



**2003**

**THIRD QUARTERLY REPORT**

**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")**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM-listed issuers.**

## HIGHLIGHTS

- Turnover for the nine months ended 30th September, 2003 amounted to HK\$29,377,000.
- Net loss attributable to shareholders for the nine months ended 30th September, 2003 amounted to HK\$29,274,000 after the impairment losses of HK\$7,300,000 in the fixed assets for its data centre operation in Hong Kong provided for the period.
- The directors do not recommend the payment of a dividend for the nine months ended 30th September, 2003.
- The proposal regarding the proposed privatisation of the Company (the "Proposed Privatisation") by way of a scheme of arrangement (the "Scheme") under Section 86 of the Companies Law (2003 Revision) of the Cayman Islands had been approved by the eligible shareholders at the court meeting and the extraordinary general meeting held respectively on 29th October, 2003. It is expected that the Scheme will become effective on 2nd December, 2003, and the last day of dealing in the Company's shares will be on 26th November, 2003 and the listing of the Company's shares on GEM will be withdrawn on 3rd December, 2003. Details of the Proposed Privatisation and the Scheme are set out in the scheme document dated 6th October, 2003 despatched to the shareholders of the Company.

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30th September, 2003

	For the three months ended 30th September,					
	Continuing Operations		Discontinuing Operation (Data Centre at Beijing)		The Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover (Note 2)	9,439	11,034	-	22	9,439	11,056
Cost of revenues	(6,810)	(10,422)	-	-	(6,810)	(10,422)
Gross profit	2,629	612	-	22	2,629	634
Selling and marketing expenses	(1,176)	(1,499)	-	-	(1,176)	(1,499)
General and administrative expenses	(9,388)	(9,365)	(1)	(20)	(9,389)	(9,385)
Other (expenses)/income, net	(49)	(1)	1	(351)	(48)	(352)
Reversal of impairment losses in fixed assets (Note 3)	-	-	-	617	-	617
(Loss)/profit from operations	(7,984)	(10,253)	-	268	(7,984)	(9,985)
Interest income	454	863	-	1	454	864
(Loss)/profit before taxation	(7,530)	(9,390)	-	269	(7,530)	(9,121)
Taxation (Note 4)	-	-	-	-	-	-
(Loss)/profit after taxation	(7,530)	(9,390)	-	269	(7,530)	(9,121)
Minority interests	41	155	-	-	41	155
Net (loss)/profit attributable to shareholders	(7,489)	(9,235)	-	269	(7,489)	(8,966)
Loss per share						
- Basic (Note 5)					(0.14 cents)	(0.17 cents)
Loss per share						
- Diluted (Note 5)					N/A	N/A

	For the nine months ended 30th September,					
	Continuing Operations		Discontinuing Operation (Data Centre at Beijing)		The Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover (Note 2)	<b>29,377</b>	40,914	-	1,739	<b>29,377</b>	42,653
Cost of revenues	<b>(22,119)</b>	(34,536)	-	(3,658)	<b>(22,119)</b>	(38,194)
Gross profit/(loss)	<b>7,258</b>	6,378	-	(1,919)	<b>7,258</b>	4,459
Selling and marketing expenses	<b>(3,958)</b>	(4,924)	-	(135)	<b>(3,958)</b>	(5,059)
General and administrative expenses	<b>(25,843)</b>	(27,713)	<b>(12)</b>	(2,214)	<b>(25,855)</b>	(29,927)
Other (expenses)/income, net	<b>(1,385)</b>	5	<b>14</b>	(1,997)	<b>(1,371)</b>	(1,992)
Impairment losses in fixed assets (Note 3)	<b>(7,300)</b>	-	-	(26,792)	<b>(7,300)</b>	(26,792)
(Loss)/profit from operations	<b>(31,228)</b>	(26,254)	<b>2</b>	(33,057)	<b>(31,226)</b>	(59,311)
Interest income	<b>1,558</b>	2,563	-	11	<b>1,558</b>	2,574
(Loss)/profit before taxation	<b>(29,670)</b>	(23,691)	<b>2</b>	(33,046)	<b>(29,668)</b>	(56,737)
Taxation (Note 4)	-	-	-	-	-	-
(Loss)/profit after taxation	<b>(29,670)</b>	(23,691)	<b>2</b>	(33,046)	<b>(29,668)</b>	(56,737)
Minority interests	<b>394</b>	155	-	-	<b>394</b>	155
Net (loss)/profit attributable to shareholders	<b>(29,276)</b>	(23,536)	<b>2</b>	(33,046)	<b>(29,274)</b>	(56,582)
Loss per share						
- Basic (Note 5)					<b>(0.56 cents)</b>	(1.07 cents)
Loss per share						
- Diluted (Note 5)					<b>N/A</b>	N/A

## **NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS:**

### **1. Basis of Presentation**

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

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

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

### **2. Turnover**

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

### **3. Impairment losses/reversal of impairment losses in fixed assets**

The management's latest revised forecast made for the second quarterly results for 2003 showed that the economic performance of the Group's data centre operation in Hong Kong was not in line with the original budget, and updated analyses were then prepared at that time to determine if there was further impairment of the underlying assets by assessing their value in use. As a result of the assessment, the Group recognized an additional impairment loss of HK\$7,300,000 for the period to write down the fixed assets for the data centre operation in Hong Kong. The directors consider that there were no substantial changes in these assets' value in use since then.

In 2002, the Group discontinued its data centre operation in Beijing, the People's Republic of China (the "PRC"). The amounts for 2002 represented the impairment losses/reversal of impairment losses in the fixed assets of its data centre operation in Beijing. The results and cashflows from this discontinuing operation in Beijing were not significant for the nine months ended 30th September, 2003. As at 30th September, 2003, this operation had no significant assets or liabilities.

#### **4. Taxation**

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

The Group's subsidiaries in Beijing (the "Beijing Subsidiaries"), are subject to the PRC enterprise income tax on the taxable income as reported in their statutory financial statements adjusted in accordance with relevant income tax laws. No provision for PRC enterprise income tax was made as the Beijing Subsidiaries had no taxable income for the nine months ended 30th September, 2003.

The Group has not recorded deferred tax assets, mainly in respect of tax losses carried forward of approximately HK\$120,000,000 (31st December, 2002: HK\$108,000,000) for the operations in Hong Kong, subject to agreement by the Hong Kong Inland Revenue Department, due to the uncertainty that the resultant deferred tax asset will be recovered in the foreseeable future. These tax losses have no expiry date.

#### **5. Loss per Share**

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

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

## 6. Reserves

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

	For the nine months ended 30th September,					2002 Total HK\$'000	
	2003						
	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange	Accumulated reserve HK\$'000	deficit HK\$'000		Total HK\$'000
			translation				
<b>Balance, beginning of period</b>	<b>243,476</b>	<b>43,782</b>	<b>62</b>	<b>(171,556)</b>	<b>115,764</b>	219,972	
Exchange translation differences	-	-	(15)	-	(15)	20	
Loss for the period	-	-	-	(29,274)	(29,274)	(56,582)	
<b>Balance, end of period</b>	<b>243,476</b>	<b>43,782</b>	<b>47</b>	<b>(200,830)</b>	<b>86,475</b>	163,410	

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.

## DIVIDEND

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



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Operating Results**

For the nine months ended 30th September, 2003, the Group achieved a turnover of approximately HK\$29,377,000 and recorded a net loss attributable to shareholders of approximately HK\$29,274,000 after the impairment losses of HK\$7,300,000 in the fixed assets for its data centre operation in Hong Kong provided for the period.

During the period, following the war between the United States and Iraq and the outbreak of the Atypical Pneumonia in early 2003, the market remained difficult and most enterprises continued to restrict their expenditures. As a result, the Group continued to experience pressure on securing new service contracts and also on the pricing of its services which explained the majority of the decrease of 31.13% of the turnover from that of the corresponding period of last year while the Group managed to maintain a higher gross profit compared to that of the corresponding last period by controlling its cost of revenues. Measures had also been taken to control its operating costs, the general and administrative expenses and the selling and marketing expenses which, however, did not show a proportional reduction as a desired level of cost was needed to maintain the Group's existing level of activities.

As required under the requirements of SSAP 31, Impairment of Assets, issued by HKSA, the Group has been regularly reviewing the carrying values of its fixed assets for its data centre operation in Hong Kong and as a result, made impairment losses of HK\$7,300,000 in the fixed assets for its data centre operation in Hong Kong for the period. However, this provision does not affect the Group's cash flows or its operations. For the corresponding period of the last year, the Group had made impairment losses of HK\$26,792,000 in the remaining fixed assets for its data centre operation in Beijing.

## **Strategic Development**

### *Beijing*

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

During the period, as the result of its first self-developed network game launched was not satisfactory, the Group had reviewed its strategy of diversifying into the network game industry. It was then decided to cease this operation. Other than the impairment losses in the goodwill and patents and trademarks associated with the game operation of HK\$1,333,000, the Group did not incur any significant cost as a result of this.

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

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

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

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

### **Business Development**

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

## **Proposed Privatisation**

On 14th August, 2003, Media Touch Group Limited (“Media Touch”), the controlling shareholder of the Company, requested the board of directors (the “Board”) of the Company to put forward the proposal regarding the Proposed Privatisation by way of the Scheme to the shareholders of the Company (other than Media Touch). Such proposal, among other things, had been approved by the eligible shareholders at the court meeting and the extraordinary general meeting held respectively on 29th October, 2003.

The Scheme will become effective after it is sanctioned (with or without modification) by the Grand Court of Cayman Islands and a copy of the court order is delivered to the Registrars of Companies in the Cayman Islands for registration and is registered, which is expected to be on 2nd December, 2003. Upon the Scheme becoming effective, the Company will become a wholly-owned subsidiary of Media Touch. The Company will then apply to the Stock Exchange for the withdrawal of the listing of its shares on GEM immediately following the Scheme becoming effective. Accordingly, it is expected that the last day of dealing in the Company’s shares will be on 26th November, 2003, and the listing of the Company’s shares on GEM will be withdrawn on 3rd December, 2003. Details of the Proposed Privatization and the Scheme are set out in the scheme document dated 6th October, 2003 despatched to the shareholders of the Company.

## **Prospect**

In line with the market situation in the United States and Europe, the data centre business in Asia has encountered continuing difficulties over the past two years which were caused mainly by the worldwide overall downturn in the technology sector. Demand for data centre facilities has been growing slower than generally anticipated, resulting in the restructuring and/or consolidation of a number of leading international data centre service providers.

The Group has been making losses since its establishment in 1999 and its relevant markets have been and continue to be affected by poor sentiment and uncertainty which have adversely affected the business performance of the Group.

During the period, although the United States has declared victory over its war against Iraq and the Atypical Pneumonia has been brought under control, recovery of economy is yet to be seen. Although the Group was able to maintain this quarter's turnover at the same level of the last two's, comparing a decreasing trend over the last year, it is not certain when the Group can achieve positive operating cash flow. Nevertheless, the Group will continue to take every measure to increase its operating efficiency and to reduce its operating costs so as to increase its competitiveness.

In view of the difficult business conditions, the Group has no immediate plan in setting up further data centres across the Asia Pacific region at the moment. Instead, the Group has been continuously adopting a more flexible strategy in providing its customers data centre services throughout the region by forming alliances with other data centre operators in Beijing, Shanghai, Tokyo, Singapore, Manila and Bangkok. The directors believe it is in the Group's interest to consolidate its existing operation and the Group will pursue its business objectives cautiously taking into account of the latest market development.

The directors also consider that the consolidation of its data centre business and that of PCCW Limited ("PCCW"), which wholly owns Media Touch, after the Proposed Privatisation becoming effective should enhance the operational efficiency of the Group's business and may provide the opportunity to enable the Group to restructure its position and thereby ensure a path for the continued participation in the industry within PCCW's enlarged operation.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30th September, 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company

and the Stock Exchange pursuant to the minimum standards of dealings by the directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules were as follows:

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

*Notes:*

1. The 1,081,350,000 shares are held personally by Mr. Tam Wai Keung, Billy, who is also the chief executive officer of the Company. By virtue of his interests in the Company, he is a substantial shareholder of the Company.
2. These directors are deemed to be interested in the 400,500,000 shares of the Company held by HSBC International Trustee Limited (“HSBC Trustee”), the trustee of a discretionary trust named The RadarNet Trust, by virtue of being the beneficiaries under such discretionary trust. Details of The RadarNet Trust was disclosed in the below paragraph “Trust Scheme”.
3. There was no debenture issued by the Group at any time during the period.
4. No short position in the shares or underlying shares of the Company was recorded in the register of the Company required to be kept under section 352 of the SFO.

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

## **SHAREHOLDERS' INTERESTS AND OTHER INTERESTS DISCLOSEABLE UNDER THE SFO**

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

<b>Name of Shareholder</b>	<i>Notes</i>	<b>Interests in Interests in Shares</b>	<b>Interests in Underlying Shares</b>	<b>Aggregate Long Position</b>	<b>% of Issued Share Capital</b>
PCCW	1 & 2	2,923,650,000	–	2,923,650,000	55.50%
Century Power Group Limited ("CPG")	1 & 2	2,923,650,000	–	2,923,650,000	55.50%
CyberVentures (Bermuda) Limited ("CyberVentures")	1 & 2	2,923,650,000	–	2,923,650,000	55.50%
CyberWorks Internet Ventures Limited ("CIV")	1 & 2	2,923,650,000	–	2,923,650,000	55.50%
Media Touch	1 & 2	2,923,650,000	–	2,923,650,000	55.50%
Tam Wai Keung, Billy	3	1,081,350,000	–	1,081,350,000	20.53%
Pau Ieng Mei, Leslie	3	1,081,350,000	–	1,081,350,000	20.53%
Lee Shau Kee	4	468,639,845	–	468,639,845	8.89%



<b>Name of Shareholder</b>	<i>Notes</i>	<b>Interests in Shares</b>	<b>Interests in Underlying Shares</b>	<b>Aggregate Long Position</b>	<b>% of Issued Share Capital</b>
Rimmer (Cayman) Limited ("Rimmer")	4	468,639,845	–	468,639,845	8.89%
Riddick (Cayman) Limited ("Riddick")	4	468,639,845	–	468,639,845	8.89%
Hopkins (Cayman) Limited ("Hopkins")	4	468,639,845	–	468,639,845	8.89%
Henderson Development Limited ("HD")	4	468,639,845	–	468,639,845	8.89%
Henderson Land Development Company Limited ("HLD")	4	468,639,845	–	468,639,845	8.89%
Kingslee S.A.	4	468,639,845	–	468,639,845	8.89%
Henderson Investment Limited ("HI")	4	468,639,845	–	468,639,845	8.89%
Midlink Pacific Limited ("Midlink")	4	468,639,845	–	468,639,845	8.89%
Datacom Technology Limited ("Datacom")	4	468,639,845	–	468,639,845	8.89%
Newspeed Technology Limited ("Newspeed")	4	468,639,845	–	468,639,845	8.89%
HSBC Trustee	5	400,500,000	–	400,500,000	7.60%
RadarNet Limited	5 & 6	400,500,000	–	400,500,000	7.60%
Teng Wan	5 & 6	400,500,000	–	400,500,000	7.60%

*Notes:*

1. Media Touch is wholly-owned by CIV which is, in turn, wholly-owned by CyberVentures. The entire issued share capital of CyberVentures is held by CPG and the entire issued share capital of CPG is held by PCCW. Therefore, CIV, CyberVentures, CPG and PCCW are deemed to be interested in the 2,523,150,000 shares held by Media Touch for the purposes of the SFO.
2. Media Touch is the protector of a discretionary trust, The RadarNet Trust, which was set up by RadarNet Limited, the then substantial shareholder of the Company, on 9th August, 2000. For the purposes of the SFO, Media Touch is deemed to be interested in the 400,500,000 shares held by HSBC Trustee, the trustee of The RadarNet Trust.

Therefore, Media Touch, CIV, CyberVentures, CPG and PCCW are all deemed to be interested in the 400,500,000 shares held by HSBC Trustee for the purposes of the SFO.

3. Ms. Pau Ieng Mei, Leslie is the wife of Mr. Tam Wai Keung, Billy, who is a director, the chief executive officer and a substantial shareholder of the Company. Therefore, Ms. Pau Ieng Mei, Leslie is deemed to be interested in the 1,081,350,000 shares held by Mr. Tam Wai Keung, Billy for the purposes of the SFO.
4. Newspeed is wholly-owned by Datacom, which entire issued share capital is held by Midlink, a wholly-owned subsidiary of HI. Approximately 73.5% of HI is held by Kingslee S.A., which entire issued share capital is held by HLD, which approximately 65.2% interest is held by HD. Therefore, Newspeed, Datacom, Midlink, HI, Kingslee S.A., HLD and HD are deemed to be interested in the 468,639,845 shares held by Newspeed for the purposes of the SFO.

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

5. HSBC Trustee was appointed as the trustee of The RadarNet Trust to hold the 400,500,000 shares under the terms of The RadarNet Trust.
6. RadarNet Limited, which is wholly-owned by Mr. Teng Wan, was the founder of The RadarNet Trust. Therefore, RadarNet Limited, by virtue of its capacity as the founder, and Mr. Teng Wan are deemed to be interested in the 400,500,000 shares held by HSBC Trustee for the purposes of the SFO.

7. No short position in the shares or underlying shares of the Company was recorded in the register of the Company to be kept under section 336 of the SFO.

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

## **SHARE OPTION SCHEME**

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

Pursuant to the Share Option Scheme, any individual being an employee, officer or consultant of the Group, including any executive or non-executive director of the Company and its subsidiaries may be granted options to subscribe for the shares of the Company. Up to 33<sup>1</sup>/<sub>3</sub>%, 66<sup>2</sup>/<sub>3</sub>% and 100% of any option offered under the Share Option Scheme may respectively be exercised after one year, two years and three years from the date of offer of an option is made, but not later than 10 years from the date of offer. The subscription price on the exercise of an option shall be at least the highest of (i) the closing price of the Company's shares quoted on the GEM on the date of offer, (ii) the average closing price of the Company's shares quoted on the GEM for the five business days immediately preceding the date of offer, and (iii) the nominal value of the Company's shares. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not represent more than 10% of the nominal amount of the issued share capital of the Company as at the Approval Date.

During the period and as at 30th September, 2003, no option has been granted or agreed to be granted under the Share Option Scheme.

## **TRUST SCHEME**

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

Since The RadarNet Trust is a discretionary trust, HSBC Trustee has the absolute discretion in deciding the manner and terms of the sale of the shares comprised therein to any beneficiary. However, the Group has recommended to HSBC Trustee the manner and terms by which any shares to be sold to the beneficiaries. The Group has recommended to HSBC Trustee to sell 200,250,000 shares of the Company representing 50% of the shares comprised in the trust property to 56 then full-time employees, and the remaining 50% of such shares to 14 then full-time employees of PCCW, one of the substantial shareholders of the Company, for their contribution to the business development of the Group before its listing and to the preparation for the listing. Four executive directors of the Company, namely Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai, and a non-executive director of the

Company, Mr. Cheung Sum, Sam, are the beneficiaries of The RadarNet Trust. Any shares to be sold by HSBC Trustee to the beneficiaries should be at a cost of HK\$0.0334 per share. All dividends derived from the shares received by HSBC Trustee will be retained by HSBC Trustee and form part of the trust fund under The RadarNet Trust.

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

	<b>Number of Shares</b>
As at 1st January, 2003	360,450,000
Recommendation withdrawn/interests disclaimed	<u>(150,887,750)</u>
As at 30th September, 2003	<u><u>209,562,250</u></u>

As at 30th September, 2003, no shares have been sold to the beneficiaries, including the directors of the Company, under the aforesaid trust. Subsequent to the period end, a recommendation in respect of 8,811,000 shares was also withdrawn.

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

## **COMPETING INTERESTS**

PCCW is a substantial shareholder of the Company and Mr. Chung Cho Yee, Mico, an executive director of the Company, is also an executive director of PCCW. PCCW has interests, either directly or indirectly, in businesses which are providing IT and professional services and data centre services (details of which have been disclosed in the Company's Prospectus and updated in the Company's 2002 Annual Report) and also in business which is developing online games activities. The directors believe that there is a risk that such businesses may compete with those of the Group.

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

## **AUDIT COMMITTEE**

Since the resignation of Mr. Wong Wing Shing as an independent non-executive director and a member of the audit committee of the Company with effect from 13th August, 2003, Mr. Cheng Kai Ming has been the only independent non-executive director of the Company and the only one member on the audit committee.

In view of the Proposed Privatisation, the appropriate replacement for Mr. Wong Wing Shing as an independent non-executive director and as a member of the audit committee of the Company is still to be identified. In this regard, the Company has applied to the Stock Exchange for waivers from strict compliance with the Rules 5.05 and 5.23 of the GEM Listing Rules until 14th November, 2003. The Board will further apply to the Stock Exchange for the extension of the above waivers to 3rd December, 2003 when the listing of the Company's shares on GEM be withdrawn.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by HKSA. The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation.

## **BOARD PRACTICES AND PROCEDURES**

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

## **INTEREST OF SPONSOR**

As notified by BNP Paribas Peregrine Capital Limited (the “Sponsor”), the Company’s sponsor, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30th September, 2003.

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

In addition, the Sponsor has been engaged by the Company to act as its financial advisor in the Proposed Privatisation.

Save for the above, the Sponsor had no other interest in the Company as at 30th September, 2003.



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

During the nine months ended 30th September, 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

**TAM Wai Keung, Billy**

*Director and Chief Executive Officer*

Dated, 10th November, 2003