



# Annual Report 2001



**iLink Holdings Limited**  
**合縱連網控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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

# CONTENTS

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	<i>Page</i>
Corporate Information	3
Directors and Senior Management Profile	4
Chairman's Statement	10
Management Discussion and Analysis	11
Progress against Business Objectives	16
Use of Proceeds	21
Report of the Directors	23
Auditors' Report	35
Consolidated Income Statement	37
Consolidated Statement of Recognised Gains and Losses	38
Balance Sheets	39
Consolidated Cash Flow Statement	40
Notes to the Consolidated Financial Statements	41
Financial Summary	70
Notice of Annual General Meeting	71





\* corporate  
information

\* directors & senior  
management profile

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-Executive Directors

CHEN Johnson  
CHEUNG Sum, Sam

### Independent Non-Executive Directors

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

## COMPLIANCE OFFICER

TANG King Fai

## QUALIFIED ACCOUNTANT

LAM Yuk Lau, *FCCA, AHKSA*

## COMPANY SECRETARY

LAM Yuk Lau, *FCCA, AHKSA*

## AUDIT COMMITTEE

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

## AUTHORISED REPRESENTATIVES

TAM Wai Keung, Billy  
LAM Yuk Lau

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITORS

Arthur Andersen & Co

## LEGAL ADVISORS

*As to Hong Kong Law*  
Baker & McKenzie  
Sidley Austin Brown & Wood

*As to Cayman Islands Law*  
Maples and Calder Asia

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking  
Corporation Limited

## WEBSITE

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

## STOCK CODE

8107

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

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## DIRECTORS

### Executive Directors

**Mr. CHUNG Cho Yee, Mico**, aged 41, 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 activities of the PCCW group. He is a qualified solicitor by profession. Mr. Chung graduated from University College, University of London, United Kingdom (“UK”) with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited, the investment banking arm of Standard Chartered Bank, in 1988. He became a director and the general manager of Bond Corporation International Ltd. in 1990 and left to join China Strategic Holdings Limited in January 1992. Mr. Chung joined the PCCW group in March 1999.

**Mr. TAM Wai Keung, Billy**, aged 38, 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. Mr. Tam was elected one of Hong Kong’s “Ten Outstanding Young Digi Persons” in 2001. Mr. Tam was previously Deputy Director of Cable Multimedia Services of Hong Kong Cable Television Limited (“Cable Television”) and was responsible for developing Cable Modem Broadband Multimedia Services, including broadband Internet, Voice-over-IP and other value-added multimedia services. Mr. Tam is a pioneer in launching and implementing cable modem technology in Hong Kong and a veteran in the technical field of the Internet industry. Mr. Tam was one of the founders of Hong Kong Star Internet Limited and Star Interactive TV Limited, which was awarded one of the two Video On Demand Licences in Hong Kong to offer broadband Internet services. Mr. Tam was educated in the United States (“US”) and obtained a bachelor degree in electrical engineering from Seattle University, US. After graduation in 1988, he spent six years as a design engineer, and subsequently senior design engineer with an aerospace company in US employing 6,000 employees.

**Mr. LEE Brandon**, aged 34, 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 its strategic interactive television deployments around the world including the Chung Hwa Telecom Media On Demand project in Taiwan, the Malaysia Telecom I-Choose project in Malaysia and the Open Interactive project in UK.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

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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 46, has joined the Board since August 2000. He is the Director of Operations and is responsible for data centre operations of the Group. He joined iLink.net in December 1999. Mr. Leung has over 23 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 University of Hull, UK and a professional diploma in training management from The Chinese University of Hong Kong. He is also a member of the Chartered Institute of Personnel and Development, UK and the Hong Kong Institute of Human Resource Management.

**Mr. HUI Kwai**, aged 39, has joined the Board since August 2000. He is the Director of 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 12 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 University of Washington, US.

**Mr. TANG King Fai**, aged 38, has joined the Board since August 2000. He is the Director of 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 12 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 University of Washington, US. Mr. Tang is also the Compliance Officer of the Company.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

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## Non-Executive Directors

**Mr. CHEN Johnson**, aged 29, 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 Master's degree in Manufacturing Engineering and Business Studies, Master of Arts degree and a Bachelor degree in Manufacturing Engineering Tripos (MET) from University of Cambridge, UK.

**Mr. CHEUNG Sum, Sam**, aged 37, has joined the Board since August 2000. Mr. Cheung joined PCCW in April 2000 and is currently the Chief Financial Officer of Pacific Century Insurance Holdings Limited. Prior to joining PCCW, Mr. Cheung was a Director of 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, UK. Mr. Cheung is a fellow of The Association of Chartered Certified Accountants, UK and an associate of Hong Kong Society of Accountants.



# DIRECTORS AND SENIOR MANAGEMENT PROFILE

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## Independent Non-Executive Directors

**Mr. CHENG Kai Ming**, SBS, JP, aged 57, 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.

**Mr. WONG Wing Shing**, aged 50, 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 graduated from Yale University with a combined M.A.B.A. degree and obtained his Ph.D. degree from Harvard University, US. He is an IEEE Fellow and Fellow of the Hong Kong Institution of Engineers. His current research interests include mobile communication, nonlinear filter, and Internet search engine. He has been a Member of the Radio Spectrum Advisory Committee, Office of the Telecommunications Authority since 1996. He is currently a member of the HKIE Accreditation Board, Qualification & Membership Board, and Chairman of the Information Discipline Advisory Panel in HKIE.

## COMPANY SECRETARY

**Mr. LAM Yuk Lau**, aged 38. Prior to joining iLink.net in January 2001, Mr. Lam was the assistant general manager and company secretary of a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), responsible for its project investments. Mr. Lam has extensive experience in accounting, auditing and corporate finance, having worked at an international accounting firm and the Stock Exchange. Mr. Lam holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong and a Master of Business Administration degree from University of Western Sydney, Nepean, Australia. He is an associate of Hong Kong Society of Accountants, a fellow of The Association of Chartered Certified Accountants, UK, and a certified public accountant in Hong Kong. Mr. Lam is also the Chief Financial Officer and the Qualified Accountant of the Company.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

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## SENIOR MANAGEMENT

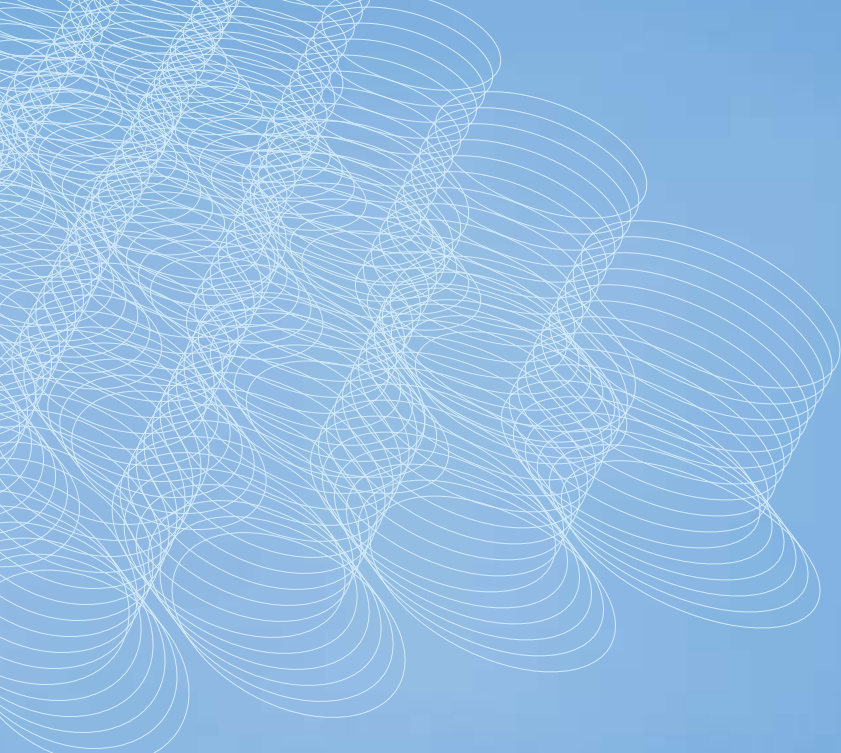
**Mr. CHEUNG Yung**, aged 32, is the Vice President of Corporate Sales and Business Development and is responsible for sales strategy planning and implementation. Mr. Cheung joined iLink.net in December 1999. He has over nine years of experience in computer network, Internet and e-commerce sales and marketing. Prior to joining iLink.net, Mr. Cheung was an Internet solution manager with Cable & Wireless HKT Limited (“HKT”) (now known as PCCW- HKT Limited), 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 31, is the Networks Manager and is responsible for research and development. Mr. Lam has over 14 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 Television, responsible for the daily operation of its data centre. Before joining Cable Television, Mr. Lam had spent over three years with Hong Kong Star Internet Limited, where he assisted in the operation of that Internet company.

**Mr. WONG Wai Lim**, aged 26, is the Sales Manager and is responsible for sales strategy planning and implementation. Mr. Wong joined iLink.net in January 2000. He has over four years of sales and marketing experience gained from several local and multinational companies. Prior to joining iLink.net, he worked for an international imaging and electronic device firm and was responsible for its major account management and developing its distributorship of The People’s Republic of China market. Mr. Wong holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

**Ms. YEUNG Chung Ting, Athena**, aged 30, 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 seven 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.

**Ms. YUNG Hong Yee, Connie**, aged 30, joined iLink.net in January 2000 as the Accountant. Ms. Yung has extensive accounting, financial management and tax experience gained from working at multinational corporations and audit firms. Prior to joining iLink.net, Ms. Yung spent two years with Arthur Andersen LLP in Canada where she was with the Asian Enterprise Group. Before that, Ms. Yung was with another firm of chartered accountants in Canada. Ms. Yung holds a Bachelor of Commerce degree in accounting and finance from University of Birmingham, UK and a Master of Arts degree in Information Technology from University of Nottingham, UK. Ms. Yung is an associate of Hong Kong Society of Accountants and a member of The American Institute of Certified Public Accountants.



\* **Chairman's  
Statement**

\* **Management  
Discussion  
& Analysis**



# CHAIRMAN'S STATEMENT

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I am pleased to present the annual report of iLink Holdings Limited (the "Company"), which is for the year ended 31st December, 2001, 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\$81,901,000 for the year ended 31st December, 2001, which represents an increase of 105.4% as compared to that of the last year. The loss attributable to shareholders for the year ended 31st December, 2001 was approximately HK\$34,901,000, an increase of 21.7% as compared to the loss in 2000.

## BUSINESS REVIEW

Year 2001 is a milestone for the Group as the Company successfully listed its shares on GEM since 9th March, 2001.

During the year, the Group's third data centre commenced operation in Beijing in April 2001. Other than the three data centres owned by the Group, a network of strategic partners in other cities has also been established. The current coverage of the Group's services includes Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Tokyo, Singapore, Manila, Bangkok, Seoul, Taipei, Kuala Lumpur and San Jose.

In order to achieve the Group's objective as a leading one-stop Internet application solution provider, the Group is continuously expanding its data centre services and launching new services under its "application service provider" business.

As a result of the short-term economic slowdown across different market segments in Hong Kong and worldwide, in particular, after the terrorists' attack on the United States, the business of the Group has been adversely affected. In view of the unfavourable market situation, the Group is more conservative in the development of business and some of the investments as scheduled in the Group's business plan have been postponed. However, the directors believe that the delay will not cause any significant impact on the Group's business development. The Group has also taken measures to control its operating costs. The directors are also confident that the Group's operation will be improved upon recovery of the economy, expected to be in the second half of 2002.

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 made the listing of the Company's shares a success.

**CHUNG Cho Yee, Mico**

*Chairman*

Hong Kong, 11th March, 2002

## MANAGEMENT DISCUSSION AND ANALYSIS

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For the year ended 31st December, 2001, the Group achieved a turnover of approximately HK\$81,901,000 and recorded a net loss attributable to shareholders of approximately HK\$34,901,000.

During the year, the Group had been successful in boosting its revenue and turnover was doubled. However, due to keen competition in the market and the declining economy, the Group experienced much pressure on pricing of its core services, such as Internet connectivity, server hosting and co-location services, although the effect of which was partly compensated by its value-added services provided. The Group was also hard hit by the dramatic corporate failures of certain of its customers after the terrorists' attack on the United States and to be prudent, the Group had made a provision of approximately HK\$9,014,000 during the year against its doubtful debts which was included in general and administrative expenses. Further, the Group incurred operating loss from its operation in Beijing, at its start-up stage, for the amount of approximately HK\$12,622,000. As a result, the Group recorded an increase in net loss attributable to shareholders for the year.

### FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2001, shareholders' funds of the Group amounted to approximately HK\$325,319,000. Current assets amounted to approximately HK\$246,470,000, of which approximately HK\$216,829,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately HK\$18,717,000, mainly its trade payables and accruals. The Group did not have any bank borrowings for the year ended 31st December, 2001. The Group financed its operations primarily with internally generated cash flow and the net proceeds from the new issue of the Company's shares by way of placing. The net asset value per share was HK\$0.062. The gearing ratio was 5.8% on the basis of total liabilities divided by shareholders' funds.

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its subsidiary in Beijing, the People's Republic of China (the "PRC") which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

For the year ended 31st December, 2001, there were no significant investments in securities made by the Group. Other than that in connection with the group reorganisation in preparation for the listing of the Company's shares, there were no material acquisition or disposal of subsidiaries and affiliated companies for this year.

As at 31st December, 2001, the Group did not have any material contingent liabilities nor any charges on its assets.

### SEGMENTAL INFORMATION

The Group has only one business segment engaged in the provision of installation, Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software.



# MANAGEMENT DISCUSSION AND ANALYSIS

Out of the turnover of the Group for the year, HK\$78,898,000, representing 96% of the total turnover, was derived from its Hong Kong operation with the balance from its operation in the PRC.

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

## OPERATION REVIEW

### Strategic Development

#### *Beijing*

In April 2001, the Group commenced its operation in Beijing, the PRC, through 北京合縱連橫科技有限公司 (the “Beijing Subsidiary”), a wholly-owned subsidiary of the Company registered in the PRC.

Pursuant to an agreement signed with 中國網絡通信有限公司 (“China Netcom”), an independent licensed ISP and bandwidth provider in the PRC, China Netcom is providing bandwidth to the customers of the Beijing data centre.

The Beijing Subsidiary has built its own sales and operation team. In order to maintain the standard and the quality of services, appropriate training has been provided for its staff in Beijing. Services have been soft-launched and several customers moved in while the growth in business is slow. The Group has successfully secured an agreement with China Netcom in providing them with co-location services to broaden its revenue base and has also been considering alternatives to minimise its operating costs in Beijing for its long-term development there.

#### *Shanghai*

In May 2001, the contract made between the Group, 上海世紀新元信息產業有限公司 and 上海虹口工業科技投資有限公司 for establishing an equity joint venture to operate a data centre in Shanghai had been lapsed. Nevertheless, the Group has engaged a strategic partner in providing data centre services there. Having considered the oversupply situation in Shanghai at the moment, it is expected that the delay in establishing its own data centre there will not materially affect the Group’s operation.

#### *Taiwan, Singapore and Shenzhen*

Strategic partners have been engaged in Singapore and identified in Taiwan and Shenzhen for the provision of data centre services.

In view of the significant downturn of economy in Taiwan and Singapore and the market conditions in Shenzhen, the Group will take a very cautious approach and closely monitor the market conditions before establishing data centres there to minimise the potential risks to the Group. It is expected that the delay in establishing its own data centres there will not materially affect the Group’s operation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Infrastructure and facilities development

The renovation and installation of the respective facilities in the expansion phase of the data centre at “The Center” in Hong Kong and the Group’s data centre in Beijing were completed in March and April 2001 respectively. Following the completion of the aforesaid facilities, the Group’s hosting capacity reaches approximately 1,300 racks in Hong Kong and approximately 650 racks in Beijing.

## Business development

The Group continued to expand its existing data centre services and has introduced broadband connectivity and Secure Mailing System to the customers in the year.

The Group also launched the following additional managed / ASP services during the year:

- Business automation application which is a customized, automated program for business workflow
- Enhanced version of CRM
- Media streaming on demand which provides streaming services upon customers’ usage request
- Fiber channel data storage
- Automatic tape back up which provides automatic off-site data back up
- Security risk assessment which is a penetration test to identify any security problem
- Intrusion detection system which is a monitoring system to detect any attempted intrusions into the network
- Anti-virus gateway which protects customers from new breeds of virus that may disrupt services

## STAFF

As at 31st December, 2001, the Group employed approximately 118 (2000: 62) staff with remuneration for the year amounting to approximately HK\$27,773,000 (2000: HK\$16,644,000). The significant increase in headcount mainly arose from recruitment of staff for its Beijing operation. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group’s salary and bonus system.

To maintain its standard of services and to develop its staff, the Group has been providing a comprehensive range of on-the-job trainings to its staff. The Group also engaged independent specialists to hold in-house seminars and training courses to its staff and sponsored its staff to attend seminars and training courses held by professional bodies. Staff training is always provided as and when required.

The Group operates a defined contribution pension scheme for its qualifying employees, pursuant to which the Group makes contribution at 8% to 12% on the employees’ salary or eligible employees may elect to join its defined contribution Mandatory Provident Fund since 1st December, 2000 and to which the Group makes monthly contributions based on the relevant regulations. The Group is also required

## MANAGEMENT DISCUSSION AND ANALYSIS

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to contribute to a state-sponsored retirement plan for its PRC employees at 19% of their basic salary. The Company has adopted a share option scheme on 22nd February, 2001. During the year and as at 31st December, 2001, no option has been granted or agreed to be granted under the said share option scheme.

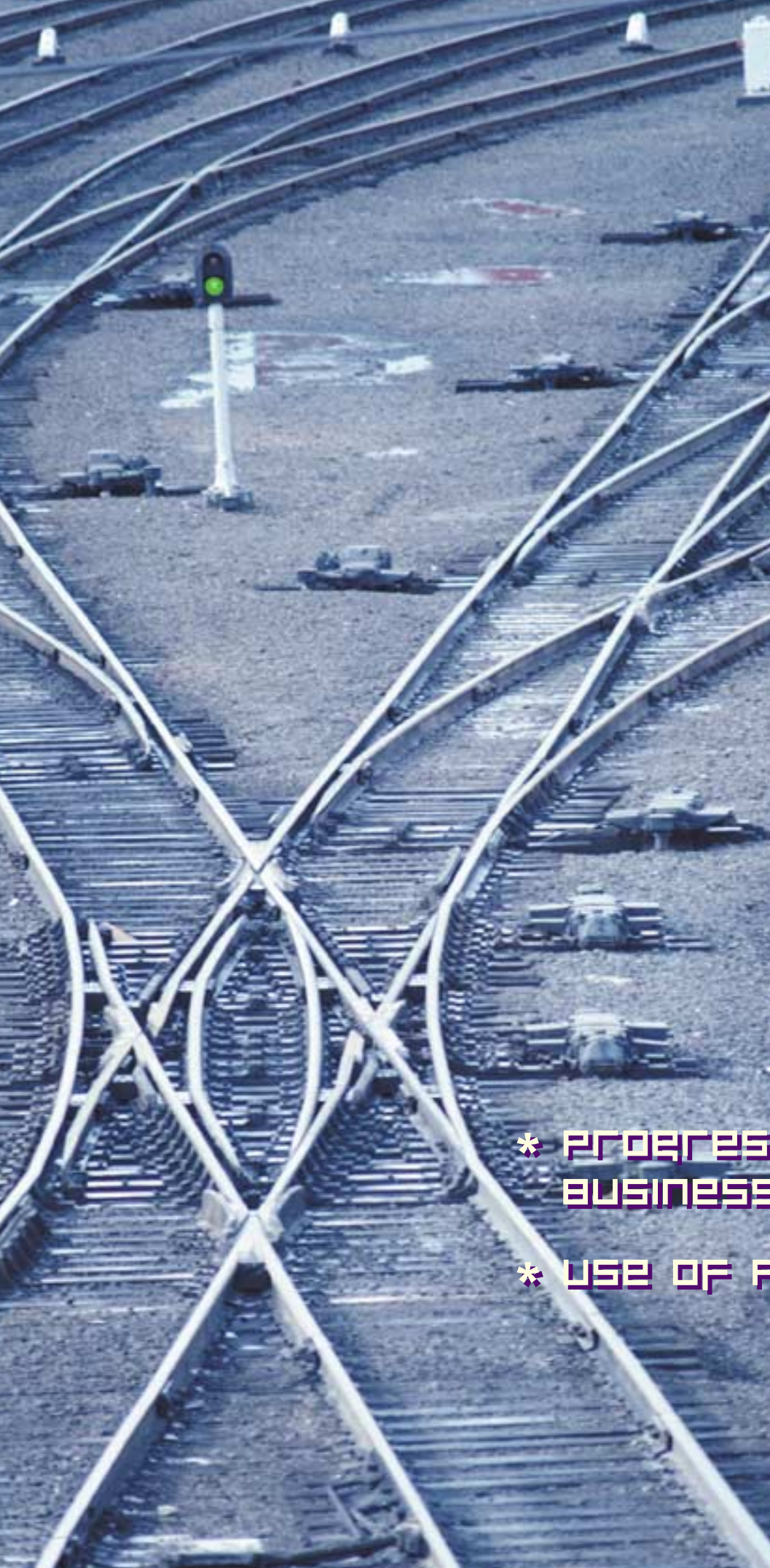
Nevertheless, in view of the difficult economic situation in Hong Kong, the Group has taken measures to control its operating costs. Among which, all Hong Kong staff were not declared any year-end bonus for 2001. To show their commitment to the Group, the executive directors have further decided to waive their entitlement to a monthly director's fee of HK\$15,000 each commencing on February 2002. An executive director has also entered into a supplementary agreement with the Group to reduce his monthly salary by HK\$33,000 with effect from January 2002.

### PROSPECT

In response to the slowdown across different market segments in Hong Kong and worldwide, in particular, after the terrorists' attack on the United States, the Group has been conservative in setting up further data centres across the Asia Pacific region. On the other hand, the Group has adopted a more flexible strategy in providing its customers data centre services throughout the region by forming alliances with other data centre operators in Shanghai, Shenzhen, Guangzhou, Tokyo, Singapore, Manila, Bangkok, Seoul, Taipei and Kuala Lumpur. The directors are comfortable with the Group's present pace of business development and the Group will pursue its business objectives cautiously taking into account of the latest market development and the best interests of the Group.

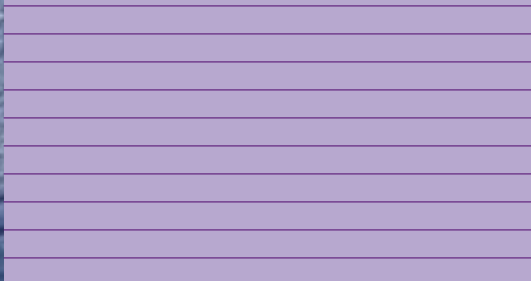
In the first half of 2002, the directors believe the Group will continue to experience more pressure on pricing of its service revenue and the bad debts will be at a relatively high level before the market rebounds. In view of this, the Group has taken every measure to increase its operating efficiency and to reduce its operating costs so as to increase its competitiveness. The Group has also set up a task group enhancing its debt collectibility. On the other hand, the Group has been launching more value-added services to its customers to broaden its revenue base. These are to make sure that the Group can be the first to benefit when the economy recovers.

The growth in e-commerce and Internet usage has stimulated the demand for Internet hosting, co-location, managed services and other value-added services throughout the world in the long-run. The directors believe that the Group is well positioned to capture these opportunities. The directors also believe that the accession of the PRC into the World Trade Organisation and the recent signs of economic recovery in the United States bring the hope that the economy in Hong Kong has reached its bottom and may rebound in the second half of 2002 and the Group will also benefit from the consolidation of the industry with many players ceasing their operations.



**\* PROGRESS AGAINST  
BUSINESS OBJECTIVES**

**\* USE OF PROCEEDS**



## PROGRESS AGAINST BUSINESS OBJECTIVES

The following is the comparison of the Group's business objectives for the periods from 1st January, 2001 to 30th June, 2001 and from 1st July, 2001 to 31st December, 2001 as set out in the Company's prospectus dated 28th February, 2001 with the actual business progress up to 31st December, 2001.

*1st January, 2001 to 30th June, 2001*

### **BUSINESS OBJECTIVES**

### **ACTUAL BUSINESS PROGRESS**

#### ***Business Development***

- Recruit and train staff for operating data centres in Beijing, Shanghai, Taiwan and Singapore.
  - Evaluate the feasibility of providing ASP services in the People's Republic of China.
  - Launch an e-commerce application platform.
  - Launch an enhanced version of CRM application and introduce other ASP applications.
  - Launch a central monitoring management system as a value added data centre service to provide in-depth monitoring on servers and applications hosted at the Group's data centres.
  - Launch computerized closed racks as a value-added data centre service which record any access to the racks.
  - Renovate and install facilities in the additional space leased in "The Center" in Hong Kong at approximately HK\$10 million to increase the hosting capacity by additional 200 racks.
- Staff members for Beijing data centre have been recruited and trained. Operation has been commenced.
  - ASP services have been provided by Beijing data centre.
  - The Group has introduced the payment gateway to facilitate e-commerce transactions.
  - The enhanced version of CRM application has been launched during the period. The Group has also launched new ASP services, including business automation application and media streaming on demand.
  - Due to the slowdown in the Internet market, the introduction of central monitoring management system is postponed. However, it is believed that such delay will not cause any significant changes to the Group's overall business plan.
  - Due to the slowdown in the Internet market, the introduction of computerized closed racks service is postponed. However, it is believed that such delay will not cause any significant changes to the Group's overall business plan.
  - Renovation and installation was completed in March 2001. The Group's hosting capacity in Hong Kong has been increased from 1,100 to 1,300 racks.



## PROGRESS AGAINST BUSINESS OBJECTIVES

### *Geographical expansion*

- Identify joint venture partner in Beijing and sign a joint venture agreement for establishment of the Beijing joint venture.
- Reach agreement with local partners in Taiwan and Singapore to establish data centers in Taiwan and Singapore.
- Launch four data centres, one in Beijing, one in Shanghai, one in Taiwan and one in Singapore with estimated capital investment by the Group of approximately HK\$56 million, HK\$26 million, HK\$25 million and HK\$25 million respectively.
- Investigate the potential benefits of setting up a research and development team in the PRC.
- Explore the potential for data centre business in other Asian cities.
- In view of the latest development in the relevant rules and regulations in the PRC, the Group has on 6th April, 2001 established the Beijing Subsidiary for operating the Group's data centre in Beijing.
- Strategic partners have been identified in Taiwan and engaged in Singapore for the provision of data centre services there. It is believed that the delay in establishing its own data centres there will not have any significant impact on the Group's business development.
- Renovation and installation of the data centre in Beijing was completed in April 2001 and operation has then been commenced. The co-operation agreement with the strategic partners to establish data centre in Shanghai lapsed during the period and the Group has engaged another strategic partner in providing data centre services there. The Group has also identified in Taiwan and engaged in Singapore strategic partners for the provision of data centre services there. It is expected that the delay in establishing its own data centres in Shanghai, Taiwan and Singapore will not materially affect the Group's operation.
- Every effort has been made to boost the revenue of the Beijing Subsidiary while its management is still actively investigating the costs and benefits of setting up a research and development team there.
- Development pace was slowed down while any investment opportunities in other Asian cities were not oversighted.

## PROGRESS AGAINST BUSINESS OBJECTIVES

### ***Strategic development***

- Seek to form alliances with local companies in Taiwan and Singapore where the Group plans to establish data centres in the first half of 2001.
- Seek to form alliances with local companies in Shenzhen and Guangzhou where the Group plans to establish data centres in the second half of 2001, and 2002, respectively.
- Explore opportunities to acquire or form alliances with other ASPs to strengthen the Group's ASP business.
- Continue to seek to form alliances with software vendors to broaden the range of ASP services.
- Explore merger and acquisition opportunities which will create synergy with the Group's business operations.
- Strategic partners have been identified in Taiwan and engaged in Singapore for the provision of data centre services there.
- Potential partners have been identified in Shenzhen and Guangzhou for the provision of data centre services there.
- Potential partners have been identified and terms of co-operation are being negotiated.
- Strategic alliance and channel partnerships have been formed with Microsoft Corporation and Oracle Corporation for provision of Microsoft and Oracle Solutions.
- Potential targets are being reviewed.

### ***Marketing strategies***

- Launch marketing program in Beijing, Shanghai, Taiwan and Singapore to promote the four new data centres of the Group.
- The Group had launched the following marketing programs in the first half of 2001:
  - booth exhibition at "Hong Kong Information Infrastructure Expo" in February 2001.
  - booth exhibition at "Compaq Infrastructure Symposium 2001" in May 2001.
  - speech delivered at "Enterprise China 2001" in Beijing in June 2001.
  - other marketing campaigns such as joint promotions with Hewlett-Packard Hong Kong Limited, Cisco Systems, Inc. and Compaq Computer Limited; various advertisements and new corporate brochures and flyers, etc.

## PROGRESS AGAINST BUSINESS OBJECTIVES

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- Introduce customer referral program to provide incentives to existing customers by providing credits, discounts or commissions, for referring new customers to the Group.
- The Group has soft launched a customer referral program to provide incentives to the existing customers for referring new customers to the Group.

*1st July, 2001 to 31st December, 2001*

### ***Business Development***

- Continue to launch ASP services to support game server applications.
- Potential partners are being identified.
- Implement an enhanced monitoring system of site testing, in terms of scalability, integrity, database and storage management.
- The Group has introduced a monitoring system which actively tracks performance parameters.
- Launch ASP services in the PRC.
- ASP services have been provided by Beijing data centre.
- Recruit and train staff for operating data centre in Shenzhen.
- Recruitment and training of staff for operating data centre in Shenzhen will be postponed until the establishment of data centre in Shenzhen.

### ***Geographical expansion***

- Reach agreement with local partners in Shenzhen and launch a data centre in Shenzhen with estimated capital investment by the Group of approximately HK\$34 million.
- Considering the current market conditions, the development of data centre in Shenzhen will be postponed. It is believed that such delay will not have any significant impact on the Group's business development. Nevertheless, the Group has identified a strategic partner for the provision of data centre services there.
- Explore the feasibility of establishing data centres in Europe.
- In view of the changes in market conditions, development pace was slowed down while any investment opportunities in Europe would be evaluated cautiously.

# PROGRESS AGAINST BUSINESS OBJECTIVES

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## ***Strategic Development***

- Seek to form alliances with local companies and software vendors to broaden the range of services.
- Potential partners have been identified and negotiations on different services/products are underway.

## ***Marketing Strategies***

- Cooperate with business partners and carry out joint marketing programs.
- Joint marketing program was arranged with Microsoft and Compaq to offer SME packages.
- Employ a broad range of marketing communications and public relations activities through local and regional media.
- Local and regional media were employed for marketing communications and public relations activities such as HK6.com and Bulgarian National Television.

## USE OF PROCEEDS

The Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$123,503,000, which is HK\$2,503,000 in excess of the estimated amount as stated in the Company's prospectus dated 28th February, 2001 (the "Prospectus") from the new issue of shares by way of placing (the "Placing"). Up to 31st December, 2001, the Group has applied the net proceeds as follows:

	<b>Use of proceeds as stated in the Prospectus</b> <i>HK\$</i>	<b>Actual amount used up to 31st December, 2001</b> <i>HK\$</i>	<i>Note</i>
Establish data centre in Taiwan in the first half of 2001	25,000,000	—	<i>(a)</i>
Establish data centre in Shenzhen in the second half of 2001	34,000,000	—	<i>(a)</i>
Operations of data centre and ASP businesses for the year ended 31st December, 2001	43,000,000	42,389,000	<i>(b)</i>
Marketing and promotional activities for the year ended 31st December, 2001	12,000,000	2,096,000	<i>(c)</i>
Working capital	7,000,000	—	
<b>Total</b>	<b><u>121,000,000</u></b>	<b><u>44,485,000</u></b>	<i>(d)</i>

*Notes:*

- (a) To cope with changes in the Group's development pace, the proceeds allocated for the establishment of its data centres in Taiwan and Shenzhen were withheld and placed in banks to earn interest.
- (b) HK\$42,389,000 was utilised to finance the operations of its data centres and ASP services.
- (c) To cope with market changes, the Group has restricted its expenditures in marketing and promotional activities for the year ended 31st December, 2001 from HK\$12,000,000 to HK\$2,096,000 with the balance kept as additional working capital.
- (d) Net proceeds received from the Placing amounted to HK\$123,503,000, which is HK\$2,503,000 in excess of the estimated amount as stated in the Prospectus. The unused proceeds were placed in bank to earn interest and will be used as additional working capital.





\* report of the  
directors

\* financial statements

\* financial summary

\* notice of annual  
general meeting



# REPORT OF THE DIRECTORS

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The directors have pleasure in presenting their 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, 2001.

## 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 (Revised) 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 41.

## 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 AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries currently operate two data centres in Hong Kong and one data centre in Beijing providing Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software. In addition, services are also offered by the Group in Asia Pacific region and for its Asian customers in the United States.

An analysis of the Group's turnover and contribution to operating loss for the year by geographical segments and principal activities is set out in notes 3 and 4 to the financial statements on pages 48 and 49.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 37.

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

# REPORT OF THE DIRECTORS

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## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001:

- (a) the aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 26.2% of the Group's total purchases. The largest supplier accounted for approximately 6.6% of the Group's total purchases.
- (b) the aggregate amount of turnover attributable to the Group's five largest customers represented approximately 35.0% of the Group's total turnover. The largest customer accounted for approximately 22.1% of the Group's total turnover.

Two of the five largest suppliers and one of the five largest customers are subsidiaries of Pacific Century CyberWorks Limited ("PCCW"), one of the substantial shareholders of the Company. In addition, one of the five largest suppliers is a jointly-controlled entity of PCCW.

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.

## FIXED ASSETS

Details of the movements in fixed assets during the year ended 31st December, 2001 are set out in note 13 to the financial statements on page 57.

## SUBSIDIARIES

Details of the subsidiaries of the Company as at 31st December, 2001 are set out in note 14 to the financial statements on page 58.

## SHARE CAPITAL

Pursuant to an ordinary resolution approved by its shareholders on 17th August, 2001, the Company's shares of HK\$0.10 each in its share capital were subdivided into five shares of HK\$0.02 each. Details of this and other movements in the authorised and issued share capital of the Company during the year ended 31st December, 2001 are set out in note 19 to the financial statements on pages 61 to 63.

# REPORT OF THE DIRECTORS

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## RESERVES

Details of the movements in reserves of the Group and the Company during the year ended 31st December, 2001 are set out in note 21 to the financial statements on page 64.

## 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 6 to the financial statements on pages 50 to 51.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year ended 31st December, 2001 and up to the date of this report were:

### Executive Directors

Chung Cho Yee, Mico (*Chairman*)

Tam Wai Keung, Billy (*Chief Executive Officer*)

Lee Brandon

Leung Man Leuk, Tommy

Hui Kwai

Tang King Fai

Yuen Kee Tong, Norman

(resigned on 10th January, 2001)

Cheng Ka Hang

(resigned on 10th January, 2001)

### Non-Executive Directors

Chen Johnson

Cheung Sum, Sam

(appointed on 1st October, 2001 after ceasing to act as an executive director on the same date)

Lam Wai Man, Virginia

(resigned on 21st December, 2001)

Ng Chi Shing

(resigned on 17th October, 2001)

# REPORT OF THE DIRECTORS

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## **Independent Non-Executive Directors**

Cheng Kai Ming  
Wong Wing Shing

In accordance with Article 116 of the Company's Articles of Association, Messrs. Chung Cho Yee, Mico, Leung Man Leuk, Tommy and Hui Kwai 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.

## **Service Contracts**

Six directors of the Company namely, Mr. Tam Wai Keung, Billy, Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai, Mr. Tang King Fai and Mr. Cheung Sum, Sam had entered into service agreements with the Company on 22nd February, 2001. 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.

Each service agreement can be terminated by the Company by 6 months' written notice but cannot be terminated by the relevant executive director prior to the expiry of the term, whereas 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. 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.

Pursuant to a mutual agreement, the service agreement with Mr. Cheung Sum, Sam was terminated on 1st October, 2001. On the same date, Mr. Cheung Sum, Sam ceased to act as an executive director but was appointed as a non-executive director of the Company.

## REPORT OF THE DIRECTORS

Subsequent to the year end, Mr. Cheung Sum, Sam has waived his director's fees for the period from 1st January, 2001 to 30th September, 2001 in the amount of HK\$135,000. The other five executive directors have also agreed to waive their director's fees from 1st February, 2002 until further notice. In addition, Mr. Tam Wai Keung, Billy has agreed, pursuant to a supplementary agreement, to reduce his monthly basic salary by HK\$33,000 commencing on 1st January, 2002.

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

### DIRECTORS' INTERESTS

As at 31st December, 2001, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.40 to 5.49 of the GEM Listing Rules were as follows:

Name of directors	Personal interests	Family interests	Corporate interests	Other interests (Note)	Total
Chung Cho Yee, Mico	—	—	—	400,500,000	400,500,000
Tam Wai Keung, Billy	1,081,350,000	—	—	—	1,081,350,000
Lee Brandon	—	—	—	400,500,000	400,500,000
Leung Man Leuk, Tommy	—	—	—	400,500,000	400,500,000
Hui Kwai	—	—	—	400,500,000	400,500,000
Tang King Fai	—	—	—	400,500,000	400,500,000
Chen Johnson	—	—	—	400,500,000	400,500,000
Cheung Sum, Sam	—	—	—	400,500,000	400,500,000

*Note:* These directors are deemed to be interested in 400,500,000 shares of the Company held by HSBC International Trustee Limited ("HSBC Trustee"), the trustee of a discretionary trust named The RadarNet Trust, by virtue of being the beneficiaries under such discretionary trust.

Save as disclosed above, as at 31st December, 2001, none of the directors, chief executives of the Company or their associates had any interests in any securities of the Company or its associated corporations as defined in the SDI Ordinance.



# REPORT OF THE DIRECTORS

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## 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 executive directors, of the Company and its subsidiaries may be granted options to subscribe for the shares of the Company. Up to 33 $\frac{1}{3}$ %, 66 $\frac{2}{3}$ % and 100% of any option offered under the Share Option Scheme may respectively be exercised after one year, two years and three years from the date of offer of an option is made, but not later than 10 years from the date of offer. The subscription price on the exercise of an option shall be at least the highest of (i) the closing price of the Company's shares quoted on the GEM on the date of offer, (ii) the average closing price of the Company's shares quoted on the GEM for the five business days immediately preceding the date of offer, and (iii) the nominal value of the Company's shares.

During the year and as at 31st December, 2001, no option has been granted or agreed to be granted under the Share Option Scheme.

The directors propose to adopt a new share option scheme in the forthcoming annual general meeting of the Company. Details of which will be set out in a circular of the Company to its shareholders dated 28th March, 2002.

### Trust Scheme

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

Since The RadarNet Trust is a discretionary trust, HSBC Trustee has the absolute discretion in deciding the manner and terms of the sale of the shares comprised therein to any beneficiary. However, the Group has recommended to HSBC Trustee the manner and terms by which any shares to be sold to the beneficiaries. The Group has recommended to HSBC Trustee to sell 200,250,000 shares of the Company representing 50% of the shares comprised in the trust property to 56 then full-time employees including four executive directors of the Company, namely Mr. Lee Brandon, Mr. Leung Man Leuk, Tommy, Mr. Hui Kwai and Mr. Tang King Fai, and a non-executive director, Mr. Cheung Sum, Sam (who ceased to act as an executive director and was appointed a non-executive director with effect from 1st October, 2001), and the remaining 50% of such shares to 14 full-time employees of Pacific Century CyberWorks

## REPORT OF THE DIRECTORS

Limited (“PCCW”), one of the substantial shareholders of the Company, including Mr. Chung Cho Yee, Mico, who is an executive director of both PCCW and the Company, and Mr. Chen Johnson, who is a non-executive director of the Company, for their contribution to the business development of the Group before its listing and to the preparation for the listing. In addition, the Group also recommended to HSBC Trustee that any shares to be sold by HSBC Trustee to the beneficiaries should be at a cost of HK\$0.0334 per share. All dividends derived from the shares received by HSBC Trustee will be retained by HSBC Trustee and form part of the trust fund under The RadarNet Trust.

During the year, following the resignation of several employees from the Group, the recommendation of 2,002,500 shares to be sold to them has been withdrawn. Subsequent to the year end, the recommendation of another 7,209,000 shares has been withdrawn due to resignation of employees.

As at 31st December, 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, fellow subsidiaries or subsidiaries a party to any arrangements to enable any of the Company’s directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS’ INTERESTS

As at 31st December, 2001, the interests of substantial shareholders in the Company’s shares as recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance were as follows:

<b>Name</b>	<b>Number of shares</b>	<b>Approximate percentage of shareholding</b>
Li Tzar Kai, Richard <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century Group Holdings Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century International Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century Group (Cayman Islands) Limited <i>(Note)</i>	2,523,150,000	47.90%
Anglang Investments Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century Regional Developments Limited <i>(Note)</i>	2,523,150,000	47.90%
Pacific Century CyberWorks Limited (“PCCW”) <i>(Note)</i>	2,523,150,000	47.90%
Century Power Group Limited <i>(Note)</i>	2,523,150,000	47.90%
CyberVentures (Bermuda) Limited (“CyberVentures”) <i>(Note)</i>	2,523,150,000	47.90%
CyberWorks Internet Ventures Limited <i>(Note)</i>	2,523,150,000	47.90%
Media Touch Group Limited (“Media Touch”) <i>(Note)</i>	2,523,150,000	47.90%
Tam Wai Keung, Billy	1,081,350,000	20.53%

# REPORT OF THE DIRECTORS

*Note:* Media Touch is wholly-owned by CyberWorks Internet Ventures Limited which is, in turn, wholly-owned by CyberVentures. The entire issued share capital of CyberVentures is held by Century Power Group Limited and the entire issued share capital of Century Power Group Limited is held by PCCW. Therefore, CyberWorks Internet Ventures Limited, CyberVentures, Century Power Group Limited and PCCW are deemed to be interested in the shares held by Media Touch for the purposes of the SDI Ordinance.

PCCW is a subsidiary of Pacific Century Regional Developments Limited. Approximately 37.5% and 37.8% of Pacific Century Regional Developments Limited's issued share capital are held by Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited respectively. Anglang Investments Limited is wholly-owned by Pacific Century Group (Cayman Islands) Limited whilst the latter is wholly-owned by Pacific Century International Limited. In turn, Pacific Century International Limited is wholly-owned by Pacific Century Group Holdings Limited, the entire issued share capital of which is held by Mr. Li Tzar Kai, Richard. Therefore, Pacific Century Regional Developments Limited, Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited, Pacific Century Group Holdings Limited and Mr. Li Tzar Kai, Richard are all deemed to be interested in the shares held by Media Touch for the purposes of the SDI Ordinance.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001.

## CONNECTED TRANSACTIONS

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

	<i>HK\$</i>
Advertising fees paid or payable to a former associated company of DotCom Pacific Ventures Limited ("DotCom Pacific"), a former indirect substantial shareholder of the Company	421,000
Operating lease rental for Internet connectivity bandwidth paid or payable to: PCCW-HKT Limited (formerly known as Cable & Wireless HKT Limited) ("HKT"), an indirectly wholly-owned subsidiary of Pacific Century CyberWorks Limited ("PCCW"), an indirect substantial shareholder of the Company <i>(Note)</i>	600,000
Reach Services Hong Kong Limited ("Reach"), a jointly-controlled entity of PCCW <i>(Note)</i>	4,301,000
Operating lease rental for leased lines paid or payable to HKT	6,254,000
Operating lease rental for buildings and related charges paid or payable to: Beijing Jing Wei House & Land Estate Development Co. Ltd. ("Jing Wei House"), a subsidiary of PCCW	6,141,000
DotCom Pacific	1,532,000
Service income received or receivable from: Associates of PCCW	22,350,000
Associates of DotCom Pacific	580,000

## REPORT OF THE DIRECTORS

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*Note:* Pursuant to a service contract entered into with HKT, HKT agreed to provide the Group with Internet connectivity bandwidth until 21st May, 2001. Following a business restructuring within the PCCW Group in February 2001, the Internet connectivity bandwidth service is now provided by Reach. Subsequent to the expiration of the contract with HKT, Internet connectivity bandwidth service contract was renewed with Reach on 23rd May, 2001.

The Group had been granted a waiver by the Stock Exchange from the strict compliance of the disclosure requirements set out in the GEM Listing Rules for the above for the period up to 31st December, 2003.

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

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

As the relevant cap amounts for the above Continuing Connected Transactions approved by the Stock Exchange are larger than the higher of HK\$10 million or 3% of the net tangible assets of the Group for the year, the Continuing Connected Transactions and the cap amounts will be considered and, if thought fit, re-approved by the independent shareholders in the forthcoming annual general meeting pursuant to the aforesaid waiver.

Further, as Internet connectivity bandwidth and leased lines are presently provided by Reach and HKT (both of which are associates of PCCW and thus connected persons to the Company) respectively instead of all by HKT as set out in the prospectus of the Company dated 28th February, 2001, terms of the original connected transactions have been changed and the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules dealing with these connected transactions unless it applies for, and obtains, a separate waiver from the Stock Exchange.

Save as disclosed therein, there were no other discloseable connected transactions in accordance with the requirements of the GEM Listing Rules and there was no other contracts of significance 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.

# REPORT OF THE DIRECTORS

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## COMPETING INTERESTS

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

- a 42.5% interest in 北京中關村數據科技有限公司, which provides IT and professorial services.
- a 50% interest in IDC Limited, an Internet data centre joint venture company.
- a 100% interest in an indirect subsidiary of PCCW, which provides data centre services under the brand name of Powerb@se.

The directors believe that there is a risk that such businesses may compete with those of the Group's. Details of the above competing interests have been disclosed in the section "Relationship with PCCW" on pages 114 to 119 of the Company's prospectus dated 28th February, 2001. Up to the date of this report, all information regarding the aforesaid competing interests and the arrangements in this connection as mentioned in the Company's prospectus remains unchanged.

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

## PENSION SCHEME

The Group's eligible employees can participate in a defined contribution provident fund scheme or a defined contribution mandatory provident fund scheme, particulars of which are set out in note 7 to the financial statements on page 52.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") on 22nd February, 2001 which comprises Mr. Cheng Kai Ming and Mr. Wong Wing Shing, both of whom are independent non-executive directors of the Company. During the year, the Committee has reviewed the financial reporting process and internal control procedures of the Group. Regular meetings have been held by the Committee since its establishment and the Committee met four times in 2001.

# **REPORT OF THE DIRECTORS**

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## **CORPORATE GOVERNANCE**

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

## **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**

As notified by BNP Paribas Peregrine Capital Limited (the “Sponsor”), the Company’s sponsor, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31st December, 2001.

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, 2001.

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

During the year ended 31st December, 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.



# REPORT OF THE DIRECTORS

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## AUDITORS

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

**CHUNG Cho Yee, Mico**

*Chairman*

Hong Kong, 11th March, 2002

# AUDITORS' REPORT

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**ANDERSEN**

**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 37 to 69 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

# AUDITORS' REPORT

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## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2001 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, 11th March, 2002

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2001

	<i>Note(s)</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Turnover	3, 4 & 12	<b>81,901</b>	39,871
Cost of revenues	12	<u><b>(63,353)</b></u>	<u>(31,920)</u>
Gross profit		<b>18,548</b>	7,951
Selling and marketing expenses	12	<b>(10,452)</b>	(17,691)
General and administrative expenses	12	<b>(50,588)</b>	(22,285)
Other (expenses) income, net		<u><b>(823)</b></u>	<u>112</u>
Loss from operations		<b>(43,315)</b>	(31,913)
Interest income	4	<u><b>8,414</b></u>	<u>3,233</u>
Loss before taxation	5	<b>(34,901)</b>	(28,680)
Taxation	8	<u>—</u>	<u>—</u>
Net loss attributable to shareholders	3, 9 & 21	<u><b>(34,901)</b></u>	<u>(28,680)</u>
Loss per share — Basic	10	<u><b>(0.7 cents)</b></u>	<u>(1.9 cents)</u>
Loss per share — Diluted	10	<u><b>N/A</b></u>	<u>N/A</u>

# CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST DECEMBER 2001

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Net gain not recognised in the income statement — Exchange differences on translation of the financial statements of a foreign subsidiary	<b>50</b>	—
Net loss for the year	<u><b>(34,901)</b></u>	<u>(28,680)</u>
Total recognised losses	<u><b>(34,851)</b></u>	<u>(28,680)</u>

# BALANCE SHEETS

AS AT 31ST DECEMBER, 2001

	Note(s)	Group		Company	
		2001 HK\$'000	2000 HK\$'000 (Note 25)	2001 HK\$'000	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>					
Fixed assets, net	13	91,966	77,579	—	—
Investments in subsidiaries	14	—	—	352,092	229,339
Prepayment		5,600	—	—	—
Total non-current assets		97,566	77,579	352,092	229,339
<b>CURRENT ASSETS</b>					
Cash and bank deposits		216,829	160,573	—	—
Accounts receivable, net	12 & 15	15,007	15,526	—	—
Amount due from a director	12	135	—	—	—
Other investment	16	3,900	—	—	—
Prepayments, deposits and other current assets	12	10,599	17,510	—	13,000
Total current assets		246,470	193,609	—	13,000
<b>CURRENT LIABILITIES</b>					
Accounts payable	12 & 17	(8,461)	(13,493)	—	—
Accruals and other payables	12	(10,156)	(20,757)	—	(13,110)
Amounts due to directors	12	(100)	—	—	—
Obligation under a finance lease — current portion	18	—	(53)	—	—
Total current liabilities		(18,717)	(34,303)	—	(13,110)
Net current assets (liabilities)		227,753	159,306	—	(110)
Total assets less current liabilities		325,319	236,885	352,092	229,229
<b>NON-CURRENT LIABILITIES</b>					
Obligation under a finance lease — long-term portion	18	—	(218)	—	—
Net assets		325,319	236,667	352,092	229,229
<b>Representing:</b>					
Share capital	19	105,347	89	105,347	89
Convertible note	20	—	12,519	—	12,519
Reserves	21	219,972	224,059	246,745	216,621
		325,319	236,667	352,092	229,229

Approved by the Board of Directors on 11th March, 2002 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, 2001

	Note	2001 HK\$'000	2000 HK\$'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	24(a)	<b>(44,485)</b>	(26,954)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		8,414	3,233
Interest paid on a finance lease		(13)	(10)
		<b>8,401</b>	3,223
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(27,077)	(70,240)
Proceeds from disposals of fixed assets		35	286
Increase in other investment		(3,900)	—
		<b>(30,942)</b>	(69,954)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		<b>(67,026)</b>	(93,685)
<b>FINANCING</b>	24(c)		
Proceeds from issuance of Series A preferred shares		—	62,390
Proceeds from issuance of ordinary shares		140,800	119,952
Share issuance expenses		(17,297)	—
Loans from a shareholder	24(b)	—	71,166
Repayment of capital element of obligation under a finance lease		(271)	(24)
		<b>123,232</b>	253,484
<b>INCREASE IN CASH AND BANK DEPOSITS</b>		<b>56,206</b>	159,799
<b>EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES</b>		<b>50</b>	—
<b>CASH AND BANK DEPOSITS</b>			
Beginning of year		160,573	774
End of year		<b>216,829</b>	160,573

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REORGANISATION, BASIS OF PRESENTATION AND PRINCIPAL ACTIVITIES

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

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.

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

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

## 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, the 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Adoption of Statements of Standard Accounting Practice (“SSAPs”)

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

In addition to the adoption of the above standards, the Group has also adopted the consequential changes made to SSAP 17 “Property, plant and equipment” and SSAP 18 “Revenue”.

SSAP 26 establishes principles for reporting financial information by segments to help users of financial statements to better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively.

Except for the change as described above, the Group considers that the adoption of or the consequential changes made to the above SSAPs have no material impact on the financial statements of the Group.

### (c) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### **(d) Subsidiary**

A subsidiary is a company in which the Company is able to exercise control over the financial and operating policies of the investee. In the financial statements of the Company, investment in subsidiary is stated at cost less provision for impairment in value where considered necessary by the directors. The results of a subsidiary are included in the income statement of the Company to the extent of dividends declared by the subsidiary.

### **(e) Turnover**

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

### **(f) 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 as the services are rendered.

#### *(ii) Sales of equipment and software*

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

#### *(iii) Interest income*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (g) Fixed assets and depreciation

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

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.

### (h) Impairment of assets

Fixed assets and investment in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of fixed assets and investment in subsidiaries carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (i) Other investment

Securities other than investment securities or held-to-maturity securities are classified as other investment and are carried at fair value in the balance sheet. Any unrealised holding gain or loss for other investment is recognised in the income statement in the period when it arises.

### (j) Accounts receivable

Accounts receivable are stated at their costs, after provision for doubtful accounts.

### (k) 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.

### (l) Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### **(m) 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.

### **(n) Staff retirement benefits**

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

### **(o) Advertising expenses**

Advertising expenses are charged to the income statement as incurred.

### **(p) Foreign currency**

#### *(i) Foreign currency transactions*

The Group prepares consolidated financial statements in Hong Kong dollars. The Company and its subsidiaries maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the financial statements of the individual companies, transactions in other currencies are translated into the respective functional currencies at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into their respective functional currencies at exchange rates prevailing at that date. All exchange differences are recognised in the income statement in the period in which they arise.

#### *(ii) Foreign entities*

The majority of foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their reporting currencies are the respective functional currencies. Financial statements of foreign consolidated subsidiaries are translated into Hong Kong dollars at year-end exchange rates with respect to the balance sheet, and at average rates for the year with respect to the income statement. All resulting translation differences are included in the exchange translation reserve included in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### **(q) Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### **(r) Subsequent events**

Post-year-end events that provide additional information about the position of the Group and the Company at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements.

### **(s) Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION

The Group's principal activities are conducted mainly in Hong Kong and the People's Republic of China (the "PRC") and it has 2 reportable segments based on the Group's operations in these two geographical areas. The Group has only one business segment engaged in the provision of installation, Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software. An analysis by geographical segment is as follows:

	Hong Kong		The PRC		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>						
External sales	<b>78,898</b>	39,871	<b>3,003</b>	—	<b>81,901</b>	39,871
<b>Result</b>						
Segment result	<b>(30,053)</b>	(31,392)	<b>(12,622)</b>	(521)	<b>(42,675)</b>	(31,913)
Unallocated corporate expenses					<b>(640)</b>	—
Loss from operations					<b>(43,315)</b>	(31,913)
Interest income					<b>8,414</b>	3,233
Net loss attributable to shareholders					<b>(34,901)</b>	(28,680)
<b>Assets</b>						
Segment assets	<b>276,532</b>	241,647	<b>67,504</b>	16,541	<b>344,036</b>	258,188
Unallocated corporate assets					—	13,000
Consolidated total assets					<b>344,036</b>	271,188
<b>Liabilities</b>						
Segment liabilities	<b>11,251</b>	20,890	<b>7,466</b>	521	<b>18,717</b>	21,411
Unallocated corporate liabilities					—	13,110
Consolidated total liabilities					<b>18,717</b>	34,521
<b>Other information</b>						
Capital expenditures	<b>12,890</b>	53,994	<b>14,187</b>	16,541	<b>27,077</b>	70,535
Depreciation	<b>10,777</b>	6,339	<b>1,055</b>	—	<b>11,832</b>	6,339
Provision for doubtful debts	<b>9,014</b>	530	—	—	<b>9,014</b>	530

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. TURNOVER AND REVENUES

Turnover and revenues comprise:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Installation, Internet connectivity, server hosting and co-location services	<b>50,195</b>	26,788
Other value-added services	<b>21,316</b>	10,192
Sales of equipment and software	<b>10,390</b>	2,891
	<hr/>	<hr/>
Total turnover	<b>81,901</b>	39,871
Interest income	<b>8,414</b>	3,233
	<hr/>	<hr/>
Total revenues	<b>90,315</b>	43,104
	<hr/> <hr/>	<hr/> <hr/>

## 5. LOSS BEFORE TAXATION

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

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
After charging:		
Staff cost (including directors' emoluments)	<b>27,773</b>	16,644
Operating lease rental for		
— Buildings and racks	<b>16,377</b>	10,912
— Internet connectivity bandwidth and leased lines	<b>22,807</b>	12,847
Depreciation of fixed assets on		
— Owned assets	<b>11,773</b>	6,309
— An asset held under a finance lease	<b>59</b>	30
Provision for doubtful debts	<b>9,014</b>	530
Interest expense on a finance lease	<b>13</b>	10
Loss on disposals of fixed assets, net	<b>823</b>	—
Auditors' remuneration	<b>500</b>	200
	<hr/>	<hr/>
After crediting:		
Gain on disposals of fixed assets, net	—	112
Interest income on bank deposits	<b>8,414</b>	3,233
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees*	<b>1,000</b>	—
Other emoluments		
— Basic salaries and allowances	<b>7,520</b>	2,785
— Bonus	—	1,200
— Pension scheme contributions	<b>776</b>	270
	<b>9,296</b>	4,255

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

The individual emoluments for the executive directors for the year ended 31st December, 2001 are approximately HK\$2,644,000, HK\$2,343,000, HK\$1,113,000, HK\$1,032,000, HK\$1,032,000 and HK\$1,032,000.

The number of directors (including executive and non-executive directors) whose remuneration falls within the following bands are as follows:

	<b>2001</b>	2000
Nil — HK\$1,000,000	<b>8</b>	14
HK\$1,000,001 — HK\$1,500,000	<b>4</b>	1
HK\$1,500,001 — HK\$2,000,000	—	—
HK\$2,000,001 — HK\$2,500,000	<b>1</b>	1
HK\$2,500,001 — HK\$3,000,000	<b>1</b>	—
	<b>14</b>	16

(b) A non-executive director has waived all his fees received during his tenure as an executive director in 2001 of HK\$135,000 (see Note 12(g)).

All executive directors are entitled to a monthly fee of HK\$15,000 each pursuant to their respective service contracts with the Company and each has agreed to waive his entitlements commencing February 2002.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (c) Details of emoluments paid or payable to the seven (2000: five) highest paid individuals (including directors and other employees) are:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Basic salaries and allowances	<b>8,507</b>	3,959
Directors' fees	<b>900</b>	—
Bonus	<b>—</b>	1,200
Pension scheme contributions	<b>843</b>	369
	<b><u>10,250</u></b>	<u>5,528</u>
	<b>2001</b>	2000
Number of directors	<b>6</b>	5
Number of employee	<b>1</b>	—
	<b><u>7</u></b>	<u>5</u>

During the year ended 31st December, 2001, no emoluments were paid to the seven highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office (2000: nil).

Of the seven (2000: five) highest paid individuals (including directors and other employees), the number of individuals whose remuneration falls within the following bands are as follows:

	<b>2001</b>	2000
Nil — HK\$1,000,000	<b>—</b>	3
HK\$1,000,001 — HK\$1,500,000	<b>5</b>	1
HK\$1,500,001 — HK\$2,000,000	<b>—</b>	—
HK\$2,000,001 — HK\$2,500,000	<b>1</b>	1
HK\$2,500,001 — HK\$3,000,000	<b>1</b>	—
	<b><u>7</u></b>	<u>5</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. 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, 2001 was approximately HK\$1,825,000 (2000: HK\$924,000). The forfeited contributions for the year ended 31st December, 2001 was approximately HK\$94,000 (2000: nil).

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

As stipulated by the rules and regulations in the PRC, a subsidiary, 北京合縱連橫科技有限公司 ("the Beijing Subsidiary"), is required to contribute to a state-sponsored retirement plan for its PRC employees at 19% of their basic salary. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Beijing Subsidiary has no further obligations for the actual pension payments or other post-retirement benefit beyond the annual contributions. For the year ended 31st December, 2001, the Beijing Subsidiary's retirement plan contributions were approximately RMB59,000 (HK\$55,000) (2000: nil).

## 8. TAXATION

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong for the years ended 31st December, 2001 and 2000.

The Beijing Subsidiary is subject to PRC enterprise income tax on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. No provision for PRC enterprise income tax was made as the Beijing subsidiary had no taxable income for the year ended 31st December, 2001.

Based on an agreement between the Beijing Subsidiary and a PRC government authority dated 18th May, 2001, a monthly subsidy is granted to the Beijing Subsidiary which is calculated at 35% of the business tax and enterprise income tax paid or payable by the Beijing Subsidiary in the previous month. This arrangement will be in force up to 31st December, 2003.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. TAXATION *(Cont'd)*

The Group has not recorded deferred tax assets, mainly in respect of tax losses for the operations in Hong Kong and the PRC due to the uncertainty that the resultant deferred tax asset will be recovered in the foreseeable future. Tax losses for the operations in Hong Kong and the PRC were approximately HK\$88,000,000 and HK\$7,000,000 (2000: HK\$29,000,000 and nil), respectively subject to agreement by relevant tax authorities.

## 9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

For the year ended 31st December, 2001, net loss of approximately HK\$640,000 (2000: nil) was dealt with in the financial statements of the Company.

## 10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's consolidated net loss attributable to shareholders for the relevant periods and the weighted average of approximately 4,931,705,000 (2000: 1,478,880,000) shares which have been adjusted for the capitalisation issue and the subdivision of ordinary shares, details of which are set out in Note 19(i) and Note 19(k) respectively.

Diluted loss per share is not presented because the effect of the assumed conversion of all potential dilutive securities during the years ended 31st December, 2001 and 2000 would be anti-dilutive.

## 11. DIVIDENDS

The directors do not propose any dividends in respect of the year ended 31st December, 2001 (2000: nil).

## 12. RELATED PARTY TRANSACTIONS

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Advertising fees paid or payable to a former associated company of DotCom Pacific Ventures Limited ("DotCom Pacific"), a former indirect shareholder of the Company	<b>421</b>	6,691
Operating lease rental for Internet connectivity bandwidth and leased lines paid or payable to: Subsidiaries of Pacific Century CyberWorks Limited ("PCCW"), an indirect shareholder of the Company	<b>6,854</b>	4,045
A jointly-controlled entity of PCCW	<b>4,301</b>	—
Telephone charges paid or payable to an associated company of PCCW	<b>155</b>	—
Operating lease rental for buildings and related charges paid or payable to: Beijing Jing Wei House & Land Estate Development Co. Ltd. ("Jing Wei House"), a subsidiary of PCCW (see Note (c) below)	<b>6,141</b>	—
DotCom Pacific (see Note (d) below)	<b>1,532</b>	—
Service fee paid or payable to a subsidiary of DotCom Pacific	<b>193</b>	—
Insurance premium paid or payable to a fellow subsidiary of PCCW	<b>325</b>	195
Service income received or receivable from:		
Subsidiaries of PCCW	<b>20,526</b>	14,414
Associated companies of PCCW	<b>1,824</b>	839
DotCom Pacific	—	420
A subsidiary of DotCom Pacific	<b>301</b>	138
An associated company of DotCom Pacific	<b>33</b>	—
A former associated company of DotCom Pacific	<b>246</b>	—
A company wholly-owned by a former non-executive director of the Company	<b>88</b>	—

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (b) As at 31st December, 2001, the Group had the following significant current balances with related companies:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK'000
Included in:		
Accounts receivable, net	<b>4,263</b>	8,582
Prepayment, deposits and other current assets	<b>1,825</b>	—
Accounts payable	<b>292</b>	—
Accruals and other payables	<b>185</b>	—

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

- (c) Pursuant to a leasing agreement entered into between Jing Wei House, and iLink.net (Beijing) Limited, an indirect wholly-owned subsidiary of the Company, dated 1st January, 2001, Jing Wei House leased to iLink.net (Beijing) Limited premises (with net floor area of approximately 2,617 square 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.
- (d) Pursuant to a sub-lease agreement entered into between DotCom Pacific and iLink.net Limited, an indirect wholly-owned subsidiary of the Company, dated 19th February, 2001, DotCom Pacific sub-leased to iLink.net Limited premises (with net floor area of approximately 6,200 square feet). The sub-lease commenced on 1st January, 2001 and was terminated on 13th September, 2001. On the same day, a deed of novation was signed by DotCom Pacific, iLink.net Limited and the landlord of the premises which effectively transferred the rights and obligations of DotCom Pacific under the original lease agreement with the landlord of the premises to iLink.net Limited.
- (e) Pursuant to a deed of settlement dated 9th August, 2000, certain directors and employees of the Group were named as beneficiaries of a discretionary trust and the independent trustee may at its discretion sell and transfer the ordinary shares of the Company to the beneficiaries at prices to be determined by the trustee. As at 31st December, 2001, no shares had been sold by the trust to the beneficiaries (2000: same). As at 31st December, 2001, this trust held approximately 7.6% (2000: 12.0%) of the issued share capital of the Company.
- (f) During the year, PCCW and the Company entered into an agreement providing for cross referral of customers, with effect from the Listing, subject to prospective customers' requirements and final decisions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12. RELATED PARTY TRANSACTIONS *(Cont'd)*

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

(g) Amount due from a director

Amount due from a director represents a receivable from Mr. Cheung Sum, Sam in connection with his waiving of director's fees as disclosed in Note 6(b) above. The balance outstanding as at 31st December, 2001 was also the maximum balance outstanding during the year. This balance was unsecured, non-interest bearing and payable on demand, and has been settled subsequent to 31st December, 2001.

(h) Amounts due to directors

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. FIXED ASSETS, NET

Movements in fixed assets of the Group are as follows:

	2001						2000		
	Data centers and related equipment	Computer Leasehold improvements	and other equipment	Office leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Motor vehicle	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>									
Beginning of year	52,475	24,541	3,183	1,404	2,081	296	83,980	13,626	
Additions	11,938	11,351	131	705	2,952	—	27,077	70,535	
Disposals	(191)	(600)	(11)	(196)	(114)	—	(1,112)	(181)	
End of year	<u>64,222</u>	<u>35,292</u>	<u>3,303</u>	<u>1,913</u>	<u>4,919</u>	<u>296</u>	<u>109,945</u>	<u>83,980</u>	
<b>Accumulated depreciation</b>									
Beginning of year	2,200	3,281	306	271	313	30	6,401	69	
Charge for the year	4,682	5,681	329	363	718	59	11,832	6,339	
Disposals	(34)	(153)	(2)	(37)	(28)	—	(254)	(7)	
End of year	<u>6,848</u>	<u>8,809</u>	<u>633</u>	<u>597</u>	<u>1,003</u>	<u>89</u>	<u>17,979</u>	<u>6,401</u>	
<b>Net book value</b>									
Beginning of year	<u>50,275</u>	<u>21,260</u>	<u>2,877</u>	<u>1,133</u>	<u>1,768</u>	<u>266</u>	<u>77,579</u>	<u>13,557</u>	
End of year	<u>57,374</u>	<u>26,483</u>	<u>2,670</u>	<u>1,316</u>	<u>3,916</u>	<u>207</u>	<u>91,966</u>	<u>77,579</u>	

There were no fixed assets held under finance lease as at 31st December, 2001. The net book value of fixed assets (motor vehicle) held under a finance lease as at 31st December, 2000 was HK\$266,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INVESTMENTS IN SUBSIDIARIES

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>46,887</b>	46,887
Amounts due from subsidiaries	<b>305,205</b>	182,452
	<b><u>352,092</u></b>	<u>229,339</u>

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

The directors of the Company are of the opinion that the underlying value of the subsidiaries is not less than their carrying value as at 31st December, 2001.

Details of the Company's subsidiaries as at 31st December, 2001 are as follows:

Name	Place and date of incorporation/ establishment	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Directly held:</i>				
NetFort Offshore Limited	The British Virgin Islands (the "BVI"), 24th August, 1999	US\$ 100,000	100%	Investment holding
All Cyber Holdings Inc.	The BVI, 2nd February, 2000	US\$ 1	100%	Investment holding
<i>Indirectly held:</i>				
iLink.net Limited (formerly known as Verona Limited)	Hong Kong, 11th August, 1999	HK\$ 2	100%	Provision of Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software in Hong Kong
iLink.net (Shanghai) Holdings Limited (formerly known as Phonic Spirit Inc.)	The BVI, 12th January, 2000	US\$ 1	100%	Investment holding
iLink.net (China) Limited (formerly known as Wealthy Millennium Limited)	The BVI, 20th April, 2000	US\$ 1	100%	Investment holding
iLink.net (Beijing) Limited (formerly known as Cyber Starlight Limited)	The BVI, 28th June, 2000	US\$ 1	100%	Investment holding
iLink.net Intellectual Property Limited	Isle of Man, 4th April, 2001	GBP 1	100%	Investment holding
北京合縱連橫科技有限公司	The PRC, 6th April, 2001 (the approved operation period is 12 years)	US\$ 2,999,981	100%	Provision of Internet connectivity, server hosting and co-location services and other value-added services in Beijing

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2001.

All the above companies are principally operating in their place of incorporation/establishment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

On 31st August, 2000, iLink.net (Shanghai) Holdings Limited entered into a joint venture agreement with two third party companies 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. Pursuant to the agreement, iLink.net (Shanghai) Holdings Limited would contribute US\$2,550,000 in cash in return for 51% equity interest. The joint venture period was to be 50 years. The Joint Venture was not established and the joint venture agreement lapsed during 2001 in accordance with the terms contained therein.

## 15. ACCOUNTS RECEIVABLE, NET

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

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000 <i>(Note 25)</i>
0 to 30 days	<b>5,656</b>	5,714
31 to 60 days	<b>2,432</b>	3,928
61 to 90 days	<b>2,245</b>	1,238
Over 90 days	<b>14,013</b>	5,176
	<b>24,346</b>	16,056
<i>Less: Provision for doubtful debts</i>	<b>(9,339)</b>	(530)
	<b>15,007</b>	15,526

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

## 16. OTHER INVESTMENT

The other investment of the Group comprises the following:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Unlisted investment at market value	<b>3,900</b>	—

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. ACCOUNTS PAYABLE

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

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
0 to 30 days	<b>6,354</b>	11,008
31 to 60 days	<b>338</b>	656
61 to 90 days	<b>154</b>	390
over 90 days	<b>1,615</b>	1,439
	<u><b>8,461</b></u>	<u>13,493</u>

## 18. OBLIGATION UNDER A FINANCE LEASE

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

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Amounts payable:		
In the first year	—	53
In the second year	—	57
In the third to fifth years inclusive	—	161
	<u>—</u>	<u>271</u>
Less: Portion classified as current liabilities	—	(53)
Long-term portion	<u><b>—</b></u>	<u>218</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. SHARE CAPITAL

	Number of shares		Ordinary shares HK\$	Amount Series A preferred shares HK\$	Total HK\$
	Ordinary shares of HK\$0.1 each and subdivided into HK\$0.02 each in 2001 (k)	Series A preferred shares of HK\$0.1 each			
<b>Authorised:</b>					
At inception (a)	40,000,000	—	4,000,000	—	4,000,000
Increase in authorised Series A preferred shares (d)	—	53,330	—	5,333	5,333
As at 31st December, 2000	40,000,000	53,330	4,000,000	5,333	4,005,333
Increase in authorised ordinary shares (g)	3,960,000,000	—	396,000,000	—	396,000,000
Cancellation of authorised Series A preferred shares (g)	—	(53,330)	—	(5,333)	(5,333)
Subdivision of ordinary shares (k)	16,000,000,000	—	—	—	—
As at 31st December, 2001	<u>20,000,000,000</u>	<u>—</u>	<u>400,000,000</u>	<u>—</u>	<u>400,000,000</u>
<b>Issued and fully paid:</b>					
At inception (a)	2	—	—	—	—
Issuance of ordinary shares in the Reorganisation (b)	99,998	—	10,000	—	10,000
Conversion of convertible notes (c)	633,000	—	63,300	—	63,300
Issuance of Series A preferred shares (e)	—	53,330	—	5,333	5,333
Issuance of ordinary shares (f)	102,540	—	10,254	—	10,254
As at 31st December, 2000	835,540	53,330	83,554	5,333	88,887
Conversion of Series A preferred shares (e)	53,330	(53,330)	5,333	(5,333)	—
Issuance of ordinary shares for the Listing (h)	110,000,000	—	11,000,000	—	11,000,000
Capitalisation Issue (i)	711,096,000	—	71,109,600	—	71,109,600
Issuance of ordinary shares (j)	17,623,052	—	1,762,305	—	1,762,305
Conversion of convertible notes (j)	213,867,000	—	21,386,700	—	21,386,700
Subdivision of ordinary shares (k)	4,213,899,688	—	—	—	—
As at 31st December, 2001	<u>5,267,374,610</u>	<u>—</u>	<u>105,347,492</u>	<u>—</u>	<u>105,347,492</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. 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 were issued and fully paid at par initially.
- (b) Pursuant to written resolutions of the sole director of the Company dated 10th August, 2000, 99,998 shares of HK\$0.1 each 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.
- (c) 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 HK\$0.1 each of the Company 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 HK\$0.1 each of the Company, respectively.

- (d) 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.
- (e) On 15th August, 2000, 53,330 Series A preferred shares of the Company were issued to an institutional investor at US\$150 per share, resulting in the receipt of net proceeds of approximately US\$8.0 million. The Series A preferred shares were converted into 53,330 ordinary shares of HK\$0.1 each of the Company on 19th February 2001.
- (f) On 20th September, 2000, 102,540 ordinary shares of HK\$0.1 each of the Company were issued to another institutional investor at US\$150 per share, resulting in the receipt of net proceeds of approximately US\$15.4 million.
- (g) On 22nd February, 2001, the authorised share capital of the Company was increased from HK\$4,005,333 to HK\$400,000,000 by the creation of an additional 3,960,000,000 ordinary shares of HK\$0.1 each, ranking *pari passu* with the then existing ordinary shares, and the cancellation of the 53,330 Series A preferred shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. SHARE CAPITAL *(Cont'd)*

- (h) On 7th March, 2001, 110,000,000 ordinary shares of HK\$0.1 each were issued for the Listing, resulting in the receipt of net proceeds of approximately HK\$123,503,000, after deducting share issuance expenses of approximately HK\$17,297,000 from the gross proceeds of HK\$140,800,000.
- (i) On 7th March, 2001, upon the share premium account of the Company being credited pursuant to the Listing:
  - (i) the sum of HK\$71,110,000 being part of the amount then standing to the credit of the share premium account of the Company, was capitalised by issuing 711,096,000 ordinary shares of HK\$0.1 each, credited as fully paid at par, to the then shareholders of the Company immediately before the Listing (the "Capitalisation Issue"); and
  - (ii) 17,623,052 additional ordinary shares of HK\$0.1 each were issued to two institutional investors at no further consideration on exercise of the downside price protection provisions contained in their respective share subscription agreements.
- (j) On 8th March, 2001, an existing shareholder fully converted the Notes which then remained outstanding in the amount of HK\$12,519,000 into 213,867,000 ordinary shares of HK\$0.1 each (after the Capitalisation Issue) of the Company.
- (k) On 17th August, 2001, the Company subdivided its ordinary shares of HK\$0.10 each into five ordinary shares of HK\$0.02 each and consequently the number of authorized ordinary shares have been increased to 20,000,000,000 shares.

## 20. CONVERTIBLE NOTE

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

The convertible note was unsecured, interest-free and was not repayable in monetary sums. It was convertible into 267,000 ordinary shares of the Company (equivalent to 213,867,000 shares of HK\$0.1 each after the Capitalisation Issue) on or before the Listing. On 8th March, 2001, prior to the Listing, the convertible note was fully converted into ordinary shares of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. RESERVES

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

	2001				2000	
	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000	Total HK\$'000
<b>Group</b>						
Balance, beginning of year	212,712	43,782	—	(32,435)	224,059	11,839
Capitalisation for bonus issue	—	—	—	—	—	(780)
Share premium created upon share exchange in the Reorganisation	—	—	—	—	—	771
Issuance of Series A preferred shares	—	—	—	—	—	62,384
Capitalisation of loans from a shareholder	—	—	—	—	—	71,166
Bonus issue of convertible notes	—	—	—	—	—	(42,198)
Issuance of ordinary shares (see Note 19(h))	112,504	—	—	—	112,504	119,942
Capitalisation Issue (see Note 19(i)(i))	(71,110)	—	—	—	(71,110)	—
Issuance of ordinary shares (see Note 19(i)(ii))	(1,762)	—	—	—	(1,762)	—
Conversion of convertible notes (see Note 20)	(8,868)	—	—	—	(8,868)	29,615
Exchange translation differences	—	—	50	—	50	—
Loss for the year	—	—	—	(34,901)	(34,901)	(28,680)
Balance, end of year	<u>243,476</u>	<u>43,782</u>	<u>50</u>	<u>(67,336)</u>	<u>219,972</u>	<u>224,059</u>
<b>Company</b>						
Balance, beginning of year	216,621	—	—	—	216,621	—
Share premium created upon share exchange in the Reorganisation	—	—	—	—	—	46,878
Issuance of Series A preferred shares	—	—	—	—	—	62,384
Bonus issue of convertible notes	—	—	—	—	—	(42,198)
Issuance of ordinary shares (see Note 19(h))	112,504	—	—	—	112,504	119,942
Capitalisation Issue (see Note 19(i)(i))	(71,110)	—	—	—	(71,110)	—
Issuance of ordinary shares (see Note 19(i)(ii))	(1,762)	—	—	—	(1,762)	—
Conversion of convertible notes (see Note 20)	(8,868)	—	—	—	(8,868)	29,615
Loss for the year	—	—	—	(640)	(640)	—
Balance, end of year	<u>247,385</u>	<u>—</u>	<u>—</u>	<u>(640)</u>	<u>246,745</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.

As at 31st December, 2001, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$246,700,000 (2000: HK\$216,600,000), subject to the restriction stated above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. 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 executive directors of the Company and its subsidiaries may be granted options to subscribe for the shares of the Company. Up to  $33\frac{1}{3}\%$ ,  $66\frac{2}{3}\%$  and 100% of any option granted under the Share Option Scheme may respectively be exercised after one year, two years and three years from the date an option is offered, but not later than 10 years from the date of offer. The subscription price on the exercise of an option shall be at least the highest of (i) the closing price of the Company's shares quoted on the GEM on the date of offer, (ii) the average closing price of the Company's shares quoted on the GEM for the five business days immediately preceding the date of offer, and (iii) the nominal value of the Company's shares.

The maximum number of shares that may be granted under the Share Option Scheme shall not exceed 10% of the Company's issued shares. As at 31st December, 2001, no option has been granted or agreed to be granted under the Share Option Scheme.

## 23. COMMITMENTS

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

### (a) Capital commitments

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

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Authorised and contracted for	<b>4,244</b>	11,885
Authorised but not contracted for	<b>207</b>	—
	<b><u>4,451</u></b>	<b><u>11,885</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. COMMITMENTS (Cont'd)

### (b) Operating leases commitments

The Group has outstanding commitments under non-cancellable operating leases in respect of buildings, racks and Internet connectivity leased lines amounting to approximately HK\$80,949,000 (2000: HK\$64,516,000). The amounts payable are analysed as follows:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Buildings and racks		
Not later than one year	<b>15,024</b>	14,591
Later than one year and not later than five years	<b>34,125</b>	46,325
	<b>49,149</b>	60,916
Internet connectivity bandwidth and leased lines		
Not later than one year	<b>11,357</b>	3,600
Later than one year and not later than five years	<b>20,443</b>	—
	<b>31,800</b>	3,600
	<b>80,949</b>	64,516

### (c) Other commitments

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

The above agreements replaced the cooperation agreement signed by iLink.net (Beijing) Limited, the controlling shareholder of the Beijing Subsidiary, and Party A on 3rd August, 2000 which governed the setting up and operation of a data centre business in Beijing, and consequently that cooperation agreement has been effectively terminated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. NOTES TO THE CASH FLOW STATEMENT

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

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i> <i>(Note 25)</i>
Loss before taxation	<b>(34,901)</b>	(28,680)
Interest income	<b>(8,414)</b>	(3,233)
Interest expense	<b>13</b>	10
Depreciation	<b>11,832</b>	6,339
Loss (Gain) on disposals of fixed assets	<b>823</b>	(112)
Increase in prepayment	<b>(5,600)</b>	—
Decrease (Increase) in accounts receivable	<b>519</b>	(15,526)
Increase in amount due from a director	<b>(135)</b>	—
Decrease (Increase) in prepayments, deposits and other current assets	<b>6,911</b>	(16,011)
(Decrease) Increase in accounts payable	<b>(5,032)</b>	10,933
(Decrease) Increase in accruals and other payables	<b>(10,601)</b>	19,326
Increase in amounts due to directors	<b>100</b>	—
	<hr/>	<hr/>
Net cash outflow from operating activities	<b><u>(44,485)</u></b>	<b><u>(26,954)</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. NOTES TO THE CASH FLOW STATEMENT (Cont'd)

### (b) Major non-cash transactions

Save as disclosed in other notes to the consolidated financial statements, there was no other major non-cash transaction for the year ended 31st December, 2001.

For the year ended 31st December, 2000, loans from a shareholder amounting to HK\$71.2 million were capitalised as contributed surplus of NetFort Offshore Limited.

For the year ended 31st December, 2000, the Group entered into a finance lease contract in respect of the acquisition of a fixed asset with a capital value at the inception of the contract of approximately HK\$295,000.

### (c) Analysis of changes in financing

	2001			2000	
	Share capital, share premium and contributed surplus HK\$'000	Convertible notes HK\$'000	Finance lease obligation HK\$'000	Total HK\$'000	Total HK\$'000
Beginning of year	256,583	12,519	271	269,373	15,594
Issuance of Series A preferred shares	—	—	—	—	62,390
Issuance of ordinary shares	123,503	—	—	123,503	119,952
Capitalisation of loans from a shareholder	—	—	—	—	71,166
Conversion of convertible notes	12,519	(12,519)	—	—	—
Inception of a finance lease contract	—	—	—	—	295
Repayment of capital element of the obligation under a finance lease	—	—	(271)	(271)	(24)
End of year	<u>392,605</u>	<u>—</u>	<u>—</u>	<u>392,605</u>	<u>269,373</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## **25. PRIOR YEAR COMPARATIVES**

Certain 2000 comparative figures have been reclassified to conform with the current year's presentations. For better presentation purpose, amounts due from related companies have been reclassified to accounts receivable.

## **26. DATE OF APPROVAL**

The financial statements set out on pages 37 to 69 were approved by the Board of Directors on 11th March, 2001.

## FINANCIAL SUMMARY

	For the year ended 31st December,		For the six months ended
	2001	2000	31st December,
	<i>HK\$'000</i>	<i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover	<u>81,901</u>	<u>39,871</u>	<u>—</u>
Net loss attributable to shareholders	<u>(34,901)</u>	<u>(28,680)</u>	<u>(3,755)</u>
Total assets	<b>344,036</b>	271,188	15,830
Total liabilities	<u>(18,717)</u>	<u>(34,521)</u>	<u>(3,991)</u>
Net assets	<u><b>325,319</b></u>	<u>236,667</u>	<u>11,839</u>

The turnover, net loss attributable to shareholders, total assets and total liabilities of the Group for the years ended 31st December, 2001 and 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, its commencement, of operations and throughout the accounting periods presented.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of iLink Holdings Limited (the “Company”) will be held at Hoi Yat Heen, 3rd Floor, Harbour Plaza North Point, 665 King’s Road, North Point, Hong Kong on Friday, 3rd May, 2002 at 10:00 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, 2001;
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;

## NOTICE OF ANNUAL GENERAL MEETING

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

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

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

**“THAT** the provision by the Company and its subsidiaries (the “Group”) of Internet connectivity, server hosting and co-location services, value added services and application service provider services at data centres operated by the Group to Pacific Century CyberWorks Limited (“PCCW”), a substantial shareholder of the Company, and its associates (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) under service contracts entered into (copies of which marked “A” have been produced to this Meeting and signed by the Chairman hereof for the purpose of identification) or to be entered into between these parties be and are hereby approved, ratified and confirmed AND THAT any one director of the Company be and is hereby authorised to do all acts and things which the directors of the Company consider necessary and expedient for the implementation of and giving effect to these transactions provided that the aggregate consideration payable thereunder in the financial year ending 31st December, 2002 will not exceed HK\$86,000,000”;

6. 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 “B” 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 ending 31st December, 2002 will not exceed HK\$11,600,000”; and

## NOTICE OF ANNUAL GENERAL MEETING

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

**“THAT** conditional upon The Stock Exchange of Hong Kong Limited approving the listing of, and permission to deal in, any shares of the Company which may fall to be issued pursuant to the exercise of the options that may be granted under the new share option scheme (the “New Scheme”) (a copy of which has been produced to this meeting marked “C” and initialled by the Chairman of this Meeting for the purpose of identification), (a) the New Scheme be and is hereby approved and adopted; and (b) the existing share option scheme of the Company adopted on 22 February 2001 be and is hereby terminated.”

By order of the Board

**LAM Yuk Lau**

*Company Secretary*

Hong Kong, 28th March, 2002

# NOTICE OF ANNUAL GENERAL MEETING

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*Notes:*

- (1) In order to qualify for attending the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's head office and principal place of business at 56th Floor, The Center, 99 Queen's Road Central, Hong Kong for registration not less than 48 hours before the time appointed for held by the meeting or any adjournment thereof.
- (2) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (3) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the office of the Company's head office and principal place of business at 56th Floor, The Center, 99 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or adjourned meeting should you wish.