



**iLink Holdings Limited**

**合縱連網控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

# Annual Report 2000

Data Centre services

Unified Messaging

web based e-mail with new interfaces

CRM

power support

temperature & humidity control

application & database software

network architecture

ASP services

desktop Microsoft Office

implementation, serviced

This Client Server Computing

systems & applications management

application development tools

security control

file protection

raised floor design

post implementation support

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Data Centre services  
Unified Messaging

CRM

power support

Temperature & humidity control  
application & database software  
network architecture

ASP services

implementation services

Thin Client Servers Computing  
Systems & applications management  
application development  
fire.pro

Latin Data Center Open



**The One-stop Internet Application Solution Provider**

**Characteristics of The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited:**

**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.**

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**BOARD OF DIRECTORS***Executive Directors*

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

*Non-Executive Directors*

CHEN Johnson  
LAM Wai Man, Virginia  
NG Chi Shing

*Independent Non-Executive Directors*

WONG Wing Shing  
CHENG Kai Ming, SBS, JP

**COMPLIANCE OFFICER**

CHEUNG Sum, Sam, FCCA, AHKSA

**QUALIFIED ACCOUNTANT**

CHEUNG Sum, Sam, 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  
CHEUNG Sum, Sam

**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  
No. 99 Queen's Road Central  
Hong Kong

**WEBSITE**

[www.iLink.net](http://www.iLink.net)

**STOCK CODE**

8107

**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**

Central Registration Hong Kong Limited  
Rooms 1712-1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

**SPONSOR**

BNP Paribas Peregrine Capital Limited  
36th Floor  
Asia Pacific Finance Tower  
3 Garden Road  
Central  
Hong Kong

**AUDITORS**

Arthur Andersen & Co  
21st Floor  
Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**LEGAL ADVISORS**

*As to Hong Kong Law*

Baker & McKenzie  
14th Floor  
Hutchison House  
10 Harcourt Road  
Hong Kong

*As to Cayman Islands Law*

Maples and Calder Asia  
1504 One International Finance Centre  
1 Harbour View Street  
Hong Kong

**PRINCIPAL BANKER**

The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong

Data Centre services

Unified Messaging

CRM

power support

customer support

temperature & humidity control

Application & database software

co-location network architecture

ASP services

Help Desk / Call Center

Implementation services

IT Infrastructure Services, Consulting

IT Systems & applications management

application development services

security services


disaster recovery

raised floor design

IT infrastructure services



# Excellence

A close-up, macro photograph of several interlocking metal gears. The gears are made of a dark, possibly steel or cast iron, material with a visible grain and some surface wear. The lighting is dramatic, highlighting the sharp edges of the teeth and the circular forms of the gears. The background is dark and out of focus, emphasizing the mechanical details in the foreground. The word "Success" is printed in a clean, white, sans-serif font in the upper left quadrant of the image.

**Success**



I am pleased to present the first annual report of iLink Holdings Limited (the "Company"), which is for the year ended 31st December, 2000, following the listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 9th March, 2001.

## **RESULTS OF OPERATION**

The Company and its subsidiaries (the "Group") recorded a turnover of approximately HK\$39,871,000 for the year ended 31st December, 2000 and a loss attributable to shareholders of approximately HK\$28,680,000, which was comparable to the estimated loss of not more than HK\$29,000,000 as set out in the prospectus of the Company dated 28th February, 2001.

## **BUSINESS REVIEW**

Year 2000 is a milestone for the Group. Since the commencement of operation of its first data centre in Central, Hong Kong in January 2000, the Group has established another data centre in Shatin, Hong Kong, which commenced operation in July 2000 and also began to offer data centre services in San Jose, the United States, during the year. With this expansion, the Group's customers also grew from 7 at the end of 1999 to 254 at the end of 2000. While the Group incurred loss for the year, its turnover increased from the first quarter of approximately HK\$1,000,000 to the last quarter of approximately HK\$20,100,000 and its operating results were improving and a breakeven was achieved in December 2000.

As the first step in expanding into the Greater China market, the Group had signed agreements with various parties in China to launch data centre services in Beijing and Shanghai, the People's Republic of China (the "PRC"). Renovation and installation of its data centre in Beijing was commenced in November 2000 and operation is expected to be commenced in April 2001. The Group also expects to launch data centre services in Shanghai in May 2001. Furthermore, the Group plans to establish data centres in Shenzhen and Guangzhou, the PRC in the second half of 2001 and first half of 2002 respectively.

With the expected rapid growth of Internet users in Asia, the Group will expand into Singapore and Taiwan in 2001, and India in 2002.

In 2003, the Group plans to launch its third data centre in Hong Kong.

Together with geographical expansion, the Group will diversify its existing data centre business operations into the "application service provider" business.

The Group's objective is to become a leading one-stop Internet application solution provider offering comprehensive Internet application solutions targeting small and medium enterprises in Asia with a primary focus in the Greater China.

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

**CHUNG Cho Yee, Mico**  
*Chairman*

Hong Kong, 21st March, 2001

## FINANCIAL REVIEW

During the year ended 31st December, 2000, the Group achieved a turnover of approximately HK\$39,871,000. A loss attributable to shareholders of approximately HK\$28,680,000 was recorded as the Group only commenced its operation in January 2000 and is in its early stage of operation and development. Nevertheless, its Hong Kong operation has been able to achieve breakeven in December 2000.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2000, shareholders' funds of the Group amounted to approximately HK\$236,667,000. Current assets amounted to approximately HK\$193,609,000, of which approximately HK\$160,573,000 were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$34,303,000 and it had an outstanding obligation under a finance lease of approximately HK\$271,000, of which approximately HK\$53,000 was included under current liabilities.

Subsequent to 31st December, 2000, the Group obtained net proceeds of approximately HK\$121,000,000 from the placing of 110,000,000 new shares on the listing of its shares on GEM. The Group currently intends to apply such net proceeds as follows:

- approximately HK\$59,000,000 will be used to fund the plan of expanding its data centre business in Asia in 2001. In particular, approximately HK\$25,000,000 will be used to establish a data centre in Taiwan and approximately HK\$34,000,000 will be used to establish a data centre in Shenzhen in the first and second half of 2001 respectively;
- approximately HK\$43,000,000 will be used to fund the operations of the data centre and ASP businesses for the year ending 31st December, 2001;
- approximately HK\$12,000,000 will be used to fund the marketing and promotional activities for the year ending 31st December, 2001; and
- the balance of approximately HK\$7,000,000 will be used as additional working capital.

## OPERATION REVIEW

### Strategic Development

As the first step in expanding into the Greater China market, the Group signed an agreement on 3rd August, 2000 with 中國網絡通信有限公司 ("China Netcom"), an independent licensed ISP and bandwidth provider in the PRC. Pursuant to the agreement, China Netcom will provide bandwidth for a co-operative joint venture to be established by the Group and a PRC third party which will be mainly responsible for setting up a data centre in Beijing.

The Group also signed a contract on 31st August, 2000 with 上海世紀新元信息產業有限公司 (a company which is approximately 44.72% owned by 中國電信集團上海市電信公司) and 上海虹口工業科技投資有限公司 (an affiliate of Shanghai Municipal Hongkou District Foreign Economic Relation Commission) to form an equity joint venture to establish a data centre in Shanghai.

Provision of data centre services in Beijing and Shanghai are expected to commence in April and May 2001 respectively.

### **Infrastructure and facilities development**

The Group's first data centre in Hong Kong which situates at "The Center" commenced operations in January 2000. Renovation and installation of the Group's second data centre in Shatin were completed in June 2000 and the data centre commenced operations in July 2000. The Shatin site has increased the hosting capacity of the Group in Hong Kong from approximately 400 racks to approximately 1,100 racks.

In May 2000, the Group began offering data centre services in the United States by entering into a contract with a US data centre operator to provide data centre services in San Jose, California, US. This arrangement allows the Group's Asian customers to place their Internet content in close proximity to users in North America in order to establish a faster connection at a lower cost.

Subsequent to the year end, the renovation and installation of the facilities in the expansion phase at "The Center" data centre was commenced and is expected to be completed in March 2001. On completion, it will increase the hosting capacity of the Group in Hong Kong to approximately 1,300 racks.

### **Business development**

The Group continued to expand its existing data centre services. Additional data centre services introduced by the Group during the year included dedicated server hosting services, faster Internet connections and other value-added services such as secure remote access, system upgrade and system maintenance, virtual private network, global server load-balancing, online network monitoring, firewall management and mail server back-up.

During the year, the Group launched "Thin Client Server Computing", which offers an alternative platform for its customers to access applications at the Group's data centres, along with three ASP applications: Desktop Microsoft Office, Unified Messaging and web-based e-mail with WAP interface.

The Group also introduced two additional value-added services in its data centre business, namely the payment gateway to facilitate e-commerce transactions and media streaming. In addition, the Group has also soft-launched a CRM application.

## **CUSTOMERS**

The Group experienced a substantial growth in the number of its customers. As at 31st December, 2000, the Group had 254 contracted customers. While most of these customers are based in Hong Kong, some of them are based in US, Western Europe and other Asian countries.

## **STAFF**

As of 31st December, 2000, the Group had 62 full-time employees who were engaged in the following operations:

|  |             |
|--|-------------|
| Finance and administration               | 12          |
| Network operations                       | 30          |
| Sales and marketing/Business development | 16          |
| Research and development                 | 4           |
|  | <hr/>       |
| Total headcount                          | 62          |
|  | <hr/> <hr/> |

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.

## **PROSPECT**

The rapid growth in the popularity of the Internet has led businesses increasingly to explore opportunities for providing Internet-based applications and services within their organisations and externally to customers and business partners.

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. The Directors believe that the Group is well positioned to capture these opportunities. The Directors are particularly optimistic about the growth potential in Asia and the Group will pursue its business objectives cautiously taking into account of the latest developments in the market.



**Synergy**



**Scope**

## **DIRECTORS**

### **Executive Directors**

**Mr. CHUNG Cho Yee, Mico**, aged 40, is the *Chairman* of the Company and has joined the Board since August 2000. Mr. Chung is an executive director of Pacific Century CyberWorks Limited ("PCCW") responsible for mergers and acquisitions of the PCCW group. He is a qualified solicitor by profession. Mr. Chung graduated from University College, University of London, England 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 37, 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. Despite the fact that Mr. Tam joined iLink.net in October 1999, he has participated in the setting up of the business of iLink.net since July 1999. Mr. Tam was previously Deputy Director of Cable Multimedia Services of Hong Kong Cable Television Limited and was responsible for developing Cable Modem Broadband Multimedia Services, including broadband Internet, Voice-over-IP and other value-added multimedia services. The Cable Modem Project and broadband infrastructure launched by Cable Multimedia Services is the largest Hybrid Fiber Coaxial Network in Hong Kong. Within three months, it became one of the top five quality ISPs in Hong Kong. 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 US and obtained a bachelor degree in electrical engineering from Seattle University. 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. CHEUNG Sum, Sam**, aged 37, is the *Chief Financial Officer* of the Group and is the Qualified Accountant and the Compliance Officer of the Company. He has joined the Board since August 2000. Mr. Cheung is responsible for the Group's business development, corporate finance, financial control and investor relations. Mr. Cheung joined PCCW in April 2000 and was transferred to the Group in August 2000. Prior to joining PCCW, Mr. Cheung was a Director - Investment Banking Division at Credit Suisse First Boston, responsible for business origination and execution of investment banking transactions in Hong Kong. Mr. Cheung has extensive experience in investment banking, having worked at Credit Suisse First Boston, BZW and Deutsche Morgan Grenfell for over six years. Mr. Cheung holds a Bachelor of Science degree from London School of Economics and Political Science, University of London. Mr. Cheung is a fellow of The Association of Chartered Certified Accountants, United Kingdom and an associate of the Hong Kong Society of Accountants.

**Mr. LEE Brandon**, aged 33, is the *Chief Technology Officer* of the Group and has joined the Board since December 2000. Mr. Lee is responsible for the Group's technology implementation, research and development, and strategic planning. 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 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 United Kingdom. Before joining Oracle Corporation, 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 45, has joined the Board since August 2000. He is the Director - Operations and is responsible for data centre operations of the Group. He joined iLink.net in December 1999. Mr. Leung has over 20 years of 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 the call centre. 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 the 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 Institute of Human Resource Management.

**Mr. HUI Kwai**, aged 38, has joined the Board since August 2000. He is the Director - Sales and Marketing, and is responsible for the Group's overall strategic planning and formulation of strategy in the sales and marketing. Mr. Hui has over 11 years of 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 the University of Washington, US.

**Mr. TANG King Fai**, aged 37, has joined the Board since August 2000. He is the Director - Corporate Communications and is 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 over 11 years of media, research, and marketing experience gained from 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 the University of Washington, US.



**Non-Executive Directors**

**Mr. CHEN Johnson**, aged 28, has joined the Board since August 2000. Mr. Chen is the President of CyberWorks Ventures of PCCW. He joined PCCW in July 1999. Mr. Chen is the co-founder of two Internet startup companies. 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 masters degree in manufacturing engineering and business studies, Masters of Arts and a bachelor degree in Manufacturing Engineering Tripos (MET) from University of Cambridge, England.

**Ms. LAM Wai Man, Virginia**, aged 40, has joined the Board since in August 2000. Ms. Lam is the Group Director of Finance of PCCW. She joined HKT in 1995 and worked in a number of roles including strategic and financial planning, marketing and staff function. Prior to joining HKT, Ms. Lam worked for Cathay Pacific Airways Limited, initially as head of tax and later moved to other roles in business development and finance. Ms. Lam was Chief Financial Officer of Air Hong Kong Limited before joining Cathay Pacific Airways Limited. Ms. Lam received her professional training in the United Kingdom where she worked for KPMG (London) for five years as auditor and tax consultant. She is a member of the Institute of Chartered Accountants in England and Wales. She holds a master degree in management of information systems from the London School of Economics, England and a bachelor of commerce degree from the University of Birmingham, England.

**Mr. Ng Chi Shing**, aged 35, has joined the Board since November 2000. Mr. Ng is the Chief Executive Officer & Chief Architect of Arcotect Limited, a software house and e-Commerce solutions consultancy firm in Hong Kong. In 2000, Mr. Ng was elected one of Hong Kong's "Ten Outstanding Young Digi Persons". He is the Secretary for Hong Kong Information Technology Federation and a representative of Electronic & Communications Industry Safety & Health Advisory Committee under the Occupational Safety & Health Council. Previously, Mr. Ng was the director of Cable Multimedia Services, a business unit for multimedia service development and exploring new business opportunities such as cable modem for high speed Internet access for Hong Kong Cable Television Limited. Formerly, Mr. Ng was the founder and president of Hong Kong Star Internet Limited. He was also the founding member and the first Chairman of Internet Service Providers Association in Hong Kong.

### **Independent Non-Executive Directors**

**Mr. WONG Wing Shing**, aged 48, has joined the Board since November 2000. Mr. 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. Professor Wong was a Visiting Professor at the University of Illinois at Chicago in 1992 and a visiting researcher at Harvard University and Massachusetts Institute of Technology in 1994 and 1995 respectively. His current research interests include mobile communication systems and Internet search engine. He was a Management Committee Member of Information Technology Entrepreneurs Association (ITEA) in 1999 and has been a Member of the Radio Spectrum Advisory Committee, Office of the Telecommunications Authority, Hong Kong since 1996. He was also a member of Advisory Panel, HK Industrial Technology Centre Corporation in 1998. He is a fellow of The Hong Kong Institution of Engineers (HKIE), a member of the HKIE Accreditation Board, and a senior member of the Institute of Electrical and Electronics Engineers (IEEE).

**Mr. CHENG Kai Ming**, *SBS, JP*, aged 56, 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 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 Research Grants Council, and has been instrumental in the current reform of the education system of Hong Kong.

### **COMPANY SECRETARY**

**Mr. LAM Yuk Lau**, aged 37, has more than 13 years of experience in accounting, auditing, finance and project investment. Prior to joining iLink.net in January 2001, Mr. Lam was the company secretary of a company listed on The Stock Exchange of Hong Kong Limited. Mr. Lam holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong and a Master of Business Administration degree from the University of Western Sydney, Nepean, Australia. He is a member of both the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants, United Kingdom, and a certified public accountant in Hong Kong. Mr. Lam is also the Assistant Chief Financial Officer of the Group.

**SENIOR MANAGEMENT**

**Mr. CHEUNG Yung**, aged 31, is the Vice President of Corporate Sales and is responsible for sales strategy planning and implementation. Mr. Cheung joined iLink.net in December 1999. He has over eight years of experience in computer network, Internet and e-commerce sales and marketing. Prior to joining iLink.net, Mr. Cheung was an Internet solution manager with 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 Hong Kong Polytechnic University.

**Mr. LAM Wo Shing**, aged 30, is the System and Network Manager and is responsible for research and development. Mr. Lam has over 13 years of 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 Hong Kong Cable Television Limited, 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.

**Ms. YAU Hoi Wa**, aged 29, is the Vice President of Business Development and is responsible for corporate and strategic planning as well as partnership development of iLink.net. Ms. Yau joined iLink.net in July 2000. She has more than eight years of experience in sales, marketing and business development. She started her career in the IT and telecommunication industry by joining HKT as corporate sales manager where she gained professional knowledge and skills. Ms. Yau then joined New T&T Limited in the carrier business, strategic sales and business development. Prior to joining iLink.net, Ms. Yau was the Sales Manager at Singapore Telecom Hong Kong Limited responsible for exploring new business markets. Ms. Yau holds a Bachelor of Arts degree in hotel management from Hong Kong Polytechnic University.

**Ms. YEUNG Chung Ting, Athena**, aged 29, 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 over six years of marketing experience and gained extensive 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.

**DIRECTORS AND  
SENIOR  
MANAGEMENT  
PROFILE**

**Ms. YUNG Hong Yee, Connie**, aged 29, joined iLink.net in January 2000 as the Accountant. Ms. Yung has extensive accounting, financial management and tax 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 a firm of chartered accountants in Canada. Ms. Yung holds a Bachelor of Commerce degree in accounting and finance from the University of Birmingham and a Master of Arts degree in information technology from the University of Nottingham. Ms. Yung is an associate of the Hong Kong Society of Accountants and a member of The American Institute of Certified Public Accountants.



**Passion**

**e-Future**



The directors have pleasure in presenting their first annual report following the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") together with the audited financial statements for the year ended 31st December, 2000.

### **GROUP REORGANISATION**

The Company was incorporated in the Cayman Islands on 10th August, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a group reorganisation among the Company and its subsidiaries subsequently acquired (collectively referred to as the "Group") in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group. The Company's shares were listed on GEM on 9th March, 2001.

Details of the Group's reorganisation are set out in note 1 to the financial statements on page 39.

### **CHANGE OF COMPANY NAME**

Pursuant to a written resolution of all shareholders of the Company dated 31st January, 2001, the Company changed its name from iLink.net Holdings Limited to iLink Holdings Limited.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Its subsidiaries currently operate two data centres in Hong Kong providing Internet connectivity, dedicated server hosting and co-location services, and a range of value-added services. In addition, services are also offered by the Group for its Asian customers in the United States.

No analysis of the Group's turnover by principal activities and geographical locations is provided as substantially all the Group's turnover and loss from operations were derived from the provision of Internet connectivity, dedicated server hosting and co-location services and other value-added services in Hong Kong for the year ended 31st December, 2000.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2000 are set out in the consolidated income statement on page 36.

The directors do not recommend the payment of a dividend in respect of the year.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2000:

- (a) the aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 36.9% of the Group's total purchases. The largest supplier accounted for approximately 11.1% of the Group's total purchases.
- (b) the aggregate amount of turnover attributable to the Group's five largest customers represented approximately 42.5% of the Group's total turnover. The largest customer accounted for approximately 31.7% of the Group's total turnover.

One of the five largest suppliers and one of the five largest customers are subsidiaries of Pacific Century CyberWorks Limited, one of the substantial shareholders of the Company. In addition, one of the five largest suppliers is a 40% directly-owned associated company of DotCom Pacific Ventures Limited, one of the substantial shareholders of the Company.

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

## **SHARE CAPITAL**

Details of the movements in the authorised and issued share capital of the Company during the year ended 31st December, 2000 are set out in note 16 to the financial statements on pages 56 to 58.

## **SUBSIDIARIES**

Details of the subsidiaries of the Company as at 31st December, 2000 are set out in note 13 to the financial statements on page 54.

## **FIXED ASSETS**

Details of the movements in fixed assets during the year ended 31st December, 2000 are set out in note 12 to the financial statements on page 53.

## **RESERVES**

Details of the movements in reserves of the Group and the Company during the year ended 31st December, 2000 are set out in note 18 to the financial statements on pages 59 to 60.



## **DIRECTORS' REMUNERATION**

Details of the directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Rule 18.28 of the Rules Governing the Listing of Securities on GEM are set out in note 5 to the financial statements on page 45.

## **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

The directors of the Company during the period from 10th August, 2000 (date of incorporation) to 31st December, 2000 and up to the date of this report were:

### **Executive Directors**

|   |  |
|---|--|
| Chung Cho Yee, Mico ( <i>Chairman</i> )                 | (appointed on 14th August, 2000)                                       |
| Tam Wai Keung, Billy ( <i>Chief Executive Officer</i> ) | (appointed on 14th August, 2000)                                       |
| Cheung Sum, Sam   | (appointed on 29th August, 2000)                                       |
| Leung Man Leuk, Tommy                                   | (appointed on 29th August, 2000)                                       |
| Hui Kwai  | (appointed on 29th August, 2000)                                       |
| Tang King Fai   | (appointed on 29th August, 2000)                                       |
| Lee Brandon   | (appointed on 1st December, 2000)                                      |
| Nicola Stradling  | (appointed on 10th August, 2000<br>and resigned on 10th August, 2000)  |
| Teng Wan  | (appointed on 10th August, 2000<br>and resigned on 14th August, 2000)  |
| Yuen Kee Tong, Norman                                   | (appointed on 29th August, 2000<br>and resigned on 10th January, 2001) |
| Cheng Ka Hang   | (appointed on 29th August, 2000<br>and resigned on 10th January, 2001) |

### **Non-Executive Directors**

|                       |                                    |
|-----------------------|------------------------------------|
| Chen Johnson          | (appointed on 29th August, 2000)   |
| Lam Wai Man, Virginia | (appointed on 29th August, 2000)   |
| Ng Chi Shing          | (appointed on 17th November, 2000) |

### **Independent Non-Executive Directors**

|                 |                                    |
|-----------------|------------------------------------|
| Wong Wing Shing | (appointed on 17th November, 2000) |
| Cheng Kai Ming  | (appointed on 17th November, 2000) |

In accordance with Article 99 of the Company's Articles of Association, all of the existing directors will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The non-executive directors 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.

None of the directors 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.

### **Service Contracts**

Six executive directors namely, Mr. Tam Wai Keung, Billy, Mr. Cheung Sum, Sam, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai have entered into service agreements with the Company. Particulars of these agreements, except as indicated, 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. The agreement in respect of Mr. Cheung Sum, Sam can be terminated by either party prior to the expiry of the term by 6 months' written notice whereas each agreement with the other executive directors 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.

Save as disclosed herein, none of the directors has entered into any service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## DIRECTORS' INTERESTS

As at 31st December, 2000, the Company had no notice of any interest to be recorded under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as the Company was not yet listed on GEM.

The ordinary shares of the Company (the "Shares") were listed on GEM on 9th March, 2001. Following the listing of the Shares, the interests of the Directors of the Company in the equity securities of the Company as at 9th March, 2001 as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

| Name of Director      | Personal<br>interests | Family<br>interests | Corporate<br>interests<br><i>(Note 1)</i> | Other<br>interests<br><i>(Note 2)</i> | Total       |
|-----------------------|-----------------------|---------------------|---|---------------------------------------|-------------|
| Chung Cho Yee, Mico   | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Cheung Sum, Sam       | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Lee Brandon           | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Leung Man Leuk, Tommy | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Hui Kwai              | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Tang King Fai         | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Chen Johnson          | —                     | —                   | —   | 80,100,000                            | 80,100,000  |
| Ng Chi Shing          | —                     | —                   | 216,270,000                               | —                                     | 216,270,000 |

*Notes:*

- (1) These Shares are held by RadarNet Limited which is, in turn, 65.52% indirectly owned by DBD Ventures Inc. DBD Ventures Inc. is 36.16% owned by Mr. Ng Chi Shing.
- (2) These Shares are held by HSBC International Trustee Limited ("HSBC Trustee") as trustee of The RadarNet Trust. The discretionary beneficiaries of such discretionary trust include Mr. Chung Cho Yee, Mico, Mr. Cheung Sum, Sam, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai, Mr. Tang King Fai and Mr. Chen Johnson. Accordingly, Mr. Chung Cho Yee, Mico, Mr. Cheung Sum, Sam, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai, Mr. Tang King Fai and Mr. Chen Johnson are deemed to be interested in such Shares.

Save as disclosed above, as at 9th March, 2001, none of the directors, chief executives or their associates had any interests in any securities of the Company or its associated corporations as defined in the SDI Ordinance.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at 31st December, 2000, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as the Company was not yet listed on GEM.

The Shares were listed on GEM on 9th March, 2001. Following the listing of the Shares, the interests of substantial shareholders, other than Directors of the Company, in the Shares as at 9th March, 2001 as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

| <b>Name</b>   | <b>Number of Shares</b> | <b>Approximate percentage of shareholding</b> |
|---|-------------------------|---|
| Li Tzar Kai, Richard <sup>(1)</sup>                               | 504,630,000             | 47.90%  |
| Pacific Century Group Holdings Limited <sup>(1)</sup>             | 504,630,000             | 47.90%  |
| Pacific Century International Limited <sup>(1)</sup>              | 504,630,000             | 47.90%  |
| Pacific Century Group (Cayman Islands) Limited <sup>(1)</sup>     | 504,630,000             | 47.90%  |
| Anglang Investments Limited <sup>(1)</sup>                        | 504,630,000             | 47.90%  |
| Pacific Century Regional Developments Limited <sup>(1)</sup>      | 504,630,000             | 47.90%  |
| Pacific Century CyberWorks Limited ("PCCW") <sup>(1)</sup>        | 504,630,000             | 47.90%  |
| Century Power Group Limited <sup>(1)</sup>                        | 504,630,000             | 47.90%  |
| CyberVentures (Bermuda) Limited ("CyberVentures") <sup>(1)</sup>  | 504,630,000             | 47.90%  |
| CyberWorks Internet Ventures Limited <sup>(1)</sup>               | 504,630,000             | 47.90%  |
| Media Touch Group Limited ("Media Touch") <sup>(1)</sup>          | 504,630,000             | 47.90%  |
| DBD Ventures Inc. <sup>(2)</sup>                                  | 216,270,000             | 20.53%  |
| Chan Kin Hang, Johnny <sup>(2)</sup>                              | 216,270,000             | 20.53%  |
| Logistic View Ltd. <sup>(2)</sup>                                 | 216,270,000             | 20.53%  |
| DotCom Pacific Ventures Limited ("DotCom Pacific") <sup>(2)</sup> | 216,270,000             | 20.53%  |
| RadarNet Limited ("RadarNet") <sup>(2)</sup>                      | 216,270,000             | 20.53%  |

Notes:

- 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 37.6% and 37.9% of Pacific Century Regional Developments Limited's issued share capital were held by Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited respectively. Anglang Investments Limited was wholly-owned by Pacific Century Group (Cayman Islands) Limited whilst the latter was wholly-owned by Pacific Century International Limited. In turn, Pacific Century International Limited was wholly-owned by Pacific Century Group Holdings Limited, the entire issued share capital of which was 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.

2. RadarNet is wholly-owned by DotCom Pacific which is, in turn, 62.52% owned by DBD Ventures Inc. and 35.37% owned by Logistic View Ltd. DBD Ventures Inc. is 36.16% owned by Mr. Ng Chi Shing and Logistic View Ltd. is wholly-owned by Mr. Chan Kin Hang, Johnny. Therefore, DotCom Pacific, DBD Ventures Inc., Logistic View Ltd., Mr. Ng Chi Shing and Mr. Chan Kin Hang, Johnny are deemed to be interested in the Shares held by RadarNet for the purposes of the SDI Ordinance, but Mr. Ng Chi Shing's interests in the Shares has been recorded in the register required to be kept under Section 29 of the SDI Ordinance and is disclosed in the section "Directors' Interests" on page 25 of the annual report.

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 at 9th March, 2001.

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

### **Share Option Scheme**

The Company has adopted a share option scheme on 22nd February, 2001 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, full time employees, including any executive director, of the Company and its subsidiaries may be granted options to subscribe for the Shares. Up to 33 $\frac{1}{3}$ %, 66 $\frac{2}{3}$ % and 100% of any option granted under the Share Option Scheme may respectively be exercised 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.

As at 9th March, 2001, no option has been granted or agreed to be granted under the Share Option Scheme.

Further, certain of the Company's directors have options to subscribe for shares in PCCW, a substantial shareholder and a former holding company of the Company, and its associated corporations.

### **Trust Scheme**

The RadarNet Trust is a discretionary trust which was set up by RadarNet, one of the substantial shareholders 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 Shares 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 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 recommended to HSBC Trustee to sell 40,050,000 Shares representing 50% of the Shares comprised in the trust property to 56 full-time employees including five executive Directors of the Company, namely Mr. Cheung Sum, Sam, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai, and the remaining 50% of such Shares to 14 full-time employees of PCCW, one of the substantial shareholders of the Company, including Mr. Chung Cho Yee, Mico, who is an executive director of both PCCW and the Company, and Mr. Chen Johnson, who is a non-executive director of the Company, for their contribution to the business development of the Group before its listing and to the preparation for the listing. In addition, the Group also recommended to HSBC Trustee that any Shares to be sold by HSBC Trustee to the beneficiaries should be at a cost of HK 0.167 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.

As at 9th March, 2001, 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, follow subsidiaries or subsidiaries a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## **CONNECTED TRANSACTIONS**

The Shares were listed after the end of the year under review. The related party transactions during the year are disclosed in note 11 to the financial statements on pages 48 to 53.

After the listing of the Shares on GEM, the transactions between the Group and each of PCCW and its associates and DotCom Pacific and its associates will constitute continuing connected transactions for the Company.

These connected transactions constitute non-exempt continuing transactions under Rule 20.26 of the GEM Listing Rules (the "Non-exempt Continuing Connected Transactions") and are therefore subject to the reporting requirement set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. It is considered that strict compliance with the requirements for these Non-exempt Continuing Connected Transactions would be impractical. As such, the Company has obtained from the Stock Exchange waivers from the requirements for the Non-exempt Continuing Connected Transactions for the period up to 31st December, 2003. These Non-exempt Continuing Connected Transactions are, in the opinion of the directors, including the independent non-executive directors, entered into on normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interests of the shareholders of the Company as a whole and shall be continued and will be considered, and, if thought fit, re-approved by the independent shareholders in the forthcoming annual general meeting, details of which are set out in resolutions 7, 8, 9 and 10.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the year end or at any time during the year.

## COMPETING INTERESTS

PCCW, one of the substantial shareholders of the Company, has interests in the following entities which are engaged in the data centre or related business:

- a 42.5% interest in 北京中關村數據科技有限公司 (“BCDC”)

BCDC was established in the PRC as an equity joint venture company on 24th July, 2000. BCDC is principally engaged in the provision of site management services to enterprises engaging in e-business in Beijing and plans to develop its data centre businesses in three phases with a total floor area of approximately 65,000 sq.ft. The first phase of approximately 22,000 sq.ft. was completed and launched in November 2000. BCDC is owned as to 42.5% by Hongkong Telecom Data Centre Services (Beijing) Limited, an indirect wholly-owned subsidiary of PCCW, and the balance of 57.5% is owned by three independent third parties, namely, 42.5% by 北京中關村科技發展（控股）股份有限公司, 7.5% by 北京大方投資有限公司 and 7.5% by 華金信息產業投資有限公司. BCDC currently targets both local and multinational corporations and major ISPs in the PRC. PCCW has nominated 3 out of 7 directors to the board of BCDC. The day-to-day operation of BCDC is run by an independent management team of BCDC.

- a 50% interest in the Internet data centre joint venture company owned as to 50% by the PCCW group and 50% by the Telstra group (“Telstra Data Centre JV”)

As part of the strategic alliance between PCCW and Telstra Corporation Limited (“Telstra”) completed on 7th February, 2001, the Telstra Data Centre JV has been formed as a joint venture to own and operate a network of Internet data centres. It is the intention of PCCW and Telstra that the Telstra Data Centre JV will be the non-exclusive vehicle for the execution of their Internet data centre strategy throughout the Asia-Pacific region and, potentially, globally. Wherever practicable and subject to commercial agreement on each occasion, Internet data centres will be co-located with the Telstra IP Backbone JV’s POPs/carrier hotels outside of PCCW’s and Telstra’s home markets of Hong Kong and Australia, respectively. The initial geographic focus of the Telstra Data Centre JV will be the Asia-Pacific region, outside each of PCCW’s and Telstra’s home markets.

An approved business plan for Telstra Data Centre JV is being prepared. It is however intended that the Telstra Data Centre JV will focus initially on core hosting services including co-location, dedicated server, shared server and custom/complex hosting to enterprise customers, ASPs, ISPs and Internet content providers. The Telstra Data Centre JV will review opportunities to provide a range of higher value services than those currently provided by Powerb@se. These may include but are not limited to managed services, professional services, ASP services and other related services.

As shown above, PCCW does not have absolute control over BCDC or the Telstra Data Centre JV in respect of either the board or the shareholders’ voting rights, and is not the single largest shareholder of either BCDC or of the Telstra Data Centre JV. The day-to-day operation and management of BCDC and of the Telstra Data Centre JV are vested with each of their management teams, and are independent from PCCW and from each other.

- a 100% interest in Powerb@se

The data centre business of PCCW is carried out principally under the brand name Powerb@se. Powerb@se currently operates a data centre business with approximately 300,000 sq. ft. of facilities in six locations in Hong Kong.

In terms of the delineation of the data centre businesses in Hong Kong, Powerb@se and the Group presently target different sectors of customers. In particular, Powerb@se is a managed service provider which provides large scale bandwidth, facility space and shared, dedicated and complex hosting services, leveraging on the IP backbone and telecommunications infrastructure of PCCW. In addition, Powerb@se also plans to provide network, bandwidth, central processing units and data storage on demand. Its principal customers are multinational corporations and international telecommunications companies which require secure and dedicated bandwidth. In contrast, the Group's objective is to become an Internet application solution provider offering comprehensive Internet application solutions, including a wide range of data centre and ASP services. In addition, the Group's customer base principally consists of small to medium sized enterprises in Hong Kong. The management of PCCW and the Group are independent of each other.

To reflect the different sectors that Powerb@se and the Group serve and to demonstrate the delineation between the data centre business controlled by PCCW and the business conducted by the Group, PCCW and the Company have entered into an agreement providing for the following cooperation arrangements with effect from the listing date subject to prospective customers' ultimate requirements and final decisions:

- PCCW has granted a right of first refusal to the Company, pursuant to which PCCW will refer to the Company prospective data centre business customers who require Internet connectivity, server hosting and co-location services (i) with a bandwidth of 384 kbps or less; or (ii) with professional consulting services, software applications and ASP services; and
- The Company has granted a right of first refusal to PCCW, pursuant to which the Company will refer to PCCW its prospective customers who require Internet connectivity, server hosting and co-location services with a bandwidth of over 384 kbps, secure private vault environment and multiple-country connectivity access.

An arbitration committee will be formed which will consist of one independent non-executive director of the Company and one independent non-executive director of PCCW. In the event that there is any dispute on the cross-referral of business, the committee will have the right to make a final decision, subject to the agreement of the prospective customer.

The cooperation arrangement applies 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.

In light of the potential conflict of interests, PCCW has further undertaken to the Stock Exchange and the Company that:

- In respect of business or investment opportunities originated from PCCW

PCCW will refer such opportunities to the Company so long as such opportunities are within the business scope of the Company and fall within the delineation criteria discussed above. In the event that PCCW also refers such business and/or investment opportunities to any of the other entities that it has over 35% equity interest (conferring voting power at general meetings) but has no absolute control, and are engaged in data centre businesses, PCCW has adopted the policy to provide equal opportunities to the Company and these entities, and not to afford any preference to one over the others.

The Board, including independent non-executive Directors, will hold meetings to discuss and/or resolve these business and/or development opportunities. The Directors nominated by PCCW to the Board will, however, abstain from voting in such meetings. In addition, if such opportunities are subject to the approval of the Company shareholders, PCCW undertakes to vote for the relevant resolutions.

- In respect of business or investment opportunities identified by both the Company and any of the other entities described above

The Board, including independent non-executive Directors, will hold meetings to discuss and/or resolve these business and/or development opportunities. The Directors nominated by PCCW to the Board will, however, abstain from voting in such meetings. In addition, if such opportunities are subject to the approval of the Company shareholders, PCCW undertakes to vote for the relevant resolutions.

The undertaking will lapse if the PCCW group ceases to hold 35% or more of the issued share capital of the Company.

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

During the year ended 31st December, 2000, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities as the Shares were listed after the end of the year.

## **PENSION SCHEME**

The Group's eligible employees can participate in a defined contribution provident fund scheme (the "Scheme"). Particulars of the Scheme are set out in note 6 to the financial statements on page 47.

## **YEAR 2000 COMPLIANCE**

The Group's computer systems are year 2000 compliant and the Group has not experienced any significant year 2000 problem.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 22nd February, 2001 which comprises Mr. Wong Wing Shing and Mr. Cheng Kai Ming, both of whom are independent non-executive directors of the Company. The terms of reference is based on "A Guide For The Formation of An Audit Committee" issued by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group. The audit committee has not met during the year under review, which was before the listing of the Shares.

## **MANAGEMENT CONTRACTS**

No contract 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**

Neither BNP Paribas Peregrine Limited (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, 2000.

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, 2000.

## **SUBSEQUENT EVENTS**

Details of the significant subsequent events are set out in note 21 to the financial statements on page 64.

## **AUDITORS**

Arthur Andersen & Co were appointed as first auditors of the Company. A resolution for the re-appointment of Arthur Andersen & Co as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**TAM Wai Keung, Billy**

*Director and Chief Executive Officer*

Hong Kong, 21st March, 2001



ARTHURANDERSEN

**Arthur Andersen & Co**

21st Floor Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**TO THE SHAREHOLDERS OF  
ILINK HOLDINGS LIMITED**

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

We have audited the financial statements on pages 36 to 64 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 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 judgments 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.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2000 and of the loss and cash flows of the Group for the year then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

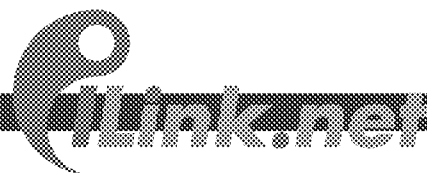
**ARTHUR ANDERSEN & CO**

*Certified Public Accountants*

Hong Kong, 21st March, 2001

**CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED 31ST DECEMBER, 2000

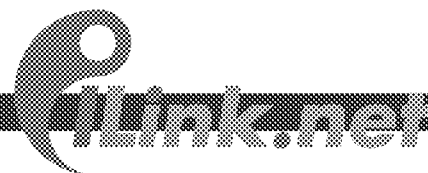


|                                       | <i>Note(s)</i> | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the six<br>months ended<br>31st December,<br>1999<br>HK\$'000 |
|---------------------------------------|----------------|--|---|
| Turnover                              | 3 & 11         | <b>39,871</b>  | —   |
| Cost of revenues                      | 11             | <b>(31,920)</b>  | —   |
| Gross profit                          |                | <b>7,951</b>   | —   |
| Selling and marketing expenses        | 11             | <b>(17,691)</b>  | (829)   |
| General and administrative expenses   | 11             | <b>(22,285)</b>  | (2,926)   |
| Other income                          |                | <b>112</b>   | —   |
| Loss from operations                  |                | <b>(31,913)</b>  | (3,755)   |
| Interest income                       | 3              | <b>3,233</b>   | —   |
| Loss before taxation                  | 4              | <b>(28,680)</b>  | (3,755)   |
| Taxation                              | 7              | —  | —   |
| Net loss attributable to shareholders | 8 & 18         | <b>(28,680)</b>  | (3,755)   |
| Loss per share — Basic                | 9              | <b>(9.7 cents)</b>   | (4.7 cents)   |

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the net loss attributable to shareholders.

**BALANCE SHEETS**

AS AT 31ST DECEMBER, 2000



|   | <i>Note</i> | <b>Group</b>    | <b>Company</b> |                 |
|---|-------------|-----------------|----------------|-----------------|
|   |             | 2000            | 1999           |                 |
|   |             | HK\$'000        | HK\$'000       |                 |
|   |             |                 | 2000           |                 |
|   |             |                 | HK\$'000       |                 |
| <b>NON-CURRENT ASSETS</b>                               |             |                 |                |                 |
| Fixed assets, net                                       | 12          | <b>77,579</b>   | 13,557         | —               |
| Investment in a subsidiary                              | 13          | —               | —              | <b>229,339</b>  |
| Total non-current assets                                |             | <b>77,579</b>   | 13,557         | <b>229,339</b>  |
| <b>CURRENT ASSETS</b>                                   |             |                 |                |                 |
| Cash and bank deposits                                  |             | <b>160,573</b>  | 774            | —               |
| Accounts receivable, net                                | 14          | <b>6,944</b>    | —              | —               |
| Amounts due from related companies                      | 11          | <b>8,582</b>    | —              | —               |
| Prepayments, deposits and other current assets          |             | <b>17,510</b>   | 1,499          | <b>13,000</b>   |
| Total current assets                                    |             | <b>193,609</b>  | 2,273          | <b>13,000</b>   |
| <b>CURRENT LIABILITIES</b>                              |             |                 |                |                 |
| Accounts payable  |             | <b>(13,493)</b> | (2,467)        | —               |
| Accruals and other payables                             |             | <b>(20,757)</b> | (1,431)        | <b>(13,110)</b> |
| Amounts due to related parties                          | 11          | —               | (93)           | —               |
| Obligation under a finance lease<br>— current portion   | 15          | <b>(53)</b>     | —              | —               |
| Total current liabilities                               |             | <b>(34,303)</b> | (3,991)        | <b>(13,110)</b> |
| Net current assets (liabilities)                        |             | <b>159,306</b>  | (1,718)        | <b>(110)</b>    |
| Total assets less current liabilities                   |             | <b>236,885</b>  | 11,839         | <b>229,229</b>  |
| <b>NON-CURRENT LIABILITIES</b>                          |             |                 |                |                 |
| Obligation under a finance lease<br>— long-term portion | 15          | <b>(218)</b>    | —              | —               |
| Net assets  |             | <b>236,667</b>  | 11,839         | <b>229,229</b>  |
| <b>Representing:</b>                                    |             |                 |                |                 |
| Share capital   | 16          | <b>89</b>       | —              | <b>89</b>       |
| Convertible note  | 17          | <b>12,519</b>   | —              | <b>12,519</b>   |
| Reserves  | 18          | <b>224,059</b>  | 11,839         | <b>216,621</b>  |
|   |             | <b>236,667</b>  | 11,839         | <b>229,229</b>  |

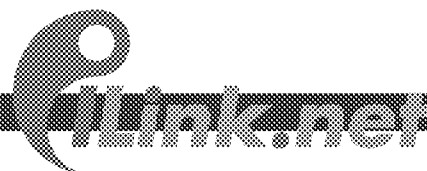
Approved by the Board of Directors on 21st March, 2001 and signed on behalf of the Board by

**CHUNG Cho Yee, Mico**  
*Chairman*

**TAM Wai Keung, Billy**  
*Director and Chief Executive Officer*

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2000



|   | <i>Note</i> | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the six<br>months ended<br>31st December,<br>1999<br>HK\$'000 |
|---|-------------|--|---|
| <b>NET CASH OUTFLOW FROM<br/>OPERATING ACTIVITIES</b>               | 20(a)       | <b>(26,954)</b>  | (1,194)   |
| <b>RETURNS ON INVESTMENTS AND<br/>SERVICING OF FINANCE</b>          |             |  |   |
| Interest received   |             | 3,233  | —   |
| Interest paid on a finance lease                                    |             | (10)   | —   |
|   |             | <b>3,223</b>   | —   |
| <b>INVESTING ACTIVITIES</b>   |             |  |   |
| Purchase of fixed assets  | 20(b)       | <b>(70,240)</b>  | (13,626)  |
| Proceeds from disposals of fixed assets                             |             | 286  | —   |
|   |             | <b>(69,954)</b>  | (13,626)  |
| <b>NET CASH OUTFLOW BEFORE FINANCING</b>                            |             | <b>(93,685)</b>  | (14,820)  |
| <b>FINANCING</b>  | 20(c)       |  |   |
| Proceeds from issuance of Series A preferred shares                 |             | 62,390   | —   |
| Proceeds from issuance of ordinary shares                           |             | 119,952  | —   |
| Loans from a shareholder  | 20(b)       | 71,166   | 15,594  |
| Repayment of capital element of<br>obligation under a finance lease |             | (24)   | —   |
|   |             | <b>253,484</b>   | 15,594  |
| <b>INCREASE IN CASH AND BANK DEPOSITS</b>                           |             | <b>159,799</b>   | 774   |
| <b>CASH AND BANK DEPOSITS</b>                                       |             |  |   |
| Beginning of year/period  |             | 774  | —   |
| End of year/period  |             | <b>160,573</b>   | 774   |



## 1. REORGANISATION AND BASIS OF PRESENTATION

iLink Holdings Limited (formerly known as iLink.net 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 Group's activities commenced on 1st July, 1999 as a business (the "Business") operated by a founding shareholder, DotCom Pacific Ventures Limited ("DotCom Pacific"). It was on this date DotCom Pacific started the setting up and promotion of the Business. NetFort Offshore Limited was activated on 14th September, 1999, with DotCom Pacific as one of the initial shareholders, to acquire and continue the Business. The transfer of the Business to NetFort Offshore Limited was effected in exchange for the issue of shares of NetFort Offshore Limited to DotCom Pacific at par value of the shares of US\$2. In addition, all expenses incurred for the Business before the transfer of the Business to NetFort Offshore Limited, amounting to approximately HK\$68,000, which were temporarily paid by DotCom Pacific, were reimbursed to DotCom Pacific by NetFort Offshore Limited through iLink.net Limited after the transfer. Accordingly, the transactions of the Business prior to the transfer of the Business to NetFort Offshore Limited have all been included in the consolidated income statement of the Group for the six months ended 31st December, 1999.

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 1st July, 1999 and throughout both accounting periods.

The Company's ordinary shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 9th March, 2001 (the "Listing").

The Group is principally engaged in the provision of Internet connectivity, server hosting and co-location services, and other value-added services.

## **2. PRINCIPAL ACCOUNTING POLICIES**

The financial statements of the Company and the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM. Principal accounting policies are summarised below:

### **(a) Basis of measurement**

The financial statements have been prepared on the historical cost basis.

### **(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries prepared on the basis of presentation as described in Note 1. All significant transactions and balances between companies comprising the Group have been eliminated on consolidation.

### **(c) Subsidiary**

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment and is able to exercise control over the financial and operating policies of the investee. In the financial statements of the Company, investment in a subsidiary is stated at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiary are included in the income statement to the extent of dividends declared by the subsidiary.

### **(d) Turnover**

Turnover represents service income derived from the provision of installation and connection, Internet connectivity, server hosting and co-location services and other value-added services.

### **(e) Revenue recognition**

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs can be measured reliably, turnover and other revenue are recognised on the following bases:

#### **(i) Service income**

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

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

**(e) Revenue recognition** *(Cont'd)*

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

**(f) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. 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 assets, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

|  |                             |
|--|-----------------------------|
| Data centers and related equipment       |                             |
| — Leasehold improvements                 | Over the term of the leases |
| — Computer and other equipment           | 20%                         |
| Office leasehold improvements            | Over the term of the leases |
| Furniture, fixtures and office equipment | 20%                         |
| Computer equipment                       | 20%                         |
| Motor vehicle                            | 20%                         |

The carrying amount of fixed assets is assessed annually and when factors indicating an impairment are present. The Group determines the recoverable amount of fixed assets by measuring discounted future cash flows. If an impairment is present, the fixed assets are reported at the lower of carrying amount or recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives or, where shorter, the terms of the lease on the same basis as owned assets.

When assets are sold, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

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

**(g) Leases**

(i) Finance leases

Leases that transfer to the Group substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases. Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities. Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic rate of charge on the outstanding balances.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

**(h) Taxation**

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

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

**(i) Staff retirement benefits**

Cost of staff retirement benefits are charged to the income statement in the relevant period in which they are incurred.

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

**(j) Advertising expenses**

Advertising expenses are charged to the income statement as incurred.

**(k) Foreign currency**

The books and records of the Company and its subsidiaries are maintained in Hong Kong dollars. Transactions in other currencies during the period are translated into Hong Kong dollars at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the income statement.

**3. TURNOVER AND REVENUES**

Turnover and revenues comprised:

|   | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the<br>six months ended<br>31st December,<br>1999<br>HK\$'000 |
|---|--|---|
| Installation and connection services                              | <b>3,553</b>   | —   |
| Internet connectivity, server hosting<br>and co-location services | <b>23,235</b>  | —   |
| Other value-added services  | <b>13,083</b>  | —   |
|   | <hr/>  | <hr/>   |
| Total turnover  | <b>39,871</b>  | —   |
| Interest income   | <b>3,233</b>   | —   |
|   | <hr/>  | <hr/>   |
| Total revenues  | <b>43,104</b>  | —   |
|   | <hr/> <hr/>  | <hr/> <hr/>   |

**4. LOSS BEFORE TAXATION**

Loss before taxation was arrived at after charging and crediting the following:

|  | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the<br>six months ended<br>31st December,<br>1999<br>HK\$'000 |
|--|--|---|
| After charging:                              |  |   |
| Staff cost (including directors' emoluments) | <b>16,644</b>  | 1,057   |
| Operating lease rental for                   |  |   |
| — Buildings and racks                        | <b>10,912</b>  | 839   |
| — Internet connectivity leased lines         | <b>12,847</b>  | 457   |
| Depreciation of fixed assets on              |  |   |
| — Owned assets                               | <b>6,309</b>   | 69  |
| — An asset held under a finance lease        | <b>30</b>  | —   |
| Provision for doubtful debts                 | <b>530</b>   | —   |
| Interest expense on a finance lease          | <b>10</b>  | —   |
| Auditors' remuneration                       | <b>200</b>   | 80  |
|  | <hr/> <hr/>  | <hr/> <hr/>   |
| After crediting:                             |  |   |
| Gain on disposals of fixed assets            | <b>112</b>   | —   |
| Interest income on bank deposits             | <b>3,233</b>   | —   |
|  | <hr/> <hr/>  | <hr/> <hr/>   |

**5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

(a) Details of emoluments paid or payable to directors of the Company were:

|                                 | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the<br>six months ended<br>31st December,<br>1999<br>HK\$'000 |
|---------------------------------|--|---|
| Fees                            | —  | —   |
| Other emoluments                |  |   |
| — Basic salaries and allowances | <b>2,785</b>   | 198   |
| — Bonus *                       | <b>1,200</b>   | 240   |
| — Pension scheme contributions  | <b>270</b>   | 17  |
|                                 | <u><b>4,255</b></u>  | <u>455</u>  |

\* One of the executive directors of the Company is entitled to a one-off bonus of HK\$1,200,000 per annum upon the Listing. The bonus has been accrued for by the Group from the commencement date of employment of that director and is included in the bonus disclosed above.

The number of directors (all were executive directors) whose remuneration falls within the following bands were as follows:

|                               | <b>For the<br/>year ended<br/>31st December,<br/>2000</b> | For the<br>six months ended<br>31st December,<br>1999 |
|-------------------------------|---|---|
| Nil — HK\$1,000,000           | <b>5</b>  | 6   |
| HK\$1,000,001 — HK\$1,500,000 | <b>1</b>  | —   |
| HK\$1,500,001 — HK\$2,000,000 | —   | —   |
| HK\$2,000,001 — HK\$2,500,000 | <b>1</b>  | —   |
|                               | <u><b>7</b></u>   | <u>6</u>  |

**5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (Cont'd)

(b) Details of emoluments paid or payable to the five highest paid individuals (including directors and other employees) were:

|                               | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the<br>six months ended<br>31st December,<br>1999<br>HK\$'000 |
|-------------------------------|--|---|
| Basic salaries and allowances | <b>3,959</b>   | 362   |
| Bonus *                       | <b>1,200</b>   | 240   |
| Pension scheme contributions  | <b>369</b>   | 32  |
|                               | <u><b>5,528</b></u>  | <u>634</u>  |

\* One of the executive directors of the Company is entitled to a one-off bonus of HK\$1,200,000 per annum upon the Listing. The bonus has been accrued for by the Group from the commencement date of employment of that director and is included in the bonus disclosed above.

|                     | <b>For the<br/>year ended<br/>31st December,<br/>2000</b> | For the<br>six months ended<br>31st December,<br>1999 |
|---------------------|---|---|
| Number of directors | <b>5</b>  | 1   |
| Number of employees | <u>—</u>  | <u>4</u>  |
|                     | <u><b>5</b></u>   | <u>5</u>  |

During the year ended 31st December, 2000 and the six months ended 31st December, 1999, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.



**5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (Cont'd)

Of the five highest paid individuals, the number of individuals (including directors and other employees) whose remuneration falls within the following bands are as follows:

|                               | <b>For the<br/>year ended<br/>31st December,<br/>2000</b> | For the<br>six months ended<br>31st December,<br>1999 |
|-------------------------------|---|---|
| Nil — HK\$1,000,000           | <b>3</b>  | 5   |
| HK\$1,000,001 — HK\$1,500,000 | <b>1</b>  | —   |
| HK\$1,500,001 — HK\$2,000,000 | —   | —   |
| HK\$2,000,001 — HK\$2,500,000 | <b>1</b>  | —   |
|                               | <hr/> <b>5</b> <hr/>                                      | <hr/> <b>5</b> <hr/>                                  |

**6. PENSION SCHEME**

The Group operates a defined contribution pension scheme for its qualifying employees. 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, 2000 was approximately HK\$924,000 (1999 : HK\$35,000). There were no forfeited contributions during the year ended 31st December, 2000 and the six months ended 31st December, 1999.

**7. TAXATION**

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong during the year ended 31st December, 2000 and for the six months ended 31st December, 1999.

The Group has not recorded a deferred tax asset in respect of tax losses of approximately HK\$29,000,000 (1999 : HK\$4,000,000) 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.

**8. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS**

No profit or loss was dealt with in the financial statements of the Company.

**9. LOSS PER SHARE**

The calculation of basic loss per share for the year ended 31st December, 2000 and the six months ended 31st December, 1999 is based on the Group's consolidated net loss attributable to shareholders for the periods and the weighted average of 295,776,078 (after the capitalisation issue (the "Capitalisation Issue"), details of which are set out in Note 16(a) below) and 80,100,000 shares.

Diluted loss per share is not presented because there were no potential dilutive securities in existence during the above periods.

**10. DIVIDENDS**

The directors do not propose any dividends in respect of the year ended 31st December, 2000 (1999 : Nil).

**11. 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.

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

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

|   | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the<br>six months ended<br>31st December,<br>1999<br>HK\$'000 |
|---|--|---|
| Continuing:   |  |   |
| Advertising fees paid or payable to:  |  |   |
| AdMomentum Limited ("AdMomentum") (i)   | <b>6,691</b>   | 652   |
| Operating lease rental for Internet connectivity<br>leased lines paid or payable to:  |  |   |
| PCCW-HKT Limited (formerly known as<br>Cable & Wireless HKT Limited) ("HKT") (vi)   | <b>4,045</b>   | —   |
| Insurance premium paid or payable to:   |  |   |
| Pacific Century Insurance Company Limited<br>("Pacific Century Insurance") (v)  | <b>195</b>   | —   |
| Service income received or receivable from:   |  |   |
| Active Field Limited ("Active Field") (i)   | <b>53</b>  | —   |
| AdMomentum (i)  | <b>83</b>  | —   |
| DotCom Pacific (ii)   | <b>420</b>   | —   |
| HKT (vi)  | <b>33</b>  | —   |
| iBEAM Asia, Ltd. ("iBEAM") (iii)  | <b>732</b>   | —   |
| Magically Asia Limited ("Magically Asia") (iv)  | <b>202</b>   | —   |
| MorningStar Asia Limited ("MorningStar") (iv)   | <b>232</b>   | —   |
| NetCel360 Holdings Limited ("NetCel") (iv)  | <b>16</b>  | —   |
| Outblaze Limited ("Outblaze") (iv)  | <b>241</b>   | —   |
| Pacific Convergence Corporation, Ltd.<br>("Pacific Convergence") (iii)  | <b>12,631</b>  | —   |
| PCC Skyhorse Limited ("Skyhorse") (iii)   | <b>218</b>   | —   |
| PCCW Schoolteam (Asia) Limited<br>(formerly known as Cable &<br>Wireless HKT Schoolteam (Asia) Limited)<br>("HKT Schoolteam") (iii) | <b>195</b>   | —   |
| PCCW Services Limited ("PCCW Services") (iii)   | <b>605</b>   | —   |
| Spike CyberWorks Limited (Spike CyberWorks") (iv)   | <b>148</b>   | —   |
| uBuyiBuy.com Limited ("uBuyiBuy") (vii)   | <b>2</b>   | —   |

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

*Notes:*

- (i) Active Field and AdMomentum were once subsidiaries of DotCom Pacific, an indirect shareholder of the Company. They became a third party to the Company and an associated company of DotCom Pacific in December 2000, respectively.
- (ii) DotCom Pacific is an indirect shareholder of the Company.
- (iii) iBEAM, HKT Schoolteam, Pacific Convergence, PCCW Services and Skyhorse are subsidiaries of Pacific Century CyberWorks Limited ("PCCW"), an indirect shareholder of the Company.
- (iv) Magically Asia, MorningStar, NetCel and Outblaze are associated companies of PCCW. As at 31st December, 2000, Spike CyberWorks was an associated company of PCCW and it became a third party to the Company subsequent to 31st December, 2000.
- (v) Pacific Century Insurance is a fellow subsidiary of PCCW.
- (vi) HKT became an indirect wholly-owned subsidiary of PCCW during the year ended 31st December, 2000. Before HKT became an indirect wholly-owned subsidiary of PCCW, the Group also leased Internet connectivity leased lines from HKT and the amounts paid or payable to it from 1st January, 2000 to the date HKT became an indirect wholly-owned subsidiary of PCCW was approximately HK\$3,500,000 (1999 : Nil).
- (vii) uBuyiBuy is a wholly-owned subsidiary of DotCom Pacific.

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.

- (b) Pursuant to a leasing agreement entered into between Beijing Jing Wei House & Land Estate Development Co. Ltd. ("Jing Wei House"), an indirect wholly-owned subsidiary of PCCW, and iLink.net (Beijing) Limited, an indirect wholly-owned subsidiary of the Company, dated 1st January, 2001, Jing Wei House has leased to iLink.net (Beijing) Limited premises (with net floor area of approximately 2,617 square meter) 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 is for a term of five years commencing on 1st January, 2001 and with three options to renew the lease of three years each.
- (c) 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 has 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 will expire on 18th February, 2005 with two options to renew the lease of five years each. The aggregate rental, air-conditioning and management charges and government rates payable by iLink.net Limited under the sub-lease is approximately HK\$7.4 million for the primary contract period.

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

- (d) PCCW had undertaken to provide continuing financial support to the Group to enable it to meet its liabilities as they fall due. This undertaking was terminated upon the listing of the Company.
- (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 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, 2000, no shares had been sold by the trust to the beneficiaries. As at 31st December, 2000 and the date of approving these financial statements, this trust held approximately 12.0% and 7.6% of the issued share capital of the Company respectively.
- (f) Subsequent to 31st December, 2000, PCCW and the Company entered into an agreement providing for the following cooperation arrangements with effect from the Listing, subject to prospective customers' ultimate requirements and final decisions:
- PCCW has granted a right of first refusal to the Company, pursuant to which PCCW will refer to the Company prospective data centre business customers who require Internet connectivity, server hosting and co-location services (i) with a bandwidth of 384 kilo bits per second or less; or (ii) with professional consulting services, software applications and application services; and
  - the Company has granted a right of first refusal to PCCW, pursuant to which the Company will refer to PCCW its prospective customers who require Internet connectivity, server hosting and co-location services with a bandwidth of over 384 kilo bits per second, secure private vault environment and multiple-country connectivity access.

An arbitration committee will be formed which will consist of one independent non-executive director of the Company and one independent non-executive director of PCCW. In the event that there is any dispute on the cross-referral of business, the committee will have the right to make a final decision, subject to the agreement of the prospective customer.

The cooperation arrangement applies 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.

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

- (g) Amounts due from related companies

Amounts due from related companies represent trade receivables. These amounts are unsecured and non-interest bearing. The balances outstanding as at 31st December, 2000 were as follows.

|                     | <b>2000</b>     |
|---------------------|-----------------|
|                     | <b>HK\$'000</b> |
| iBEAM               | <b>186</b>      |
| Magically Asia      | <b>76</b>       |
| NetCel              | <b>16</b>       |
| Outblaze            | <b>62</b>       |
| Pacific Convergence | <b>7,474</b>    |
| PCCW Services       | <b>605</b>      |
| Skyhorse            | <b>161</b>      |
| uBuyiBuy            | <b>2</b>        |
|                     | <hr/>           |
|                     | <b>8,582</b>    |
|                     | <hr/> <hr/>     |

- (h) Amounts due to related parties

Amounts due to related parties represent payment of expenses made by DotCom Pacific and a director of the Company on behalf of the Group. These amounts were unsecured and non-interest bearing.

- (i) Loans from a shareholder

Pursuant to an agreement entered into by two shareholders of the Company, Media Touch Group Limited ("Media Touch") and RadarNet Limited ("RadarNet"), dated 15th February, 2000 with retroactive effect from 31st December, 1999, Media Touch has agreed to fund the equity of NetFort Offshore Limited up to a maximum amount of HK\$70 million. Media Touch has the option but not the obligation to contribute any funding in excess of HK\$70 million. The proceeds from such funding were advanced to iLink.net Limited by way of interest-free loans with no fixed repayment terms. The loans are used for establishing the facilities and operations of iLink.net Limited. For the six months ended 31st December, 1999 and the year ended 31st December, 2000, the amounts advanced by Media Touch approximated HK\$15.6 million and HK\$71.2 million respectively. According to the above agreement and as agreed by Media Touch, these amounts were capitalised as contributed surplus of NetFort Offshore Limited during those periods.

## 11. RELATED PARTY TRANSACTIONS (Cont'd)

### (i) Loans from a shareholder (Cont'd)

Pursuant to the agreement for the transfer of the Business from DotCom Pacific to NetFort Offshore Limited and under the above shareholders' agreement, DotCom Pacific transferred the Business to NetFort Offshore Limited and RadarNet is required to provide all expertise, management and technical skills necessary to construct, establish, develop and manage the facilities and operations of iLink.net Limited in return for 20% of the issued share capital of NetFort Offshore Limited, initially issued to DotCom Pacific, for a consideration equal to par value of the shares of US\$2.

## 12. FIXED ASSETS, NET

Movements in fixed assets of the Group were as follows:

|                                 | Data centers<br>and related equipment |                                    |                                     | Furniture,<br>fixtures and<br>equipment | Computer<br>equipment | Motor vehicle | Total  |
|---------------------------------|---------------------------------------|------------------------------------|-------------------------------------|---|-----------------------|---------------|--------|
|                                 | Leasehold<br>improvements             | Computer<br>and other<br>equipment | Office<br>leasehold<br>improvements |   |                       |               |        |
|                                 |                                       |                                    |                                     |   |                       |               |        |
| <b>Cost</b>                     |                                       |                                    |                                     |   |                       |               |        |
| Additions and as at             |                                       |                                    |                                     |   |                       |               |        |
| 31st December, 1999             | 5,737                                 | 3,861                              | 2,413                               | 869                                     | 746                   | —             | 13,626 |
| Additions                       | 46,738                                | 20,855                             | 770                                 | 541                                     | 1,335                 | 296           | 70,535 |
| Disposals                       | —                                     | (175)                              | —                                   | (6)                                     | —                     | —             | (181)  |
| As at 31st December, 2000       | 52,475                                | 24,541                             | 3,183                               | 1,404                                   | 2,081                 | 296           | 83,980 |
| <b>Accumulated depreciation</b> |                                       |                                    |                                     |   |                       |               |        |
| Charge for the period and       |                                       |                                    |                                     |   |                       |               |        |
| as at 31st December, 1999       | —                                     | —                                  | 39                                  | 30                                      | —                     | —             | 69     |
| Charge for the year             | 2,200                                 | 3,287                              | 267                                 | 242                                     | 313                   | 30            | 6,339  |
| Disposals                       | —                                     | (6)                                | —                                   | (1)                                     | —                     | —             | (7)    |
| As at 31st December, 2000       | 2,200                                 | 3,281                              | 306                                 | 271                                     | 313                   | 30            | 6,401  |
| <b>Net book value</b>           |                                       |                                    |                                     |   |                       |               |        |
| As at 31st December, 1999       | 5,737                                 | 3,861                              | 2,374                               | 839                                     | 746                   | —             | 13,557 |
| As at 31st December, 2000       | 50,275                                | 21,260                             | 2,877                               | 1,133                                   | 1,768                 | 266           | 77,579 |

The net book value of fixed assets (motor vehicle) held under a finance lease as at 31st December, 2000 amounted to approximately HK\$266,000 (1999 : Nil).

### 13. INVESTMENT IN A SUBSIDIARY

In the Company's balance sheet, investment in a subsidiary comprised:

|                              |                 |
|------------------------------|-----------------|
|                              | <b>2000</b>     |
|                              | <b>HK\$'000</b> |
| Unlisted shares, at cost     | <b>46,887</b>   |
| Amount due from a subsidiary | <b>182,452</b>  |
|                              | <hr/>           |
|                              | <b>229,339</b>  |
|                              | <hr/> <hr/>     |

The amount due from a subsidiary was unsecured, non-interest bearing and without predetermined repayment terms.

The directors of the Company are of the opinion that the underlying value of the subsidiary is not less than the carrying value as at 31st December, 2000.

Details of the Company's subsidiaries, all of which were held indirectly by the Company except for NetFort Offshore Limited, as of 31st December, 2000, were as follows:

| Name   | Place and date of incorporation                             | Percentage of                       |   | Principal activities  |
|--|---|-------------------------------------|---|---|
|  |   | Issued and fully paid share capital | equity interest attributable to the Group |   |
| NetFort Offshore Limited   | The British Virgin Islands (the "BVI")<br>24th August, 1999 | US\$ 100,000                        | 100%                                      | Investment holding  |
| iLink.net Limited (formerly known as Verona Limited)                         | Hong Kong,<br>11th August, 1999                             | HK\$ 2                              | 100%                                      | Provision of Internet connectivity, dedicated server hosting and co-location services |
| iLink.net (Shanghai) Holdings Limited (formerly known as Phonic Spirit Inc.) | The BVI,<br>12th January, 2000                              | US\$ 1                              | 100%                                      | Investment holding  |
| iLink.net (China) Limited (formerly known as Wealthy Millennium Limited)     | The BVI,<br>20th April, 2000                                | US\$ 1                              | 100%                                      | Investment holding  |
| iLink.net (Beijing) Limited (formerly known as Cyber Starlight Limited)      | The BVI,<br>28th June, 2000                                 | US\$ 1                              | 100%                                      | Investment holding  |

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2000.



**14. ACCOUNTS RECEIVABLE, NET**

|                                    | 2000<br>HK\$'000 |
|------------------------------------|------------------|
| Accounts receivable                | 7,474            |
| Less: Provision for doubtful debts | (530)            |
|                                    | <hr/>            |
|                                    | <b>6,944</b>     |
|                                    | <hr/> <hr/>      |

**15. OBLIGATION UNDER A FINANCE LEASE**

Details of the obligation under a finance lease are as follows:

|   | 2000<br>HK\$'000 |
|---|------------------|
| Amounts payable:                                |                  |
| In the first year                               | 53               |
| In the second year                              | 57               |
| In the third to fifth years inclusive           | 161              |
|   | <hr/>            |
|   | 271              |
| Less: Portion classified as current liabilities | (53)             |
|   | <hr/>            |
| Long-term portion                               | <b>218</b>       |
|   | <hr/> <hr/>      |

**16. SHARE CAPITAL**

|   | Number of shares  |                                | Amount                    |  | Total<br>HK\$    |
|---|-------------------|--------------------------------|---------------------------|--|------------------|
|   | Ordinary<br>share | Series A<br>preferred<br>share | Ordinary<br>share<br>HK\$ | Series A<br>preferred<br>share<br>HK\$ |                  |
| Authorised:   |                   |                                |                           |  |                  |
| Ordinary shares of HK\$0.1 each   | 40,000,000        | —                              | 4,000,000                 | —                                      | 4,000,000        |
| Series A preferred shares of HK\$0.1 each   | —                 | 53,330                         | —                         | 5,333                                  | 5,333            |
|   | <u>40,000,000</u> | <u>53,330</u>                  | <u>4,000,000</u>          | <u>5,333</u>                           | <u>4,005,333</u> |
| As at 31st December, 2000   |                   |                                |                           |  |                  |
| Issued and fully paid:  |                   |                                |                           |  |                  |
| At inception  | 2                 | —                              | —                         | —                                      | —                |
| Issuance of ordinary shares in the  |                   |                                |                           |  |                  |
| Reorganisation  | 99,998            | —                              | 10,000                    | —                                      | 10,000           |
| Conversion of convertible notes   | 633,000           | —                              | 63,300                    | —                                      | 63,300           |
| Issuance of Series A preferred shares to  |                   |                                |                           |  |                  |
| an institutional investor   | —                 | 53,330                         | —                         | 5,333                                  | 5,333            |
| Issuance of ordinary shares   |                   |                                |                           |  |                  |
| to an institutional investor  | 102,540           | —                              | 10,254                    | —                                      | 10,254           |
|   | <u>102,540</u>    | <u>—</u>                       | <u>10,254</u>             | <u>—</u>                               | <u>10,254</u>    |
| As at 31st December, 2000   |                   |                                |                           |  |                  |
| (835,540 ordinary shares are equivalent<br>to 669,267,540 shares after the<br>Capitalisation Issue) | 835,540           | 53,330                         | 83,554                    | 5,333                                  | 88,887           |
|   | <u>835,540</u>    | <u>53,330</u>                  | <u>83,554</u>             | <u>5,333</u>                           | <u>88,887</u>    |

**16. SHARE CAPITAL** *(Cont'd)*

- (a) The Company was incorporated with an authorised share capital of HK\$4,000,000 divided into 40,000,000 ordinary shares of HK\$0.1 each, of which 2 shares (equivalent to 1,602 shares after the Capitalisation Issue) were issued and fully paid at par initially.

Pursuant to written resolutions of the sole director of the Company dated 10th August, 2000, 62,998, 27,000 and 10,000 shares (equivalent to 50,461,398, 21,627,000 and 8,010,000 shares respectively after the Capitalisation Issue) were allotted and issued to the then shareholders of NetFort Offshore Limited in consideration of their transferring the entire issued share capital of NetFort Offshore Limited to the Company.

On 15th August, 2000, approximately HK\$42,198,000 of the contributed surplus was utilised for a bonus issue of convertible notes (the "Notes") with principal amounts of HK\$26,585,000, HK\$11,393,000 and HK\$4,220,000 to the three shareholders of the Company respectively. The Notes are convertible into 567,000, 243,000 and 90,000 ordinary shares of the Company (equivalent to 454,167,000, 194,643,000 and 72,090,000 shares respectively after the Capitalisation Issue) on or before the Listing.

On the same day, the three shareholders partially or fully converted the Notes in the amount of HK\$29,679,000 into 300,000, 243,000 and 90,000 ordinary shares of the Company (equivalent to 240,300,000, 194,643,000 and 72,090,000 shares after the Capitalisation Issue), respectively.

Pursuant to written resolutions of all shareholders of the Company dated 15th August, 2000, the authorised share capital of the Company was increased from HK\$4,000,000 to HK\$4,005,333 divided into two classes of shares: (i) 40,000,000 ordinary shares of HK\$0.1 each; and (ii) 53,330 Series A preferred shares of HK\$0.1 each.

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 the Company (equivalent to 42,717,330 shares after the Capitalization Issue) subsequent to 31st December, 2000.

On 20th September, 2000, 102,540 ordinary shares of the Company (equivalent to 82,134,540 shares after the Capitalisation Issue) were issued to another institutional investor at US\$150 per share, resulting in the receipt of net proceeds of approximately US\$15.4 million.

Subsequent to 31st December, 2000, 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 shares and the cancellation of the 53,330 Series A preferred shares.

**16. SHARE CAPITAL** *(Cont'd)*

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 shares, credited as fully paid at par, to the then shareholders of the Company immediately before the Listing (the "Capitalisation Issue"); and
  - (ii) 6,029,623 and 11,593,429 additional shares were issued to two institutional investors at no further consideration on exercise of the downside price protection provisions contained in their share subscription agreements. See Note 19(c)(i).
- (b) The Company's Series A preferred shares have certain rights, preferences, and restrictions with respect to conversion, liquidation and voting as follows:
- (i) Each preferred share is convertible, at the option of the holder, into ordinary shares on a one-to-one basis (before the Capitalisation Issue).
  - (ii) Conversion of preferred shares into ordinary shares is automatic upon the Listing.
  - (iii) The holders of the preferred shares are entitled to vote on an as converted basis with the holders of ordinary shares.
  - (iv) In the event of liquidation, the holders of the preferred shares have a liquidation preference over the holders of ordinary shares under which the holders of preferred shares will be entitled to receive US\$150 per share plus all accrued dividends.
  - (v) The holders of preferred shares are entitled to additional shares by the Company under certain circumstances, the details of which are set out in Note 19(c)(i) below.
- (c) Prior to the Listing, 267,000 ordinary shares of the Company (equivalent to 213,867,000 shares after the Capitalisation Issue) were issued to Media Touch, a shareholder of the Company, on conversion of a convertible note held by it. See Note 17 below.

**17. CONVERTIBLE NOTE**

As at 31st December, 2000, the Company had an outstanding convertible note of HK\$12,519,000 held by Media Touch, a shareholder of the Company.

The convertible note is unsecured, interest-free and is not repayable in monetary sums. It is convertible into 267,000 ordinary shares of the Company (equivalent to 213,867,000 shares after the Capitalisation Issue) on or before the Listing. On 8th March, 2001, prior to the Listing, the above convertible note was fully converted into ordinary shares of the Company.

## 18. RESERVES

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

|  | Contributed Accumulated |               |                 | Total           |
|--|-------------------------|---------------|-----------------|-----------------|
|  | Share premium           | surplus       | deficit         |                 |
|  | HK\$'000                | HK\$'000      | HK\$'000        | HK\$'000        |
| <b>Group</b>   |                         |               |                 |                 |
| Capitalisation of loans from Media Touch                           | —                       | 15,594        | —               | 15,594          |
| Loss for the period  | —                       | —             | (3,755)         | (3,755)         |
|  | <u>—</u>                | <u>—</u>      | <u>(3,755)</u>  | <u>(3,755)</u>  |
| Balance as at 31st December, 1999                                  | —                       | 15,594        | (3,755)         | 11,839          |
| Capitalisation for bonus issue                                     | —                       | (780)         | —               | (780)           |
| Share premium created upon share<br>exchange in the Reorganisation | 771                     | —             | —               | 771             |
| Issuance of Series A preferred shares                              | 62,384                  | —             | —               | 62,384          |
| Issuance of ordinary shares  | 119,942                 | —             | —               | 119,942         |
| Capitalisation of loans from Media Touch                           | —                       | 71,166        | —               | 71,166          |
| Bonus issue of convertible notes                                   | —                       | (42,198)      | —               | (42,198)        |
| Conversion of convertible notes                                    | 29,615                  | —             | —               | 29,615          |
| Loss for the year  | —                       | —             | (28,680)        | (28,680)        |
|  | <u>—</u>                | <u>—</u>      | <u>(28,680)</u> | <u>(28,680)</u> |
| Balance as at 31st December, 2000                                  | <u>212,712</u>          | <u>43,782</u> | <u>(32,435)</u> | <u>224,059</u>  |
| <b>Company</b>   |                         |               |                 |                 |
| Share premium created upon share<br>exchange in the Reorganisation | 46,878                  | —             | —               | 46,878          |
| Issuance of Series A preferred shares                              | 62,384                  | —             | —               | 62,384          |
| Issuance of ordinary shares  | 119,942                 | —             | —               | 119,942         |
| Bonus issue of convertible notes                                   | (42,198)                | —             | —               | (42,198)        |
| Conversion of convertible notes                                    | 29,615                  | —             | —               | 29,615          |
|  | <u>—</u>                | <u>—</u>      | <u>—</u>        | <u>—</u>        |
| Balance as at 31st December, 2000                                  | <u>216,621</u>          | <u>—</u>      | <u>—</u>        | <u>216,621</u>  |

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

**18. RESERVES** (Cont'd)

As at 31st December, 2000, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$216.6 million, subject to the restriction stated above.

**19. COMMITMENTS**

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

(a) **Capital commitments**

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

|                                   | <b>2000</b>          | 1999       |
|-----------------------------------|----------------------|------------|
|                                   | <b>HK\$'000</b>      | HK\$'000   |
| Authorised and contracted for     | <b>11,885</b>        | 547        |
| Authorised but not contracted for | —                    | —          |
|                                   | <u><b>11,885</b></u> | <u>547</u> |

(b) **Operating leases commitments**

The Group had outstanding commitments under non-cancellable operating leases in respect of buildings, racks and Internet connectivity leased lines amounting to approximately HK\$64,516,000 (1999 : HK\$12,047,000) of which approximately HK\$18,191,000 (1999 : HK\$2,369,000) is payable in the next twelve months. The amount payable in the next twelve months, analysed according to the period in which the leases expire, is as follows:

|  | <b>2000</b>          | 1999         |
|--|----------------------|--------------|
|  | <b>HK\$'000</b>      | HK\$'000     |
| Buildings and racks                            |                      |              |
| Expiring in the first year                     | <b>2,442</b>         | —            |
| Expiring in the second to fifth year inclusive | <b>12,149</b>        | 2,369        |
|  | <u><b>14,591</b></u> | <u>2,369</u> |
| Internet connectivity leased lines             |                      |              |
| Expiring in the first year                     | <b>3,600</b>         | —            |
|  | <u><b>18,191</b></u> | <u>2,369</u> |

**19. COMMITMENTS** *(Cont'd)*

(c) **Other commitments**

- (i) 53,330 Series A preferred shares and 102,540 ordinary shares of the Company were issued to two institutional investors respectively at US\$150 per share in August and September 2000. The Series A preferred shares carry the same voting rights as ordinary shares of the Company. They are automatically convertible into ordinary shares of the Company on a one-to-one basis (before the Capitalisation Issue) upon the Listing.

Pursuant to the agreement for the issuance of 53,330 Series A preferred shares, the institutional investor, as a holder of Series A preferred shares, is entitled to additional shares to be issued by the Company at no further consideration should the Company issue any further shares at a price lower than US\$150 per share other than for certain purposes as specified in the agreement (the "Downside Price Protection"). Upon the Listing, the Company issued 6,029,623 additional shares, determined based on a prescribed formula, to the institution investor at no further consideration in accordance with the terms of the Downside Price Protection.

Pursuant to the agreement for the issuance of 102,540 ordinary shares and a written consent dated 9th February, 2001 given by the relevant institutional investor, that institutional investor is also entitled to the Downside Price Protection. Upon the Listing, the Company issued 11,593,429 additional shares, determined based on a prescribed formula as stated in the written consent, to that institutional investor at no further consideration in accordance with the terms of the Downside Price Protection.

- (ii) On 3rd August, 2000, iLink.net (Beijing) Limited signed a cooperation agreement with a third party company ("Party A") in the People's Republic of China (the "PRC"). According to the agreement, iLink.net (Beijing) Limited will establish a foreign invested enterprise ("FIE") in Beijing, the PRC, which will be mainly responsible for setting up a data center (the "Beijing Center") and purchasing the relevant equipment for the operations of the Beijing Center. iLink.net (Beijing) Limited will be entitled to all the profit/loss of the FIE after paying to Party A certain specified fees as detailed in the agreement. The agreement is effective for a period of 10 years. The above FIE has not been established up to the date of approving these financial statements.

**19. COMMITMENTS** (Cont'd)

(iii) On 31st August, 2000, iLink.net (Shanghai) Holdings Limited entered into a joint venture agreement with two third party companies (the "Joint Venture Partners") in connection with the establishment of a sino-foreign equity joint venture company (the "Joint Venture") in Shanghai, the PRC, for the provision of Internet connectivity and server hosting services. According to the agreement, iLink.net (Shanghai) Holdings Limited will contribute US\$2,550,000 in cash to the Joint Venture in return for a 51% equity interest. The joint venture period is 50 years. The Joint Venture has not been established up to the date of approving these financial statements.

**20. NOTES TO THE CASH FLOW STATEMENT**

(a) **Reconciliation of loss before taxation to net cash outflow from operating activities**

|   | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the<br>six months ended<br>31st December,<br>1999<br>HK\$'000 |
|---|--|---|
| Loss before taxation  | <b>(28,680)</b>  | (3,755)   |
| Interest income   | <b>(3,233)</b>   | —   |
| Interest expense  | <b>10</b>  | —   |
| Depreciation  | <b>6,339</b>   | 69  |
| Gain on disposals of fixed assets                             | <b>(112)</b>   | —   |
| Increase in accounts receivable                               | <b>(6,944)</b>   | —   |
| Increase in amounts due from related companies                | <b>(8,582)</b>   | —   |
| Increase in prepayments, deposits and<br>other current assets | <b>(16,011)</b>  | (1,499)   |
| Increase in accounts payable                                  | <b>11,026</b>  | 2,467   |
| Increase in accruals and other payables                       | <b>19,326</b>  | 1,431   |
| (Decrease) Increase in amounts due to related parties         | <b>(93)</b>  | 93  |
|   | <hr/>  | <hr/>   |
| Net cash outflow from operating activities                    | <b>(26,954)</b>  | (1,194)   |
|   | <hr/> <hr/>  | <hr/> <hr/>   |



**20. NOTES TO THE CASH FLOW STATEMENT** (Cont'd)

(b) **Major non-cash transaction**

During the year, the Group entered into a finance lease contract in respect of an acquisition of a fixed asset with a capital value at the inception of the contract of approximately HK\$295,000 (1999 : Nil).

Loans from a shareholder amounting to HK\$71.2 million and HK\$15.6 million were capitalised as contributed surplus of NetFort Offshore Limited for the year ended 31st December, 2000 and the six months ended 31st December, 1999 respectively.

(c) **Analysis of changes in financing**

|   | For the year ended<br>31st December, 2000                                 |                                  |  | For the six<br>months ended<br>31st December,<br>1999 |                   |
|---|---|----------------------------------|--|---|-------------------|
|   | Share capital,<br>share premium<br>and contributed<br>surplus<br>HK\$'000 | Convertible<br>notes<br>HK\$'000 | Finance<br>lease<br>obligation<br>HK\$'000 | Total<br>HK\$'000                                     | Total<br>HK\$'000 |
| Beginning of year/period  | 15,594  | —                                | —  | 15,594  | —                 |
| Issuance of Series A preferred shares                                   | 62,390  | —                                | —  | 62,390  | —                 |
| Issuance of ordinary shares   | 119,952   | —                                | —  | 119,952   | —                 |
| Capitalisation of loans from a shareholder                              | 71,166  | —                                | —  | 71,166  | 15,594            |
| Bonus issue of convertible notes  | (42,198)  | 42,198                           | —  | —   | —                 |
| Conversion of convertible notes   | 29,679  | (29,679)                         | —  | —   | —                 |
| Inception of a finance lease contract                                   | —   | —                                | 295  | 295   | —                 |
| Repayment of capital element of the<br>obligation under a finance lease | —   | —                                | (24)                                       | (24)  | —                 |
| End of year/period  | <u>256,583</u>  | <u>12,519</u>                    | <u>271</u>                                 | <u>269,373</u>  | <u>15,594</u>     |

## **21. SUBSEQUENT EVENTS**

Save as disclosed in other notes to the consolidated financial statement, the following significant event took place subsequent to 31st December, 2000 and up to the date of approving these financial statements:

The Company approved a share option scheme under which a committee (authorised by the Board of Directors, the "Committee") may, at its discretion, invite any employees of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Committee and will be at least the highest of (i) the quoted closing price of the Company's shares on the date of offer of the options, (ii) the average of the quoted closing price of the Company's shares on the five trading days immediately preceding the date of offer of the options, and (iii) the nominal value of the shares. The scheme became effective upon the Listing. No options have been granted up to the date of approving these financial statements.

|                                       | <b>For the<br/>year ended<br/>31st December,<br/>2000<br/>HK\$'000</b> | For the six<br>months ended<br>31st December,<br>1999<br>HK\$'000 |
|---------------------------------------|--|---|
| Turnover                              | <u><b>39,871</b></u>   | <u>—</u>  |
| Net loss attributable to shareholders | <u><b>(28,680)</b></u>   | <u>(3,755)</u>  |
| Total assets                          | <b>271,188</b>   | 15,830  |
| Total liabilities                     | <u><b>(34,521)</b></u>   | <u>(3,991)</u>  |
| Net assets                            | <u><b>236,667</b></u>  | <u>11,839</u>   |

The turnover, 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 group structure, at the time when the group reorganisation as referred to in note 1 to the financial statements was completed, had been in existence since 1st July, 1999 and throughout the accounting periods presented.

**NOTICE IS HEREBY GIVEN** that the First Annual General Meeting of iLink Holdings Limited (the "Company") will be held at Harbour Plaza Room, Basement 1, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong on Friday, 20th April, 2001 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, 2000;
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
- (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, and, if thought fit, pass the following resolution as an ordinary resolution:

**“THAT:**

- (a) the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its own shares (the “Shares”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% 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
- (c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest 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 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.”

## NOTICE OF ANNUAL GENERAL MEETING

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

**“THAT** conditional upon the resolutions numbered 4 and 5 set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with shares in the capital of the Company pursuant to the said resolution numbered 4 be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the said resolution numbered 5, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution.”

7. To consider, 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 Pacific Century CyberWorks Limited (“PCCW”), DotCom Pacific Ventures Limited (“DotCom Pacific”) (both the initial management shareholders of the Company) and their respective 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 ended 31st December, 2001 will not exceed HK\$86,000,000”;

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

**“THAT** (i) the service contract (copy of which marked “B” has been produced to this Meeting and signed by the Chairman hereof for the purpose of identification) entered into between iLink.net Limited (“iLink HK”) (an indirect wholly owned subsidiary of the Company) and PCCW-HKT Limited (“HKT”) (an indirect wholly-owned subsidiary of PCCW) dated 22nd May, 2000 relating to the provision by HKT of Internet connectivity bandwidth and (ii) various agreements for the provision of leased lines by HKT to iLink HK 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 such service contract and such provision of leased lines provided that the aggregate consideration payable thereunder in the financial year ended 31st December, 2001 will not exceed HK\$26,000,000”;

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

**“THAT** the agency contract (copy of which marked “C” has been produced to this Meeting and signed by the Chairman hereof for the purpose of identification) entered into between iLink HK and AdMomentum Limited (a 40% directly-owned associated company of DotCom Pacific) dated 1st December, 1999 relating to the appointment of AdMomentum Limited as a non-exclusive agent to act on behalf of iLink HK in all planning and execution for its advertising and promotional activities 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 giving effect to the agency contract provided that the aggregate consideration payable thereunder in the financial year ended 31st December, 2001 will not exceed HK\$60,000,000”; and

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

**“THAT** the leasing agreement (copy of which marked “D” has been produced to this Meeting and signed by the Chairman hereof for the purpose of identification) entered into between iLink.net (Beijing) Limited (an indirect wholly owned subsidiary of the Company) and Beijing Jing Wei House and Land Estate Development Co., Ltd. (an indirectly wholly-owned subsidiary of PCCW) dated 1st January, 2001 relating to the leasing of certain office premises in Beijing to iLink.net (Beijing) Limited 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 ended 31st December, 2001 will not exceed HK\$11,600,000”.

By order of the Board

**LAM Yuk Lau**

*Company Secretary*

Hong Kong, 29th March, 2001

## NOTICE OF ANNUAL GENERAL MEETING

*Notes:*

- (1) 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.
- (2) 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 branch share registrar in Hong Kong, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, 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.
- (3) The register of members of the Company will be closed from Wednesday, 18th April, 2001 to Friday, 20th April, 2001 (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 branch share registrar, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 17th April, 2001.
- (4) A circular containing further details regarding the above resolutions numbered 4 to 6 will be sent to the shareholders together with the 2000 Annual Report.