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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in doubt as to any aspect of this document, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Henderson Cyber Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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**hendersoncyber**

**Henderson Cyber Limited**

**恒基數碼科技有限公司\***

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

(Stock Code: 8023)

**PROPOSED PRIVATISATION BY**



**恒基兆業發展有限公司**

**HENDERSON INVESTMENT LIMITED**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 0097)



**The Hong Kong and China Gas Company Limited**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 0003)

**BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES LAW, CAP. 22 (LAW 3 OF 1961) AS  
CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS  
INVOLVING THE CANCELLATION OF  
ALL THE ISSUED SHARES OF HK\$0.10 EACH  
IN HENDERSON CYBER LIMITED  
HELD BY THE SCHEME SHAREHOLDERS (AS DEFINED HEREIN)**

**Joint Financial Advisers to the Offeror Group (as defined herein)**



**The Hongkong and Shanghai  
Banking Corporation Limited**



**CLSA Equity Capital  
Markets Limited**

**Independent financial adviser to the Independent Director (as defined herein) of  
Henderson Cyber Limited**



**PLATINUM  
Securities**

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A letter from the board of directors of Henderson Cyber Limited is set out on pages 10 to 21 of this document. An explanatory memorandum regarding the Proposal (as defined herein) is set out on pages 54 to 71 of this document. A letter from the Independent Director (as defined herein) containing his advice to the Independent Shareholders (as defined herein) in relation to the Proposal is set out on pages 22 to 23 of this document. A letter from the independent financial adviser, Platinum Securities Company Limited, containing its advice to the Independent Director in relation to the Proposal is set out on pages 24 to 53 of this document.

The action to be taken by the Shareholders (as defined herein) is set out on pages 69 to 71 of this document.

Notices convening the Court Meeting (as defined herein) and the Extraordinary General Meeting (as defined herein) both to be held on Monday, 31st October, 2005 are set out on pages 128 to 131 of this document. Whether or not you are able to attend the Meetings (as defined herein) in person, Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and Shareholders are strongly urged to complete and sign the enclosed white form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions respectively printed thereon, and to lodge them with Henderson Cyber Limited's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event so as to reach them not later than 48 hours before the time appointed for holding of the relevant Meeting. In the case of the pink form of proxy, it may be handed to the chairman of the Court Meeting, who has absolute discretion whether or not to accept it, at the Court Meeting if it is not so lodged pursuant to an order of the Grand Court made on 3rd October, 2005.

This document is issued jointly by Henderson Cyber Limited and the Offeror Group.

This document will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for a minimum period of 7 days from the date of publication.

\* For identification purpose only

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6th October, 2005

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## CHARACTERISTICS OF GEM

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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 of the Stock Exchange 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. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

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*In this document (other than the Scheme, the Notice of the Court Meeting and the Notice of the Extraordinary General Meeting), the following expressions have the following meanings, unless the context requires otherwise:*

“acting in concert”	has the meaning ascribed to such expression under the Takeovers Code
“Announcement”	the announcement dated 16th August, 2005 issued jointly by HCL, HIL, HKCG and HLD relating to, inter alia, the Proposal and published in the South China Morning Post, Hong Kong Economic Times and Hong Kong Economic Journal on 17th August, 2005
“Announcement Date”	16th August, 2005, being the date of the Announcement
“associate(s)”	has the meaning ascribed to such expression under the Takeovers Code
“Authorisations”	all the necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
“Banshing”	Banshing Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Board”	the board of directors of HCL
“Cancellation Price”	the cancellation price of HK\$0.42 per Scheme Share payable in cash as to 78.69% by HIL and 21.31% by HKCG to the Scheme Shareholders
“CLSA”	CLSA Equity Capital Markets Limited, a joint financial adviser to the Offeror Group. CLSA is a licensed corporation under the SFO, licensed under transitional arrangements (migration application lodged) to conduct Types 4 and 6 regulated activities under the SFO
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands
“Condition(s)”	the conditions or any of them to which the Proposal is subject, which are set out in the section entitled “Conditions of the Proposal” in the Explanatory Memorandum on pages 55 to 56 of this document

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## DEFINITIONS

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“Controlling Parties”	Felix Technology (an indirect wholly-owned subsidiary of HIL) and Technology Capitalization (an indirect wholly-owned subsidiary of HKCG) which together were legally and beneficially interested in an aggregate of approximately 84.72% of the issued share capital of HCL as at the Latest Practicable Date
“Court Meeting”	a meeting of the Scheme Shareholders convened by the direction of the Grand Court at which the Scheme will be voted on, which will be held in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 31st October, 2005 at 11:00 a.m., Hong Kong, notice of which is set out on pages 128 and 129 of this document, or any adjournment thereof
“Covite”	Covite Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Darnman”	Darnman Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Effective Date”	the date on which the Scheme, if approved, becomes effective, which is expected to be Thursday, 8th December, 2005 (Cayman Islands time)
“Excluded Parties”	parties acting in concert with the Offeror Group which as at the Latest Practicable Date comprised Banshing, Covite, Markshing, Gainwise, Darnman, Dr. Lee Shau Kee, Fu Sang, Mr. Lee King Yue, Mr. Ho Wing Fun, Mr. Lee Tat Man, The Hon. Lo Tak Shing, Mr. Leung Sing and HSBC (and members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code), who together were beneficially interested in an aggregate of 59,420,173 Shares, representing approximately 1.19% of the issued share capital of HCL as at the Latest Practicable Date
“Executive”	the Executive Director of the Corporate Finance Division of the SFC of Hong Kong or any delegate for the time being of the Executive Director
“Explanatory Memorandum”	the explanatory memorandum as set out on pages 54 to 71 of this document in compliance with the Rules of the Grand Court

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## DEFINITIONS

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“Extraordinary General Meeting”	the extraordinary general meeting of HCL to be held at 11:30 a.m. on Monday, 31st October, 2005 in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong, notice of which is set out on pages 130 to 131 of this document, or any adjournment thereof
“Felix Technology”	Felix Technology Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Best Selection Investments Limited which in turn is wholly-owned by HIL
“Fu Sang”	Fu Sang Company Limited, a company incorporated in Hong Kong with limited liability. Hopkins (Cayman) Limited (“Hopkins”) as trustee of a unit trust (the “Unit Trust”) owns all the issued ordinary shares of Fu Sang. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, hold units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick are owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee is taken to be interested in Shares owned by Fu Sang by virtue of the SFO. Discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust include Mr. Lee Ka Kit, Mr. Lee Ka Shing and the spouse of Mr. Li Ning
“Gainwise”	Gainwise Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Grand Court”	Grand Court of the Cayman Islands
“HCL”	Henderson Cyber Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are currently listed on GEM
“HCL Group”	HCL and its subsidiaries
“HIL”	Henderson Investment Limited, a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“HIL Group”	HIL and its subsidiaries

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## DEFINITIONS

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“HIL Shares”	shares of HK\$0.20 each in the share capital of HIL
“HKCG”	The Hong Kong and China Gas Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“HKCG Group”	HKCG and its subsidiaries
“HKCG Shares”	shares of HK\$0.25 each in the share capital of HKCG
“HLD”	Henderson Land Development Company Limited, the controlling shareholder of HIL and a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“HLD Group”	HLD and its subsidiaries
“holder”	a registered holder of shares including a person entitled by transmission to be registered as such and joint holders
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited, a joint financial adviser to the Offeror Group. HSBC is a deemed registered institution under the SFO to carry on types 1, 4, 6 and 9 regulated activities as defined under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
“Independent Director”	Mr. Leung Yuk Kwong, the independent non-executive director of HCL appointed to advise the Independent Shareholders in relation to the Proposal
“Independent Shareholders”	Shareholders other than the Controlling Parties and the Excluded Parties
“Latest Practicable Date”	3rd October, 2005, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Markshing”	Markshing Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Meetings”	the Court Meeting and the Extraordinary General Meeting and “Meeting” means the relevant one of them, as the case may be
“Offeror Group”	HIL and HKCG
“Platinum”	Platinum Securities Company Limited, licensed to carry out Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance) under the SFO, the independent financial adviser to the Independent Director
“Proposal”	the proposal for the privatisation of HCL by the Offeror Group by way of the Scheme
“Record Time”	5:00 p.m. Hong Kong time on Thursday, 8th December, 2005 for determining entitlements under the Scheme
“Register”	the register of members of HCL
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Scheme”	the scheme of arrangement between HCL and the Scheme Shareholders under Section 86 of the Companies Law as set out on pages 121 to 127 of this document, with or subject to any modification thereof or addition thereto or condition(s) approved or imposed by the Grand Court involving the cancellation of all the Scheme Shares
“Scheme Share(s)”	Share(s) held by the Scheme Shareholders as at the Record Time
“Scheme Shareholder(s)”	Shareholder(s) of HCL other than the Controlling Parties
“SFC”	Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of Shares
“Shares”	shares of HK\$0.10 each in the share capital of HCL



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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to such expression under the Listing Rules or the GEM Listing Rules, as applicable
“Takeovers Code”	The Code on Takeovers and Mergers
“Technology Capitalization”	Technology Capitalization Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Towngas Investment Company Limited which in turn is wholly-owned by HKCG
“trading day”	a day on which the Stock Exchange is open for trading in securities
“HK\$” and “cent(s)”	Hong Kong dollar(s), the lawful currency of Hong Kong for the time being
“%”	per cent.

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## EXPECTED TIMETABLE

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2005

Latest time for lodging transfers of the  
Shares to qualify for entitlement to  
attend and vote at the Court Meeting  
and the Extraordinary General Meeting ..... 4:00 p.m. on Tuesday, 25th October

Register closed for determination of  
entitlements to attend and vote at  
the Court Meeting and the Extraordinary  
General Meeting (*Note 1*) ..... Wednesday, 26th October to Monday, 31st October  
(both dates inclusive)

Latest time for lodging forms of proxy in respect of (*Notes 2 and 4*):

Court Meeting ..... 11:00 a.m. on Saturday, 29th October

Extraordinary General Meeting ..... 11:30 a.m. on Saturday, 29th October

Suspension of dealings in Shares ..... 9:30 a.m. on Monday, 31st October

Court Meeting (*Note 3*) ..... 11:00 a.m. on Monday, 31st October

Extraordinary General Meeting (*Note 3*) ..... 11:30 a.m. on Monday, 31st October  
or so soon thereafter as the Court Meeting  
shall have been concluded or adjourned

Announcement of the results of the  
Meetings in South China Morning Post  
and Hong Kong Economic Journal  
and on the GEM website ..... Tuesday, 1st November

Resumption of dealings in the Shares ..... 9:30 a.m. on Tuesday, 1st November

Hearing of HCL's summons for directions  
in respect of the capital reduction (*Note 4*) ..... Thursday, 10th November

Last day for dealings in the Shares ..... Thursday, 1st December

Latest time for lodging transfers of the Shares  
to qualify for entitlements under the Scheme ..... 4:00 p.m. on Wednesday, 7th December

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## EXPECTED TIMETABLE

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2005

Book close date ( <i>Note 5</i> ) .....	Thursday, 8th December
Record Time .....	5:00 p.m. on Thursday, 8th December
Grand Court hearing of the petition to sanction the Scheme and the petition to confirm the reduction of capital of HCL ( <i>Note 4</i> ) .....	Thursday, 8th December
Effective Date ( <i>Notes 4 and 6</i> ) .....	Thursday, 8th December
Announcement of Effective Date and withdrawal of listing published on the Stock Exchange website and the GEM website .....	Friday, 9th December
Withdrawal of the listing of the Shares on GEM ( <i>Note 6</i> ) .....	9:30 a.m. on Monday, 12th December
Announcement of Effective Date and withdrawal of listing in South China Morning Post and Hong Kong Economic Journal and on the Stock Exchange website and the GEM website .....	Monday, 12th December
Cheques for cash entitlements under the Scheme to be despatched on or before .....	Saturday, 17th December

**Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any such change.**

*Notes:*

1. The registers of members of HCL kept in the Cayman Islands and Hong Kong respectively will be closed during such period for the purpose of determining entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Extraordinary General Meeting. This book close period is not for determining entitlements under the Scheme.
2. Forms of proxy should be lodged with HCL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than the relevant times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting, who has absolute discretion whether or not to accept it, at the Court Meeting if it is not so lodged pursuant to an order of the Grand Court made on 3rd October, 2005. In order to be valid, the white form of proxy for the Extraordinary General Meeting must be lodged not later than the time and date stated above. Completion and return of a form of proxy for the Court Meeting will not preclude an Independent Shareholder from attending and voting in person at that Meeting. Completion and return of a form of proxy for the Extraordinary General Meeting will not preclude a Shareholder from attending and voting in person at that Meeting. In each such event, the returned form of proxy will be deemed to have been revoked.

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## EXPECTED TIMETABLE

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3. The Court Meeting and the Extraordinary General Meeting will be held in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out on pages 128 to 129, and the notice of the Extraordinary General Meeting set out on pages 130 to 131, of this document for details.
4. All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected dates for the Grand Court hearing of the petition to sanction the Scheme, the petition and summons for directions to confirm the reduction of capital of HCL and the Effective Date, which are references to the relevant dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.
5. The registers of members of HCL kept in the Cayman Islands and Hong Kong respectively will be closed on that date for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
6. The Scheme will become effective when it is sanctioned (with or without modifications) by the Grand Court and a copy of the Grand Court order is delivered to the Registrar of Companies in the Cayman Islands for registration. Registration is expected to take place on Thursday, 8th December, 2005 (Cayman Islands time) (given that Cayman Islands time is 13 hours behind Hong Kong time, it will either be the late evening on Thursday, 8th December, 2005 (Hong Kong time) or the early morning on Friday, 9th December, 2005 (Hong Kong time)). However, in the event that not all of the Conditions have been fulfilled (or, as applicable, waived) by Thursday, 8th December, 2005, being the proposed date of the Grand Court hearing of the petition to sanction the Scheme and the petition to confirm the reduction of capital of HCL, the timetable of events thereafter will be subject to change. Independent Shareholders should note the Conditions of the Proposal set out in the Explanatory Memorandum on pages 55 and 56 of this document. If the Scheme becomes effective, it is expected that the listing of the Shares on GEM will be withdrawn with effect from 9:30 a.m. on Monday, 12th December, 2005.

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LETTER FROM THE BOARD

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**hendersoncyber**

**Henderson Cyber Limited**

**恒基數碼科技有限公司\***

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

(Stock Code: 8023)

***Executive Directors:***

Dr. Lee Shau Kee (*Chairman*)  
Mr. Alfred Chan Wing Kin  
Mr. Colin Lam Ko Yin  
Mr. Lee Ka Kit  
Mr. Lee Ka Shing  
Mr. John Yip Ying Chee  
Mr. Douglas H. Moore

***Non-executive Director:***

Mr. Jackson Woo Ka Biu

***Independent Non-executive Directors:***

Dr. The Hon. David Li Kwok Po  
Professor Ko Ping Keung  
Mr. Leung Yuk Kwong

***Registered Office:***

Scotia Centre, 4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

***Hong Kong Head Office and  
Principal Place of Business:***

72-76/F., Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

6th October, 2005

*To Shareholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF  
HENDERSON CYBER LIMITED BY  
THE OFFEROR GROUP  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES LAW**

**INTRODUCTION**

It was jointly announced by HCL, HIL, HKCG and HLD on 16th August, 2005 that on 15th August, 2005, the Offeror Group jointly requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of HCL by way of a scheme of arrangement under

\* For identification purpose only

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## LETTER FROM THE BOARD

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Section 86 of the Companies Law involving the cancellation and extinguishment of all the Scheme Shares in consideration of the payment of the Cancellation Price of HK\$0.42 in cash per Scheme Share.

Upon the Scheme becoming effective, HCL will be indirectly owned by HIL as to approximately 78.69% (and thus will remain an indirect non-wholly owned subsidiary of HIL) and by HKCG as to approximately 21.31%. HCL will apply to the Stock Exchange for the withdrawal of the listing of the Shares on GEM pursuant to Rule 9.23(2) of the GEM Listing Rules immediately following the Effective Date.

The Offeror Group has no intention of discontinuing HCL's businesses upon the privatisation of HCL. The Cancellation Price per Scheme Share will not be increased, and the Offeror Group does not reserve the right to do so.

The Offeror Group has appointed HSBC and CLSA as its joint financial advisers in connection with the Proposal.

As at the Latest Practicable Date, the Controlling Parties were beneficially interested in an aggregate of 4,235,913,616 Shares, representing approximately 84.72% of the issued share capital of HCL. Such Shares, by reason of the fact that the Controlling Parties are respective indirect wholly-owned subsidiaries of HIL and HKCG (the Offeror Group), will not form part of the Scheme Shares, and accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. As there is no prohibition restricting the Controlling Parties from attending and voting at the Extraordinary General Meeting, the Controlling Parties have also indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve the relevant reduction of the share capital of HCL as a result of the Scheme.

In view of the interests of the Offeror Group in the Proposal and the direct or indirect relationships between the Excluded Parties and the Offeror Group as explained in the following paragraph, all of the 59,420,173 Shares of the Excluded Parties (representing approximately 1.19% of the issued share capital of HCL) will not be represented or voted at the Court Meeting to approve the Scheme as the Excluded Parties are presumed to be parties acting in concert with the Offeror Group under the Takeovers Code. These Shares do however form part of the Scheme Shares. There is no prohibition restricting the Excluded Parties from attending and voting at the Extraordinary General Meeting (other than Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun who confirmed, in seeking ruling from the Executive that the directors of each of HIL and HKCG do not face a conflict of interest such that Rule 2.4 of the Takeovers Code is applicable to the Proposal, that they will not take part as Shareholder in meetings of Shareholders to approve the Proposal).

As at the Latest Practicable Date, Banshing, Covite, Markshing, Gainwise and Darnman, all being indirect wholly-owned subsidiaries of HLD (a controlling shareholder of HIL), together beneficially owned an aggregate of 9,054,403 Shares, representing in aggregate approximately 0.18% of the issued share capital of HCL; Dr. Lee Shau Kee, a director of HLD, HIL, HKCG and HCL, was the beneficial owner of 173,898 Shares, representing approximately 0.01% of the issued share capital of HCL and in addition, by virtue of the SFO, he was taken to be interested in the

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## LETTER FROM THE BOARD

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3,333,213,616 Shares and the 902,700,000 Shares respectively owned by the Controlling Parties, and the Shares owned by Banshing, Covite, Markshing, Gainwise, Darnman and Fu Sang respectively; Fu Sang was 100% owned by a unit trust in which Dr. Lee Shau Kee was taken to be interested by virtue of the SFO and was the beneficial owner of 28,075 Shares, representing less than 0.01% of the issued share capital of HCL; Mr. Lee King Yue, Mr. Ho Wing Fun and Mr. Lee Tat Man were directors of HLD and HIL and also the beneficial owners of 5,383 Shares, five Shares and 33 Shares respectively, representing in aggregate less than 0.01% of the issued share capital of HCL; The Hon. Lo Tak Shing and Mr. Leung Sing were directors of HLD and also beneficial owners of 2,021 Shares and 750 Shares respectively, representing in aggregate less than 0.01% of the issued share capital of HCL; and members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code held on a proprietary basis or had discretionary management authority over 50,155,605 Shares representing approximately 1.00% of the issued share capital of HCL. In the circumstances, all of these parties, who are “Excluded Parties”, are presumed to be parties acting in concert with the Offeror Group under the Takeovers Code because of their direct or indirect relationship with the Offeror Group.

As at the Latest Practicable Date, neither CLSA nor any of its group companies which were deemed to be acting in concert with the Offeror Group under the Takeovers Code owned any Shares.

The Board comprises 11 directors, seven of whom are executive directors, one is a non-executive director and the remaining three are independent non-executive directors. Mr. Alfred Chan Wing Kin is a common director of HCL and HKCG, Mr. John Yip Ying Chee is a common director of HCL and HLD, Mr. Douglas H. Moore is an executive director, the chief executive officer and a salaried employee of HCL and all of the other executive directors of HCL, being Dr. Lee Shau Kee, Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit and Mr. Lee Ka Shing, are common directors of HCL, HIL, HKCG and HLD. Mr. Jackson Woo Ka Biu, being a non-executive director of HCL, is also an alternate director to Sir Po-shing Woo who is a common director of HIL and HLD. Two of the independent non-executive directors of HCL, being Dr. The Hon. David Li Kwok Po and Professor Ko Ping Keung, are also independent non-executive directors of HKCG and HIL respectively. As such, the directors of HCL named above are not considered to be independent under the Takeovers Code to opine on the terms of the Proposal. As a result, Mr. Leung Yuk Kwong, an independent non-executive director of HCL, has been appointed by the Board as the Independent Director to make a recommendation to the Independent Shareholders in respect of the Proposal.

Platinum has been appointed by the Board as the independent financial adviser to advise the Independent Director in connection with the Proposal.

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## LETTER FROM THE BOARD

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### SHAREHOLDING STRUCTURE

The table below sets out the ownership of the Shares in issue, including those beneficially owned by the Controlling Parties and the Excluded Parties, as at the Latest Practicable Date:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Felix Technology ( <i>note 1</i> )	3,333,213,616	66.67	3,333,213,616	78.69
Technology Capitalization ( <i>note 1</i> )	<u>902,700,000</u>	<u>18.05</u>	<u>902,700,000</u>	<u>21.31</u>
<i>Aggregate number of Shares of the Controlling Parties</i>	<u>4,235,913,616</u>	<u>84.72</u>	<u>4,235,913,616</u>	<u>100.00</u>
Banshing ( <i>notes 2 &amp; 8</i> )	4,014,271	0.08	—	—
Covite ( <i>notes 2 &amp; 8</i> )	1,816,644	0.04	—	—
Markshing ( <i>notes 2 &amp; 8</i> )	1,714,027	0.03	—	—
Gainwise ( <i>notes 2 &amp; 8</i> )	1,086,250	0.02	—	—
Darnman ( <i>notes 2 &amp; 8</i> )	423,211	0.01	—	—
Lee Shau Kee ( <i>notes 3 &amp; 8</i> )	173,898	0.01	—	—
Fu Sang ( <i>notes 4 &amp; 8</i> )	28,075	0.00	—	—
Lee King Yue ( <i>notes 5 &amp; 8</i> )	5,383	0.00	—	—
Ho Wing Fun ( <i>notes 6 &amp; 8</i> )	5	0.00	—	—
Lee Tat Man ( <i>notes 6 &amp; 8</i> )	33	0.00	—	—
Lo Tak Shing ( <i>notes 7 &amp; 8</i> )	2,021	0.00	—	—
Leung Sing ( <i>notes 7 &amp; 8</i> )	750	0.00	—	—
HSBC ( <i>notes 8 &amp; 9</i> )	<u>50,155,605</u>	<u>1.00</u>	—	—
<i>Aggregate number of Shares of the Excluded Parties</i>	<u>59,420,173</u>	<u>1.19</u>	—	—
<i>Aggregate number of Shares of the Controlling Parties and the Excluded Parties</i>	4,295,333,789	85.91	4,235,913,616	100.00
Independent Shareholders	<u>704,666,211</u>	<u>14.09</u>	—	—
<b>Total</b>	<u>5,000,000,000</u>	<u>100.00</u>	<u>4,235,913,616</u>	<u>100.00</u>
<b>Scheme Shareholders</b> ( <i>note 10</i> )	764,086,384	15.28	—	—



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## LETTER FROM THE BOARD

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Notes:

1. *Dr. Lee Shau Kee was taken to be interested in the 3,333,213,616 Shares and the 902,700,000 Shares respectively held by Felix Technology (an indirect wholly-owned subsidiary of HIL) and Technology Capitalization (an indirect wholly-owned subsidiary of HKCG), being the Controlling Parties, by virtue of the SFO.*
2. *Banshing, Covite, Markshing, Gainwise and Darnman were all wholly-owned subsidiaries of Kingslee S.A. which was 100% held by HLD which was the controlling shareholder of HIL, and therefore were presumed to be parties acting in concert with the Offeror Group under the Takeovers Code. These companies together beneficially owned an aggregate of 9,054,403 Shares, which represented 0.18% of the issued share capital of HCL. Dr. Lee Shau Kee was taken to be interested in these Shares by virtue of the SFO.*
3. *Dr. Lee Shau Kee was a director of HLD, HIL, HKCG and HCL and therefore was presumed to be a party acting in concert with the Offeror Group under the Takeovers Code. The figures included Dr. Lee Shau Kee's personal interests in the Shares but excluded his deemed interest in the Shares in which Banshing, Covite, Markshing, Gainwise, Darnman, Fu Sang, Felix Technology and Technology Capitalization were interested.*
4. *Dr. Lee Shau Kee was taken to be interested in the 28,075 Shares owned by Fu Sang by virtue of the SFO, and Fu Sang was presumed to be a party acting in concert with the Offeror Group under the Takeovers Code.*
5. *Mr. Lee King Yue was a director of HLD and HIL and therefore was presumed to be a party acting in concert with the Offeror Group under the Takeovers Code.*
6. *Mr. Ho Wing Fun and Mr. Lee Tat Man were directors of HLD and HIL and therefore were presumed to be parties acting in concert with the Offeror Group under the Takeovers Code.*
7. *The Hon. Lo Tak Shing and Mr. Leung Sing were directors of HLD and therefore were presumed to be parties acting in concert with the Offeror Group under the Takeovers Code.*
8. *All of the Shares in which Banshing, Covite, Markshing, Gainwise, Darnman, Dr. Lee Shau Kee, Fu Sang, Mr. Lee King Yue, Mr. Ho Wing Fun, Mr. Lee Tat Man, The Hon. Lo Tak Shing, Mr. Leung Sing and HSBC were respectively interested as set out in this table would form part of the Scheme Shares.*
9. *HSBC was a joint financial adviser to the Offeror Group and therefore was presumed to be a party acting in concert with the Offeror Group under the Takeovers Code. The figure comprised 50,152,000 Shares owned on a proprietary basis by HSBC Securities (Asia) Limited and 3,605 Shares managed on a discretionary basis by HSBC International Trustee Limited. The 3,605 Shares were owned and controlled as to 2,080 Shares by HSBC International Trustee Limited as trustee, 1,000 Shares by HSBC Trustee (C.I.) Limited as trustee and 525 Shares by HSBC Trustee (Cook Islands) Limited as trustee. Each of HSBC Securities (Asia) Limited, HSBC International Trustee Limited, HSBC Trustee (C.I.) Limited and HSBC Trustee (Cook Islands) Limited is an indirectly wholly-owned subsidiary of HSBC Holdings plc, which is also the ultimate holding company of HSBC.*
10. *The total number of Scheme Shares equalled the aggregate number of Shares held by the Excluded Parties and the Independent Shareholders.*

Assuming that no further Shares will be issued or repurchased between the Latest Practicable Date and the Record Time, all of the 764,086,384 Scheme Shares then in issue will be cancelled and extinguished.

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## LETTER FROM THE BOARD

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### SUMMARY OF THE PROPOSAL

The purpose of this document is to give you further information regarding the Proposal and to give you notices of the Court Meeting and the Extraordinary General Meeting. Your attention is also drawn to the letter from the Independent Director, the letter from Platinum to the Independent Director, the Explanatory Memorandum and the Scheme, all of which form part of this document.

It is proposed that, subject to the Conditions being fulfilled or, if applicable, waived, the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of the Scheme Shares and a reduction of the issued share capital of HCL under the Companies Law. Accordingly, HCL will be indirectly owned by HIL as to approximately 78.69% (and thus will remain an indirect non-wholly owned subsidiary of HIL) and by HKCG as to approximately 21.31%. The Scheme also provides that, in consideration of the cancellation and extinguishment of the Scheme Shares, all of the Scheme Shareholders whose names appear on the Register at the Record Time will be entitled to receive the Cancellation Price of HK\$0.42 in cash for each Scheme Share held.

Payment of the Cancellation Price will be effected by cheques and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous rights to which the Offeror Group may otherwise be, or claim to be, entitled against any Scheme Shareholders.

As at the Latest Practicable Date, there were no outstanding options, derivatives, warrants or convertible securities issued by HCL. On the bases of the Cancellation Price and of a total of 764,086,384 Scheme Shares and 4,235,913,616 Shares held by the Controlling Parties as at the Latest Practicable Date, the entire issued share capital of HCL is valued at approximately HK\$2,100 million under the Proposal. The amount of cash required for the payment of the Cancellation Price is approximately HK\$320.92 million, of which approximately HK\$252.53 million will be payable by HIL and approximately HK\$68.39 million will be payable by HKCG. Each of HIL and HKCG has stated their respective intentions to finance the cash required for the payment of the Cancellation Price from internal resources and/or bank borrowings. The HIL Group has a loan facility granted by The Hongkong and Shanghai Banking Corporation Limited of which an amount of HK\$253 million is available to the HIL Group for use under the said facility. The payment of interest on, and repayment of or security for, the loan facility will not depend to any significant extent on the business of HCL.

HSBC and CLSA, the Offeror Group's joint financial advisers, are satisfied that sufficient financial resources are available to each of HIL and HKCG for the implementation of the Proposal.

The Proposal will become effective and binding on HCL and all Shareholders, including the Excluded Parties and their nominees in whose names some of the Shares beneficially owned by them are registered, provided that the Conditions are fulfilled, or if applicable waived.

The Scheme will lapse if it does not become effective on or before 28th February, 2006 or such later date as the Offeror Group and HCL may agree or as the Grand Court on application of the Offeror Group or HCL may allow and the Scheme Shareholders will be notified accordingly by press announcements and also by announcement published on the GEM website.

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## LETTER FROM THE BOARD

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Assuming that the Scheme becomes effective on Thursday, 8th December, 2005, cheques for the Cancellation Price will be sent to the Scheme Shareholders whose names appear on the Register at the Record Time, such cheques are expected to be despatched to the Scheme Shareholders on or before Saturday, 17th December, 2005 and in any event within ten days from the Effective Date.

### FINANCIAL EFFECTS OF THE PROPOSAL

#### Share Price

The Cancellation Price of HK\$0.42 per Scheme Share represents:

- a premium of approximately 90.91% over the closing price of HK\$0.22 per Share as quoted on GEM on 11th August, 2005 (being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 110.00% over the average closing price of approximately HK\$0.20 per Share based on the daily closing prices as quoted on GEM over the 10 trading days up to and including 11th August, 2005;
- a premium of approximately 110.00% over the average closing price of approximately HK\$0.20 per Share based on the daily closing prices as quoted on GEM over the 30 trading days up to and including 11th August, 2005;
- a premium of approximately 110.00% over the average closing price of approximately HK\$0.20 per Share based on the daily closing prices as quoted on GEM over the 60 trading days up to and including 11th August, 2005;
- a premium of approximately 100.00% over the average closing price of approximately HK\$0.21 per Share based on the daily closing prices as quoted on GEM over the 180 trading days up to and including 11th August, 2005; and
- a premium of approximately 2.44% over the closing price of approximately HK\$0.41 per Share as quoted on GEM as at the Latest Practicable Date.

Historical share price information on the Shares is set out in Section 2 of Appendix II to this document.

#### Net Assets

As at 30th June, 2005, the audited consolidated net assets of the HCL Group amounted to approximately HK\$755.9 million (2004:HK\$760.0 million) or approximately HK\$0.15 (2004:HK\$0.15) per Share. The Cancellation Price represents:

- a premium of approximately 180.00% over the audited consolidated net asset value per Share of approximately HK\$0.15 as at 30th June, 2004; and

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## LETTER FROM THE BOARD

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- a premium of approximately 180.00% over the audited consolidated net asset value per Share of approximately HK\$0.15 as at 30th June, 2005.

### Earnings

The HCL Group's audited consolidated loss attributable to the Shareholders for the year ended 30th June, 2005 was approximately HK\$4.1 million, representing a loss per Share of approximately HK\$0.0008. The HCL Group's audited consolidated loss attributable to the Shareholders in respect of the previous financial year ended 30th June, 2004 was approximately HK\$17.8 million which was equivalent to a loss per Share of approximately HK\$0.0036.

### Dividend Yield

HCL has not declared any dividends since the listing of the Shares on GEM.

### REASONS FOR AND BENEFITS OF THE PROPOSAL

Your attention is drawn to the section headed "Reasons for and benefits of the Proposal" in the Explanatory Memorandum on pages 58 to 59 of this document.

### INFORMATION RELATING TO THE HCL GROUP AND FUTURE INTENTIONS

Your attention is drawn to the sections headed "Information relating to the HCL Group" and "Future intentions" in the Explanatory Memorandum on pages 59 to 64 of this document.

### OTHER INFORMATION

Dr. Lee Shau Kee, through interests in HIL held by HLD and his personal interests and other deemed interests through Fu Sang, was as at the Latest Practicable Date interested in 2,110,638,943 HIL Shares (representing approximately 74.92% of the issued share capital of HIL) and through interests in HKCG held by HIL and his personal and other deemed interests, was as at the Latest Practicable Date interested in 2,160,243,950 HKCG Shares (representing approximately 38.76% of the issued share capital of HKCG). Dr. Lee Shau Kee is a director of HLD, HIL, HKCG and HCL. Mr. Colin Lam Ko Yin is a director of HLD, HIL, HKCG and HCL. Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun are directors of HLD and HIL and are also Shareholders of HCL.

In view of the relatively insignificant interest of Dr. Lee Shau Kee in HCL held other than through the Offeror Group and in view of the immateriality of the value of the Scheme Shares and the amount of Cancellation Price to be receivable in which each of Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun will be interested (other than through the Offeror Group) under the Proposal, an undertaking from Mr. Colin Lam Ko Yin to dispose of the 55 Shares in which he was previously interested by way of gift to a Hong Kong registered charity and the disposal of his beneficial interest in the 55 Shares to a Hong Kong registered charity by way of gift with effect from 15th August, 2005, the confirmation by each of Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun to the SFC confirming that each of them has not taken part as a director in HIL's decision making process as regards the making of the Proposal and their undertaking and confirmation that each of them will not

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## LETTER FROM THE BOARD

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take part as a director in HIL's decision making process as regards the making of the Proposal and their undertaking and confirmation that they will not take part as Shareholder in meetings of Shareholders to approve the Proposal and will receive no ancillary benefit in respect of the making of the Proposal, the SFC has ruled that the directors of each of HIL and HKCG do not face a conflict of interest such that Rule 2.4 of the Takeovers Code is applicable to the Proposal.

### MEETINGS AND ACTION TO BE TAKEN BY THE SHAREHOLDERS

As you will see from the notices of Meetings set out on pages 128 to 131 of this document, the Meetings have been convened to be held at 11:00 a.m. and 11:30 a.m. respectively in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 31st October, 2005.

In accordance with the direction of the Grand Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). In so far as the sanction of the Scheme by the Grand Court is concerned, such a resolution will be deemed to have been passed (by way of poll) if a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. As explained above, however, such a resolution will only be considered to have been passed under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) against the resolution at the Court Meeting is not more than 10% in value of all the Shares held by all of the Independent Shareholders. Based on 704,666,211 Shares held by the Independent Shareholders as at the Latest Practicable Date, 10% of such Shares amounted to 70,466,621 Shares.

Immediately following the Court Meeting, the Extraordinary General Meeting has been convened for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the reduction of the issued share capital of HCL as a result of the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the Extraordinary General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Extraordinary General Meeting.

As at the Latest Practicable Date, the Controlling Parties were beneficially interested in an aggregate of 4,235,913,616 Shares, representing approximately 84.72% of the issued share capital of HCL. Such Shares, by reason of the fact that the Controlling Parties are respective indirect wholly-owned subsidiaries of HIL and HKCG (the Offeror Group), will not form part of the Scheme Shares and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. As there is no prohibition restricting the Controlling Parties from attending and voting at the Extraordinary General Meeting, the Controlling Parties have also indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve the reduction of the issued share capital of HCL as a result of the Scheme.

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## LETTER FROM THE BOARD

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In addition, the Excluded Parties, who as at the Latest Practicable Date were collectively beneficially interested in 59,420,173 Shares representing approximately 1.19% of the issued share capital of HCL, and their nominees in whose names some of the Shares in which they were beneficially interested were registered will not, for the reasons already explained above, attend and vote at the Court Meeting in person or by proxy in their capacity as Scheme Shareholders. There is no prohibition restricting the Excluded Parties from attending and voting at the Extraordinary General Meeting (other than Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun who confirmed, in seeking ruling from the Executive that the directors of each of HIL and HKCG do not face a conflict of interest such that Rule 2.4 of the Takeovers Code is applicable to the Proposal, that they will not take part as Shareholder in meetings of Shareholders to approve the Proposal).

Whether or not you are able to attend the Meetings in person, the Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the Shareholders are strongly urged to complete and sign the enclosed white form of proxy in respect of the Extraordinary General Meeting in accordance with the instructions respectively printed thereon and to lodge them with HCL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any case not later than the following respective times. In the case of the pink form of proxy for use at the Court Meeting, it is requested that this form of proxy be lodged not later than 11:00 a.m. on Saturday, 29th October, 2005 but if it is not so lodged, it may be handed to the chairman of the Court Meeting, who has absolute discretion whether or not to accept it, at the Court Meeting pursuant to an order of the Grand Court made on 3rd October, 2005. In order to be valid, the white form of proxy for use at the Extraordinary General Meeting must be lodged not later than 11:30 a.m. on Saturday, 29th October, 2005. One self-addressed, pre-paid envelope marked "For Return of Court Meeting Proxy Form and/or Extraordinary General Meeting Proxy Form — Henderson Cyber Limited" is enclosed in order to facilitate the return by the Independent Shareholders and/or Shareholders (as applicable) by post (from within Hong Kong only) of their completed forms of proxy. The completion and return of a form of proxy for any of the Meetings will not preclude you from attending the relevant Meeting and voting in person if you so wish. In the event that you attend a Meeting after having lodged the form of proxy, your form of proxy for that Meeting will be deemed to have been revoked.

HCL will only recognise persons whose names are registered on the register of members of HCL as Shareholders, any beneficial owner of Shares whose Shares are held upon trust by and registered in the name of a nominee, trustee or other person will not be recognised by HCL as a Shareholder. Any beneficial owner of Shares ("Beneficial Owner") whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party (the "Registered Owner") should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting. A Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the Extraordinary General Meeting and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the Extraordinary General Meeting shall be in

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## LETTER FROM THE BOARD

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accordance with all relevant provisions in the articles of association of HCL. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in the paragraph above.

Any Beneficial Owner whose Shares are deposited in the Central Clearing and Settlement System ("CCASS") operated by Hong Kong Securities Clearing Company Limited and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the "Investor Participant"), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant ("Other CCASS Participant") regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures".

For the purpose of determining the entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Extraordinary General Meeting, the Register will be closed from Wednesday, 26th October, 2005 to Monday, 31st October, 2005 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with HCL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 25th October, 2005.

Assuming that all of the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be on Thursday, 8th December, 2005. Further press announcements and also an announcement published on the GEM website will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the last day for dealing in the Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Effective Date and the date of the withdrawal of the listing of the Shares on GEM.

### **SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT**

Your attention is drawn to the sections headed "Share certificates, dealings and listing" and "Registration and payment" in the Explanatory Memorandum on pages 66 to 67 of this document.

### **FURTHER INFORMATION**

A letter from the Independent Director to the Independent Shareholders as well as a letter from Platinum to the Independent Director are reproduced on pages 22 to 53 of this document. We advise you to read these letters carefully before you take any action in respect of the Proposal.

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## LETTER FROM THE BOARD

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In considering what action to take in connection with the Proposal, you should consider your own tax position and, if you are in any doubt, you should consult your professional advisers.

You are urged to read the Explanatory Memorandum as set out on pages 54 to 71 of this document, the appendices to this document, the Scheme as set out on pages 121 to 127 of this document, and the notices of the Court Meeting and the Extraordinary General Meeting as set out on pages 128 to 131 of this document.

Yours faithfully,  
For and on behalf of the Board  
**Dr. Lee Shau Kee**  
*Chairman*



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LETTER FROM THE INDEPENDENT DIRECTOR

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**hendersoncyber**

**Henderson Cyber Limited**

**恒基數碼科技有限公司\***

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

(Stock Code: 8023)

6th October, 2005

*To the Independent Shareholders*

Dear Sirs or Madam,

**PROPOSED PRIVATISATION OF  
HENDERSON CYBER LIMITED BY  
THE OFFEROR GROUP  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES LAW**

It was jointly announced by HCL, HIL, HKCG and HLD on 16th August, 2005 that on 15th August, 2005, HIL and HKCG jointly requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of HCL by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation and extinguishment of all the Scheme Shares in consideration of the payment of the Cancellation Price of HK\$0.42 in cash per Scheme Share. Details of the Proposal are set out in the section entitled "Letter from the Board" as set out on pages 10 to 21 of a document issued jointly by HCL, HIL and HKCG dated 6th October, 2005 (the "Document"), of which this letter forms part. For the purpose of the Proposal, I have been appointed as the Independent Director to give a recommendation to the Independent Shareholders as to how they should vote on the Proposal. Platinum has been appointed as the independent financial adviser to advise me in connection with the Proposal. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Document.

Having considered the terms of the Scheme and the opinion of Platinum and, in particular, the factors, reasons and recommendations as set out in the letter from Platinum on pages 24 to 53 of the Document, I consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, I recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and to vote in favour of the special resolution to approve and give effect to the consequent reduction of capital at the Extraordinary General Meeting.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT DIRECTOR

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I also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the Explanatory Memorandum and (iii) the Appendices which form part of the Explanatory Memorandum.

Yours faithfully,

**Mr. Leung Yuk Kwong**

*Independent Non-executive Director*

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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*The following is the text of the letter of advice from the independent financial adviser to the Independent Director for the purpose of incorporation into this document.*



**PLATINUM** Securities Company Limited

22/F Standard Chartered Bank Building  
4 Des Voeux Road, Central  
Hong Kong

Telephone (852) 2841 7000  
Facsimile (852) 2522 2700

6th October, 2005

*To the Independent Director*

Dear Sir,

**PROPOSED PRIVATISATION OF HENDERSON CYBER LIMITED  
BY THE OFFEROR GROUP  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW, CAP. 22 (LAW 3 OF 1961)  
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS)**

### INTRODUCTION

We refer to our engagement to advise the Independent Director with respect to the Proposal for the proposed privatisation of HCL by the Offeror Group by way of the Scheme. Details of the Scheme are contained in the scheme document dated 6th October, 2005 issued jointly by HCL and the Offeror Group (the "Scheme Document") of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document.

Platinum has been appointed as the independent financial adviser to advise the Independent Director as to whether or not the terms of the Proposal, in particular the Cancellation Price, are fair and reasonable so far as the Independent Shareholders are concerned.

Platinum is independent from, and is not associated with, HIL, HKCG, HCL or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal. We will receive a fee from HCL for the issue of this letter. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from HIL, HKCG, HCL or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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### INDEPENDENT DIRECTOR

The Board comprises 11 directors, seven of whom are executive directors, one is a non-executive director and the remaining three are independent non-executive directors. Mr. Alfred Chan Wing Kin is a common director of HCL and HKCG, Mr. John Yip Ying Chee is a common director of HCL and HLD, Mr. Douglas H. Moore is an executive director, the chief executive officer and a salaried employee of HCL and all of the other executive directors of HCL, being Dr. Lee Shau Kee, Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit and Mr. Lee Ka Shing, are common directors of HCL, HIL, HKCG and HLD. Mr. Jackson Woo Ka Biu, being a non-executive director of HCL, is also an alternate director to Sir Po-shing Woo who is a common director of HIL and HLD. Two of the independent non-executive directors of HCL, being Dr. The Hon. David Li Kwok Po and Professor Ko Ping Keung, are also independent non-executive directors of HKCG and HIL respectively. As such, the directors of HCL named above are not considered to be independent under the Takeovers Code to opine on the terms of the Proposal. As a result, Mr. Leung Yuk Kwong, an independent non-executive director of HCL, has been appointed by the Board as the Independent Director to make a recommendation to the Independent Shareholders in respect of the Proposal.

In formulating our opinion, we have relied on the information and facts supplied by, the opinions expressed by and the representations of, the Board and management of HCL concerning the HCL Group, the Proposal and the Scheme, including those facts, opinions and representations set out in the Scheme Document. Examples of such information include financial information, terms of the Proposal, current business operations, and future prospects. We have assumed that all such information is true and accurate in all material respects as at the date hereof. The Board has confirmed that they take full responsibility for the contents of the Scheme Document.

We have no reason to believe that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Scheme Document. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the HCL Group. The Board has confirmed that no material facts have been omitted from the information supplied to us. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation regarding the Proposal and the Scheme.

### TERMS OF THE PROPOSAL

In summary, the Proposal involves the following principal terms:

- (i) all the Scheme Shares held by the Scheme Shareholders will be cancelled and extinguished under Section 86 of the Companies Law. In return, the Scheme Shareholders will receive HK\$0.42 in cash from the Offeror Group for every Scheme Share held;
- (ii) Upon the Scheme becoming effective, the issued share capital of HCL will be reduced and approximately 78.69% and approximately 21.31% of the issued share capital of HCL will be owned by HIL and HKCG respectively and the listing of the Shares on the GEM will be withdrawn;

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- (iii) based on the Cancellation Price and a total of 764,086,384 Scheme Shares outstanding as at the Latest Practicable Date, the aggregate amount of consideration required for the payment of the Cancellation Price is approximately HK\$320.92 million, of which approximately HK\$252.53 million will be payable by HIL and approximately HK\$68.39 million will be payable by HKCG;
- (iv) HIL and HKCG have stated that they intend to finance the payment of the Cancellation Price from internal resources and/or bank borrowings; and
- (v) the Scheme will lapse if it does not become effective on or before 28th February, 2006 or such later date as the Offeror Group and HCL may agree or as the Grand Court on application of the Offeror Group or HCL may allow and the Scheme Shareholders will be notified accordingly by press announcements and also by announcement published on the GEM website.

Further details of the terms and conditions of the Proposal are set out in the Explanatory Memorandum in the Scheme Document.

### CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on HCL and all Shareholders subject to the fulfillment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme by a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting holding not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting; and
  - (ii) the Scheme is not disapproved (by way of poll) by Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the reduction of the share capital of HCL as a result of the Scheme by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at a general meeting of HCL;
- (c) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of HCL, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;

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- (d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law in each case in relation to the reduction of the issued share capital of HCL;
- (e) all Authorisations in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in the Cayman Islands and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) all necessary consents which may be required under any existing contractual obligations of HCL being obtained; and
- (h) if required, the obtaining by HIL and HKCG of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under the applicable laws and regulations.

In respect of Condition (a) above, according to the ruling granted by the Executive on 16th August, 2005, any votes actually known to HIL, HKCG or HCL attached to the Shares held by directors (together with their close relatives, related trusts and companies controlled by any of them) of subsidiaries and fellow subsidiaries of HIL and HKCG will not be counted for the purpose of Rule 2.10 of the Takeovers Code. Any votes attaching to the Shares held by directors (together with their close relatives, related trusts and companies controlled by any of them) of HIL, HKCG or HCL will also not be counted for the purpose of Rule 2.10 of the Takeovers Code.

The Offeror Group reserves the right to waive Conditions (e), (f), (g) and (h) either in whole or in part in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before 28th February, 2006 (or such later date as the Offeror Group and HCL may agree or, to the extent applicable, as the Grand Court may direct), failing which the Scheme will lapse.

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation relating to the terms of the Proposal and giving our independent financial advice to the Independent Director, we have considered the following principal factors and reasons:

#### A. Reasons for and benefits of the Proposal

##### 1. *Business of the HCL Group*

HCL is a company incorporated in the Cayman Islands with limited liability and the Shares have been listed on GEM since 14th July, 2000. The principal business activities of the HCL Group are Internet services, telecommunications services, merchandising services, data centre services, intelligent building services and information technology investments.

##### 2. *Rationale for the Proposal*

As stated in the letter from the Board and the Explanatory Memorandum in the Scheme Document, HIL and HKCG have identified a number of reasons for and benefits of the Proposal. These include:

- (i) the trading volume of the Shares has been thin, resulting in the low liquidity of the Shares. The average daily trading volume for the past six months up to and including 11th August, 2005 (being the last full trading day in the Shares prior to the suspension of trading in Shares pending the issue of the Announcement) was approximately 0.01% of the free float number of the Shares trading on GEM;
- (ii) since HCL is owned as to approximately 84.72% in aggregate by HIL and HKCG, the directors of HIL and HKCG believe that it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of HIL and HKCG;
- (iii) given the low liquidity of the Shares, the directors of HIL and HKCG believe HCL's ability to raise funds from the public equity markets is currently limited and any significant improvement in this regard in the foreseeable future is unlikely. Consequently, the directors of HIL and HKCG consider that the costs and management resources associated with the maintenance of HCL's listing on GEM and its publicly listed status, which are needed in order to access the public equity capital market, are no longer warranted; and
- (iv) the directors of HIL and HKCG are also aware of the uncertain outlook for the existing business of the HCL. The Internet, telecommunications and high technology industries are fast changing and subject to intense competition. The directors of HIL and HKCG accordingly consider that the Proposal will bring about more flexibility to take the businesses of HCL forward in an efficient and sustainable manner.

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As a result of the Proposal, an opportunity is available for all the Scheme Shareholders to realise their investments in HCL at a premium to the prevailing market price of the Shares. We consider that this option being made available is in the interest of the Scheme Shareholders especially after we have reviewed other aspects of the Proposal which we will discuss in the ensuing sections of this letter.

### B. Historical financial performance and future growth

An extract of the key financials of the HCL Group for the financial years ended 30th June, 2003, 2004 and 2005 are set out below:

**Table 1: Key financials of the HCL Group for the financial years ended 30th June, 2003, 2004 and 2005**

	For the financial year ended			Annual growth rate	
	2003	30th June	2005	2004	2005
	HK\$	HK\$	HK\$		
	million	million	million	%	%
Turnover	83.75	87.34	83.84	4.29	(4.01)
Loss from operations	(13.14)	(20.40)	(4.08)	55.25	(80.00)
Loss from ordinary activities before taxation	(17.03)	(19.12)	(4.10)	12.27	(78.56)
Loss attributable to the Shareholders	(17.01)	(17.82)	(4.10)	4.76	(76.99)

*Source: Annual reports of the HCL Group*

#### 1. Turnover

As illustrated in Table 1 above, although the overall turnover of the HCL Group was flat during the three-year period under review, the rate of increase in 2004 was 4.29% whereas the overall turnover decreased by approximately 4.01% in 2005. In accordance with the annual report of the HCL Group for the financial year ended 30th June, 2005, the turnover of the HCL Group was generated from the following principal businesses including:

- (i) retailing - sale of goods, provision of Internet services and telecommunications services;
- (ii) business services - provision of data centre services, network services and Internet services; and
- (iii) building system services - project consultancy and application service provider ("ASP") services.



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Table 2 below is a summary of the breakdown of the turnover of each business segment of the HCL Group for the financial years ended 30th June, 2003, 2004 and 2005.

**Table 2: A breakdown of the turnover of the HCL Group by business segments**

	For the financial year ended 30th June						Annual growth rate	
	2003		2004		2005		2004	2005
	% of total		% of total		% of total			
	Turnover HK\$'000	turnover %	Turnover HK\$'000	turnover %	Turnover HK\$'000	turnover %	%	%
Retailing	75,103	89.67	83,297	95.37	79,090	94.33	10.91	(5.05)
Business services	1,567	1.87	2,289	2.62	2,693	3.21	46.08	17.65
Building system services	7,081	8.46	1,755	2.01	2,059	2.46	(75.22)	17.32
<b>Total</b>	<b>83,751</b>	<b>100.00</b>	<b>87,341</b>	<b>100.00</b>	<b>83,842</b>	<b>100.00</b>	<b>4.29</b>	<b>(4.01)</b>

*Source: Annual reports of the HCL Group*

As illustrated in Table 2 above, approximately 90% of the HCL Group's total turnover was contributed by the retailing business segment for the three-year period under review. The retailing business segment was operated through iCare.com Limited ("iCare"). iCare mainly carries on three core businesses, namely: (i) sale of goods; (ii) provision of Internet services; and (iii) provision of telecommunications services.

Table 3 below is a summary of the turnover of each business sub-segment of iCare for the financial years ended 30th June, 2003, 2004 and 2005.

**Table 3: A breakdown of the turnover of iCare by business sub-segments**

	For the financial year ended 30th June						Annual growth rate	
	2003		2004		2005		2004	2005
	% of total		% of total		% of total			
	Turnover HK\$'000	turnover %	Turnover HK\$'000	turnover %	Turnover HK\$'000	turnover %	%	%
Sale of goods	26,364	35.10	40,077	48.11	45,231	57.19	52.01	12.86
Internet services	32,191	42.86	28,543	34.27	23,538	29.76	(11.33)	(17.53)
Telecommunications services	16,548	22.04	14,677	17.62	10,321	13.05	(11.31)	(29.68)
<b>Total</b>	<b>75,103</b>	<b>100.00</b>	<b>83,297</b>	<b>100.00</b>	<b>79,090</b>	<b>100.00</b>	<b>10.91</b>	<b>(5.05)</b>

*Source: Annual reports of the HCL Group*

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As illustrated in Table 3 above, although the overall turnover of iCare was generally range bound during the three-year period under review, it increased by approximately 10.91% in 2004 whereas it decreased by approximately 5.05% in 2005. A brief review of the performance of the three business sub-segments of iCare during the three-year period under review is set out below.

(i) *Sale of goods*

The sale of goods business sub-segment accounted for approximately 35.10%, 48.11% and 57.19% respectively of iCare's total turnover for each of the financial years ended 30th June, 2003, 2004 and 2005.

Based on our discussions with management of the Company, currently about 65% of the turnover of this business sub-segment was derived from the sale of electronic and electrical products such as personal computers, MP3 players, air conditioners, refrigerators, digital cameras, wireless phones. Customers can carry out their purchases or receive after-sale services through any of the three channels comprising iCare portal, customer hotline and iCare Hotspots. As at 30th June, 2005, there were a total of 11 iCare Hotspots of which 4 were located in Kowloon, 3 in Hong Kong Island and 4 in New Territories.

As illustrated in Table 3 above, the turnover for this business sub-segment for the financial year ended 30th June, 2004 increased by approximately 52.01% from that of 2003, which was mainly due to the expansion of iCare Hotspots from 5 to 10 during the financial year ended 30th June, 2004.

(ii) *Provision of Internet services*

The Internet services business sub-segment accounted for approximately 42.86%, 34.27% and 29.76% respectively of iCare's total turnover for each of the financial years ended 30th June, 2003, 2004 and 2005.

The turnover from this business sub-segment was mainly derived from the provision of both broadband and narrowband Internet services to subscribers. The iCare Internet-on-TV Set-Top Box ("STB") subscribers, Internet Service Provider ("ISP") users and Internet Content Provider ("ICP") users amounted to a total of approximately 248,000 by the end of June 2005.

The turnover derived from the Internet services business sub-segment has been decreasing and the annual rate of decrease for the financial years ended 30th June 2004 and 2005 amounted to approximately 11.33% and 17.53% respectively.

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(iii) *Provision of telecommunications services*

The telecommunications services business sub-segment accounted for approximately 22.04%, 17.62% and 13.05% respectively of iCare's total turnover for each of the financial years ended 30th June, 2003, 2004 and 2005.

The turnover from this business sub-segment was derived from the provision of IDD services through the operation of iCare1608 IDD. The number of registered iCare 1608 IDD telephone lines was approximately 358,000 as of 30th June, 2005.

As illustrated in Table 3 above, the turnover for this business sub-segment has been decreasing and the annual rate of decrease for the financial years ended 30th June 2004 and 2005 amounted to approximately 11.31% and 29.68% respectively.

### **2. *Loss attributable to the Shareholders***

As illustrated in Table 1 above, the HCL Group has been loss-making during the three-year period under review. A loss attributable to Shareholders of approximately HK\$17.01 million, approximately HK\$17.82 million and approximately HK\$4.10 million respectively was incurred for each of the financial years ended 30th June, 2003, 2004 and 2005.

The overall loss was mainly due to the challenging conditions faced by the HCL Group in its business segments. In particular, the Internet, telecommunications services and high technology industries are fast changing and subject to intense competition. For details of the industries analysis, please refer to section G headed "Industry overview" below.

As illustrated in Table 1 above, for the financial year ended 30th June, 2005, the HCL Group's loss attributable to the Shareholders decreased by approximately 76.99% and loss from operations decreased by approximately 80.00% compared with that of 2004. Based on our discussions with the management of the HCL Group, the decrease in loss from operations was mainly due to: (i) the increase in interest income by approximately HK\$8.55 million mainly due to the increase in interest rate of deposits; and (ii) the decrease in staff costs by approximately HK\$5.83 million mainly due to decrease in headcount. The decrease in the HCL Group's loss attributable to the Shareholders for the financial year ended 30th June, 2005 was mainly contributed by the decrease in direct costs and operating expenses. However, we note that the turnover of the HCL Group have decreased for the financial year ended 30th June, 2005. In light of this, in particular with reference to our discussion on the industry set out in our letter below, we are of the view that the HCL Group is facing and will continue to face a challenging market environment. As such, we are of the view that the ability of the HCL Group to generate profit is uncertain.

As we note that the HCL Group has continued to be loss-making for the three-year period under review, we are of the view that the Proposal could be considered to be a good opportunity for the Scheme Shareholders to realise their investment in HCL for other higher growth, profitable or more stable investment alternatives. The swapping of a loss-making investment for higher growth, profitable or more stable investments is especially conducive when the Cancellation Price is at a premium to the closing price as at 11th August, 2005 (the "Last Full Trading Day") of the Shares. We believe this opportunity for the Scheme Shareholders to exit from a loss-making investment at a premium to the prevailing market price of the Shares to higher growth, profitable and more stable investments is in the interest of the Scheme Shareholders.

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### C. Dividend

No dividend was declared by HCL for the three-year period under review. In light of this, we are of the view that the Proposal, in particular the Cancellation Price representing a premium to the prevailing market price of the Shares, offers the Scheme Shareholders an opportunity to swap their investments in the Shares into other potentially higher yield investments, which is in the interest of the Scheme Shareholders.

### D. Price performance of the Shares

Table 4 below sets out the highest and lowest closing prices and the average daily closing prices of the Shares for each of the months between 1st February, 2005 and up to and including the Last Full Trading Day:

**Table 4: Price performance of the Shares from 1st February, 2005  
to the Last Full Trading Day**

Month	Closing price of the Shares		Monthly average daily closing price of the Shares  HK\$	Premium based on the Cancellation Price to the highest closing price of the Shares	Premium based on the Cancellation Price to the lowest closing price of the Shares
	Highest	Lowest			
	HK\$	HK\$			%
<b>2005</b>					
February	0.230	0.210	0.221	82.61	100.00
March	0.218	0.210	0.212	92.66	100.00
April	0.210	0.200	0.206	100.00	110.00
May	0.210	0.200	0.206	100.00	110.00
June	0.211	0.193	0.206	99.05	117.62
July	0.205	0.190	0.196	104.88	121.05
August (Up to the Last Full Trading Day)	0.220	0.195	0.204	90.91	115.38

*Source: Bloomberg*

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As illustrated in Table 4 above, the highest and lowest closing prices of the Shares during this review period were HK\$0.230 (on trading days from 1st to 14th February, 2005) and HK\$0.190 (on 15th, 18th, 21st and 22nd July, 2005) respectively. The Cancellation Price represents a premium of approximately 82.61% and 121.05% over the highest and lowest closing prices of the Shares respectively during this review period.

Table 5 below shows a summary of the premiums represented by the Cancellation Price over the various closing prices of the Shares on the dates and review periods listed below:

**Table 5: Comparison of the Cancellation Price to the price of the Shares**

<b>Trading day</b>	<b>Closing price of the Shares</b> <i>HK\$</i>	<b>Premium based on the Cancellation Price</b> %
Latest Practicable Date	0.41	2.44
Last Full Trading Day	0.22	90.91

<b>Period</b>	<b>Average closing price of the Shares</b>	<b>Premium based on the Cancellation Price</b>
5 trading days up to and including the Last Full Trading Day	0.21	100.00
10 trading days up to and including the Last Full Trading Day	0.20	110.00
30 trading days up to and including the Last Full Trading Day	0.20	110.00
60 trading days up to and including the Last Full Trading Day	0.20	110.00
90 trading days up to and including the Last Full Trading Day	0.20	110.00
180 trading days up to and including the Last Full Trading Day	0.21	100.00

*Source: Bloomberg (share prices are listed to 2 decimal places)*

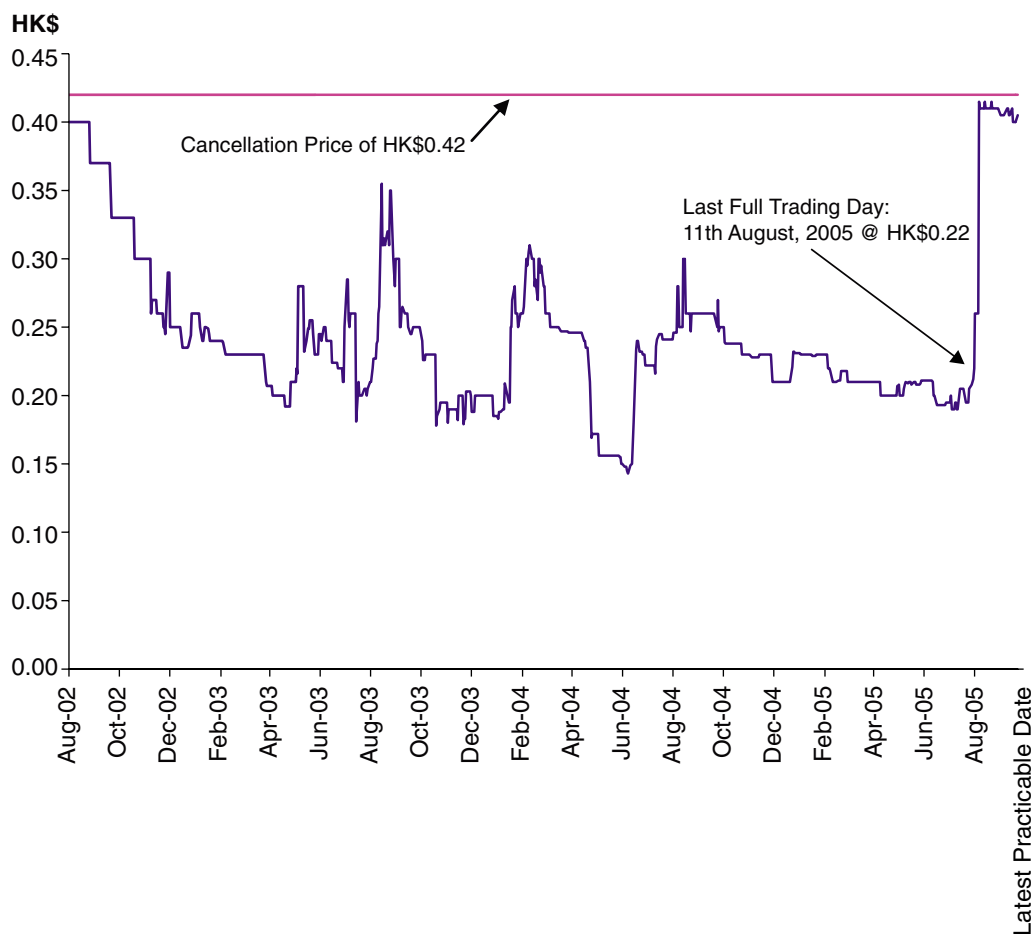
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The Cancellation Price represents a premium of between approximately 110.00% and 100.00% over the lowest and highest average closing prices of the Shares respectively during the various review periods up to and including the Last Full Trading Day as set out in Table 5 above. Chart 1 below further illustrates the daily closing prices of the Shares quoted on the Stock Exchange from 12th August, 2002 up to the Latest Practicable Date (both dates inclusive):

**Chart 1: Historical Share price performance of HCL from 12th August, 2002 to the Latest Practicable Date**



Source: Bloomberg

As illustrated in Chart 1 above, the daily closing prices of the Shares were below the Cancellation Price at all times from 12th August, 2002 to the Last Full Trading Day. The Cancellation Price represents a premium of approximately 193.71% and approximately 1.20% over the lowest and the highest closing prices of the Shares respectively during this review period. From the Announcement Date and up to the Latest Practicable Date, the daily closing price of the Shares traded significantly higher, reaching as high as HK\$0.415. However, we would like to draw your attention that there is no assurance that the price of the Shares will remain at such level if the Scheme is unsuccessful or the Proposal lapses.

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Furthermore, we are of the view that, as mentioned in the section headed “Prospect of an alternative offer” below, due to the substantial stake in the HCL Group held by HIL and HKCG, it is unlikely that any independent third party would be making an offer, better or worse than the Cancellation Price, for the Shares. Given that the historical prices of the Shares during the recent years have been below the Cancellation Price and that a competing offer is not likely, an exit price higher than the Cancellation Price may not be available to the Shareholders in the near future. Therefore, we consider the Cancellation Price reasonable and in the interest of the Independent Shareholders.

### E. Liquidity of the Shares

The following table sets out the daily average trading volume of the Shares for the period commencing from 1st February, 2005 and up to and including the Latest Practicable Date:

**Table 6: Daily average trading volume of the Shares from 1st February, 2005 to the Latest Practicable Date**

	<b>Daily average trading volume of the Shares</b>	<b>Daily average trading volume of the Shares to the total issued Shares<sup>1</sup></b>	<b>Daily average trading volume of the Shares to the Shares held by public<sup>2</sup></b>
		<b>%</b>	<b>%</b>
<b>2005</b>			
February	53,579	0.0011	0.0070
March	19,109	0.0004	0.0025
April	4,928	0.0001	0.0006
May	174,140	0.0035	0.0228
June	157,206	0.0031	0.0206
July	51,744	0.0010	0.0068
August	1,232,576	0.0247	0.1613
From 1st August and up to and including the Last Full Trading Day	233,776	0.0047	0.0306
After the Last Full Trading Day and up to and including the Latest Practicable Date	716,306	0.0143	0.0937

*Note 1:* Based on 5 billion Shares in issue.

*Note 2:* Based on a public float of approximately 764,086,384 Shares as at the Latest Practicable Date held by the Scheme Shareholders.

*Source:* Bloomberg

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As shown in Table 6 above, the daily average trading volume of the Shares during this review period before the Announcement Date was low, with the lowest daily average trading volume representing only approximately 0.0001% of the total issued Shares or approximately 0.0006% of the Shares held by the public for the month of April 2005. The daily average trading volume of the Shares was generally below 0.005% of the total issued Shares or 0.04% of the Shares held by the public. Since the Announcement Date and up to and including the Latest Practicable Date, the daily average trading volume of the Shares has increased significantly and the daily average trading volume of the Shares in the month of August 2005 was approximately 0.025% of the total issued Shares or approximately 0.16% of the Shares held by the public.

Based on the daily average trading volume of the Shares over the six months from February 2005 to July 2005, it is unlikely, in our opinion, that the relatively active trading volume of the Shares recorded in August 2005 as a result of the Announcement will continue if the Scheme is unsuccessful or the Proposal lapses. Given the low liquidity of the Shares before the release of the Announcement, the Scheme Shareholders would unlikely be able to sell a significant number of their Shares in the market without depressing the market price of the Shares. The Proposal represents an opportunity for the Scheme Shareholders to dispose of their entire holdings in the HCL Group at the Cancellation Price. Therefore, we are of the view that the Scheme is in the interest of the Independent Shareholders as it presents an opportunity for the Scheme Shareholders to divest their shareholdings in HCL at a price that is at a premium to the market price, even when their shareholdings are in sizable blocks.

### F. Comparable Companies

As illustrated in Table 2 above, approximately 90% of the HCL Group's total turnover was contributed by the retailing business segment for the three-year period under review. The retailing business segment was operated through iCare, which mainly carries on three core businesses, namely: (i) sale of goods; (ii) provision of Internet services; and (iii) provision of telecommunications services. Therefore, for comparison purpose, we compared the retailing business segment of the HCL Group instead of the HCL Group's business as a whole to its comparable companies (the "Comparable Companies"). As further illustrated in Table 3 above, sale of goods (mainly electronic and electrical appliances), Internet services and telecommunications services accounted for approximately 57.19%, 29.76% and 13.05% respectively of the retailing business segment's turnover of the HCL Group for the financial year ended 2005. We have selected the Comparable Companies for these three respective business sub-segments based on a selection criteria of: (i) over approximately 80% of their respective total turnover being generated from the sale of electronic and electrical appliance; (ii) over approximately 50% of their respective total turnover being generated from the Internet services or the Internet service providers with market share in Hong Kong of more than 10%; and (iii) over approximately 50% of their respective total turnover being generated from the telecommunications services or telecommunication service providers with market share of more than 10% of in the telecommunication service industry in Hong Kong.



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We note that the HCL's market share in the Internet service industry/telecommunications service industry is less than 10%. However, in our analysis, we have included the 10% market share as one of the criteria to select the Comparable Companies, which would include the market leaders as the turnover of Internet services/telecommunications services of those market leaders usually represents less than 50% of their total turnover. In our view, it is more appropriate to introduce this criterion, which would represent a more comprehensive picture of the Internet service industry/telecommunications service industry for comparison purposes.

In addition, these Comparables Companies are the companies identified by us, to our best effort, in our research searching through published information on the Stock Exchange's website. Therefore, the Independent Shareholders should note that the information of the Comparables Companies below is for information and reference only.

We have reviewed commonly used valuation ratios of HCL's trading price and those implied by the Cancellation Price, relative to the valuation ratios at which the Comparable Companies are currently trading. These valuation ratios (the "Valuation Ratios") include: (i) price-to-earnings ratio ("PER"); (ii) price-to-book ratio ("PBR"); and (iii) price-to-sales ratio ("PSR").

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Table 7 below shows the Valuation Ratios of the Comparable Companies based on their closing prices on the Last Full Trading Day.

**Table 7: Valuation Ratios of the Comparable Companies**

<b>(a) Companies engaged in the sale of electronic &amp; electrical appliances</b>	<b>PER Times</b>	<b>PBR Times</b>	<b>PSR Times</b>
Artel Solutions Group Holdings Limited	6.02	0.44	0.12
AV Concept Holdings Limited	2.02	0.90	0.19
Digital China Holdings Limited	10.76	1.43	0.15
GOME Electrical Appliances Holding Limited	26.29	8.65	1.01
Lang Chao International Limited	24.07	8.38	0.86
S.A.S. Dragon Holdings Limited	5.53	0.57	0.08
SiS International Holdings Limited	4.24	0.33	0.06
VST Holdings Limited	4.90	0.83	0.05
<b>Simple average</b>	<b>10.48</b>	<b>2.69</b>	<b>0.32</b>
<b>(b) Companies engaged in Internet services</b>			
CASIL Telecommunications Holdings Limited	69.16	2.06	2.51
City Telecom (H.K.) Limited	10.91	0.46	0.46
Global Link Communications Holdings Limited	N.A.	5.35	0.66
i-Cable Communications Limited	16.49	2.57	1.98
IIN International Limited	N.A.	0.69	0.38
PCCW Limited	21.33	N.A.	1.53
Vodatel Networks Holdings Limited	11.12	0.68	0.30
<b>Simple average</b>	<b>25.80</b>	<b>1.97</b>	<b>1.12</b>
<b>(c) Companies engaged in telecommunications services</b>			
China Motion Telecom International Limited	N.A.	0.35	0.11
City Telecom (H.K.) Limited	10.91	0.46	0.46
e-Kong Group Limited	N.A.	2.55	0.28
Netel Technology (Holdings) Limited	N.A.	N.A.	2.19
PCCW Limited	21.33	N.A.	1.53
<b>Simple average</b>	<b>16.12</b>	<b>1.12</b>	<b>0.91</b>

*Source: Bloomberg*

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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In our analysis, we implemented the weighted average methodology in order to give a more accurate and fair reference figure for our assessment. The weighted averages of the Valuation Ratios are calculated with respect to the weighting of turnover contributed by each business sub-segment of the retailing business segment of the HCL Group for the financial year ended 30th June, 2005. The corresponding weighted average Valuation Ratios are set out in Table 8 below:

**Table 8: Comparison of weighted average Valuation Ratios of Comparable Companies to the Valuation Ratios of HCL**

	<b>PER</b>	<b>PBR</b>	<b>PSR</b>	<b>Weighting of Turnover</b>
	<b>Times</b>	<b>Times</b>	<b>Times</b>	<b>%</b>
Sale of electronic & electrical appliances	10.48	2.69	0.32	57.19
Internet services	25.80	1.97	1.12	29.76
Telecommunications	<u>16.12</u>	<u>1.12</u>	<u>0.91</u>	<u>13.05</u>
Weighted average valuation multiple (derived from weighting of turnover)	15.78	2.27	0.64	
HCL on the Last Full Trading Day	N.A.	1.46	13.12	
HCL at the Cancellation Price	N.A.	2.78	25.05	

*Source: Bloomberg, annual reports of the Comparable Companies*

### **PER**

According to the HCL Group's annual report for the financial year ended 30th June, 2005, a loss attributable to the Shareholders of approximately HK\$4.10 million was recorded. As a result, the PER of HCL is not available for comparison with the Comparable Companies.

### **PBR**

As illustrated in Table 8 above, the PBR of HCL of 1.46 times as at the Last Full Trading Day is lower than the weighted average PBR of 2.27 times derived for the Comparable Companies as at the Last Full Trading Day. However, the PBR of 2.78 times represented by the Cancellation Price is higher than the weighted average PBR of 2.27 times.

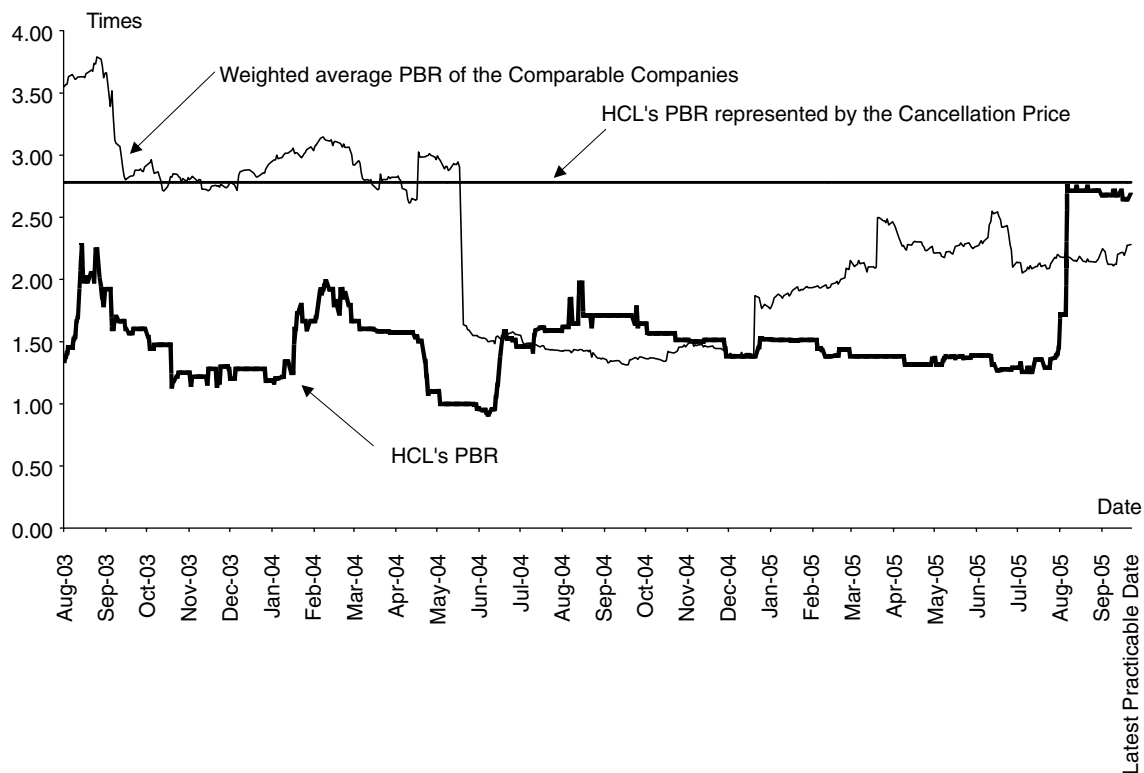
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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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Furthermore, we have also reviewed the historical PBR of HCL to the weighted average PBR of the Comparable Companies. This is illustrated in Chart 2 below.

**Chart 2: Historical PBR of HCL and the weighted average PBR of the Comparable Companies**



*Source: Bloomberg, annual and interim reports and accounts of the Comparable Companies*

During the review period in Chart 2 above, the daily PBR of HCL was within the range of approximately 0.92 times and approximately 2.74 times. For this corresponding period, the weighted average PBR of the Comparable Companies ranged from approximately 1.31 times to approximately 3.79 times. Chart 2 also shows that the PBR represented by the Cancellation Price of approximately 2.78 times exceeds the highest value of the PBR of HCL of approximately 2.74 times achieved within this review period.

In light of the above, we are of the view that the Cancellation Price is fair and reasonable and in the interest of the Independent Shareholders.

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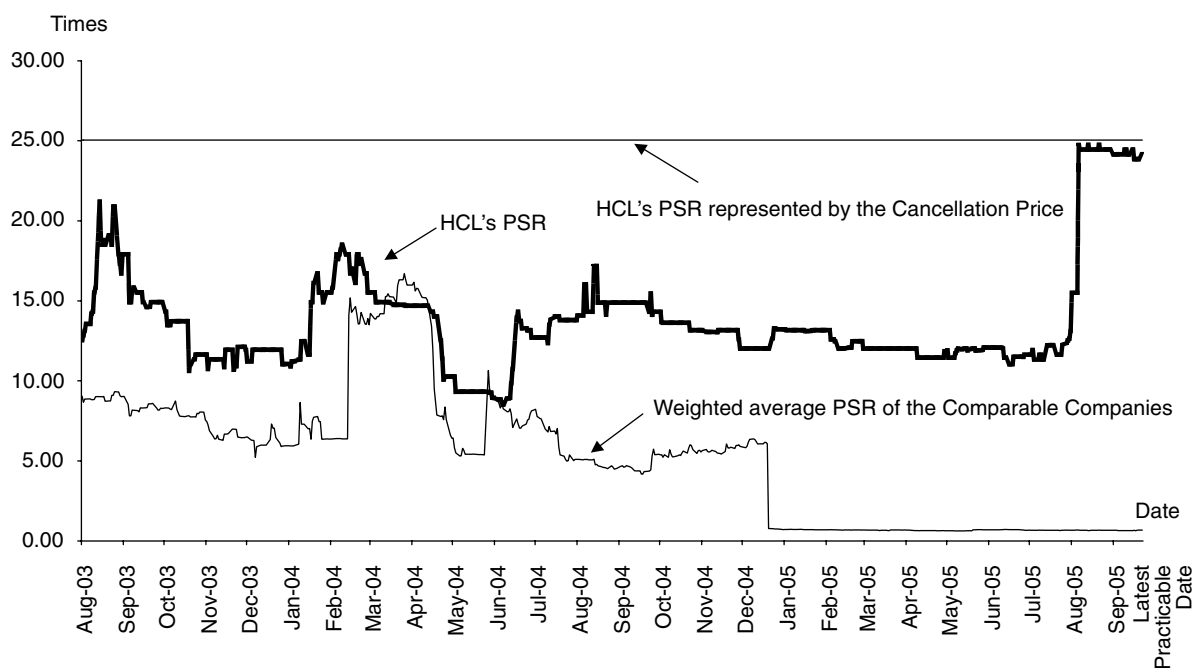
## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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### **PSR**

As illustrated in Table 8 above, the PSR of approximately 13.12 times of HCL as at the Last Full Trading Day and approximately 25.05 times represented by the Cancellation Price are significantly above the weighted average PSR of approximately 0.64 time of the Comparable Companies. Furthermore, we have also reviewed the historical PSR of HCL to the weighted average PSR of the Comparable Companies. This is illustrated in Chart 3 below.

**Chart 3: Historical PSR of HCL and the weighted average PSR of the Comparable Companies**



*Source: Bloomberg, annual and interim reports and accounts of the Comparable Companies*

During the above review period, the daily PSR of HCL was within the range of approximately 8.54 times and 24.75 times. For this corresponding period, the weighted average PSR of the Comparable Companies ranged from approximately 0.63 time to approximately 16.70 times. Chart 3 also shows that the historical PSR of HCL has exceeded the industry weighted average as represented by the Comparable Companies in terms of PSR during the review period. Chart 3 also shows that the PSR represented by the Cancellation Price of approximately 25.05 times exceeds the highest value of PSR of HCL of approximately 24.75 times that was achieved within this review period.

In light of the above, we are of the view that the Cancellation Price is fair and reasonable and in the interest of the Independent Shareholders.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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### G. Industry overview

#### (a) *Sale of goods*

The turnover of this business sub-segment was mainly derived from the sale of electronic and electrical products. Table 9 below indicates the turnover generated from the electronic and electrical appliances retail business (the “Retailing Turnover”) of the Comparable Companies principally engaged in the electronic and electrical appliances retail business (the “Retailing Comparable Companies”).

**Table 9: Retailing Turnover of the Retailing Comparable Companies**

	2002		2003		2004	
	Retailing Turnover <i>HK\$'000</i>	Annual growth rate %	Retailing Turnover <i>HK\$'000</i>	Annual growth rate %	Retailing Turnover <i>HK\$'000</i>	Annual growth rate %
Artel Solutions Group Holdings Limited	2,122,190	49.98	2,202,933	3.80	1,658,830	(24.70)
AV Concept Holdings Limited	1,194,465	8.58	1,689,296	41.43	1,771,473	4.86
Digital China Holdings Limited	10,521,022	22.77	12,510,753	18.91	14,277,308	14.12
GOME Electrical Appliances Holding Limited	N.A. <sup>1</sup>	N.A. <sup>1</sup>	N.A. <sup>1</sup>	N.A. <sup>1</sup>	9,654,498	N.A. <sup>1</sup>
Lang Chao International Limited	390,232	193.24	548,087	40.45	635,827	16.01
S.A.S. Dragon Holdings Limited	1,359,479	24.36	1,848,307	35.96	2,407,088	30.23
SiS International Holdings Limited	3,533,078	(13.41)	3,469,364	(1.80)	2,828,800	(18.46)
VST Holdings Limited	1,634,218	(7.67)	2,209,467	35.20	2,489,257	12.66

*Note 1:* The figures for GOME Electrical Appliances Holdings Limited are not available for 2002 and 2003 as its electronic retail business was not listed on the Stock Exchange until July 2004.

*Source:* Annual reports of the Retailing Comparable Companies

As illustrated in Table 3 above, from 2003 to 2004, we note that the turnover generated from the sale of goods business sub-segment of the HCL Group increased by approximately 52.01%, which was mainly due to the expansion of iCare Hotspots from 5 to 10 during the year. We also note that the turnover generated from this business sub-segment increased by approximately 12.86% for the financial year ended 2005, which was mainly due to the expansion of iCare Hotspots from 10 to 11 during the year.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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However, we note that from 2002 to 2004, the growth rates of the respective Retailing Turnover of the Retailing Comparable Companies were generally on a decreasing trend. In addition, in comparing the HCL Group's business size in terms of turnover from this sale of goods business sub-segment with the Retailing Comparable Companies, we note that the HCL Group is relatively smaller than the Retailing Comparable Companies.

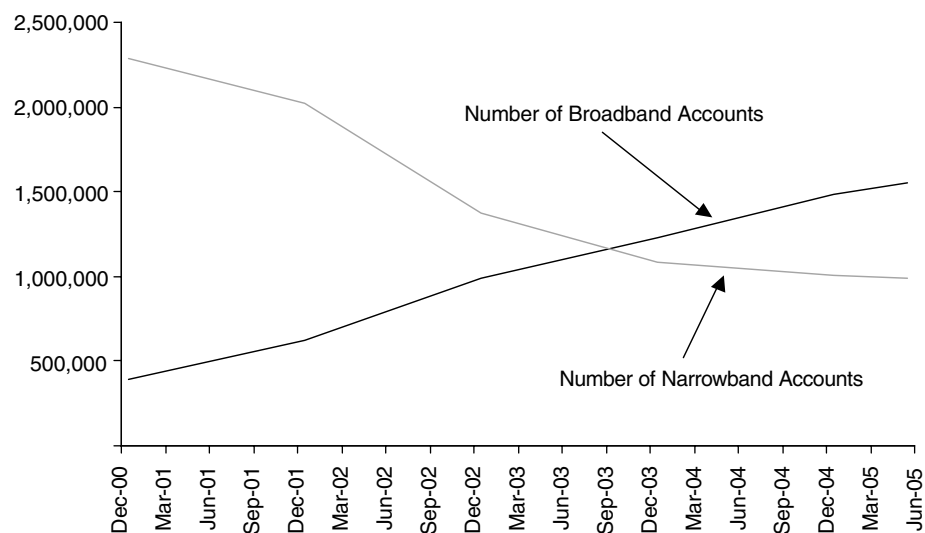
In light of this, we are of the view that the HCL Group is facing competition from sizable competitors. As such, we are of the view that the HCL Group's retailing business segment is facing a challenging market environment.

### (b) *Internet services*

The HCL Group provides both broadband and narrowband Internet services mainly under the brand of "iCare".

According to the Office of the Telecommunications Authority ("OFTA"), as of May 2005, there were approximately 1.56 million registered customer accounts with broadband access (the "Broadband Accounts"), approximately 0.99 million registered customer accounts with narrowband access (the "Narrowband Accounts") and approximately 185 ISPs in Hong Kong. The trend of the number of the Broadband Accounts and Narrowband Accounts in Hong Kong from December 2002 to May 2005 is illustrated in Chart 4 and Table 10 below.

**Chart 4: Number of the Broadband Accounts and Narrowband Accounts in Hong Kong**



Source: OFTA

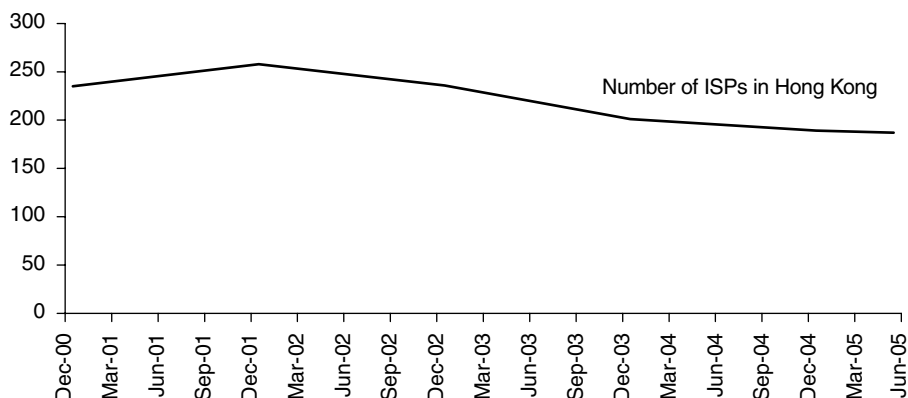
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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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The trend in the number of ISPs in Hong Kong from December 2002 to May 2005 is illustrated in Chart 5 and Table 10 below.

**Chart 5: Number of the ISPs in Hong Kong**



Source: OFTA

The above statistics in Chart 4 and Chart 5 are also illustrated in Table 10 below:

**Table 10: Summary of number of the Broadband Accounts, Narrowband Accounts and ISP in Hong Kong**

	2002		2003		2004		Up to May 2005	
	Number of ISP	Growth rate %	Number of ISP	Growth rate %	Number of ISP	Growth rate %	Number of ISP	Growth rate %
ISP	236	(8.53)	201	(14.83)	189	(5.97)	187	(1.06)
	<b>Number of Broadband Accounts</b>	<b>Growth rate %</b>	<b>Number of Broadband Accounts</b>	<b>Growth rate %</b>	<b>Number of Broadband Accounts</b>	<b>Growth rate %</b>	<b>Number of Broadband Accounts</b>	<b>Growth rate %</b>
Broadband Accounts	989,000	58.67	1,231,000	24.47	1,484,000	20.55	1,557,000	4.92
	<b>Number of Narrowband Accounts</b>	<b>Growth rate %</b>	<b>Number of Narrowband Accounts</b>	<b>Growth rate %</b>	<b>Number of Narrowband Accounts</b>	<b>Growth rate %</b>	<b>Number of Narrowband Accounts</b>	<b>Growth rate %</b>
Narrowband Accounts	1,372,000	(32.02)	1,084,000	(20.99)	1,004,000	(7.38)	987,000	(1.69)

Source: OFTA



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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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As illustrated in Table 10 above, the number of ISPs has been on a decreasing trend from 2002 to 2004. In addition, the growth rate in Broadband Accounts experienced decreasing growth rates and the growth rate in Narrowband Accounts experienced negative growth rates from 2002 to 2004. Furthermore, according to a research by Geneva-based International Telecommunication Union, Hong Kong is ranked number two in the world for broadband penetration.

In light of the above, we are of the view that: (i) Hong Kong is approaching to become a mature market with decreasing growth rate for broadband Internet services; and (ii) as the Narrowband Accounts have experienced continuous negative growth since 2002, the market of narrowband Internet services is diminishing and is being replaced by broadband Internet services. The trend of subscriptions for the Broadband Accounts and the Narrowband Accounts indicate that the Hong Kong Internet market is dominated by broadband services. As such, we have mainly focused our analysis on the broadband operation of the HCL Group.

Table 11 below indicates the market share of the broadband service providers in Hong Kong.

**Table 11: Market share of the broadband service providers in Hong Kong**

	<b>2004 Number of Broadband Accounts</b>	<b>Market share  %</b>
PCCW Limited	733,700	49.44
i-Cable Communications Limited	291,000	19.61
City Telecom (H.K.) Limited	203,000	13.68
Hutchison Global Communications Limited	175,000	11.79
Others	<u>81,300</u>	<u>5.48</u>
<b>Industry</b>	<b><u>1,484,000</u></b>	<b><u>100.00</u></b>

*Source: OFTA, annual / interim reports of relevant companies*

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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Table 11 above indicates that the broadband market is dominated by a few ISPs, e.g. in 2004, PCCW Limited (“PCCW”) captured approximately half of the market and Hutchison Global Communications Limited (“HGC”), City Telecom (H.K.) Limited (“CTI”) and i-Cable Communication Limited (“i-Cable”) together have approximately 45% market share. Although the Broadband Accounts of the HCL Group is not available in its annual report, the HCL Group’s Broadband Accounts are less than 81,300 or less than approximately 5.5% of the broadband market. In light of this, the HCL Group’s broadband ISP business is significantly smaller than the other ISPs’.

Table 12 below indicates the growth rate of Broadband Accounts of broadband service providers in Hong Kong.

**Table 12: Growth rate of Broadband Accounts of the broadband service providers in Hong Kong**

	Annual growth rate		
	2002	2003	2004
	%	%	%
PCCW Limited	52.99	12.02	17.20
Hutchison Global Communications Limited	N/A <sup>1</sup>	28.34	19.86
i-Cable Communications Limited	41.25	4.45	10.65
City Telecom (H.K.) Limited	N/A <sup>1</sup>	7.27	3.05
<b>Industry</b>	<b>58.67</b>	<b>11.15</b>	<b>12.05</b>

*Note 1:* Data not available in the annual / interim reports of the respective companies.

*Source:* OFTA, annual / interim reports of relevant companies

Table 12 above indicates that Broadband Accounts of the broadband industry has recorded a growth rate of approximately 59%, approximately 11% and approximately 12% respectively from 2002 to 2004. In light of the above, we are of the view that the broadband industry has experienced a decreasing growth rate from 2002 to 2004.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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(c) *IDD service industry*

The HCL Group's telecommunications business sub-segment principally provides IDD services through the operation of iCare1608. Table 13 below illustrates the turnover from the provision of IDD service (the "IDD Turnover") of several listed IDD service providers (the "IDD Comparables") in Hong Kong:

**Table 13: IDD Turnover trends of IDD Comparables in Hong Kong**

	2002		2003		2004	
	IDD turnover HK\$ million	Annual growth rate %	IDD turnover HK\$ million	Annual growth rate %	IDD turnover HK\$ million	Annual Growth rate %
PCCW Limited	3,557.00	(21.20)	2,970.00	(16.50)	2,385.00	(19.70)
City Telecom (H.K.) Limited	917.00	5.77	891.00	(2.84)	634.00	(28.84)
China Motion Telecom International Limited	427.70	151.00	522.90	22.26	577.40	10.42
Wharf T&T Limited	284.00	(6.00)	253.00	(10.92)	206.00	(18.58)

*Source: Annual reports of relevant companies*

Table 13 also illustrates that the IDD Comparables (except for China Motion) have recorded continuing negative growth rate from 2002 to 2004. We also note that, as illustrated in Table 3 above, the HCL Group's IDD Turnover recorded negative annual growth rate of approximately 11.31% and 29.68% in 2004 and 2005 respectively. In light of the above, we are of the view that the major IDD service providers (except for China Motion), including the HCL Group, have been experiencing a difficult market environment.

Table 3 and Table 13 above also illustrates that the HCL Group's IDD Turnover is significantly lower than the IDD Comparables. The HCL Group's IDD Turnover in 2005 is equivalent to approximately 0.43% of that of PCCW in 2004 and approximately 1.63% of that of CTI in 2004. In light of this, we are of the view that the HCL Group's telecommunications business sub-segment is experiencing fierce competition from other sizable competitors.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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### H. Precedent Proposals

In assessing whether the level of the Cancellation Price is fair and reasonable, we have also reviewed and identified a total of 13 privatisations and general offers (the “Precedent Proposals”) which were: (i) announced since 1st January, 2003 and up to and including the Last Full Trading Day for companies listed on the main board of the Stock Exchange or GEM; and (ii) the intention of which is for an eventual delisting of the company. In our analysis, we could not identify any Precedent Proposals of companies, the business nature of which is in line with HCL Group. Summarised in the table below are the key statistics of the Precedent Proposals:

**Table 14: Key statistics of the Precedent Proposals**

Company	Principal activities	Offer price HK\$	Date of announcement of Precedent Proposals	Premium to average closing share price %			Adjusted consolidated net tangible asset value per share of Precedent Proposals HK\$	Premium/ (discount) of offer price to adjusted consolidated net tangible asset value per share %
				Last Full Trading Day	30 trading days	90 trading days		
eSun Holdings Limited	Hotel management, media and entertainment	0.28	19th February, 2003	27.27	30.58	5.02	3.26	(91.41)
Kerry Properties Limited	Property investment and development	9.50	23rd April, 2003	58.33	48.67	51.06	15.77	(39.76)
Top Glory International Holdings Limited	Property investment and development	0.74	3rd May, 2003	72.09	74.46	73.66	1.34	(44.78)
Oxford Properties & Finance Limited	Property investment and development	15.00	21st May, 2003	59.57	70.84	90.40	11.49	30.55
SIIC Medical Science and Technology (Group) Limited	Manufacturing, sales and distribution	2.15	21st May, 2003	14.97	24.28	35.22	1.22	76.23
Pacific Concord Holding Limited	Manufacturing	0.65	26th May, 2003	51.16	60.89	46.40	1.83	(64.48)
iLink Holdings Limited	Operation of data centres	0.035	20th August, 2003	75.00	66.67	52.17	0.038	(7.90)
Chevalier Construction Holdings Limited	Construction services and maintenance	0.25	31st October, 2003	16.28	23.76	58.23	0.32	(21.88)
Alpha General (Holdings) Limited	Provision of electrical appliances	0.70	13th October, 2004	125.81	133.33	125.81	1.32	(46.97)
The Kwong Sang Hong International Limited	Property trading and leasing	1.25	4th November, 2004	5.04	36.17	64.04	1.83	(31.69)
Sinopec Beijing Yanhua Petrochemical Company Limited	Petrochemical business	3.80	29th December, 2004	10.95	23.88	28.98	1.82	108.79
Hutchison Global Communications Holdings Limited	Telecommunications services	0.65	3rd May, 2005	36.84	43.33	44.55	0.034 <sup>1</sup>	1,797.81
Henderson China Holdings Limited	Property investment and development	8.00	19th May, 2005	66.67	64.27	68.42	12.51	(36.05)
<b>Precedent Proposals Average</b>				<b>47.69</b>	<b>53.93</b>	<b>57.23</b>		<b>125.27</b>
<b>HCL Proposal</b>		<b>0.42</b>	<b>16th August, 2005</b>	<b>90.91</b>	<b>110.00</b>	<b>110.00</b>	<b>0.15<sup>2</sup></b>	<b>180.00</b>

*Note 1:* Net asset value is applied as adjusted consolidated net tangible asset value (“Adjusted NTAV”) has not been released for the transaction

*Note 2:* Net asset value is applied as no Adjusted NTAV has been prepared

*Source:* Bloomberg, announcements and offer documents of the above Precedent Proposals

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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As illustrated in Table 14 above, the premiums as represented by the average cancellation/offer prices offered by the Precedent Proposals to the average closing prices of the shares: (i) on the Last Full Trading Day; (ii) for the 30 trading days; and (iii) 90 trading days prior to and including the Last Full Trading Day of the Precedent Proposals, were approximately 47.69%, 53.93% and 57.23% respectively. The premiums as represented by the Cancellation Price over the price of the Shares for the corresponding periods of comparison were approximately 90.91%, 110.00% and 110.00% respectively, which are significantly higher than the average premiums offered by the Precedent Proposals.

As illustrated in Table 14 above, we note that the average cancellation/offer prices offered by the Precedent Proposals represent a premium of approximately 125.27% over the Adjusted NTAV per share. The premium of approximately 180.00% over the consolidated net asset value per Share as at 30th June, 2005 of HK\$0.15 as represented by the Cancellation Price is higher than the average premium to Adjusted NTAV per share as represented by the average cancellation/offer price of the Precedent Proposals.

In light of the above, we are of the view that the Cancellation Price as compared to the relevant comparable parameters of the Precedent Proposals is fair and reasonable and in the interests of the Independent Shareholders.

### **I. Prospect of an alternative offer**

In formulating our recommendation relating to the terms of the Proposal and to give our independent financial advice to the Independent Director, we have also considered other alternatives for the proposed privatisation of HCL, among others, liquidating HCL Group by selling its entire assets and returning the proceeds to the Shareholders. Based on our discussions with the Board, the Board has considered this alternative but is of the view that this alternative may not be in the best interest of the Scheme Shareholders.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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In our review, according to HCL Group's annual report for the financial year ended 30th June, 2005, HCL Group's total assets principally comprised: (i) bank deposits and cash; (ii) fixed assets; and (iii) held-to-maturity securities. A breakdown of HCL Group's total assets as at 30th June, 2005 is set out in Table 15 below:

**Table 15: Breakdown of HCL Group's total assets**

	<b>As at 30th June, 2005</b>	<b>Percentage to HCL Group's total assets</b>
	<i>HK\$'000</i>	<i>%</i>
Bank deposits and cash	674,522	88.00
Fixed assets	59,785	7.80
Listed held-to-maturity securities	<u>11,465</u>	<u>1.50</u>
	745,772	97.30
Others	<u>20,679</u>	<u>2.70</u>
Total	<u><u>766,451</u></u>	<u><u>100.00</u></u>

*Source: Annual report of the HCL Group for the financial year ended 30th June, 2005*

From Table 15 above, the bank deposits and cash accounted for approximately 88.00% of the total assets of HCL Group as at 30th June, 2005. Notwithstanding the fact that HCL Group might face potential difficulties in seeking suitable buyers for the remaining assets of HCL Group, even if the remaining assets of HCL Group were sold at their book value, the net proceeds that may be returned to the Shareholders subsequent to the liquidation of all the assets of HCL Group and after settlement of all outstanding liabilities will only be approximately equivalent to the consolidated net asset value per Share of HK\$0.15 as at 30th June, 2005. This is significantly lower than the Cancellation Price of HK\$0.42 per Share. Therefore, we concur with the view of the Board that this alternative may not be in the best interest of the Scheme Shareholders. In light of this, we are of the view that the Proposal is a more beneficial alternative as compared to other alternatives.

Furthermore, HCL is approximately 84.72% held by the Offeror Group as at the Latest Practicable Date, and as stated in the Explanatory Memorandum, the Offeror does not have any intention to dispose of or procure any of the Controlling Parties to dispose of any of their beneficial interests in HCL. Consequently, the Independent Shareholders should note that, without the support of the Offeror Group, it is unlikely that there will be a third party offer or proposal for the Scheme Shares. Therefore, if the Proposal lapses, the price of the Shares may return to its historical trading level and trading volume. Therefore, the Proposal is, in our view, an opportunity for the Scheme Shareholders to realise their investment in the Shares at a premium, regardless of the shareholding size to be realised. The Proposal and its terms are, therefore, in the interest of the Independent Shareholders.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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### J. Fund raising ability of the Company

As stated in the letter from the Board, the directors of HIL and HKCG believe that HCL's ability to raise funds from the public equity markets is currently limited due to low liquidity of Shares and any significant improvement in this regard in the foreseeable future is unlikely. Consequently, the directors of HIL and HKCG consider that the costs and management resources associated with the maintenance of HCL's listing on GEM and its publicly listed status, which are needed in order to access the public equity capital market are no longer warranted.

Table 16 below sets out the average amount of post-listing funds raised per GEM company from 2002 to 2004:

**Table 16: Trend of post-listing fund raising per GEM company**

	2002		2003		2004	
	Amount <i>HK\$ million</i>	Annual growth rate %	Amount <i>HK\$ million</i>	Annual growth rate %	Amount <i>HK\$ million</i>	Annual growth rate %
Total post-listing funds raised by GEM companies	2,089.59	21.51	2,569.01	22.94	2,585.58	0.64
Total number of companies listed on GEM	166	49.55	185	11.45	204	10.27
Average amount of post-listing funds raised per GEM company	12.59	(18.75)	13.89	10.32	12.67	(8.78)

*Source: The Stock Exchange of Hong Kong Limited*

Table 16 above indicates that from 2002 to 2004:

- (i) although the total post-listing funds raised by GEM companies have increased from approximately HK\$2,090 million to approximately HK\$2,586 million, the annual growth rate in 2004 was merely 0.64%;
- (ii) the number of companies listed on GEM experienced continued growth from 2002 to 2004. However, the annual growth rates during this corresponding period was decreasing from 49.55% to 10.27%; and
- (iii) the average amount of funds raised per GEM company from 2002 to 2004 amounted to approximately HK\$13 million to approximately HK\$14 million. In 2004, the average amount of post-listing funds raised per GEM company decreased by approximately 8.78% compared with that of 2003.

In light of the above, we concur with the directors of HIL and HKCG that, as a GEM company, HCL's ability to raise funds from the public equity market is currently limited.

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## LETTER FROM PLATINUM TO THE INDEPENDENT DIRECTOR

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### CONCLUSIONS AND RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, have taken into account the following factors in arriving at our opinion:

- the financial performance of the HCL Group for the preceding three financial years;
- no dividend paid out by HCL for the preceding three financial years;
- the low trading volume of the Shares;
- the Proposal providing a cash exit and an opportunity for all Scheme Shareholders to realise their investments in HCL at a premium over the closing price of the Shares over the three years before the Last Full Trading Day;
- the Cancellation Price represents approximately 2.78 times the PBR as at the Last Full Trading Day and this being the highest PBR achieved during the last three years;
- the Cancellation Price represents approximately 25.05 times the PSR as at the Last Full Trading Day and this being the highest PSR achieved during the last three years;
- the major businesses of the Group, namely sale of goods, Internet services and telecommunications services are all experiencing challenging market environments;
- the absence of an alternative offer which is unlikely to be successful without the approval or support of the Offeror Group; and
- the ability of HCL to raise additional equity funds from the public equity market is currently limited.

Having considered the above, we consider the terms of the Proposal, in particular the Cancellation Price, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Director to advise the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the respective Court Meeting and Extraordinary General Meeting to approve the Proposal and the Scheme.

Yours faithfully,  
For and on behalf of  
**Platinum Securities Company Limited**  
**Liu Chee Ming**  
*Managing Director*

Yours faithfully,  
For and on behalf of  
**Platinum Securities Company Limited**  
**Alvin Lai**  
*Director*



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## EXPLANATORY MEMORANDUM

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### SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES AND THE PAYMENT OF THE CANCELLATION PRICE

#### INTRODUCTION

It was announced on 16th August, 2005 that the Offeror Group had on 15th August, 2005 jointly requested the Board to put forward the Proposal to the Scheme Shareholders for consideration.

The purpose of this Explanatory Memorandum is to explain the terms and the effects of the Proposal, which is to be implemented by the Scheme, and to give to the Shareholders other relevant information.

A letter from the Board is set out on pages 10 to 21 of this document. A letter from the Independent Director, together with a letter from Platinum to the Independent Director, in connection with the Proposal are set out on pages 22 to 53 of this document. The terms of the Scheme are set out on pages 121 to 127 of this document.

#### SUMMARY OF THE PROPOSAL

It is proposed that, subject to the Conditions being fulfilled or, if applicable, waived, the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of the Scheme Shares and a reduction of the issued share capital of HCL under the Companies Law. Accordingly, HCL will be indirectly owned by HIL as to approximately 78.69% (and thus will remain an indirect non-wholly owned subsidiary of HIL) and by HKCG as to approximately 21.31%. The Scheme also provides that, in consideration of the cancellation and extinguishment of the Scheme Shares, all of the Scheme Shareholders whose names appear on the Register at the Record Time will be entitled to receive the Cancellation Price of HK\$0.42 in cash for each Scheme Share held. The Cancellation Price per Scheme Share will not be increased, and the Offeror Group does not reserve the right to do so.

Payment of the Cancellation Price will be effected by cheques and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous rights to which the Offeror Group may otherwise be, or claim to be, entitled against any Scheme Shareholders.

As at the Latest Practicable Date, there were no outstanding options, derivatives, warrants or convertible securities issued by HCL. On the bases of the Cancellation Price and of a total of 764,086,384 Scheme Shares and 4,235,913,616 Shares held by the Controlling Parties as at the Latest Practicable Date, the entire issued share capital of HCL is valued at approximately HK\$2,100 million under the Proposal. The amount of cash required for the payment of the Cancellation Price is approximately HK\$320.92 million, of which approximately HK\$252.53 million will be payable by HIL and approximately HK\$68.39 million will be payable by HKCG. Each of HIL and HKCG has stated their respective intentions to finance the cash required for the payment of the Cancellation Price from internal resources and/or bank borrowings. The HIL Group has a loan facility granted by

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## EXPLANATORY MEMORANDUM

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The Hongkong and Shanghai Banking Corporation Limited of which an amount of HK\$253 million is available to the HIL Group for use under the said facility. The payment of interest on, and repayment of or security for, the loan facility will not depend to any significant extent on the business of HCL.

HSBC and CLSA, the Offeror Group's joint financial advisers, are satisfied that sufficient financial resources are available to each of HIL and HKCG for the implementation of the Proposal.

### CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on HCL and all Shareholders subject to the fulfillment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme by a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting holding not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting; and
  - (ii) the Scheme is not disapproved (by way of poll) by Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the reduction of the share capital of HCL as a result of the Scheme by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at a general meeting of HCL;
- (c) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of HCL, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law in each case in relation to the reduction of the issued share capital of HCL;
- (e) all Authorisations in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in the Cayman Islands and/or Hong Kong and/or any other relevant jurisdictions;

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## EXPLANATORY MEMORANDUM

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- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) all necessary consents which may be required under any existing contractual obligations of HCL being obtained; and
- (h) if required, the obtaining by HIL and HKCG of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under the applicable laws and regulations.

In respect of Condition (a) above, according to the ruling granted by the Executive on 16th August, 2005, any votes actually known to HIL, HKCG or HCL attached to the Shares held by directors (together with their close relatives, related trusts and companies controlled by any of them) of subsidiaries and fellow subsidiaries of HIL and HKCG will not be counted for the purpose of Rule 2.10 of the Takeovers Code. Any votes attaching to the Shares held by directors (together with their close relatives, related trusts and companies controlled by any of them) of HIL, HKCG or HCL will also not be counted for the purpose of Rule 2.10 of the Takeovers Code.

The Offeror Group reserves the right to waive conditions (e), (f), (g) and (h) either in whole or in part in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before 28th February, 2006 (or such later date as the Offeror Group and HCL may agree or as the Grand Court on application of the Offeror Group or HCL may allow), failing which the Scheme will lapse.

Assuming that all of the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Thursday, 8th December, 2005. Further press announcements and also an announcement published on the GEM website will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the last day for dealing in the Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Effective Date and the date of the withdrawal of the listing of the Shares on GEM.

The Scheme will lapse if it does not become effective on or before 28th February, 2006 or such later date as the Offeror Group and HCL may agree or as the Grand Court on application of the Offeror Group or HCL may allow and the Scheme Shareholders will be notified accordingly by press announcements and also by announcement published on the GEM website.

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### FINANCIAL EFFECTS OF THE PROPOSAL

#### Share Price

The Cancellation Price represents:

- a premium of approximately 90.91% over the closing price of HK\$0.22 per Share as quoted on GEM on 11th August, 2005 (being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 110.00% over the average closing price of approximately HK\$0.20 per Share based on the daily closing prices as quoted on GEM over the 10 trading days up to and including 11th August, 2005;
- a premium of approximately 110.00% over the average closing price of approximately HK\$0.20 per Share based on the daily closing prices as quoted on GEM over the 30 trading days up to and including 11th August, 2005;
- a premium of approximately 110.00% over the average closing price of approximately HK\$0.20 per Share based on the daily closing prices as quoted on GEM over the 60 trading days up to and including 11th August, 2005;
- a premium of approximately 100.00% over the average closing price of approximately HK\$0.21 per Share based on the daily closing prices as quoted on GEM over the 180 trading days up to and including 11th August, 2005; and
- a premium of approximately 2.44% over the closing price of approximately HK\$0.41 per Share as quoted on GEM as at the Latest Practicable Date.

Historical share price information on the Shares is set out in Section 2 of Appendix II to this document.

#### Net Assets

As at 30th June, 2005, the audited consolidated net assets of the HCL Group amounted to approximately HK\$755.9 million (2004:HK\$760.0 million) or approximately HK\$0.15 (2004:HK\$0.15) per Share. The Cancellation Price represents:

- a premium of approximately 180.00% over the audited consolidated net asset value per Share of approximately HK\$0.15 as at 30th June, 2004; and
- a premium of approximately 180.00% over the audited consolidated net asset value per Share of approximately HK\$0.15 as at 30th June, 2005.

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## EXPLANATORY MEMORANDUM

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### Earnings

The HCL Group's audited consolidated loss attributable to the Shareholders for the year ended 30th June, 2005 was approximately HK\$4.1 million, representing a loss per Share of approximately HK\$0.0008. The HCL Group's audited consolidated loss attributable to the Shareholders in respect of the previous financial year ended 30th June, 2004 was approximately HK\$17.8 million which was equivalent to a loss per Share of approximately HK\$0.0036.

### Dividend Yield

HCL has not declared any dividends since the listing of the Shares on GEM.

## REASONS FOR AND BENEFITS OF THE PROPOSAL

### For Scheme Shareholders

The trading volume of the Shares has been thin, resulting in the low liquidity of the Shares. The average daily trading volume for the 6 months up to and including 11th August, 2005 (being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement) of approximately 55,884 Shares was approximately 0.01% of the free float of the Shares trading on GEM. Given the low liquidity of the Shares traded on GEM, the respective directors of HIL and HKCG are of the opinion that there is currently limited exit potential for the Scheme Shareholders.

Since HIL and HKCG already owned approximately 84.72% of HCL as at the Latest Practicable Date, the directors of HIL and HKCG believe that it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of HIL and HKCG.

As the Cancellation Price represents a premium of approximately 110.00% over the 10-day, 30-day and 60-day approximate average closing price per Share as detailed above, and a premium of approximately 180.00% over the audited consolidated net asset value per Share of approximately HK\$0.15 as at 30th June, 2005, the directors of HIL and HKCG believe that the Proposal will provide an opportunity for all Scheme Shareholders to realise their investments in HCL at a price significantly above the prevailing market price of the Shares and at a significant premium to the net asset value attributable to each Share.

### For HIL

Given the low liquidity of the Shares, the directors of HIL believe that HCL's ability to raise funds from the public equity markets is currently limited and any significant improvement in this regard in the foreseeable future is unlikely. Consequently, the directors of HIL consider that the costs and management resources associated with the maintenance of HCL's listing on GEM and its publicly listed status, which are needed in order to access the public equity capital markets, are no longer warranted.

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HIL is also aware of the uncertain outlook for the existing businesses of HCL. The Internet, telecommunications and high technology industries are fast changing and subject to intense competition. HIL accordingly considers that the Proposal is in the interests of HIL and its shareholders as it will bring about more flexibility to take the businesses of HCL forward in an efficient and sustainable manner.

### **For HKCG**

Given the low liquidity of the Shares, the directors of HKCG believe that HCL's ability to raise funds from the public equity markets is currently limited and any significant improvement in this regard in the foreseeable future is unlikely. Consequently, the directors of HKCG consider that the costs and management resources associated with the maintenance of HCL's listing on GEM and its publicly listed status, which are needed in order to access the public equity capital markets, are no longer warranted.

HKCG is also aware of the uncertain outlook for the existing businesses of HCL. The Internet, telecommunications and high technology industries are fast changing and subject to intense competition. HKCG accordingly considers that the Proposal is in the interests of HKCG and its shareholders as it will bring about more flexibility to take the businesses of HCL forward in an efficient and sustainable manner.

The directors of HCL have been informed by the board of directors of the Offeror Group that the Cancellation Price was arrived at on an arm's length and commercial basis after taking into account the figures referred to in the sections headed "Financial Effects of the Proposal — Share Price" and "Financial Effects of the Proposal — Net Assets" of this Explanatory Memorandum and with reference to other privatisation transactions in the past few years.

### **INFORMATION RELATING TO THE HCL GROUP**

#### **History**

HCL was incorporated in the Cayman Islands with limited liability, and the Shares have been listed on GEM since 14th July, 2000. HCL is an investment holding company and the principal business activities of its subsidiaries are Internet services, telecommunications services, merchandising services, data centre services, intelligent building services and information technology investments.

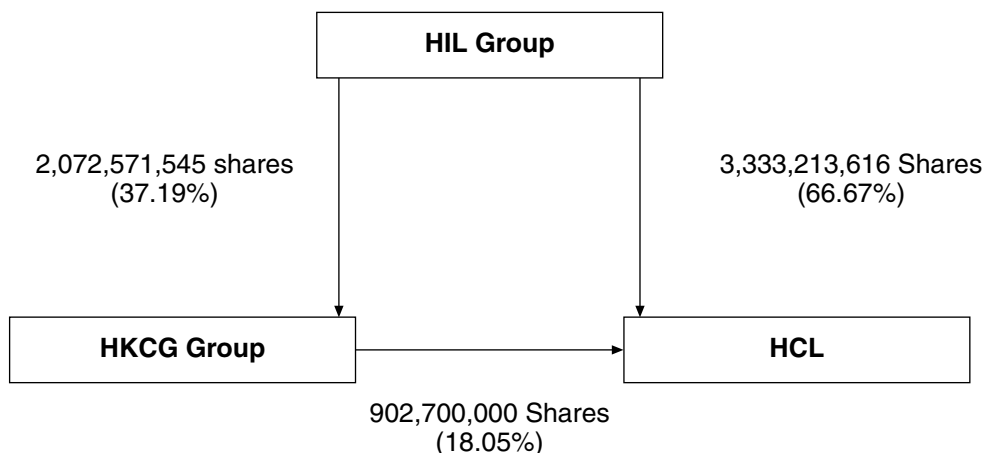
Upon the Scheme becoming effective, HCL will be indirectly owned by HIL as to approximately 78.69% (and thus will remain an indirect non-wholly owned subsidiary of HIL) and by HKCG as to approximately 21.31%.

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### HCL Shareholding Structure



### Business

An analysis of the HCL Group's turnover and operating loss for each of the two years ended 30th June, 2004 and 30th June, 2005 by reference to its activities is set out below:

	Year ended 30th June,			
	2005		2004	
	Operating		Operating	
	Turnover	loss	Turnover	loss
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Retailing	79,090	(8,468)	83,297	(14,128)
Business services	2,693	(7,856)	2,289	(12,358)
Building system services	2,059	(1,423)	1,755	(1,598)
Inter-segment elimination	—	134	—	—
	<u>83,842</u>	<u>(17,613)</u>	<u>87,341</u>	<u>(28,084)</u>
Interest income	—	15,433	—	6,885
Others	—	(1,897)	—	796
	<u><u>83,842</u></u>	<u><u>(4,077)</u></u>	<u><u>87,341</u></u>	<u><u>(20,403)</u></u>

The main focus of the HCL Group during the financial year ended 30th June, 2005 was to further implement its strategies in the Internet services, data centre, high technology and network infrastructure businesses. In light of intense competition faced by the businesses of the HCL Group, the HCL Group in refining its strategies sought to reduce expenses and preserve resources wherever possible.

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The HCL Group conducts its businesses through several principal subsidiaries: Internet access services, international direct dialing (“IDD”) services and e-Commerce and merchandising services through iCare.com Limited (“iCare”), data centre services through Henderson Data Centre Limited (“HDC”) and intelligent building services through Future Home Limited (“Future Home”). Further details are set out below:

### ***iCare***

#### *Internet Access Services:*

During the financial year ended 30th June, 2005, acquisition and retention of Internet Service Provider (“ISP”) users (both broadband & narrowband) continued with the support of the marketing and promotional activities such as the introduction and promotion of attractive pricing service plans with various contracts via magazine advertising, HKCG bill inserts reaching 1.5 million households, Point of Purchase (“POP”) programs at Towngas Customer Centres and iCare Hotspots and online advertisements; and channel partner program with partners such as Cathay Pacific Hong Kong, BEA Credit Card, HKedCity, and Salvation Army to boost customers.

The on-going retention program continued via telemarketing to minimise churn and up-selling programs were adopted to upgrade narrowband ISP customers and Internet Content Provider (“ICP”) users to broadband service. During the year, a new value-added service, the Fixed IP Address Service, was launched.

#### *IDD Services:*

Despite on-going fierce market competition, the number of registered iCare1608 IDD telephone lines reached 358,000 as at 30th June, 2005. Usage was stimulated by a series of marketing and promotion activities, including a broad-based promotion via HKCG bill inserts, offering special rate for selected destinations such as Macau and Thailand to increase acquisition and stimulate usage, and supported by POP program at Towngas Customer Centres and iCare Hotspots and online advertisement; on-going retention and reactivation program for Asian countries, China, US, Canada, Australia and UK to retain and reactivate customers; and adopting channel partner programs with partners such as Cathay Pacific Hong Kong and BEA Credit Card to acquire customers and stimulate usage in selected countries.

#### *e-Commerce and Merchandising Services:*

During the financial year ended 30th June, 2005, iCare cooperated with Henderson Club, a newly established community with target customers who are residents of properties managed by the HLD Group, to promote and sell specially offered merchandise from iCare to members of Henderson Club via their regular newsletter and also continuously promoting iCare through HKCG bill inserts.



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The number of iCare Hotspots increased to a total of 11 during the financial year ended 30th June, 2005, with 4 shops in Kowloon, 3 on Hong Kong Island and 4 in the New Territories (there was also continuous utilisation of other effective sales channels such as the iCare shopping website and customer service hotline during the year). Customers can purchase and obtain after-sales services through the iCare portal, customer hotline and iCare Hotspots to experience a “click and mortar” shopping approach resulting in satisfactory promotion of iCare merchandise as reflected from growth in customer loyalty.

Products such as Compaq Presario personal computers, Hitachi and Midea air conditioners, Samsung and Hitachi refrigerators, Sony Wega TV sets, Nikon digital cameras, MP3 players, mobile phones, air coolers, air heaters, water filtered vacuum cleaners, clothes steamers, steam cleaning devices, slimming belts, facial ionizers, foot and body massagers, massage chairs, wireless phones, home exercise appliances like the magnetic bicycle were sold during the year.

The membership base of iCare’s frequent shopper club, iCare Club, grew to over 55,000 by the end of June 2005, aided by several loyalty promotion activities such as sending out cash coupons to members during Christmas and New Year, promoting a lucky draw for member shoppers and offering free gifts with member purchases.

### *Subscribers and Revenue:*

iCare Internet-on-TV Set-Top Box (“STB”) subscribers, ISP users, ICP users, IDD subscribers and iCare Club members grew to over 451,000 by the end of June 2005.

Total revenue for the financial year ended 30th June, 2005 was HK\$79.3 million. In comparison, the total revenue for the prior financial year was HK\$83.6 million.

### ***Henderson Data Centre (“HDC”)***

During the financial year ended 30th June, 2005, HDC continued to focus on cost management and efficiency improvement, including the Energy Saving Project to obtain significant savings on electricity expense. HDC also continued to acquire more customers for data centre services.

New services, including the System Integration Service and Anti-Spam Email Service were launched. There was continued offering of the Internet Transit Service and HDC commenced a feasibility study on the Intelligent Home Service. HDC also joined Microsoft’s partnership program as a registered member.

Total revenue for the financial year ended 30th June, 2005 was HK\$3.8 million. In comparison, the total revenue for the prior financial year was HK\$2.6 million.

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### ***Future Home***

During the financial year ended 30th June, 2005, Future Home continued development of the idHOME System which includes Property Management System, Customer Relationship Management System, Facilities Booking System and information broadcast through TV for one of the HLD Group estates managed by Well Born Real Estate Management Limited. Future Home also continued the development of the Contract Management System and Asset Management System for Well Born Real Estate Management Limited and network design and server enhancement for one of the HLD Group estates managed by Well Born Real Estate Management Limited.

Throughout the year, there was on-going evaluation on hardware component of Home Automation System, Access Control System and Car Park Management System. Future Home was also able to obtain new maintenance contracts of the Car Park Management System for the HLD Group estates.

Total revenue for the financial year ended 30th June, 2005 was HK\$2.1 million. In comparison, the total revenue for the prior financial year was HK\$1.8 million.

### ***IT Investments***

The HCL Group reviewed a number of information technology opportunities during the financial year ended 30th June, 2005 but did not proceed with any investments.

### **Financial Information**

A summary of the audited consolidated results of the HCL Group for each of the two financial years ended 30th June, 2004 and 2005 is set out below:

	Year ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Turnover	83,842	87,341
Loss from operations	(4,077)	(20,403)
Loss before taxation	(4,096)	(19,115)
Loss after taxation but before minority interests	(4,096)	(19,115)
Loss attributable to the Shareholders	(4,096)	(17,818)
Loss per Share	(HK\$0.0008)	(HK\$0.0036)

### **Net assets**

The audited consolidated net assets of the HCL Group as at 30th June, 2005 was approximately HK\$755.9 million, equivalent to approximately HK\$0.15 per Share.

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### Dividends

HCL has not declared any dividends since the listing of the Shares on GEM.

### Liquidity and financial resources

As at 30th June, 2005, the HCL Group had total cash and bank deposits of approximately HK\$674.5 million and working capital of approximately HK\$677.1 million, each representing approximately 90% of the consolidated net assets of the HCL Group as at such date. Apart from a bank overdraft balance of approximately HK\$0.2 million, the HCL Group had no borrowings as at 30th June, 2005.

### FUTURE INTENTIONS

The Offeror Group does not intend to dispose of or procure any of the Controlling Parties to dispose of any of their beneficial interests in HCL, nor does it intend to discontinue any of the HCL Group's businesses following the implementation of the Proposal. The Offeror Group has no intention of discontinuing HCL's businesses upon the privatisation of HCL.

The directors of HCL have confirmed that, upon the privatisation of HCL, they do not intend to make any significant changes to the existing businesses in the near future, other than in the ordinary course of business.

Whether or not the Proposal is implemented, the directors of HCL do not have any intention to make any significant changes to the existing businesses, employment of the staff of the HCL Group or any significant redeployment of its fixed assets.

The listing of the Shares on GEM will be withdrawn if the Scheme is implemented and be maintained in the event that the Scheme is not approved or withdrawn or lapses.

### INFORMATION RELATING TO THE INTERESTS OF THE CONTROLLING PARTIES, THE EXCLUDED PARTIES AND THE DIRECTORS OF HCL

As at the Latest Practicable Date, the Controlling Parties were beneficially interested in an aggregate of 4,235,913,616 Shares, representing approximately 84.72% of the issued share capital of HCL. Such Shares, by reason of the fact that the Controlling Parties are respective indirect wholly-owned subsidiaries of HIL and HKCG (the Offeror Group), will not form part of the Scheme Shares and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. As there is no prohibition restricting the Controlling Parties from attending and voting at the Extraordinary General Meeting, the Controlling Parties have also indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve the relevant reduction of the share capital of HCL as a result of the Scheme.

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In view of the interests of the Offeror Group in the Proposal and the direct or indirect relationships between the Excluded Parties and the Offeror Group as explained in the following paragraph, all of the 59,420,173 Shares of the Excluded Parties (representing approximately 1.19% of the issued share capital of HCL) will not be represented or voted at the Court Meeting to approve the Scheme as the Excluded Parties are presumed to be parties acting in concert with the Offeror Group under the Takeovers Code. These Shares do however form part of the Scheme Shares. There is no prohibition restricting the Excluded Parties from attending and voting at the Extraordinary General Meeting (other than Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun who confirmed, in seeking ruling from the Executive that the directors of each of HIL and HKCG do not face a conflict of interest such that Rule 2.4 of the Takeovers Code is applicable to the Proposal, that they will not take part as Shareholder in meetings of Shareholders to approve the Proposal).

As at the Latest Practicable Date, Banshing, Covite, Markshing, Gainwise and Darnman all being indirect wholly-owned subsidiaries of HLD (a controlling shareholder of HIL), together beneficially owned an aggregate of 9,054,403 Shares, representing in aggregate approximately 0.18% of the issued share capital of HCL; Dr. Lee Shau Kee, a director of HLD, HIL, HKCG and HCL, was the beneficial owner of 173,898 Shares, representing approximately 0.01% of the issued share capital of HCL and in addition, by virtue of the SFO, he was taken to be interested in the 3,333,213,616 Shares and the 902,700,000 Shares respectively owned by the Controlling Parties, and the Shares owned by Banshing, Covite, Markshing, Gainwise, Darnman and Fu Sang respectively; Fu Sang was 100% owned by a unit trust in which Dr. Lee Shau Kee was taken to be interested by virtue of the SFO and was the beneficial owner of 28,075 Shares, representing less than 0.01% of the issued share capital of HCL; Mr. Lee King Yue, Mr. Ho Wing Fun and Mr. Lee Tat Man were directors of HLD and HIL and also the beneficial owners of 5,383 Shares, five Shares and 33 Shares respectively, representing in aggregate less than 0.01% of the issued share capital of HCL; The Hon. Lo Tak Shing and Mr. Leung Sing were directors of HLD and also beneficial owners of 2,021 Shares and 750 Shares respectively, representing in aggregate less than 0.01% of the issued share capital of HCL; and members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code held on a proprietary basis or had discretionary management authority over 50,155,605 Shares representing approximately 1.00% of the issued share capital of HCL. In the circumstances, all of these parties, who are “Excluded Parties”, are presumed to be parties acting in concert with the Offeror Group under the Takeovers Code because of their direct or indirect relationship with the Offeror Group.

As at the Latest Practicable Date, neither CLSA nor any of its group companies which were deemed to be acting in concert with the Offeror Group under the Takeovers Code owned any Shares.

Further information in respect of the interests of the directors of HCL, whether as such directors, Excluded Parties or Shareholders or otherwise, and the effect thereon of the Scheme, in so far as it is different from the effect on the like interests of the other Scheme Shareholders, are set out under Section 3 headed “Disclosure of Interests” in Appendix II to this document.

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### SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all of the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will, accordingly, cease to have effect as documents or evidence of title.

HCL will apply to the Stock Exchange for the withdrawal of the listing of the Shares on GEM pursuant to Rule 9.23(2) of the GEM Listing Rules immediately following the Effective Date, which is expected to take place on Thursday, 8th December, 2005. In such an event, the listing of the Shares on GEM is expected to be withdrawn on Monday, 12th December, 2005.

The Scheme Shareholders will be notified of the exact dates on which the Scheme and the withdrawal of the listing of the Shares on GEM become effective by press announcements and also by an announcement published on the GEM website.

If the Scheme is not approved or withdrawn or lapses, the listing of the Shares on GEM will be maintained.

### REGISTRATION AND PAYMENT

It is proposed to close the Register immediately after 4:00 p.m. on Wednesday, 7th December, 2005, or such other date as may be notified to the Scheme Shareholders by press announcements and also by an announcement published on the GEM website, in order to establish entitlements to the Cancellation Price under the Scheme. The Scheme Shareholders or their successors in title should ensure that their Shares are registered or lodged for registration in their names or in the names of their nominees before the Register is closed. HCL's branch share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716 Hopewell Centre, 183 Queen's Road East, Hong Kong.

Assuming that the Scheme becomes effective on Thursday, 8th December, 2005, cheques for the Cancellation Price will be sent to the Scheme Shareholders whose names appear on the Register at the Record Time, such cheques are expected to be despatched to the Scheme Shareholders on or before Saturday, 17th December, 2005 and in any event within ten days from the Effective Date. As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, the Offeror Group shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in HIL's name with a licensed bank in Hong Kong selected by HIL. HIL shall hold such monies on trust for those entitled under the terms of the Scheme until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums in accordance with Clause 4(e) of the Scheme to persons who satisfy HIL that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, the Offeror Group shall be released from any further obligation to make any payments under the Scheme and HIL shall

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thereafter transfer to the Offeror Group the balance (if any), as to approximately 78.69% to HIL and as to approximately 21.31% to HKCG, of the sums then standing to the credit of the deposit account in its name subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by HCL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent to the persons whose names appear on the Register at the Record Time at their respective addresses or, in the case of joint Scheme Shareholders, to the registered address of that joint holder whose name stands first in the Register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither the Offeror Group nor HCL will be liable for any loss or delay in transmission.

### OVERSEAS SCHEME SHAREHOLDERS

In so far as those Scheme Shareholders not resident in Hong Kong are concerned, they may be subject to the laws of the jurisdictions in which they reside. Such Scheme Shareholders should inform themselves of and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental approval, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

### TAXATION

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholders liable to taxation in Hong Kong or in other jurisdictions.

### MEETINGS

In accordance with the direction of the Grand Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). In so far as the sanction of the Scheme by the Grand Court is concerned, such a resolution will be deemed to have been passed (by way of poll) if a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. As explained above, however, such a resolution will only be considered to have been passed under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by

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## EXPLANATORY MEMORANDUM

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way of poll) against the resolution at the Court Meeting is not more than 10% in value of all the Shares held by all of the Independent Shareholders. Based on 704,666,211 Shares held by the Independent Shareholders as at the Latest Practicable Date, 10% of such Shares amounted to 70,466,621 Shares.

Immediately following the Court Meeting, the Extraordinary General Meeting has been convened for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the reduction of the issued share capital of HCL as a result of the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the Extraordinary General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Extraordinary General Meeting.

As at the Latest Practicable Date, the Controlling Parties were beneficially interested in an aggregate of 4,235,913,616 Shares, representing approximately 84.72% of the issued share capital of HCL. Such Shares, by reason of the fact that the Controlling Parties are respective indirect wholly-owned subsidiaries of HIL and HKCG (the Offeror Group), will not form part of the Scheme Shares and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. As there is no prohibition restricting the Controlling Parties from attending and voting at the Extraordinary General Meeting, the Controlling Parties have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve the reduction of the issued share capital of HCL as a result of the Scheme.

In addition, the Excluded Parties, who as at the Latest Practicable Date were collectively beneficially interested in 59,420,173 Shares representing approximately 1.19% of the issued share capital of HCL, and their nominees in whose names some of the Shares in which they were beneficially interested were registered will not, for the reasons already explained above, attend and vote at the Court Meeting in person or by proxy in their capacity as Scheme Shareholders. There is no prohibition restricting the Excluded Parties from attending and voting at the Extraordinary General Meeting (other than Mr. Lee King Yue, Mr. Lee Tat Man and Mr. Ho Wing Fun who confirmed, in seeking ruling from the Executive that the directors of each of HIL and HKCG do not face a conflict of interest such that Rule 2.4 of the Takeovers Code is applicable to the Proposal, that they will not take part as Shareholder in meetings of Shareholders to approve the Proposal).

Notices of the Meetings are set out on pages 128 to 131 of this document. The Meetings will be held on Monday, 31st October, 2005 at the respective times specified in such notices in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong.

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## EXPLANATORY MEMORANDUM

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### DEMAND FOR POLL AT THE EXTRAORDINARY GENERAL MEETING

In accordance with Article 66 of the articles of association of HCL, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the GEM Listing Rules. A poll may be demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by member.

### ACTION TO BE TAKEN BY THE SHAREHOLDERS

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Extraordinary General Meeting are enclosed with this document.

Whether or not you are able to attend the Meetings in person, the Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the Shareholders are strongly urged to complete and sign the enclosed white form of proxy in respect of the Extraordinary General Meeting in accordance with the instructions respectively printed thereon and to lodge them with HCL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any case not later than the following respective times. In the case of the pink form of proxy for use at the Court Meeting, it is requested that this form of proxy be lodged not later than 11:00 a.m. on Saturday, 29th October, 2005 but if it is not so lodged, it may be handed to the chairman of the Court Meeting, who has absolute discretion whether or not to accept it, at the Court Meeting pursuant to an order of the Grand Court made on 3rd October, 2005. In order to be valid, the white form of proxy for use at the Extraordinary General Meeting must be lodged not later than 11:30 a.m. on Saturday, 29th October, 2005. One self-addressed, pre-paid



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## EXPLANATORY MEMORANDUM

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envelope marked "For Return of Court Meeting Proxy Form and/or Extraordinary General Meeting Proxy Form — Henderson Cyber Limited" is enclosed in order to facilitate the return by the Independent Shareholders and/or Shareholders (as applicable) by post (from within Hong Kong only) of their completed forms of proxy. The completion and return of a form of proxy for any of the Meetings will not preclude a Shareholder from attending the relevant Meeting and voting in person if he so wishes. In the event that a Shareholder who has lodged a form of proxy attends the Meeting, his form of proxy for that Meeting will be deemed to have been revoked.

HCL will only recognise persons whose names are registered on the register of members of HCL as Shareholders, any beneficial owner of Shares whose Shares are held upon trust by and registered in the name of a nominee, trustee or other person will not be recognised by HCL as a Shareholder. Any beneficial owner of Shares ("Beneficial Owner") whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party (the "Registered Owner") should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting. A Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the Extraordinary General Meeting and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the Extraordinary General Meeting shall be in accordance with all relevant provisions in the articles of association of HCL. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in the paragraph above.

Any Beneficial Owner whose Shares are deposited in the Central Clearing and Settlement System ("CCASS") operated by Hong Kong Securities Clearing Company Limited and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the "Investor Participant"), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant ("Other CCASS Participant") regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures".

For the purpose of determining the entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Extraordinary General Meeting, the Register will be closed from Wednesday, 26th October, 2005 to Monday, 31st October, 2005 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with HCL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 25th October, 2005.

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## **EXPLANATORY MEMORANDUM**

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Assuming that all of the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be on Thursday, 8th December, 2005. Further press announcements and also an announcement published on the GEM website will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the last day for dealing in the Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Effective Date and the date of the withdrawal of the listing of the Shares on GEM.

### **FURTHER INFORMATION**

Further information in relation to the Proposal is set out in the Appendices to this document, all of which form part of this Explanatory Memorandum.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**

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**1. THREE-YEAR FINANCIAL SUMMARY**

Set out below is a summary of the audited consolidated results of the HCL Group for each of the three financial years ended 30th June, 2003, 2004 and 2005 extracted from the 2003, 2004 and 2005 annual reports of HCL:

	Year ended 30th June,		
	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Turnover	83,842	87,341	83,751
Loss from operations	(4,077)	(20,403)	(13,137)
Share of losses of jointly controlled entities	(14)	(14)	(13)
Loss from ordinary activities before taxation	(4,096)	(19,115)	(17,025)
Income tax	—	—	—
Loss from ordinary activities after taxation	(4,096)	(19,115)	(17,025)
Minority interests	—	1,297	14
Loss attributable to the Shareholders	(4,096)	(17,818)	(17,011)
Loss per Share	(HK\$0.0008)	(HK\$0.0036)	(HK\$0.0034)

*Note:* There were no dividends declared or extraordinary or exceptional items for the past three financial years.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**

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**2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE HCL GROUP FOR THE YEAR ENDED 30TH JUNE, 2005**

The following information has been extracted from the audited consolidated financial statements of the HCL Group for the year ended 30th June, 2005, the page numbers in the statements below refer to the 2005 annual report of HCL. For the purpose of the extracts set out below, the “Company” means HCL and the “Group” means “HCL Group”.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the year ended 30th June, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	2	<b>83,842</b>	87,341
Other revenue	3	<b>17,516</b>	11,714
Other net loss	4	<b>(42)</b>	(51)
		<b>101,316</b>	99,004
Direct costs and operating expenses		<b>(79,136)</b>	(93,416)
Selling and distribution costs		<b>(18,913)</b>	(17,265)
Administrative expenses		<b>(7,344)</b>	(8,726)
Loss from operations		<b>(4,077)</b>	(20,403)
Finance costs	5	<b>(5)</b>	(6)
Loss on disposal of investment securities		—	(788)
Release of capital surplus contributed by minority shareholders upon disposal of subsidiaries	23	—	2,096
		<b>(4,082)</b>	(19,101)
Share of losses of jointly controlled entities		<b>(14)</b>	(14)
Loss from ordinary activities before taxation	5	<b>(4,096)</b>	(19,115)
Income tax	6(a)	—	—
Loss from ordinary activities after taxation		<b>(4,096)</b>	(19,115)
Minority interests		—	1,297
Loss attributable to shareholders	9	<b>(4,096)</b>	(17,818)
Loss attributable to shareholders is absorbed by:			
The Company and its subsidiaries		<b>(4,082)</b>	(17,804)
Jointly controlled entities		<b>(14)</b>	(14)
		<b>(4,096)</b>	(17,818)
Loss per share			
Basic	11	<b>HK0.08 cent</b>	HK0.36 cent

The notes on pages 40 to 70 form part of these accounts.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

### BALANCE SHEETS

at 30th June, 2005

	Note	The Group		The Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>					
Fixed assets	13	<b>59,785</b>	68,588	<b>9</b>	35
Interests in subsidiaries	14	—	—	<b>782,870</b>	783,563
Interests in jointly controlled entities	15	<b>37</b>	44	—	—
Investment securities	16	<b>7,558</b>	7,558	—	—
Held-to-maturity securities	17	<b>11,465</b>	11,699	—	—
		<b>78,845</b>	87,889	<b>782,879</b>	783,598
<b>Current assets</b>					
Held-to-maturity securities	17	—	41,096	—	—
Inventories	18	<b>2,774</b>	4,012	—	—
Accounts receivable, deposits and prepayments	19	<b>10,310</b>	16,144	<b>110</b>	120
Cash and cash equivalents	20	<b>674,522</b>	623,028	<b>2</b>	8
		<b>687,606</b>	684,280	<b>112</b>	128
<b>Current liabilities</b>					
Unsecured bank overdraft	20	<b>213</b>	—	—	—
Accounts payable and accrued expenses	21	<b>10,315</b>	12,150	<b>1,311</b>	2,908
		<b>10,528</b>	12,150	<b>1,311</b>	2,908
Net current assets/(liabilities)		<b>677,078</b>	672,130	<b>(1,199)</b>	(2,780)
Net assets		<b>755,923</b>	760,019	<b>781,680</b>	780,818
<b>Capital and reserves</b>					
Share capital	22	<b>500,000</b>	500,000	<b>500,000</b>	500,000
Reserves	23	<b>255,923</b>	260,019	<b>281,680</b>	280,818
		<b>755,923</b>	760,019	<b>781,680</b>	780,818

Approved and authorised for issue by the board of directors on 16th September, 2005

Colin Lam Ko Yin )  
John Yip Ying Chee )  
Directors

The notes on pages 40 to 70 form part of these accounts.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended 30th June, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Shareholders' equity at 1st July		<u>760,019</u>	<u>780,696</u>
Capital surplus contributed by minority shareholders	23	<u>—</u>	<u>468</u>
Net gains and losses not recognised in the profit and loss account		<u>—</u>	<u>468</u>
Capital reserve realised upon disposal of investment securities	23	<u>—</u>	<u>(1,231)</u>
Release of capital surplus contributed by minority shareholders upon disposal of subsidiaries	23	<u>—</u>	<u>(2,096)</u>
Net loss for the year	23	<u>(4,096)</u>	<u>(17,818)</u>
		<u>(4,096)</u>	<u>(20,677)</u>
Shareholders' equity at 30th June		<u>755,923</u>	<u>760,019</u>

The notes on pages 40 to 70 form part of these accounts.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**


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**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended 30th June, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Operating activities			
Loss from ordinary activities before taxation		<b>(4,096)</b>	(19,115)
Adjustments for:			
Interest income		<b>(15,433)</b>	(6,885)
Exchange gain		—	(16)
Depreciation		<b>12,399</b>	12,104
Interest expenses		<b>5</b>	6
Loss on disposal of fixed assets		<b>42</b>	93
Share of losses of jointly controlled entities		<b>14</b>	14
Loss on disposal of investment securities		—	788
Release of capital surplus contributed by minority shareholders upon disposal of subsidiaries		—	(2,096)
Operating loss before changes in working capital		<b>(7,069)</b>	(15,107)
Decrease/(increase) in inventories		<b>1,238</b>	(541)
Decrease in accounts receivable, deposits and prepayments		<b>5,589</b>	840
Decrease in accounts payable and accrued expenses		<b>(1,272)</b>	(4,144)
Net cash used in operating activities		<b><u>(1,514)</u></b>	<b><u>(18,952)</u></b>
Investing activities			
Purchase of fixed assets		<b>(4,207)</b>	(6,460)
Proceeds from disposal of fixed assets		<b>6</b>	5
Proceeds from disposal of subsidiaries		<b>19</b>	—
Proceeds from disposal of investment securities		—	41,981
Proceeds from redemption of held-to-maturity securities		<b>40,794</b>	164,502
Net cash paid from disposal of subsidiaries	(a)	—	(58)
Advances to jointly controlled entities		<b>(7)</b>	(28)
Interest received		<b>16,195</b>	12,562
Net cash from investing activities		<b><u>52,800</u></b>	<b><u>212,504</u></b>
Financing activities			
Repayment to minority shareholders		—	(1,015)
Issue of shares to minority shareholders		—	2,340
Interest paid		<b>(5)</b>	(6)
Net cash (used in)/from financing activities		<b><u>(5)</u></b>	<b><u>1,319</u></b>
Net increase in cash and cash equivalents		<b>51,281</b>	194,871
Cash and cash equivalents at 1st July		<b>623,028</b>	428,157
Cash and cash equivalents at 30th June	20	<b><u>674,309</u></b>	<b><u>623,028</u></b>

The notes on pages 40 to 70 form part of these accounts.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**

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**NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Disposal of subsidiaries**

	<b>2005</b>	2004
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	—	4,704
Accounts receivable, deposits and prepayments	—	2,232
Cash and cash equivalents	—	58
Accounts payable	—	(6,974)
Minority interests	—	(1)
Total consideration	<u>—</u>	<u>19</u>
Satisfied by:		
Other receivable	<u>—</u>	<u>19</u>
Net cash outflow arising on disposal:		
Cash and cash equivalents disposed of	<u>—</u>	<u>(58)</u>



**NOTES ON THE ACCOUNTS****1 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”). A summary of the significant accounting policies adopted by the Group is set out below.

**(b) Basis of preparation of the accounts**

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of certain investments as explained in the accounting policies as set out below.

**(c) Subsidiaries**

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is accounted for in accordance with note 1(f).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company’s balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is accounted for in accordance with note 1(f).

**(d) Jointly controlled entities**

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group’s share of the jointly controlled entity’s net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to

transfer funds to the investor or venturer, in which case, it is accounted for in accordance with note 1(f). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is accounted for in accordance with note 1(f).

**(e) Goodwill**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1st July, 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(i)); and
- for acquisitions on or after 1st July, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of jointly controlled entities, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1st July, 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1st July, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in jointly controlled entities.

On disposal of a controlled subsidiary or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

### (f) Investment in securities

The Group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities are as follows:

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

### (g) Fixed assets and depreciation

- (i) Valuation

Fixed assets are stated at cost less any accumulated depreciation and impairment losses (see note 1(i)). The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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(ii) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the estimated useful lives as follows:

Land	Over the unexpired terms of the leases
Buildings	Over the shorter of the unexpired terms of the leases or 40 years
Leasehold improvements	Over the shorter of the periods of the respective leases or 5 years
Set-top boxes for lease	2 years
Data centre and network equipment and facilities	5 to 10 years
Furniture, fixtures and office equipment	3 to 5 years

(iii) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

**(h) Leased assets**

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(g)(ii) above. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(o)(iv).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

**(i) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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- investments in subsidiaries and jointly controlled entities (except for those accounted for at fair value);
- intangible assets; and
- positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

**(j) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(k) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**(l) Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) Contributions to the defined contribution scheme and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligations is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

**(m) Income tax**

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities.

### **(n) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **(o) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

- (ii) Internet and telecommunications services

Revenue from the provision of Internet and telecommunications services are recognised at the time when the services are rendered.

- (iii) Project consultancy and application service provider ("ASP") service income

Project consultancy and ASP service income are recognised when the services are rendered.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable.

(v) Data centre services

Income from customer use of data centre services is recognised on a straight-line basis over the terms of the respective leases.

(vi) Network services

Revenue from the provision of network services is recognised at the time when the services are rendered.

(vii) Interest income

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(viii) Dividends

Dividend income from other investments is recognised when the shareholders' right to receive payment is established.

**(p) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

**(q) Research and development costs**

Research and development costs including website/portal development costs are charged to the profit and loss account as incurred, except insofar as those product development costs that relate to a clearly defined project and the future benefits therefrom are reasonably assured.

Development costs recognised as an asset are amortised on a straight-line basis over the expected period of return of the related project. The unamortised balance of development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered. Development costs written off, less attributable amortisation, are written back when the circumstances and events that led to the write off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.



**(r)    Borrowing costs**

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

**(s)    Related parties**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

**(t)    Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses and minority interests.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### 2 TURNOVER

The principal activities of the Company are investment holding and provision of management services to group companies. The principal activities of the principal subsidiaries are set out on page 69.

Turnover represents the sale of goods to customers, revenue from Internet and telecommunications services, income from data centre and network services, and project consultancy and application service provider (“ASP”) service income earned during the year. An analysis of turnover is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Sale of goods	45,231	40,077
Internet services	24,579	29,041
Telecommunications services	10,321	14,677
Data centre services	1,367	1,032
Project consultancy and ASP services	2,344	1,755
Network services	—	759
	<u>83,842</u>	<u>87,341</u>

### 3 OTHER REVENUE

	The Group	
	2005 HK\$'000	2004 HK\$'000
Interest income from held-to-maturity securities and bank deposits	15,331	6,868
Other interest income	102	17
	<u>15,433</u>	<u>6,885</u>
Rental income	1,922	2,106
Dividend income from other investments	—	2,593
Share of loss by a business partner	—	43
Others	161	87
	<u>17,516</u>	<u>11,714</u>

### 4 OTHER NET LOSS

	The Group	
	2005 HK\$'000	2004 HK\$'000
Loss on disposal of fixed assets	(42)	(93)
Exchange gain	—	42
	<u>(42)</u>	<u>(51)</u>

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## APPENDIX I      FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### 5      LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Finance costs		
- interest expenses on bank overdrafts repayable on demand	5	6
Staff costs		
- salaries, wages and other benefits	19,713	25,472
- contributions to defined contribution plans (note 24)	962	1,029
	20,675	26,501
Operating lease charges in respect of:		
- telecommunications network facilities	3,763	5,237
- properties	3,295	2,692
	3,763	5,237
Research and development costs	265	700
Less: Amount capitalised under fixed assets (note 13(b))	(255)	(690)
	10	10
Auditors' remuneration		
- audit services	580	567
- other services	173	27
Depreciation	12,399	12,104
Cost of inventories sold	30,269	28,247
Rental income from land and buildings less outgoings	(1,042)	(1,255)

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**

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**6 INCOME TAX**

(a) No provision has been made for Hong Kong Profits Tax as the Group sustained losses for taxation purposes during the year.

(b) Reconciliation between tax expense and accounting losses at applicable tax rate:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Loss before taxation	<u>(4,096)</u>	<u>(19,115)</u>
Notional tax on loss before taxation, calculated at 17.5%	(717)	(3,345)
Tax effect of non-deductible expenses	132	501
Tax effect of non-taxable revenue	(2,723)	(2,294)
Tax effect of temporary differences	(85)	(2)
Tax effect of tax losses utilised	(54)	(44)
Tax effect of tax losses not recognised	<u>3,447</u>	<u>5,184</u>
Actual tax expense	<u>—</u>	<u>—</u>

(c) The Group has not recognised deferred tax assets in respect of tax losses of HK\$281,531,000 (2004: HK\$262,143,000) as it is not probable that future taxable profits will be available against which tax losses can be utilised. The tax losses do not expire under current tax legislation.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

### 7 DIRECTORS' REMUNERATION

The remuneration of the Company's directors is as follows:

	2005			2004	
	Fees HK\$'000	Basic salaries and other allowances HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000	Total HK\$'000
Executive directors					
Lee Shau Kee	20	—	—	20	20
Chan Wing Kin, Alfred	20	—	—	20	20
Lam Ko Yin, Colin	20	—	—	20	20
Lee Ka Kit	20	—	—	20	20
Lee Ka Shing	20	—	—	20	20
Yip Ying Chee, John	20	—	—	20	20
Douglas H. Moore	20	40	2	62	420
Independent non-executive directors					
Li Kwok Po, David	100	—	—	100	100
Ko Ping Keung	100	—	—	100	100
Leung Yuk Kwong	—	—	—	—	—
Non-executive director					
Woo Ka Biu, Jackson	100	—	—	100	100
<b>Total</b>	<b>440</b>	<b>40</b>	<b>2</b>	<b>482</b>	<b>840</b>

Except Mr. Leung Yuk Kwong who was appointed during the year, each of all the other directors received a director's fee of HK\$20,000 (2004: HK\$20,000). Dr. The Hon. Sir David Li Kwok Po, Professor Ko Ping Keung and Mr. Woo Ka Biu, Jackson who are also members of the Audit Committee of the Company received an additional fee of HK\$80,000 (2004: HK\$80,000).

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current and prior years.

All share options granted to the directors lapsed during the year.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The emoluments of the five highest paid employees, none of whom is a director, of the Group are set out below:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Basic salaries, housing and other allowances and benefits in kind	4,045	5,118
Retirement scheme contributions	198	168
	<u>4,243</u>	<u>5,286</u>

The emoluments of these five individuals are within the following bands:

	The Group	
	2005 Number of individuals	2004 Number of individuals
Remuneration bands:		
HK\$		
Nil - 1,000,000	4	3
1,000,001 - 1,500,000	1	2
	<u>5</u>	<u>5</u>

### 9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a profit of HK\$862,000 (2004: loss of HK\$60,079,000) which has been dealt with in the accounts of the Company.

### 10 DIVIDENDS

No dividend has been approved and paid by the Company for the year ended 30th June, 2005 (2004: HK\$Nil).

### 11 LOSS PER SHARE

#### (a) Basic loss per share

The calculation of basic loss per share for the year is based on the loss attributable to shareholders of HK\$4,096,000 (2004: HK\$17,818,000) and on the weighted average number of 5,000,000,000 (2004: 5,000,000,000) shares in issue during the year.

#### (b) Diluted loss per share

Diluted loss per share is not presented because there were no dilutive potential shares in existence during the year and the prior year.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

### 12 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group comprises the following main business segments:

Retailing	—	goods, Internet and telecommunications services
Business services	—	data centre, network and Internet
Building system services	—	project consultancy and application service provider
IT investments		

#### The Group

	Retailing		Business services		Building system services		IT investments		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	79,090	83,297	2,693	2,289	2,059	1,755	—	—	—	—	83,842	87,341
Other revenue	30	87	1,929	2,149	—	—	—	—	—	—	1,959	2,236
Revenue from external customers	79,120	83,384	4,622	4,438	2,059	1,755	—	—	—	—	85,801	89,577
Inter-segment revenue	229	239	1,058	955	—	—	—	—	(1,287)	(1,194)	—	—
Total	79,349	83,623	5,680	5,393	2,059	1,755	—	—	(1,287)	(1,194)	85,801	89,577
Segment result	(8,468)	(14,128)	(7,856)	(12,358)	(1,423)	(1,598)	—	—	134	—	(17,613)	(28,084)
Interest income											15,433	6,885
Unallocated income net of expenses											(1,897)	796
Loss from operations											(4,077)	(20,403)
Finance costs											(5)	(6)
Loss on disposal of investment securities	—	—	—	—	—	—	—	(788)	—	—	—	(788)
Release of capital surplus contributed by minority shareholders upon disposal of subsidiaries	—	—	—	2,096	—	—	—	—	—	—	—	2,096
											(4,082)	(19,101)
Share of losses of jointly controlled entities											(14)	(14)
Loss from ordinary activities before taxation											(4,096)	(19,115)
Income tax											—	—
Loss from ordinary activities after taxation											(4,096)	(19,115)
Minority interests											—	1,297
Loss attributable to shareholders											(4,096)	(17,818)

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

	Retailing		Business services		Building system services		IT investments		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation for the year	<u>7,713</u>	<u>7,028</u>	<u>4,539</u>	<u>4,907</u>	<u>123</u>	<u>138</u>	<u>—</u>	<u>—</u>				
Segment assets	21,346	26,165	50,361	54,443	752	1,138	7,558	7,558	(271)	(73)	79,746	89,231
Interests in jointly controlled entities											37	44
Unallocated assets											686,668	682,894
Total assets											<u>766,451</u>	<u>772,169</u>
Segment liabilities	(7,578)	(7,859)	(1,110)	(1,044)	(189)	(201)	—	—	—	8	(8,877)	(9,096)
Unallocated liabilities											(1,651)	(3,054)
Total liabilities											<u>(10,528)</u>	<u>(12,150)</u>
Capital expenditure incurred during the year	<u>3,464</u>	<u>4,276</u>	<u>154</u>	<u>45</u>	<u>26</u>	<u>18</u>	<u>—</u>	<u>—</u>				

No geographical analysis is shown as the activities of the Group during the current and prior years were mainly carried out in Hong Kong.

### 13 FIXED ASSETS

#### The Group

	Land and buildings HK\$'000	Leasehold improvements, furniture, fixtures and office equipment HK\$'000	Set-top boxes for lease HK\$'000	Data centre and network equipment and facilities HK\$'000	Total HK\$'000
Cost:					
At 1st July, 2004	45,113	6,093	595	87,158	138,959
Additions	—	1,031	—	2,613	3,644
Disposals	—	(41)	(595)	(174)	(810)
At 30th June, 2005	<u>45,113</u>	<u>7,083</u>	<u>—</u>	<u>89,597</u>	<u>141,793</u>
Accumulated depreciation and impairment loss:					
At 1st July, 2004	4,075	3,682	595	62,019	70,371
Charge for the year	1,017	1,245	—	10,137	12,399
Written back on disposals	—	(37)	(595)	(130)	(762)
At 30th June, 2005	<u>5,092</u>	<u>4,890</u>	<u>—</u>	<u>72,026</u>	<u>82,008</u>
Net book value:					
At 30th June, 2005	<u>40,021</u>	<u>2,193</u>	<u>—</u>	<u>17,571</u>	<u>59,785</u>
At 30th June, 2004	<u>41,038</u>	<u>2,411</u>	<u>—</u>	<u>25,139</u>	<u>68,588</u>



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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### The Company

	Furniture, fixtures and office equipment HK\$'000
Cost:	
At 1st July, 2004	227
Disposals	(6)
At 30th June, 2005	221
Accumulated depreciation:	
At 1st July, 2004	192
Charge for the year	24
Written back on disposals	(4)
At 30th June, 2005	212
Net book value:	
At 30th June, 2005	9
At 30th June, 2004	35

- (a) The Group's properties are situated in Hong Kong and are held under medium-term leases.
- (b) Included in the Group's data centre and network equipment and facilities of HK\$89,597,000 (2004: HK\$87,158,000), there were HK\$255,000 (2004: HK\$690,000) relating to development costs capitalised during the year.
- (c) The Group leases out land and buildings under operating leases. The leases of land and buildings typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases include contingent rentals.

As at 30th June, 2005, the gross carrying amounts of land and buildings of the Group held for use in operating leases were HK\$27,756,000 (2004: HK\$27,756,000) and the related accumulated depreciation charges were HK\$3,132,000 (2004: HK\$2,506,000).

At 30th June, 2005, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Within 1 year	1,158	1,963
After 1 year but within 5 years	327	603
	1,485	2,566

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP**

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**14 INTERESTS IN SUBSIDIARIES**

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	<b>89,875</b>	89,875
Amounts due from subsidiaries	<b>1,077,188</b>	1,064,807
	<b>1,167,063</b>	1,154,682
Amounts due to subsidiaries	<b>(34,450)</b>	(34,382)
	<b>1,132,613</b>	1,120,300
Provision for impairment loss	<b>(349,743)</b>	(336,737)
	<b>782,870</b>	783,563

Details of the principal subsidiaries are set out on page 69.

**15 INTERESTS IN JOINTLY CONTROLLED ENTITIES**

	The Group	
	2005 HK\$'000	2004 HK\$'000
Share of net liabilities	<b>(74)</b>	(60)
Amounts due from jointly controlled entities	<b>111</b>	104
	<b>37</b>	44

Details of the jointly controlled entities are set out on page 70.

**16 INVESTMENT SECURITIES**

	The Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted equity securities, at cost	<b>12,560</b>	12,560
Provision for impairment loss	<b>(5,002)</b>	(5,002)
	<b>7,558</b>	7,558

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### 17 HELD-TO-MATURITY SECURITIES

	The Group			
	2005		2004	
	HK\$'000 Non-current	HK\$'000 Current	HK\$'000 Non-current	HK\$'000 Current
Debt securities				
Listed outside Hong Kong	11,465	—	11,699	—
Unlisted	—	—	—	41,096
	<u>11,465</u>	<u>—</u>	<u>11,699</u>	<u>41,096</u>
Market value of listed securities	<u>11,088</u>	<u>—</u>	<u>11,936</u>	<u>—</u>

### 18 INVENTORIES

Inventories of the Group represent trading goods, stated at cost.

### 19 ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

(a)

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade receivables	4,560	4,913	—	—
Other receivables, deposits and prepayments	5,750	11,231	110	120
	<u>10,310</u>	<u>16,144</u>	<u>110</u>	<u>120</u>

At 30th June, 2005, included in the accounts receivable, deposits and prepayments, are amounts due from fellow subsidiaries of HK\$534,000 (2004: HK\$558,000) and deposits paid to fellow subsidiaries of HK\$2,515,000 (2004: HK\$2,687,000).

The accounts receivable, deposits and prepayments of the Group include rental and other deposits of HK\$2,903,000 (2004: HK\$3,130,000) which are not expected to be repaid within one year. Apart from the above, all of the balances are expected to be recovered within one year.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

- (b) The Group maintains a defined credit policy, the general credit term is 30 to 90 days. An ageing analysis of trade receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The ageing analysis of the trade receivables (net of provision for bad debts) is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Under 1 month overdue	3,931	3,897
More than 1 month overdue but less than 3 months overdue	291	670
More than 3 months overdue but less than 6 months overdue	176	135
More than 6 months overdue	162	211
	<u>4,560</u>	<u>4,913</u>

### 20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Deposits with banks	670,300	616,728	—	—
Cash at bank and in hand	4,222	6,300	2	8
Cash and cash equivalents in the balance sheet	674,522	623,028	2	8
Unsecured bank overdraft	(213)	—	—	—
Cash and cash equivalents in the cash flow statement	<u>674,309</u>	<u>623,028</u>	<u>2</u>	<u>8</u>

### 21 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

- (a)

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	5,971	5,083	—	—
Other payables and accrued expenses	4,344	7,067	1,311	2,908
	<u>10,315</u>	<u>12,150</u>	<u>1,311</u>	<u>2,908</u>

At 30th June, 2005, included in the accounts payable and accrued expenses, are amounts due to intermediate holding company and fellow subsidiaries of HK\$877,000 (2004: HK\$2,436,000) and HK\$308,000 (2004: HK\$22,000) respectively.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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(b) The ageing analysis of the trade payables is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Due within 1 month and on demand	5,971	5,083
Due after 1 month but within 3 months	—	—
Due after 3 months but within 6 months	—	—
	<u>5,971</u>	<u>5,083</u>

### 22 SHARE CAPITAL

	Number of shares		Nominal value	
	2005 '000	2004 '000	2005 HK\$'000	2004 HK\$'000
Authorised				
Ordinary shares of HK\$0.1 each	<u>10,000,000</u>	<u>10,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid				
Ordinary shares of HK\$0.1 each	<u>5,000,000</u>	<u>5,000,000</u>	<u>500,000</u>	<u>500,000</u>

(a) Under the Pre-IPO Share Option Plan ("Option Plan"), options to subscribe for an aggregate of 32,000,000 shares of the Company were granted to certain directors and employees of the Company, its holding companies, subsidiaries, fellow subsidiaries and affiliated company on 28th June, 2000 at the consideration of HK\$1.00 for each grant of options.

Subject to the terms and conditions of the Option Plan, each of the grantees will be entitled to exercise at the price of HK\$1.25 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 14th July, 2000, (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 14th July, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 14th July, 2000 and, in each case, not later than four years from 14th July, 2000.

All share options granted under the Option Plan lapsed on 14th July, 2004.

(b) Under the Share Option Scheme, options to subscribe for an aggregate of 150,000 shares of the Company were granted to certain employees of the Group on 4th October, 2000 at the consideration of HK\$1.00 for each grant of options.

Subject to the terms and conditions of the Share Option Scheme, each of the grantees will be entitled to exercise at the price of HK\$0.89 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 16th October, 2000 (the date of acceptance of the share options), (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 16th October, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 16th October, 2000 and, in each case, not later than four years from 16th October, 2000.

All share options granted under the Share Option Scheme lapsed on 30th September, 2004.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

(c) Details of outstanding and vested share options were as follows:

	2005		2004	
	Number of share options Option Plan	Share Option Scheme	Number of share options Option Plan	Share Option Scheme
At 1st July	27,500,000	100,000	27,650,000	100,000
Share options lapsed during the year	(27,500,000)	(100,000)	(150,000)	—
At 30th June	—	—	27,500,000	100,000

### 23 RESERVES

#### The Group

	Capital reserve HK\$'000	Share premium (note a) HK\$'000	Profit and loss account (note b) HK\$'000	Total HK\$'000
At 1st July, 2003	86,725	443,707	(249,736)	280,696
Capital surplus contributed by minority shareholders	468	—	—	468
Capital reserve realised upon disposal of investment securities	(1,231)	—	—	(1,231)
Release of capital surplus contributed by minority shareholders upon disposal of subsidiaries	(2,096)	—	—	(2,096)
Loss for the year	—	—	(17,818)	(17,818)
At 30th June, 2004	83,866	443,707	(267,554)	260,019
At 1st July, 2004	83,866	443,707	(267,554)	260,019
Loss for the year	—	—	(4,096)	(4,096)
At 30th June, 2005	83,866	443,707	(271,650)	255,923

#### The Company

	Capital reserve HK\$'000	Share premium (note a) HK\$'000	Profit and loss account HK\$'000	Total HK\$'000
At 1st July, 2003	82,685	443,707	(185,495)	340,897
Loss for the year	—	—	(60,079)	(60,079)
At 30th June, 2004	82,685	443,707	(245,574)	280,818
At 1st July, 2004	82,685	443,707	(245,574)	280,818
Profit for the year	—	—	862	862
At 30th June, 2005	82,685	443,707	(244,712)	281,680

**(a) Share premium**

The application of the share premium account is governed by section 146(1) of the Company's Articles of Association and the Companies Law of the Cayman Islands, where the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

**(b) Profit and loss account**

At 30th June, 2005, HK\$74,000 (2004: HK\$60,000) relating to the accumulated losses attributable to the jointly controlled entities are dealt with in the Group's profit and loss account.

**(c) Distributable reserves**

At 30th June, 2005, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$281,680,000 (2004: HK\$280,818,000). However, the distribution of capital reserve and share premium is subject to the restrictions as stated in note 23(a) above.

**24 RETIREMENT BENEFITS SCHEME**

The Group's employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident scheme as defined in the Occupational Retirement Schemes Ordinance or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2% of the employees' basic monthly salaries. The portion of employer's contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers. No employees of the Group were eligible to join the Fund on or after 1st December, 2000.

Employees of the Group who are not members of the Fund participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. No forfeited contributions were utilised during the year (2004: HK\$76,000).

The Group's retirement costs charged to the profit and loss account for the year ended 30th June, 2005 were HK\$962,000 (2004: HK\$1,029,000).

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### 25 SIGNIFICANT LEASING ARRANGEMENTS

- (a) The Group leases out land and buildings under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. Further details of the carrying value of land and buildings are set out in note 13 above.

During the year ended 30th June, 2005, HK\$1,922,000 (2004: HK\$2,106,000) was recognised as rental income in the profit and loss account in respect of leasing of land and buildings.

- (b) The Group leases telecommunications network facilities under operating leases. Some of the leases are with no specific terms while the remaining leases typically run for an initial period of three months to four years, with an option to renew the lease upon the expiry of the initial lease term. None of the leases includes contingent rentals.

During the year ended 30th June, 2005, HK\$3,763,000 (2004: HK\$5,237,000) was recognised as an expense in the profit and loss account in respect of leasing of telecommunications network facilities.

- (c) The Group leases certain properties for use as shop premises and transmission sites under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon the expiry of the initial lease term. Two (2004: one) of the leases entered into by the Group contain a contingent rental element which is calculated based on the higher of a fixed amount or certain percentages on the sales receipts from the relevant shops. Apart from the above, all of the leases include no contingent rentals.

During the year ended 30th June, 2005, HK\$3,295,000 (2004: HK\$2,692,000) was recognised as an expense in the profit and loss account in respect of leasing of properties.

### 26 COMMITMENTS

#### (a) Capital commitments

At 30th June, 2005, the Group had capital commitments contracted but not provided for in the accounts in respect of system development costs amounting to HK\$269,000 (2004: HK\$850,000).

#### (b) Operating leases commitments

At 30th June, 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	2005		2004	
	Properties HK\$'000	Telecommunications network facilities HK\$'000	Properties HK\$'000	Telecommunications network facilities HK\$'000
Within 1 year	<b>3,163</b>	<b>694</b>	2,235	2,476
After 1 year but within 5 years	<b>1,704</b>	<b>48</b>	1,181	252
	<b><u>4,867</u></b>	<b><u>742</u></b>	<b><u>3,416</u></b>	<b><u>2,728</u></b>



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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### 27 CONTINGENT LIABILITIES

- (a) As at 30th June, 2005, there were guarantees given by the Company to banks in respect of banking facilities extended to certain subsidiaries. Of these facilities, HK\$330,000 (2004: HK\$330,000) was utilised by a subsidiary as at 30th June, 2005.
- (b) As at 30th June, 2005, a subsidiary of the Group had contingent liabilities in respect of certain guarantees issued by a bank on behalf of the subsidiary amounting to HK\$378,000 (2004: HK\$878,000).

### 28 MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

- (a) As at 30th June, 2005, there was a rental deposit of HK\$2,515,000 (2004: HK\$2,515,000) with a fellow subsidiary in respect of a building to be developed by the fellow subsidiary which will be leased to the Group. The construction of the building has not yet been completed as at 30th June, 2005.
- (b) Income from provision of high technology infrastructure design and consultancy services to certain fellow subsidiaries and an affiliated company of the Group amounted to HK\$428,000 (2004: HK\$125,000).
- (c) Income from provision of Internet services to certain fellow subsidiaries and affiliated companies of the Group amounted to HK\$476,000 (2004: HK\$237,000).
- (d) Supporting service charges paid to an affiliated company of the Group at reimbursement costs amounted to HK\$364,000 (2004: HK\$491,000).
- (e) Service fees paid to a fellow subsidiary for provision of legal, secretarial, accounting, computer and other related services and the use of office equipment at reimbursement costs amounted to HK\$600,000 (2004: HK\$1,000,000).
- (f) Income from provision of data centre services to certain fellow subsidiaries and affiliated companies of the Group amounted to HK\$950,000 (2004: HK\$578,000).
- (g) Sale of goods to certain fellow subsidiaries and affiliated companies of the Group amounted to HK\$8,000 (2004: HK\$4,585,000).
- (h) Staff costs were reimbursed from an affiliated company of the Group in the amount of HK\$1,226,000 (2004: HK\$1,130,000), based on the costs incurred for sharing of administrative services.
- (i) Payment to certain fellow subsidiaries of the Group for leasing of properties amounted to HK\$751,000 (2004: HK\$603,000).
- (j) A shareholder's loan of HK\$6,225,000 due and owing from one of the subsidiaries was assigned to an affiliated company of the Group during the year ended 30th June, 2004. There was no such loan due and assigned during the year ended 30th June, 2005.

**29      RECENTLY ISSUED ACCOUNTING STANDARDS**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively, "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 and would be therefore effective for the Group's accounts for the year ending 30th June, 2006.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 30th June, 2005. The Group has already made an assessment of the impact of these new HKFRSs and concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

**30      POST BALANCE SHEET EVENT**

On 16th August, 2005, the Company together with its intermediate holding companies, Henderson Land Development Company Limited and Henderson Investment Limited ("Henderson Investment") as well as its affiliated company, The Hong Kong and China Gas Company Limited ("China Gas"), issued a joint announcement regarding a proposed privatisation of the Company by Henderson Investment and China Gas which involves the cancellation and extinguishment of shares (other than those held by Henderson Investment and China Gas) in the Company at the cancellation price of HK\$0.42 in cash per share.

**31      ULTIMATE HOLDING COMPANY**

The directors consider the ultimate holding company at 30th June, 2005 to be Henderson Development Limited, which is incorporated in Hong Kong.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### PRINCIPAL SUBSIDIARIES

At 30th June, 2005

Details of principal subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up ordinary share capital	Attributable percentage of equity interest held by		Principal activities
			The Company	Subsidiaries	
Future Home Limited	Hong Kong	2 shares of HK\$1 each	—	100	Provision of high technology infrastructure design and consultancy services
Hency Finance Limited	Hong Kong	2 shares of HK\$1 each	100	—	Provision of financial services
Henderson Cyber Finance Limited	Hong Kong	2 shares of HK\$1 each	100	—	Provision of financial services
Henderson Data Centre Limited	Hong Kong	2 shares of HK\$1 each	—	100	Provision of Internet server co-location centres, system management and Internet services
iCare.com Limited	Hong Kong	2 shares of HK\$1 each	—	100	Provider of Internet services and content, telecommunications services, e-commerce services and merchandising services
Mingsway Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Konet Investment Limited	The BVI	2 shares of US\$1 each	100	—	Manages strategic investments
Superweb Limited	The BVI	1 share of US\$1	100	—	Investment holding
Victory City Enterprises Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment

The above list gives the principal subsidiaries of the Group, which in the opinion of the directors, materially affect the operating results or assets of the Group.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCL GROUP

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### JOINTLY CONTROLLED ENTITIES

At 30th June, 2005

Details of jointly controlled entities are as follows:

Name of company	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up ordinary share capital	Attributable percentage of equity interest held by		Principal activities
				The Company	Subsidiaries	
Henderson Stratech Limited	Incorporated	Hong Kong	2 shares of HK\$1 each	—	50	Provision of technology solutions
Cyberforce Limited	Incorporated	The BVI	2 shares of US\$1 each	—	50	Information technology services

### 3. SHARE CAPITAL

The authorised and issued share capital of HCL as at the Latest Practicable Date were as follows:

	Number of Shares	Nominal value HK\$
Authorised	<u>10,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid	<u>5,000,000,000</u>	<u>500,000,000</u>

There was no movement in the share capital of HCL for the period from 30th June, 2005 up to the Latest Practicable Date.

Each of the Shares ranks *pari passu* in all respects, including dividends, voting and capital.

Apart from the Shares, HCL does not have any warrants, options, derivatives, convertible securities or other securities in issue. None of the unissued share or loan capital of HCL is subject to any warrants, options, derivatives or conversion rights and it has not been agreed, conditionally or unconditionally, to put any of the unissued share or loan capital of HCL under any warrants, options, derivatives or conversion rights.

**4. INDEBTEDNESS**

At the close of business on 31st July, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the HCL Group had no outstanding borrowings.

Contingent liabilities of the HCL Group as at 31st July, 2005 amounted to approximately HK\$0.6 million which consisted of guarantees given by the HCL Group to banks in respect of banking facilities extended to certain subsidiaries of the HCL Group.

As at the close of business on 31st July, 2005, save as disclosed in this section headed "Indebtedness" and apart from normal trade payables in the ordinary course of the business of the HCL Group, the HCL Group did not have any outstanding mortgages, charges, debentures, loan capital or other similar indebtedness, or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

The directors of HCL have confirmed that there has been no material changes in HCL's indebtedness and contingent liabilities positions since 31st July, 2005.

**5. MATERIAL CHANGES**

There has been no material changes in the financial or trading position or prospects of the HCL Group since 30th June, 2005, the date to which the latest published audited consolidated financial statements of the HCL Group were made up.

**1. RESPONSIBILITY STATEMENT**

The information in this document relating to the HCL Group has been supplied by the directors of HCL. The issue of this document has been approved by the directors of HCL, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the HIL Group, apart from the HCL Group, and the HKCG Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that relating to the HIL Group, apart from the HCL Group, and the HKCG Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document (other than that relating to the HIL Group, apart from the HCL Group, and the HKCG Group) misleading.

The information in this document relating to the HIL Group has been supplied by the directors of HIL. The issue of this document has been approved by the directors of HIL, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the HCL Group and the HKCG Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that relating to the HCL Group and the HKCG Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document (other than that relating to the HCL Group and the HKCG Group) misleading.

The information in this document relating to the HKCG Group has been supplied by the directors of HKCG. The issue of this document has been approved by the directors of HKCG, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the HCL Group and the HIL Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that relating to the HCL Group and the HIL Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document (other than that relating to the HCL Group and the HIL Group) misleading.

## 2. MARKET PRICES

The Shares are traded on GEM. The table below shows the respective closing prices of the Shares on GEM (i) on the last trading day of each of the six calendar months preceding the Announcement Date, (ii) on 11th August, 2005, being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement, and (iii) on the Latest Practicable Date.

<b>Date</b>	<b>Price per Share</b> <i>HK\$</i>
28th February, 2005	0.21
31st March, 2005	0.21
29th April, 2005	0.20
31st May, 2005	0.21
30th June, 2005	0.19
29th July, 2005	0.21
11th August, 2005	0.22
Latest Practicable Date	0.41

*Source: the Stock Exchange (share prices are set out in two decimal places)*

The lowest and highest closing prices per Share recorded on the Stock Exchange during the period from 16th February, 2005, being the date six months prior to the Announcement Date, to the Latest Practicable Date were respectively HK\$0.19 on 15th, 18th, 21st and 22nd July, 2005 and approximately HK\$0.42 on 17th and 24th August, 2005 and 1st September, 2005.

## 3. DISCLOSURE OF INTERESTS

For the purpose of this Section, the "Offer Period" means the period from the Announcement Date to the Latest Practicable Date, both dates inclusive, the "Disclosure Period" means the period beginning from the six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date, both dates inclusive, and "interested" and "interests" have the meanings respectively ascribed thereto in Part XV of the SFO. "HIL Shareholdings" means the HIL Shares and any other equity share capital of HIL, securities of HIL which carry substantially the same rights as the HIL Shares, and convertible securities, warrants, options and derivatives in respect of any of them, "HKCG Shareholdings" means the HKCG Shares and any other equity share capital of HKCG, securities of HKCG which carry substantially the same rights as the HKCG Shares, and convertible securities, warrants, options and derivatives in respect of any of them and "HCL Shareholdings" means the Shares and any other securities of HCL which carry voting rights, and convertible securities, warrants, options and derivatives in respect of any of them.

(a) **Interests and dealings in the Shares**

- (i) As at the Latest Practicable Date, HIL, through its indirect wholly-owned subsidiary, was interested in 3,333,213,616 Shares, representing approximately 66.67% of the issued share capital of HCL, and HKCG, through its indirect wholly-owned subsidiary, was interested in 902,700,000 Shares representing approximately 18.05% of the issued share capital of HCL.

Save as disclosed above, the Offeror Group and the Controlling Parties did not have any HCL Shareholdings and had not dealt for value in any HCL Shareholdings during the Disclosure Period.

- (ii) As at the Latest Practicable Date, the following directors of HIL had the following interests in the Shares:

Director	Note	Number of Shares held and nature of interest				Total number and percentage of issued share capital of HCL held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Lee Chau Kee	1	173,898	—	4,244,996,094	—	4,245,169,992	84.90
Lee Ka Kit	1	—	—	—	4,244,996,094	4,244,996,094	84.90
Lee Ka Shing	1	—	—	—	4,244,996,094	4,244,996,094	84.90
Li Ning	1	—	4,244,996,094	—	—	4,244,996,094	84.90
Lee Tat Man	2	33	—	—	—	33	0.00
Lee King Yue	3	5,383	—	—	—	5,383	0.00
Ho Wing Fun	4	5	—	—	—	5	0.00

- (iii) As at the Latest Practicable Date, the following directors of HKCG had the following interests in the Shares:

Director	Note	Number of Shares held and nature of interest				Total number and percentage of issued share capital of HCL held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Lee Chau Kee	1	173,898	—	4,244,996,094	—	4,245,169,992	84.90
Lee Ka Kit	1	—	—	—	4,244,996,094	4,244,996,094	84.90
Lee Ka Shing	1	—	—	—	4,244,996,094	4,244,996,094	84.90



*Notes:*

1. Of these Shares, Dr. Lee Shau Kee was the beneficial owner of 173,898 Shares, and for the remaining 4,244,996,094 Shares (i) 902,700,000 Shares were owned by Technology Capitalization, a wholly-owned subsidiary of Towngas Investment Company Limited which in turn was 100% held by HKCG which in turn was 37.19% held by HIL; (ii) 3,333,213,616 Shares were owned by Felix Technology, a wholly-owned subsidiary of Best Selection Investments Limited which in turn was 100% held by HIL which in turn was 73.48 % held by HLD; (iii) 4,014,271 Shares, 1,816,644 Shares, 1,714,027 Shares, 1,086,250 Shares and 423,211 Shares were respectively owned by Banshing, Covite, Markshing, Gainwise and Darnman, all of which were wholly-owned subsidiaries of Kingslee S.A. which was 100% held by HLD which in turn was 61.87% held by Henderson Development Limited (“HD”); and (iv) 28,075 Shares were owned by Fu Sang.

Hopkins (Cayman) Limited (“Hopkins”) as trustee of a unit trust (the “Unit Trust”) owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was taken to be interested in HKCG, HIL, HLD, Fu Sang and HCL by virtue of the SFO. As directors of HLD, HIL and HCL and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these Shares by virtue of the SFO. As director of HLD and HIL and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these Shares by virtue of the SFO.

2. Mr. Lee Tat Man was the beneficial owner of these Shares.
3. Mr. Lee King Yue was the beneficial owner of these Shares.
4. Mr. Ho Wing Fun was the beneficial owner of these Shares.

Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were also directors of HCL.

Mr. Colin Lam Ko Yin, who was a director of HLD, HIL, HKCG and HCL disposed of 55 Shares in which he was previously interested by way of gift to a Hong Kong registered charity with effect from 15th August, 2005.

Save as disclosed in (ii) and (iii) above, none of the directors of HIL, the directors of HKCG or the directors of HCL had any interest in the HCL Shareholdings as at the Latest Practicable Date and none of the directors of HIL, the directors of HKCG or the directors of HCL had dealt for value in any HCL Shareholdings during the Disclosure Period.

- (iv) As at the Latest Practicable Date, the Excluded Parties had the following interests in the Shares:

Excluded Parties	Note	Number of Shares held and nature of interest				Total number and percentage of issued share capital of HCL held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Banshing	5	—	—	4,014,271	—	4,014,271	0.08
Covite	5	—	—	1,816,644	—	1,816,644	0.04
Markshing	5	—	—	1,714,027	—	1,714,027	0.03
Gainwise	5	—	—	1,086,250	—	1,086,250	0.02
Darnman	5	—	—	423,211	—	423,211	0.01
Lee Shau Kee	1&6	173,898	—	4,244,996,094	—	4,245,169,992	84.90
Fu Sang	1&7	—	—	28,075	—	28,075	0.00
Lee King Yue	8	5,383	—	—	—	5,383	0.00
Lee Tat Man	9	33	—	—	—	33	0.00
Ho Wing Fun	9	5	—	—	—	5	0.00
Lo Tak Shing	10	2,021	—	—	—	2,021	0.00
Leung Sing	10	750	—	—	—	750	0.00
HSBC	11	—	—	50,155,605	—	50,155,605	1.00

*Notes:*

5. Banshing, Covite, Markshing, Gainwise and Darnman were all wholly-owned subsidiaries of Kingslee S.A. which was 100% held by HLD which was the controlling shareholder of HIL, and therefore were presumed to be parties acting in concert with the Offeror Group under the Takeovers Code. These companies together beneficially owned an aggregate of 9,054,403 Shares. Dr. Lee Shau Kee was taken to be interested in these Shares by virtue of the SFO.
6. Dr. Lee Shau Kee was a director of HLD, HIL, HKCG and HCL and therefore was presumed to be a party acting in concert with the Offeror Group under the Takeovers Code.
7. The 28,075 Shares were beneficially owned by Fu Sang.
8. Mr. Lee King Yue was a director of HLD and HIL and therefore was presumed to be a party acting in concert with the Offeror Group under the Takeovers Code.
9. Mr. Ho Wing Fun and Mr. Lee Tat Man were directors of HLD and HIL and therefore were presumed to be parties acting in concert with the Offeror Group under the Takeovers Code.
10. The Hon. Lo Tak Shing and Mr. Leung Sing were directors of HLD and therefore were presumed to be parties acting in concert with the Offeror Group under the Takeovers Code.

11. HSBC was a joint financial adviser to the Offeror Group and was therefore presumed to be a party acting in concert with the Offeror Group under the Takeovers Code. The figure comprised 50,152,000 Shares owned on a proprietary basis by HSBC Securities (Asia) Limited and 3,605 Shares managed on a discretionary basis by HSBC International Trustee Limited. The 3,605 Shares were owned and controlled as to 2,080 Shares by HSBC International Trustee Limited as trustee, 1,000 Shares by HSBC Trustee (C.I.) Limited as trustee and 525 Shares by HSBC Trustee (Cook Islands) Limited as trustee. Each of HSBC Securities (Asia) Limited, HSBC International Trustee Limited, HSBC Trustee (C.I.) Limited and HSBC Trustee (Cook Islands) Limited is an indirectly wholly-owned subsidiary of HSBC Holdings plc, which is also the ultimate holding company of HSBC.

Save as disclosed above, none of the members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code held on a proprietary basis or had discretionary management authority over any Shares. None of the members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code had dealt for value in any HCL Shareholdings on a proprietary and/or discretionary basis during the Disclosure Period.

Save as disclosed above, none of the Excluded Parties owned or controlled any HCL Shareholdings as at the Latest Practicable Date or had dealt for value in the HCL Shareholdings during the Disclosure Period.

- (v) As at the Latest Practicable Date, none of CLSA (being a joint financial adviser to HIL and HKCG), or any of its group companies owned or controlled any HCL Shareholdings or had dealt for value in the HCL Shareholdings during the Disclosure Period.
- (vi) As at the Latest Practicable Date, none of Platinum, or any of its group companies owned or controlled any HCL Shareholdings or had dealt for value in the HCL Shareholdings during the Disclosure Period.
- (vii) As at the Latest Practicable Date, no subsidiary of HCL, pension fund of HCL or of any subsidiary of HCL, or any advisers to HCL as specified in class (2) of the definition of “associate” in the Takeovers Code, but excluding exempt principal traders, owned or controlled any HCL Shareholdings or had dealt for value in any HCL Shareholdings during the Disclosure Period.
- (viii) As at the Latest Practicable Date, no person had irrevocably committed to accept or reject the Scheme.
- (ix) As at the Latest Practicable Date, no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between the Offeror Group or any person acting in concert with the Offeror Group, and any other person.
- (x) As at the Latest Practicable Date, no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between HCL or any person who is an associate of HCL by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person.

## (b) Interests and dealings in HIL Shares

- (i) As at the Latest Practicable Date, the following directors of HCL had the following interests in HIL Shares:

Director of HCL	Note	Number of HIL Shares held and nature of interest				Total number and percentage of issued share capital of HIL held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Lee Shau Kee	12	34,779,936	—	2,075,859,007	—	2,110,638,943	74.92
Lee Ka Kit	12	—	—	—	2,075,859,007	2,075,859,007	73.68
Lee Ka Shing	12	—	—	—	2,075,859,007	2,075,859,007	73.68
Leung Yuk Kwong	13	310	—	—	—	310	0.00

*Notes:*

12. Of these HIL Shares, Dr. Lee Shau Kee was the beneficial owner of 34,779,936 HIL Shares, and for the remaining 2,075,859,007 HIL Shares, (i) 802,854,200 HIL Shares, 602,168,418 HIL Shares, 363,328,900 HIL Shares, 217,250,000 HIL Shares and 84,642,341 HIL Shares were respectively owned by Banshing, Markshing, Covite, Gainwise and Darnman, all of which were wholly-owned subsidiaries of Kingslee S.A. which was 100% held by HLD; and (ii) 5,615,148 HIL Shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HLD, Fu Sang and HIL by virtue of the SFO. As directors of HLD, HIL and HCL and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these HIL Shares by virtue of the SFO.

13. Mr. Leung Yuk Kwong was the beneficial owner of these HIL Shares.

- (ii) Save as disclosed in (i) above, none of the directors of HCL nor HCL had any interest in any HIL Shareholdings as at the Latest Practicable Date and none of the directors of HCL nor HCL had dealt for value in any HIL Shareholdings during the Disclosure Period.

(c) **Interests and dealings in HKCG Shares**

- (i) As at the Latest Practicable Date, the following directors of HCL had the following interests in HKCG Shares:

Director of HCL	Note	Number of HKCG Shares held and nature of interest				Total number and percentage of issued share capital of HKCG held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Lee Shau Kee	14	3,226,174	—	2,157,017,776	—	2,160,243,950	38.76
Lee Ka Kit	14	—	—	—	2,157,017,776	2,157,017,776	38.71
Lee Ka Shing	14	—	—	—	2,157,017,776	2,157,017,776	38.71
Chan Wing Kin, Alfred	15	102,825	—	—	—	102,825	0.00
Li Kwok Po, David	16	12,082,844	—	—	—	12,082,844	0.22

*Notes:*

14. Of these HKCG Shares, Dr. Lee Shau Kee was the beneficial owner of 3,226,174 HKCG Shares, and for the remaining 2,157,017,776 HKCG Shares, (i) 1,159,024,597 HKCG Shares and 484,225,002 HKCG Shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited which was 100% held by HIL; (ii) 429,321,946 HKCG Shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of HIL; (iii) 3,966,472 HKCG Shares were owned by Baldwin Enterprises Limited, a wholly-owned subsidiary of Yamina Investment Limited which was 100% held by HD; and (iv) 80,479,759 HKCG Shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HIL, HD, Fu Sang and HKCG by virtue of the SFO. As directors of HLD, HIL and HKCG and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these HKCG Shares by virtue of the SFO.
15. These HKCG Shares were owned by Mr. Chan Wing Kin, Alfred and his wife jointly.
16. Dr. The Hon. David Li Kwok Po was the beneficial owner of these HKCG Shares.
- (ii) Save as disclosed in (i) above, none of the directors of HCL nor HCL had any interest in any HKCG Shareholdings as at the Latest Practicable Date and none of the directors of HCL nor HCL had dealt for value in any HKCG Shareholdings during the Disclosure Period.

(d) **Other interests**

- (i) No benefit is or will be given to any director of HCL as compensation for loss of office or otherwise in connection with the Scheme.

- (ii) No agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror Group or any person acting in concert with the Offeror Group and any of the directors or recent directors of HCL, Shareholders or recent Shareholders having any connection with or dependence upon the Scheme.
- (iii) No agreement or arrangement exists between any director of HCL and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.
- (iv) No material contract has been entered into by the Offeror Group in which any director of HCL has a material personal interest.
- (v) Each of Mr. Alfred Chan Wing Kin, Mr. Colin Lam Ko Yin and Mr. John Yip Ying Chee, executive directors of HCL, has a service contract with HCL subsisting before and during the six months prior to the Announcement Date and as at the Latest Practicable Date. Each service contract, until and unless terminated by not less than two months' notice in writing served by either party on the other, is of an initial term of three years commencing on 1st April, 2000 and shall continue thereafter. Each of the above Directors is entitled under his service contract to (i) subject to Shareholders' approval, a director's fee of HK\$20,000 per annum for any financial year during the initial three-year term; and (ii) such management bonus as the Board may approve without limitation but shall abstain from voting and not be counted in the quorum in respect of any resolution of the board of Directors regarding the amount of management bonus payable to himself.

Save as disclosed above, as at the Latest Practicable Date, none of the directors of HCL has a service contract in force with any member of the HCL Group which has more than twelve months to run or which was entered into or amended within six months before the Announcement Date.

#### **4. MATERIAL CONTRACT**

The material contract referred to below has been entered into by a member of the HCL Group, other than in the ordinary course of business carried on or intended to be carried on by the HCL Group, after the date two years preceding the Announcement Date:

A sale and purchase agreement dated 28th June, 2004 was entered into between Startech Investment Limited ("Startech"), a wholly-owned subsidiary of HCL, and two independent third parties not connected with HCL as vendors (collectively the "Vendors") and Wang Tack International Limited ("Wang Tack"), a wholly-owned subsidiary of HKCG, as purchaser, whereby the Vendors agreed to sell to Wang Tack the entire issued share capital of Cotech Investment Limited ("Cotech") and Startech agreed to sell to Wang Tack the shareholder's loan in the amount of HK\$6,224,783 owed by Cotech to Startech ("Startech Shareholders Loans") at an aggregate consideration of HK\$6,245,424 of which the aggregate consideration payable for the sale of 92.2% of the entire issued share capital of Cotech, being owned by Startech, and the Startech Shareholders Loans by Startech to Wang Tack was in an aggregate sum of HK\$6,243,814. The only asset of Cotech was its wholly-owned subsidiary, Eastar Technology Limited, whose principal activity was the provision of local fixed telecommunications network services.

## 5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance pending or threatened against any member of the HCL Group.

## 6. MISCELLANEOUS

- (a) The beneficial interests in the Shares of the parties presumed to be acting in concert with the Offeror Group are set out in the section headed "Shareholding Structure" on pages 13 to 14 of this document. Those parties which are principal members of the group acting in concert with the Offeror Group and which are companies are Felix Technology, Technology Capitalization, Banshing, Covite, Markshing, Gainwise, Darnman, HLD and Fu Sang. Their addresses and the names of their directors are as follows:

<b>Name</b>	<b>Address</b>	<b>Directors</b>
HIL	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Lee Ka Kit, Colin Lam Ko Yin, Lee Ka Shing, Lee Tat Man, Lee King Yue, Eddie Lau Yum Chuen, Li Ning, Patrick Kwok Ping Ho, Ho Wing Fun, Lau Chi Keung, Augustine Wong Ho Ming, Suen Kwok Lam, Sit Pak Wing, Woo Po Shing, Philip Yuen Pak Yiu, Leung Hay Man, Jackson Woo Ka Biu (as alternate to Woo Po Shing), Gordon Kwong Che Keung, Ko Ping Keung and Wu King Cheong
HKCG	23/F., 363 Java Road, North Point, Hong Kong	Lee Shau Kee, Liu Lit Man, Leung Hay Man, Colin Lam Ko Yin (also alternate director of Leung Hay Man), David Li Kwok Po, Ronald Chan Tat Hung, Lee Ka Kit, Alfred Chan Wing Kin, James Kwan Yuk Choi and Lee Ka Shing
Felix Technology	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Technology Capitalization	23/F., 363 Java Road, North Point, Hong Kong	Alfred Chan Wing Kin, Ronald Chan Tat Hung, James Kwan Yuk Choi, Li Po Lam (as alternate to Alfred Chan Wing Kin) and Wong Wai Yee (as alternate to Ronald Chan Tat Hung)

Name	Address	Directors
HLD	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Lee Ka Kit, Colin Lam Ko Yin, Lee Ka Shing, Lee King Yue, Fung Lee Woon King, Leung Sing, Eddie Lau Yum Chuen, Li Ning, Patrick Kwok Ping Ho, Ho Wing Fun, John Yip Ying Chee, Suen Kwok Lam, Lo Tak Shing, Woo Po Shing, Leung Hay Man, Angelina Lee Pui Ling, Lee Tat Man, Kan Fook Yee, Vincent Liang (as alternate to Lo Tak Shing), Jackson Woo Ka Biu (as alternate to Woo Po Shing), Gordon Kwong Che Keung, Ko Ping Keung and Wu King Cheong
Banshing	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Covite	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Markshing	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Gainwise	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Darnman	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Fu Sang	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Lee Tat Man, Colin Lam Ko Yin (as alternate to Lee Tat Man) and Lee Ka Shing



The ultimate controlling shareholder of HIL, Felix Technology, Banshing, Covite, Markshing, Gainwise, Darnman, HLD and Fu Sang is Hopkins, the trustee of the Unit Trust as described in Note 1 to paragraph (a) (iii) in Section 3 of this Appendix II, the directors of which are Lee Tat Man, Fung Lee Woon King, Colin Lam Ko Yin and Charles Hall. The ultimate parent company of HIL, Felix Technology, Banshing, Covite, Markshing, Gainwise, Darnman and HLD is Henderson Development Limited, the directors of which are Lee Shau Kee, Lee Ka Kit, Lee Ka Shing, Lee Tat Man, Fung Lee Woon King, Colin Lam Ko Yin (also alternate director of Lee Tat Man) and Woo Po Shing. The parent company of HIL, Felix Technology, Banshing, Covite, Markshing, Gainwise and Darnman is HLD.

As at the Latest Practicable Date, HKCG was owned as to 37.19% by HIL. The parent company of Technology Capitalization is HKCG.

The individuals presumed to be parties acting in concert with the Offeror Group and their respective addresses are as follows:

<b>Name</b>	<b>Address</b>
Lee Shau Kee	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Lee King Yue	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Lee Tat Man	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Ho Wing Fun	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Lo Tak Shing	Room 3501, Gloucester Tower, The Landmark, Hong Kong
Leung Sing	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong

- (b) The registered office of HCL is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Hong Kong head office and principal place of business of HCL is situated at 72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (c) The registered office of HSBC is HSBC Main Building, 1 Queen's Road Central, Hong Kong.
- (d) The registered office of CLSA is 18th Floor, One Pacific Place, 88 Queensway, Hong Kong.

- (e) All costs, charges and expenses of and incidental to the Scheme and the costs of carrying the Scheme into effect will be borne by the Offeror Group.
- (f) The English text of this document and the forms of proxy shall prevail over the Chinese text.
- (g) All announcements in relation to the Proposal will be published on the GEM website and as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

## **7. EXPERTS**

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

<b>Name</b>	<b>Qualifications</b>
HSBC	The Hongkong and Shanghai Banking Corporation Limited, a deemed registered institution under the SFO to carry on types 1, 4, 6 and 9 regulated activities as defined under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
CLSA	CLSA Equity Capital Markets Limited, licensed under transitional arrangements (migration application lodged) to conduct Types 4 and 6 regulated activities under the SFO
Platinum	Platinum Securities Company Limited, licensed to carry out Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
KPMG	Certified Public Accountants

## **8. CONSENTS**

HSBC, CLSA, Platinum and KPMG have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of their opinions or letters, as the case may be, and the references to their names, opinions or letters in the form and context in which they respectively appear.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the offices of the solicitors for HCL, Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum of association and articles of association of HCL;
- (b) the memorandum of association and articles of association of HIL;
- (c) the memorandum of association and articles of association of HKCG;
- (d) the audited consolidated financial statements of the HCL Group for each of the two financial years ended 30th June, 2004 and 2005;
- (e) the audited consolidated financial statements of the HIL Group for each of the two financial years ended 30th June, 2004 and 2005;
- (f) the audited consolidated financial statements of the HKCG Group for each of the two financial years ended 31st December, 2003 and 2004;
- (g) the letter from the Independent Director, the text of which is set out on pages 22 to 23 of this document;
- (h) the letter from Platinum to the Independent Director, the text of which is set out on pages 24 to 53 of this document;
- (i) the letters of consent referred to in Section 8 of this Appendix; and
- (j) the material contract referred to in Section 4 of this Appendix.

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## SCHEME OF ARRANGEMENT

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IN THE GRAND COURT OF THE CAYMAN ISLANDS  
CAUSE NO: 389 OF 2005

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IN THE MATTER OF  
HENDERSON CYBER LIMITED  
AND IN THE MATTER OF  
SECTION 86 OF THE COMPANIES LAW, CAP. 22 (LAW 3 OF 1961)  
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS

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SCHEME OF ARRANGEMENT  
between  
HENDERSON CYBER LIMITED  
and  
THE HOLDERS OF SCHEME SHARES  
(as hereinafter defined)

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PRELIMINARY

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- (A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“Banshing”	Banshing Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands
“Controlling Parties”	Felix Technology (an indirect wholly-owned subsidiary of HIL) and Technology Capitalization (an indirect wholly-owned subsidiary of HKCG) which together were legally and beneficially interested in an aggregate interest of approximately 84.72% of the issued share capital of HCL as at the Latest Practicable Date
“Court”	the Grand Court of the Cayman Islands
“Covite”	Covite Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Darnman”	Darnman Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD

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## SCHEME OF ARRANGEMENT

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“Effective Date”	the date on which this Scheme becomes effective in accordance with Clause 7 of this Scheme
“Excluded Parties”	parties acting in concert with the Offeror Group which as at the Latest Practicable Date comprised Banshing, Covite, Markshing, Gainwise, Darnman, Dr. Lee Shau Kee, Fu Sang, Mr. Lee King Yue, Mr. Lee Tat Man, Mr. Ho Wing Fun, The Hon. Lo Tak Shing, Mr. Leung Sing and HSBC (and members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code), who together were beneficially interested in an aggregate of approximately 1.19% of the issued share capital of HCL as at the Latest Practicable Date
“Felix Technology”	Felix Technology Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Best Selection Investments Limited which in turn is wholly-owned by HIL
“Fu Sang”	Fu Sang Company Limited, a company incorporated in Hong Kong with limited liability
“Gainwise”	Gainwise Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“HCL”	Henderson Cyber Limited, a company incorporated in the Cayman Islands with limited liability
“HIL”	Henderson Investment Limited, a company incorporated in Hong Kong with limited liability
“HKCG”	The Hong Kong and China Gas Company Limited, a company incorporated in Hong Kong with limited liability
“HLD”	Henderson Land Development Company Limited, the controlling shareholder of HIL and a company incorporated in Hong Kong with limited liability
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“holder(s)”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

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## SCHEME OF ARRANGEMENT

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“Latest Practicable Date”	3rd October, 2005 being the latest practicable date prior to the printing of the document sent to, inter alia, holders of Shares dated 6th October, 2005 in which this Scheme is contained
“Markshing”	Markshing Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HLD
“Offeror Group”	HIL and HKCG, through the Controlling Parties, were interested in an aggregate of approximately 84.72% of the issued capital of HCL as at the Latest Practicable Date
“Record Time”	5:00 p.m. Hong Kong time on Thursday, 8th December, 2005 for determining entitlements under this Scheme
“Register”	the register of members of HCL
“Scheme”	this scheme of arrangement under Section 86 of the Companies Law in its present form or with or subject to any modification thereof or addition thereto or condition(s) which the Court may approve or impose
“Scheme Share(s)”	the Shares in issue as at the Record Time other than those beneficially owned by the Controlling Parties
“Scheme Shareholder(s)”	holders of Shares other than the Controlling Parties
“Share(s)”	ordinary shares of HK\$0.10 each in the capital of HCL
“Takeovers Code”	The Code on Takeovers and Mergers
“Technology Capitalization”	Technology Capitalization Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Towngas Investment Company Limited which in turn is wholly-owned by HKCG
“HK\$”	Hong Kong dollars

- (B) HCL was incorporated as an exempted company on 10th January, 2000 in the Cayman Islands under the Companies Law.
- (C) The authorised share capital of HCL as at the Latest Practicable Date was HK\$1,000,000,000 divided into 10,000,000,000 Shares, 5,000,000,000 of which have been issued and were fully paid and the remainder are unissued.
- (D) The primary purpose of this Scheme is to privatise HCL by cancelling and extinguishing on the Effective Date all of the Scheme Shares such that HCL shall, thereafter, be owned as to approximately 78.69% by HIL through Felix Technology and as to approximately 21.31% by HKCG through Technology Capitalization.

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## SCHEME OF ARRANGEMENT

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(E) On the Latest Practicable Date, an aggregate of 4,235,913,616 Shares were legally and beneficially owned by the Controlling Parties and registered as follows:

<b>Name of Controlling Parties</b>	<b>Name of registered holders</b>	<b>Number of Shares</b>
Felix Technology	Felix Technology	3,333,213,616
Technology Capitalization	Technology Capitalization	902,700,000

Each of the Controlling Parties has undertaken that in relation to such Shares in which it is beneficially interested, each of such Shares will remain so registered and beneficially interested until the date on which this Scheme becomes effective, is withdrawn or lapses.

(F) On the Latest Practicable Date, an aggregate of 59,420,173 Shares were beneficially owned by the Excluded Parties and registered as follows:

<b>Name of Excluded Parties</b>	<b>Name of registered holders</b>	<b>Number of Shares</b>
Banshing	Banshing	4,014,271
Covite	Covite	1,816,644
Markshing	Markshing	1,713,527
	Arsenton Nominees Limited	500
Gainwise	Gainwise	838,750
	Superb Nominees Limited	247,500
Darnman	Darnman	174,775
	Superb Nominees Limited	248,436
Lee Shau Kee	Lee Shau Kee	47,414
	HKSCC Nominees Limited	126,438
	Superb Nominees Limited	46
Fu Sang	Fu Sang	28,075
Lee King Yue	Lee King Yue	1,633
	HKSCC Nominees Limited	3,750
Lee Tat Man	Hang Seng (Nominee) Limited	33
Ho Wing Fun	Ho Wing Fun	5
Lo Tak Shing	Lo Tak Shing	51
	HKSCC Nominees Limited	1,970
Leung Sing	HKSCC Nominees Limited	750
HSBC	HKSCC Nominees Limited	50,155,605

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## **SCHEME OF ARRANGEMENT**

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Each of the Excluded Parties, being presumed to be acting in concert with the Offeror Group under the Takeovers Code, has undertaken or confirmed that in relation to such Shares in which each of them is beneficially interested, all such Shares will remain so registered and beneficially interested until the date on which this Scheme becomes effective, is withdrawn or lapses and will procure that such Shares will not be represented or voted at the meeting convened by direction of the Court for the purpose of considering and, if thought fit, approving this Scheme.

- (G) The Scheme involves the cancellation and extinguishment of all of the Scheme Shares on the Effective Date and, in consideration and exchange therefore, the Scheme Shareholders shall be entitled to receive HK\$0.42 for each Scheme Share held by the Scheme Shareholders.
- (H) The Offeror Group and each of the Controlling Parties and the Excluded Parties (other than HSBC and members of the HSBC group which were deemed to be acting in concert with the Offeror Group under the Takeovers Code) have agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme, including without limitation, satisfying their obligations under the Scheme.

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### **THE SCHEME**

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#### **PART I**

##### **Cancellation of the Scheme Shares**

1. On the Effective Date:
  - (a) (i) the issued share capital of HCL shall be reduced by cancelling and extinguishing the Scheme Shares; and
  - (ii) HCL shall apply the amount of credit arising in its books of account as a result of the reduction of its issued share capital referred to in paragraph (a)(i) above to a distributable reserve of HCL; and
  - (b) in consideration of the cancellation and extinguishment of their Scheme Shares, the Scheme Shareholders shall receive HK\$0.42 in cash for every one (1) Scheme Share cancelled and extinguished as aforesaid.

#### **PART II**

##### **Conditions**

2. The Scheme is conditional upon the capital reduction referred to in Clause 1(a) above becoming effective.



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## SCHEME OF ARRANGEMENT

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### PART III

#### General

3. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents of title and every Scheme Shareholder shall be bound on the request of HCL to deliver up to HCL the certificates for his or her existing shareholdings in HCL.
4.
  - (a) Not later than ten days after the Effective Date, the Offeror Group shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at the Record Time), cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 1(b) of this Scheme.
  - (b) Unless indicated otherwise in writing to the branch share registrar of HCL in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint Scheme Shareholders, at the address as appearing on the Register at the Record Time of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.
  - (c) Cheques shall be posted at the risk of the addressees and neither the Offeror Group nor HCL shall be responsible for any loss or delay in transmission.
  - (d) Each such cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 4, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror Group for the monies represented thereby.
  - (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 4, the Offeror Group shall have the right to cancel or countermand payment of any such cheque which has not been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in HIL's name with a licensed bank in Hong Kong selected by HIL. HIL shall hold such monies on trust for those entitled under the terms of this Scheme until the expiration of six years from the Effective Date and shall prior to such date make payments thereof of the sums payable pursuant to Clause 1(b) of this Scheme to persons who satisfy HIL that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 4 of which they are payees have not been cashed. Any payments made by HIL hereunder shall be subject, if applicable, to the deduction of any interest or withholding tax or any other deduction required by law. HIL shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of HIL to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

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## SCHEME OF ARRANGEMENT

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- (f) On the expiration of six years from the Effective Date, the Offeror Group shall be released from any further obligation to make any payments under this Scheme and HIL shall transfer to the Offeror Group the balance (if any), as to approximately 78.69% to HIL and as to approximately 21.31% to HKCG, of the sums standing to the credit of the deposit account referred to in paragraph (e) of this Clause 4 subject, if applicable, to the deduction of interest or any withholding tax or other tax or any other deductions required by law and subject to the deduction of any expenses.
- (g) Paragraph (f) of this Clause 4 shall take effect subject to any prohibition or condition imposed by law.
5. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every Scheme Shareholder of such certificate shall be bound at the request of HCL to deliver up the same to HCL for the cancellation thereof.
6. All mandates or relevant instructions to HCL in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
7. Subject to Clause 2, this Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under Section 86 of the Companies Law shall have been delivered to the Registrar of Companies in the Cayman Islands for registration.
8. Unless this Scheme shall have become effective on or before 28th February, 2006 or such later date, if any, as the Offeror Group and HCL may agree or as the Court on application of the Offeror Group or HCL may allow, this Scheme shall lapse.
9. HCL may consent for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.
10. All costs, charges and expenses of and incidental to this Scheme and the costs of carrying this Scheme into effect will be borne by the Offeror Group.

Date 6th October, 2005

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## **NOTICE OF THE COURT MEETING**

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**IN THE GRAND COURT OF THE CAYMAN ISLANDS  
CAUSE NO. 389 OF 2005**

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**IN THE MATTER OF  
HENDERSON CYBER LIMITED  
and  
IN THE MATTER OF  
SECTION 86 OF THE COMPANIES LAW, CAP. 22 (LAW 3 OF 1961)  
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS**

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### **NOTICE OF MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an order dated 3rd October, 2005 (the "Order") made in the above matters, the Court has directed a meeting (the "Meeting") to be convened of the Scheme Shareholders (as defined in the Scheme hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the "Scheme") proposed to be made between the Company and the Scheme Shareholders and that the Meeting will be held in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 31st October, 2005 at 11:00 a.m. at which place and time all such Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of an explanatory memorandum explaining the effect of the Scheme are incorporated in the composite document of which this Notice forms part. A copy of the said composite document can also be obtained by the Scheme Shareholders from the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Scheme Shareholders may vote in person at the Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed herewith.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the chairman of the Meeting, who has absolute discretion whether or not to accept them, at the Meeting pursuant to the Order.

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## NOTICE OF THE COURT MEETING

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By the Order, the Court has appointed Mr. Leung Yuk Kwong, a director of the Company, or failing him, Mr. Lam, Ko Yin Colin, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the results thereof to the Court.

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court  
**Henderson Cyber Limited**

Dated 6th October, 2005

*Registered Office*  
Scotia Centre, 4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*  
72-76/F., Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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**hendersoncyber**

**Henderson Cyber Limited**

**恒基數碼科技有限公司\***

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

(Stock Code: 8023)

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of Henderson Cyber Limited (the "Company") will be held in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 31st October, 2005 at 11:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme as hereinafter mentioned) convened by direction of the Grand Court of the Cayman Islands for the same place and day shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a Special Resolution:

### **SPECIAL RESOLUTION**

**"THAT:**

- (A) for the purpose of giving effect to the Scheme of Arrangement dated 6th October, 2005 (the "Scheme") between the Company and the Scheme Shareholders (as defined in the Scheme), on the Effective Date (as defined in the Scheme):
- (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares; and
  - (ii) the Company shall apply the amount of credit arising in its books of account as a result of the reduction of its issued share capital referred to in paragraph (i) above to a distributable reserve of the Company;
- (collectively, the "Capital Reduction"); and
- (B) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the Capital Reduction, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme and the Capital Reduction, which the Grand Court of the Cayman Islands may see fit to impose."

By Order of the Board  
**Timon LIU Cheung Yuen**  
*Company Secretary*

Dated 6th October, 2005

\* For identification purpose only

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Registered Office*

Scotia Centre, 4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*

72-76/F., Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

**Notes:**

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the Meeting in person to represent him.
2. A white form of proxy for use at the Meeting is enclosed herewith.
3. In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending the Meeting and voting in person if he so wishes. In the event that a member attends the Meeting after having lodged his form of proxy, his form of proxy will be deemed to have been revoked.
4. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
5. At the Meeting, the chairman of the Meeting will exercise his power under article 66 of the articles of association of the Company to put the above resolution to vote by way of a poll.
6. The register of members of the Company will be closed from Wednesday, 26th October, 2005 to Monday, 31st October, 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 25th October, 2005.



**hendersoncyber**

**Henderson Cyber Limited**

**恒基數碼科技有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 8023)

**IN THE GRAND COURT OF THE CAYMAN ISLANDS  
CAUSE NO. 389 OF 2005**

**IN THE MATTER OF HENDERSON CYBER LIMITED  
AND**

**IN THE MATTER OF SECTION 86 OF THE COMPANIES LAW, CAP. 22 (LAW 3 OF 1961)  
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS**

**FORM OF PROXY**

**FOR THE COURT MEETING CONVENED AT THE DIRECTION OF THE GRAND COURT OF  
THE CAYMAN ISLANDS AT 11:00 A.M. ON 31ST OCTOBER, 2005  
(OR AT ANY ADJOURNMENT THEREOF)**

For use at the meeting (the "Meeting") (or at any adjournment thereof) of the holders of shares of HK\$0.10 each in the capital of Henderson Cyber Limited (the "Company") other than the Controlling Parties (as defined in the Scheme hereinafter defined) (the "Scheme Shareholders")

I/We <sup>(note 1)</sup> \_\_\_\_\_  
of \_\_\_\_\_

being the registered holder(s) of <sup>(note 2)</sup> \_\_\_\_\_ shares of HK\$0.10 each in the capital of the Company

**HEREBY APPOINT** the Chairman of the Meeting or <sup>(note 3)</sup> \_\_\_\_\_  
of \_\_\_\_\_

as my/our proxy to attend and act for me/us and on my/our behalf at the Meeting of the holders of shares of HK\$0.10 each in the capital of the Company convened by direction of the Grand Court of the Cayman Islands (or at any adjournment thereof) to be held in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 31st October, 2005 at 11:00 a.m. (Hong Kong time) for the purpose of considering and, if thought fit, approving, with or without modification(s), the Scheme of Arrangement dated 6th October, 2005 between the Company and the Scheme Shareholders (the "Scheme") as referred to in the notice dated 6th October, 2005 convening the Meeting and at such Meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) for the Scheme (with or without modifications, as my/our proxy may approve) or against the Scheme as hereunder indicated, and if no such indication is given, as my/our proxy thinks fit.

FOR the Scheme <sup>(note 4)</sup>	AGAINST the Scheme <sup>(note 4)</sup>

Dated \_\_\_\_\_

Signature <sup>(note 5)</sup> \_\_\_\_\_

**Notes:**

- Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**.
- Please insert the number of shares of HK\$0.10 each in the capital of the Company registered in your name(s) and to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all of the shares in the capital of the Company registered in your name(s).
- If any proxy other than the Chairman of the Meeting is preferred, strike out the words "the Chairman of the Meeting or" and insert the name and address of the proxy desired in the space provided. The proxy need not be a member of the Company, but must attend the Meeting in person to represent you. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON WHO SIGNS IT.**
- IMPORTANT: IF YOU WISH TO VOTE FOR THE SCHEME, TICK IN THE BOX BELOW THE BOX MARKED "FOR the Scheme". IF YOU WISH TO VOTE AGAINST THE SCHEME, TICK IN THE BOX BELOW THE BOX MARKED "AGAINST the Scheme".** Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any other resolution properly put to the Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised.
- You are requested to lodge this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, with the branch share registrar in Hong Kong of the Company, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding of the Meeting, but if this form of proxy is not so lodged, it may be handed to the Chairman of the Meeting at the Meeting. Completion and return of this form of proxy will not preclude you from attending the Meeting and voting in person if you so wish, but in the event of your attending the Meeting after having lodged this form of proxy, this form of proxy will be deemed to have been revoked.
- In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
- A self-addressed, pre-paid envelope marked "For Return of Court Meeting Proxy Form and/or Extraordinary General Meeting Proxy Form — Henderson Cyber Limited" is enclosed for your convenience for returning by post (from within Hong Kong only) this completed form of proxy.

\* For identification purpose only



**hendersoncyber**

**Henderson Cyber Limited**

**恒基數碼科技有限公司\***

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

(Stock Code: 8023)

**FORM OF PROXY  
FOR THE EXTRAORDINARY GENERAL MEETING ON 31ST OCTOBER, 2005  
(OR AT ANY ADJOURNMENT THEREOF)**

I/We <sup>(note 1)</sup> \_\_\_\_\_

of \_\_\_\_\_

being the registered holder(s) of <sup>(note 2)</sup> \_\_\_\_\_ shares of HK\$0.10 each in the capital of the Company

**HEREBY APPOINT** the Chairman of the Extraordinary General Meeting or <sup>(note 3)</sup> \_\_\_\_\_

of \_\_\_\_\_

as my/our proxy to attend and act for me/us and on my/our behalf at the Extraordinary General Meeting of the holders of shares of HK\$0.10 each in the capital of the Company (or at any adjournment thereof) to be held in Miramar Ballroom, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 31st October, 2005 at 11:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of certain holders of the shares of HK\$0.10 each in the capital of the Company convened by direction of the Grand Court of the Cayman Islands for the same place and day shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the Special Resolution set out in the notice dated 6th October, 2005 convening the Extraordinary General Meeting and at such Extraordinary General Meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Special Resolution as hereunder indicated, and if no such indication is given, as my/our proxy thinks fit.

	<b>FOR</b> <sup>(note 4)</sup>	<b>AGAINST</b> <sup>(note 4)</sup>
<b>Special Resolution</b>		

Dated \_\_\_\_\_

Signature <sup>(note 5)</sup> \_\_\_\_\_

**Notes:**

1. Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares of HK\$0.10 each in the capital of the Company registered in your name(s) and to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all of the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the Extraordinary General Meeting is preferred, strike out the words "the Chairman of the Extraordinary General Meeting or" and insert the name and address of the proxy desired in the space provided. The proxy need not be a member of the Company, but must attend the Extraordinary General Meeting in person to represent you. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR THE SPECIAL RESOLUTION, TICK IN THE BOX BELOW THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE SPECIAL RESOLUTION, TICK IN THE BOX BELOW THE BOX MARKED "AGAINST".** Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any other resolution properly put to the Extraordinary General Meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised.
6. In order to be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the branch share registrar in Hong Kong of the Company, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of this form of proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish, but in the event of your attending the Extraordinary General Meeting after having lodged this form of proxy, this form of proxy will be deemed to have been revoked.
7. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
8. A self-addressed, pre-paid envelope marked "For Return of Court Meeting Proxy Form and/or Extraordinary General Meeting Proxy Form — Henderson Cyber Limited" is enclosed for your convenience for returning by post (from within Hong Kong only) this completed form of proxy.

\* For identification purpose only