th September, 2002, wholly foreign-owned enterprise	US\$ 290,000 (US\$ 145,000 contributed)	70%	Development, distribution and operation of network games in Beijing

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2002.

Pursuant to the shareholders agreements of Honor Spirit and Asia Guide, if performance of the underlying subsidiaries exceeded the pre-agreed budgeted results for any financial years ending on or before 31st December, 2005 and 2006 respectively, the PRC management of these companies, who are also the minority shareholders, shall be entitled to exercise an option to acquire shares from iLink Network Games Holdings Limited, the majority shareholder of both companies and an indirect wholly-owned subsidiary of the Group. The total number of shares in respect of the option may be exercised in aggregate shall not exceed:

- 25% of the total number of issued shares of Honor Spirit from time to time on or before 31st December, 2005;
- 15% of the total number of issued shares of Asia Guide from time to time on or before 31st December, 2006.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES, NET *(Cont'd)*

Subject to the terms above, the number of shares in respect of which the option may be exercised for any financial year shall be up to the number of the respective shares as representing:

- 10% of the total number of the issued shares of Honor Spirit at the time of exercise of the option for that financial year.
- 5% of the total number of the issued shares of Asia Guide at the time of exercise of the option for that financial year.

As at 31st December, 2002, no options had been exercised for Honor Spirit and Asia Guide.

17. ACCOUNTS RECEIVABLE, NET

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 to 30 days	1,676	5,656
31 to 60 days	506	2,432
61 to 90 days	130	2,245
Over 90 days	4,031	14,013
	6,343	24,346
<i>Less: Provision for doubtful debts</i>	(3,837)	(9,339)
	2,506	15,007

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

18. OTHER INVESTMENT

The other investment of the Group comprises the following:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted investment at market value	3,900	3,900

NOTES TO THE FINANCIAL STATEMENTS

19. ACCOUNTS PAYABLE

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

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	718	6,354
31 to 60 days	165	338
61 to 90 days	64	154
over 90 days	398	1,615
	<u>1,345</u>	<u>8,461</u>

20. SHARE CAPITAL

	Number of shares		Amount		
	Ordinary shares of HK\$0.1 each and subdivided into HK\$0.02 each in 2001 (f)	Series A preferred shares of HK\$0.1 each	Ordinary shares HK\$	Series A preferred shares HK\$	Total HK\$
Authorised:					
As at 1st January, 2001	40,000,000	53,330	4,000,000	5,333	4,005,333
Increase in authorised ordinary shares (b)	3,960,000,000	-	396,000,000	-	396,000,000
Cancellation of authorised Series A preferred shares (b)	-	(53,330)	-	(5,333)	(5,333)
Subdivision of ordinary shares (f)	16,000,000,000	-	-	-	-
As at 31st December, 2001 and 2002	<u>20,000,000,000</u>	<u>-</u>	<u>400,000,000</u>	<u>-</u>	<u>400,000,000</u>
Issued and fully paid:					
As at 1st January, 2001	835,540	53,330	83,554	5,333	88,887
Conversion of Series A preferred shares (a)	53,330	(53,330)	5,333	(5,333)	-
Issuance of ordinary shares for the Listing (c)	110,000,000	-	11,000,000	-	11,000,000
Capitalisation Issue (d)	711,096,000	-	71,109,600	-	71,109,600
Issuance of ordinary shares (d)	17,623,052	-	1,762,305	-	1,762,305
Conversion of convertible notes (e)	213,867,000	-	21,386,700	-	21,386,700
Subdivision of ordinary shares (f)	4,213,899,688	-	-	-	-
As at 31st December, 2001 and 2002	<u>5,267,374,610</u>	<u>-</u>	<u>105,347,492</u>	<u>-</u>	<u>105,347,492</u>

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL *(Cont'd)*

- (a) On 15th August, 2000, 53,330 Series A preferred shares of the Company were issued to an institutional investor at US\$150 per share, resulting in the receipt of net proceeds of approximately US\$8.0 million. The Series A preferred shares were converted into 53,330 ordinary shares of HK\$0.1 each of the Company on 19th February 2001.
- (b) On 22nd February, 2001, the authorised share capital of the Company was increased from HK\$4,005,333 to HK\$400,000,000 by the creation of an additional 3,960,000,000 ordinary shares of HK\$0.1 each, ranking pari passu with the then existing ordinary shares, and the cancellation of the 53,330 Series A preferred shares.
- (c) On 7th March, 2001, 110,000,000 ordinary shares of HK\$0.1 each were issued for the Listing, resulting in the receipt of net proceeds of approximately HK\$123,503,000, after deducting share issuance expenses of approximately HK\$17,297,000 from the gross proceeds of HK\$140,800,000.
- (d) On 7th March, 2001, upon the share premium account of the Company being credited pursuant to the Listing:
 - (i) the sum of HK\$71,110,000 being part of the amount then standing to the credit of the share premium account of the Company, was capitalised by issuing 711,096,000 ordinary shares of HK\$0.1 each, credited as fully paid at par, to the then shareholders of the Company immediately before the Listing (the "Capitalisation Issue"); and
 - (ii) 17,623,052 additional ordinary shares of HK\$0.1 each were issued to two institutional investors at no further consideration on exercise of the downside price protection provisions contained in their respective share subscription agreements.
- (e) On 8th March, 2001, an existing shareholder fully converted the convertible notes which then remained outstanding in the amount of HK\$12,519,000 into 213,867,000 ordinary shares of HK\$0.1 each (after the Capitalisation Issue) of the Company.
- (f) On 17th August, 2001, the Company subdivided its ordinary shares of HK\$0.10 each into five ordinary shares of HK\$0.02 each and consequently the number of authorised ordinary shares have been increased to 20,000,000,000 shares.

NOTES TO THE FINANCIAL STATEMENTS

21. RESERVES

Movements in reserves of the Group and the Company are as follows:

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
The Group					
At 1st January, 2001	212,712	43,782	–	(32,435)	224,059
Issuance of ordinary shares (see Note 20(c))	112,504	–	–	–	112,504
Capitalisation Issue (see Note 20(d)(i))	(71,110)	–	–	–	(71,110)
Issuance of ordinary shares (see Note 20(d)(ii))	(1,762)	–	–	–	(1,762)
Conversion of convertible notes (see Note 20(e))	(8,868)	–	–	–	(8,868)
Exchange translation differences	–	–	50	–	50
Loss for the year	–	–	–	(34,901)	(34,901)
At 1st January, 2002	243,476	43,782	50	(67,336)	219,972
Exchange translation differences	–	–	12	–	12
Loss for the year	–	–	–	(104,220)	(104,220)
At 31st December, 2002	243,476	43,782	62	(171,556)	115,764
The Company					
At 1st January, 2001	216,621	–	–	–	216,621
Issuance of ordinary shares (see Note 20(c))	112,504	–	–	–	112,504
Capitalisation Issue (see Note 20(d)(i))	(71,110)	–	–	–	(71,110)
Issuance of ordinary shares (see Note 20(d)(ii))	(1,762)	–	–	–	(1,762)
Conversion of convertible notes (see Note 20(e))	(8,868)	–	–	–	(8,868)
Loss for the year	–	–	–	(640)	(640)
At 1st January, 2002	247,385	–	–	(640)	246,745
Loss for the year	–	–	–	(130,238)	(130,238)
At 31st December, 2002	247,385	–	–	(130,878)	116,507

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\$116,507,000 (2001: HK\$246,745,000), subject to the restriction stated above.

NOTES TO THE FINANCIAL STATEMENTS

22. 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 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. The total number of shares which may be issued upon exercise of all options to be granted under the New 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.

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.

23. COMMITMENTS

The Group has the following significant commitments which were not provided for in the consolidated financial statements:

(a) Capital commitments

The Group has the following capital commitments in respect of acquisitions of assets:

	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	475	4,244
Authorised but not contracted for	—	207
	<u>475</u>	<u>4,451</u>

NOTES TO THE FINANCIAL STATEMENTS

23. COMMITMENTS (Cont'd)

(b) Operating leases commitments

At 31st December, 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings, racks and Internet connectivity bandwidth and leased lines amounting to approximately HK\$29,925,000 (2001: HK\$80,949,000). The amounts payable are analysed as follows:

	2002	2001
	HK\$'000	HK\$'000
Buildings and racks		
– Not later than one year	11,520	15,024
– Later than one year and not later than five years	17,206	34,125
	<u>28,726</u>	<u>49,149</u>
Internet connectivity bandwidth and leased lines		
– Not later than one year	1,199	11,357
– Later than one year and not later than five years	–	20,443
	<u>1,199</u>	<u>31,800</u>
	<u>29,925</u>	<u>80,949</u>

(c) Other commitments

On 1st August, 2001, one of the Beijing subsidiaries (the "Beijing Subsidiary") signed a sales agreement with a third party company ("Party A") in the PRC. According to the sales agreement, the Beijing Subsidiary would provide co-location services to Party A for a period of five years from the date of agreement for a monthly charge of RMB600,010. On the same date, the Beijing Subsidiary also signed a purchase agreement with Party A, pursuant to which Party A would provide bandwidth to the Beijing Subsidiary for a period of five years from the date of agreement for a monthly charge of RMB600,000, which would be reduced by the amount charged back by the Beijing Subsidiary for any bandwidth utilised by Party A in the data centre operated by the Beijing Subsidiary. The operating lease commitment for 2001 in respect of the bandwidth purchase had been included in note 23(b) above. Both agreements were terminated in 2002 after the discontinuation of the Beijing data centre operation.

NOTES TO THE FINANCIAL STATEMENTS

24. CONTINGENT LIABILITY

On 29th May, 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 for the year ended 31st December, 2002.

25. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash outflow from operating activities

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Note 26)</i>
Loss before taxation	(104,584)	(34,901)
Interest income	(3,272)	(8,414)
Interest expense	–	13
Provision for doubtful debts	3,181	9,014
Depreciation	12,780	11,832
Amortisation	114	–
Loss on disposal of fixed assets	2,836	823
Impairment losses in fixed assets	61,602	–
Impairment losses in intangible assets	226	–
Decrease/(Increase) in prepayment	5,600	(5,600)
Decrease/(Increase) in accounts receivable	9,320	(8,495)
Decrease/(Increase) in amount due from a director	135	(135)
Decrease in prepayments, deposits and other current assets	2,238	6,911
Decrease in accounts payable	(7,116)	(5,032)
Decrease in accruals and other payables	(1,111)	(10,601)
Increase in amounts due to directors	–	100
	<hr/>	<hr/>
Net cash outflow from operating activities	(18,051)	(44,485)

NOTES TO THE FINANCIAL STATEMENTS

26. PRIOR YEAR COMPARATIVES

Certain 2001 comparative figures have been reclassified to conform with the current year's presentations and in accordance with the new presentation and disclosure requirements under the new SSAPs as disclosed in note 2.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 13th March, 2003.

FINANCIAL SUMMARY

	2002			For the year ended 31st December, 2001			2000			For the six months ended 31st December, 1999
	Continuing Operation	Discontinuing Operation*	Total	Continuing Operation	Discontinuing Operation*	Total	Continuing Operation	Discontinuing Operation*	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results										
Net loss attributable to shareholders	(70,022)	(34,198)	(104,220)	(23,296)	(11,605)	(34,901)	(28,159)	(521)	(28,680)	(3,755)
Assets and liabilities										
Total assets	231,890	450	232,340	302,301	41,735	344,036	254,647	16,541	271,188	15,830
Total liabilities	(9,705)	(785)	(10,490)	(11,997)	(6,720)	(18,717)	(34,521)	-	(34,521)	(3,991)
Net assets/(liabilities)	<u>222,185</u>	<u>(335)</u>	<u>221,850</u>	<u>290,304</u>	<u>35,015</u>	<u>325,319</u>	<u>220,126</u>	<u>16,541</u>	<u>236,667</u>	<u>11,839</u>

* Data centre operation in Beijing commenced in 2000 was discontinued on 8th May, 2002 (see note 4 to the financial statements).

The net loss attributable to shareholders, total assets and total liabilities of the Group for the year ended 31st December, 2000 and the six months ended 31st December, 1999 have been prepared on the basis of merger accounting as if the current group structure had been in existence since its commencement of operations and throughout the accounting periods presented (see note 1 to the financial statements).

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of iLink Holdings Limited (the “Company”) will be held at Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King’s Road, North Point, Hong Kong on Wednesday, 30th April, 2003 at 11:00 a.m. to transact the following businesses:

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company for the year ended 31st December, 2002;
2. To re-elect retiring directors and to authorise the board of directors to fix their remuneration;
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration;
4. To consider, and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or the exercise of any option under any share option scheme of the Company or similar arrangement or scrip dividend schemes providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by any applicable laws of the Cayman Islands to be held; and
- (iii) the revocation or variation of the authority given to the directors of the Company by this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong);

5. To consider as special business, and, if thought fit, to pass the following resolution as an ordinary resolution:

“**THAT** the provision by the Company and its subsidiaries (the “Group”) of Internet connectivity, server hosting and co-location services, value added services and application service provider services at data centres operated by the Group to PCCW Limited, a substantial shareholder of the Company, and its associates (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) under service contracts entered into (copies of which marked “A” have been produced to this Meeting and signed by the Chairman hereof for the purpose of identification) or to be entered into between these parties be and are hereby approved, ratified and confirmed **AND THAT** any one director of the Company be and is hereby authorised to do all acts and things which the directors of the Company consider necessary and expedient for the implementation of and giving effect to these transactions provided that the aggregate consideration payable thereunder in the financial year ending 31st December, 2003 will not exceed HK\$680,000,000”;

NOTICE OF ANNUAL GENERAL MEETING

6. To consider as special business, and, if thought fit, to pass the following resolution as an ordinary resolution:

“THAT the leasing of certain office premises in Beijing by iLink.net (Beijing) Limited (an indirect wholly owned subsidiary of the Company) from Beijing Jing Wei House and Land Estate Development Co., Ltd. (an indirect wholly-owned subsidiary of PCCW Limited, a substantial shareholder of the Company) under the leasing agreement dated 1st January, 2001 and its supplement (copies of which marked “B” has been produced to this Meeting and signed by the Chairman hereof for the purpose of identification) be and is hereby approved, ratified and confirmed **AND THAT** any one director of the Company be and is hereby authorised to do all acts and things which the directors of the Company consider necessary and expedient for the implementation of and giving effect to the leasing agreement provided that the aggregate consideration payable thereunder in the financial year ending 31st December, 2003 will not exceed HK\$11,600,000”; and

7. To consider as special business, and, if thought fit, to pass the following resolution as an ordinary resolution:

“THAT the provision of the leased line services by PCCW-HKT Limited (an indirect wholly-owned subsidiary of PCCW Limited, a substantial shareholder of the Company) to the Company and its subsidiaries be and is hereby approved, ratified and confirmed **AND THAT** any one director of the Company be and is hereby authorised to do all acts and things which the directors of the Company consider necessary and expedient for the implementation of and giving effect to any contracts for the provision of the leased line services provided that the aggregate consideration payable thereunder in the financial year ending 31st December, 2003 will not exceed HK\$15,200,000.”

By order of the Board

LAM Yuk Lau

Company Secretary

Hong Kong, 31st March, 2003

Notes:

- (1) The register of members of the Company will be closed from Monday, 28th April, 2003 to Tuesday, 29th April, 2003 (both days inclusive) for the purpose of establishing entitlements of shareholders to vote at the Annual General Meeting. During the period, no transfer of shares can be registered. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's head office and principal place of business at 56th Floor, The Center, 99 Queen's Road Central, Hong Kong for registration not less than 48 hours before the time appointed for held by the meeting or any adjournment thereof.

NOTICE OF ANNUAL GENERAL MEETING

- (2) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.

- (3) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the office of the Company's head office and principal place of business at 56th Floor, The Center, 99 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or adjourned meeting should you wish.