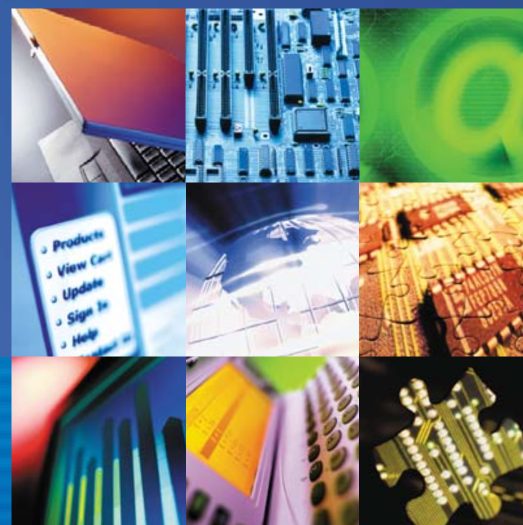
hendersoncyber



# HENDERSON CYBER LIMITED

( Incorporated in the Cayman Islands with limited liability )

# 恒基數碼科技有限公司 *

( 在開曼群島註冊成立的有限公司 )

* 僅供識別

ANNUAL REPORT 年報 2005

## Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange")

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

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

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

## CONTENTS

## Board of Directors

* Dr. Lee Shau Kee, *D.B.A. (Hon.), D.S.Sc. (Hon.), LL.D. (Hon.)*
*Chairman*

* Chan Wing Kin, Alfred, *B.B.S., B. Sc. (Eng), M.Sc. (Eng), C. Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I.*

* Colin Lam Ko Yin, *B.Sc., A.C.I.B., M.B.I.M., F.C.I.L.T.*

* Lee Ka Kit

* Lee Ka Shing

* John Yip Ying Chee, *LL.B., F.C.I.S.*

* Douglas H. Moore, *LL.B.*

\# Dr. The Hon. Sir David Li Kwok Po *G.B.S., O.B.E., Officier de la Legion d'Honneur, M.A., Hon. LL.D. (Cantab), Hon.D.Soc.Sc., F.C.A., F.C.P.A., F.C.P.A.(Aust.), F.C.I.B., F.H.K.I.B., F.B.C.S., C.I.T.P., F.C.I.Arb., J.P.*

\# Professor Ko Ping Keung, *Ph.D., F.I.E.E.E., F.H.K.I.E., J.P.*

△ Woo Ka Biu, Jackson, *M.A.(Oxon)*

\# Leung Yuk Kwong

* *Executive Director*
△ *Non-Executive Director*
\# *Independent Non-Executive Director*

## Company Secretary

Timon Liu Cheung Yuen, *B.Ec., F.C.P.A., C.A. (Aust.), F.C.S., F.C.I.S.*

## Compliance Officer

John Yip Ying Chee, *LL.B., F.C.I.S.*

## Qualified Accountant

Wong Sau Yan, *M.B.A., F.C.C.A., F.C.P.A.*

## Audit Committee

Dr. The Hon. Sir David Li Kwok Po
Professor Ko Ping Keung
Woo Ka Biu, Jackson

## Remuneration Committee

Douglas H. Moore
Dr. The Hon. Sir David Li Kwok Po
Professor Ko Ping Keung

## Registered Office

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

## Head Office and Principal Place of Business

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

Telephone : (852) 2908 8888
Facsimile : (852) 2908 8838
E-Mail : henderson@hld.com
Web-site : www.hendersoncyber.com

## Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House,
Fort Street,
P.O. Box 705,
George Town,
Grand Cayman,
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre,
183 Queen's Road East,
Hong Kong

## Authorised Representatives

Colin Lam Ko Yin
Timon Liu Cheung Yuen

## Auditors

KPMG

## Solicitors

***Cayman Islands Law:***
Conyers Dill & Pearman, Cayman

***Hong Kong Law:***
Woo, Kwan, Lee & Lo

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

I am pleased to present to the Shareholders my report on the operations of the Group.

## Profit & Turnover

The Group recorded turnover of HK$83.8 million for the year ended 30th June, 2005, compared with HK$87.3 million for the previous financial year. The Group's loss attributable to shareholders for the year ended 30th June, 2005 was HK$4.1 million compared with a loss of HK$17.8 million for the previous financial year.

## Dividends

The Board does not recommend the payment of a final dividend.

## Business Review

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

***iCare***

iCare's major achievements during the financial year ended 30th June, 2005 included:

*Internet Access Services:*

Acquisition and retention of Internet Service Provider ("ISP") users (both broadband & narrowband) continued with the support of the following marketing and promotional activities:

- Introduction and promotion of attractive pricing service plans with flexible contracts via magazine advertising, China Gas bill inserts reaching 1.5 million households, POP programs at Towngas Customer Centres and iCare Hotspots and online advertisements.
- Channel partner programs with partners such as Cathay Pacific Hong Kong, BEA Credit Card, HKedCity, and Salvation Army to boost customers.
- Launch of a new value-added service, Fixed IP Address Service.
- On-going retention program via telemarketing to minimize churn.
- Up-selling programs to upgrade narrowband ISP customers and Internet Content Provider ("ICP") users to broadband service.

*International Direct Dialing Services:*

Despite on-going fierce market competition, the number of registered iCare1608 IDD telephone lines reached 358,000 as of 30th June, 2005. Usage was stimulated by the following marketing and promotion activities:

- Broad-based promotion via China Gas 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.
- 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:*

A number of initiatives were undertaken which included:

- iCare, cooperating with Henderson Club, a newly established community with target customers who are residents of properties managed by Henderson 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 China Gas bill inserts.
- Expanding iCare Hotspots to a total of 11 during the financial year ended 30th June, 2005 (as well as continuing to utilize effective sales channels such as the iCare shopping website and customer service hotline), making 4 shops in Kowloon, 3 on Hong Kong Island and 4 in the New Territories. 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.
- Sale of 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.

- Growth of membership base of iCare's frequent shopper club, iCare Club, 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 a total of about 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")***

HDC's major achievements during the financial year ended 30th June, 2005 included:

- Energy Saving Project to obtain significant savings on electricity expense.

- Continued the Internet Transit Service.

- Customer acquisition for data centre services.

- Launched the System Integration Service.

- Launched the Anti-Spam Email Service.

- Joined the partnership program of Microsoft as a registered member.

- Commenced feasibility study on Intelligent Home Service.

- Continued to focus on cost management and efficiency improvement.

- 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.

***Future Home***

Future Home's major achievements during the financial year ended 30th June, 2005 included:

- 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 Henderson Group estates managed by Well Born Real Estate Management Limited.

- Continued development of Contract Management System and Asset Management System for Well Born Real Estate Management Limited.
- Continued network design and server enhancement for one of the Henderson Group estates managed by Well Born Real Estate Management Limited.
- On-going evaluation of hardware component of Home Automation System, Access Control System and Car Park Management System.
- Obtained new maintenance contracts of the Car Park Management System for Henderson 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*

IT Investments reviewed a number of opportunities during the financial year ended 30th June, 2005 but did not proceed with any investments.

## PROSPECTS

The Group will remain cautious in the implementation of its strategies during the financial year ending 30th June, 2006 due to an uncertain outlook for the existing businesses of the Group.

The Internet, telecommunication and high technology industries are dynamic, fast changing, subject to intense competition and may require large capital investments. The Group must be flexible and versatile in order to respond to such changes but must also ensure that such businesses are sustainable and attractive.

The Group will seek to integrate its existing businesses where such integration contributes to a sustainable and attractive business. If the return is too uncertain or distant, integration of the existing businesses will not be an objective.

The Group has been exploring and will continue to explore a range of partnerships and alliances with leading technology companies to accelerate access to technologies and further enhance the relationship with the large customer bases of Henderson Group and China Gas.

The Group, while focused on implementing its strategies in Hong Kong, is also looking to opportunities in other areas of Greater China. The Group will utilize the expertise and connections of Henderson Group and China Gas to accelerate entry to other markets.

***iCare***

iCare aims to become a well-established and widely accepted brand for the distribution of goods, Internet and telecommunication services as follows:

- By continuing to seek growth while achieving satisfactory margins via its website, direct marketing channels and Hotspots, with respect to distribution of goods.
- By continuing to develop market share in broadband services while achieving satisfactory margins and retain ISP customers, with respect to Internet services.
- By seeking to continue the growth of iCare1608, with respect to telecommunication services.
- By selectively expanding the breadth of infotainment and e-commerce offerings on its portal site so as to ensure the rich content and desirable offerings continue in popularity for both STB subscribers and PC users via broadband or the ISP.

We are cautiously optimistic that iCare is well positioned to succeed in establishing itself as a widely accepted brand for the distribution of goods, Internet and telecommunication services.

***HDC***

In light of the challenging operating environment which HDC continues to face, it will continue to optimize the operational efficiency, to develop new services and to explore cost-effective sales channels with respect to the revenue-generation potential.

***Future Home***

Future Home will continue to provide IT infrastructure consolidation and upgrade for companies in the Henderson Group.

Future Home will focus on the development, installation and promotion of the idHOME system, smart card system, car park management systems, estate management system, attendance and access control system and home automation system for Henderson Group developments and is exploring opportunities to provide these systems to other customers.

***IT Investments***

IT Investments will continue to look for sound investment opportunities in companies with attractive valuations, good growth potential, sound management and products or services where there is a synergy with the Group's activities.

**Lee Shau Kee**
*Chairman*

Hong Kong, 16th September, 2005

The following comments should be read in conjunction with the Audited Accounts of Henderson Cyber Limited and their accompanying notes.

***Liquidity, financial resources and capital structure***

As at 30th June, 2005, shareholder's funds of the Group amounted to HK$755.9 million, representing a slight decrease from the corresponding figure recorded as at 30th June, 2004, after accounting for HK$4.1 million in loss attributable to shareholders that was incurred during the financial year under review.

As at the end of June, 2005, current assets of the Group amounted to HK$687.6 million which was mainly represented by HK$674.5 million in cash holdings. The Group's other current assets recorded as at 30th June, 2005 comprised HK$2.8 million in inventories and HK$10.3 million in accounts receivable, deposits and prepayments, showing respective decrease of 30.9% and 36.1% when compared to the levels recorded as at the end of June, 2004. Current liabilities of the Group amounted to HK$10.5 million as at 30th June, 2005, representing a decrease of 13.3% as compared to the level recorded as at the end of June, 2004, mainly as a result of a 15.1% reduction in accounts payable and accrued expenses. The Group maintained a financially liquid position with net current assets recorded at HK$677.1 million as at 30th June, 2005, showing a slight increase when compared to that recorded as at the end of previous financial year. In addition, the Group still held HK$11.5 million in investment-grade debt securities with remaining life to maturity longer than one year as at 30th June, 2005.

***Significant investments***

Investment-grade debt securities were held by the Group mainly for the purpose of enhancing treasury investment yield. As some of the debt securities matured during the financial year under review, debt securities amounted to HK$11.5 million as at 30th June, 2005, representing a decrease of 78.3% as compared to that recorded as at 30th June, 2004. Other than the above-mentioned investments, the Group did not make other investments in any significant amount during the financial year under review.

***Material acquisitions and disposals of subsidiaries and affiliated companies***

The Group had not made any significant acquisitions or disposals of subsidiaries and affiliated companies during the financial year under review.

***Segmental information***

*Business Turnover*

For the year ended 30th June, 2005, total turnover of the Group amounted to approximately HK$83.8 million, representing a decrease of 4.0% as compared to HK$87.3 million that was recorded in the previous financial year. Approximately HK$79.1 million was generated from the Retailing segment operated through iCare and this showed a decrease of 5.1% from that recorded in the previous financial year generated from the same segment. Turnover of the Business Services segment increased by 17.6% to around HK$2.7 million during the financial year under review as compared to that registered in the previous financial year. Turnover of the Building System Services segment also increased by 17.3% to HK$2.1 million for the current financial year as compared to that shown in the previous financial year.

*Operating Results*

For the financial year under review, the loss attributable to shareholders of the Group was recorded at approximately HK$4.1 million, representing a 77.0% decrease as compared with the corresponding loss figure of HK$17.8 million shown in the previous financial year. The loss attributable to shareholders was mainly attributable to a loss of HK$4.1 million from operations, compared with HK$20.4 million in loss from operations registered in the previous financial year.

The segmental results which were mainly accounted for by the Group's Retailing segment, Business Services segment and Building System Services segment totally amounted to a consolidated loss of HK$17.6 million for the financial year under review, representing a decrease of 37.3% as compared to the corresponding consolidated loss figure of HK$28.1 million registered in the previous financial year. For each of the Retailing, Business Services, and Building System Services segments, segmental results were recorded at a loss of HK$8.5 million, a loss of HK$7.9 million, and a loss of HK$1.4 million respectively during the financial year under review. Direct costs and operating expenses of HK$79.1 million were recorded in the financial year under review and showed a decrease of 15.3% as compared to the corresponding figure registered in the previous financial year. Interest income from held-to-maturity securities and bank deposits were recorded at HK$15.3 million, showed an increase of 123.2% as compared to that registered in the previous financial year. Selling, distribution and administrative costs were recorded at HK$26.3 million in the financial year under review, showing an increase of 1.0% compared to the corresponding figure of HK$26.0 million registered in the previous financial year.

### *Employees*

The number of employees of the Group decreased to 103 as at 30th June, 2005 as compared to 111 recorded as at 30th June, 2004. The staff cost incurred in the current financial year decreased by 22.0% to HK$20.7 million as compared with HK$26.5 million incurred in the previous financial year, as a result of the Group's continuous effort in controlling its operating expenses. Remuneration of employees was generally in line with the market trend and commensurable to the level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. Other benefits to the Group's employees include medical insurance, retirement schemes, training programmes and educational subsidies.

### *Charges on group assets*

The assets of the Group had not been charged to any third parties for the financial year under review.

### *Future plans for material investments or capital assets*

Capital commitments of the Group was recorded at HK$0.27 million as at the end of the financial year under review representing a reduction of 68.4% as compared to the corresponding figure of HK$0.85 million registered as at 30th June, 2004.

### *Gearing ratio*

The Group recorded bank borrowings of HK$0.2 million as at 30th June, 2005, which was unsecured and repayable on demand, compared to cash holdings of HK$674.5 million. The gearing ratio of the Group which is expressed as the ratio of total net bank borrowings to shareholders' fund remained at zero, being the same as that recorded as at 30th June, 2004.

### *Exposure to fluctuations in exchange and related hedges*

The core operations of the Group remain to be not exposed to any significant foreign exchange risks. The HK$11.5 million investment-grade debt securities and an equivalent of approximately HK$647.1 million in bank deposits held by the Group as at 30th June, 2005 are denominated in U.S. Dollars and no arrangement has been made to hedge the associated exchange rate risks.

*Contingent liabilities*

As at the end of the financial year under review, contingent liabilities of the Group amounted to HK$0.7 million which was composed of guarantees given by the Group to banks in respect of banking facilities extended to certain subsidiaries of the Group. Such figure was maintained at a level that represented a 41.4% decrease to the corresponding figure that was registered as at 30th June, 2004.

The Group will continue to monitor its capital expenditure prudently while constantly seeking more cost effective capital investment plans. The financial resources in hand are adequate to meet the operational and capital expenditure needs of the Group and external resources of financing will not be required.

The Directors have pleasure in submitting to shareholders their annual report together with the audited accounts for the year ended 30th June, 2005.

## Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were Internet services, telecommunications services, merchandising services, data centre services, intelligent building services and IT investments.

An analysis of the Group's segmental information by business during the year is set out in note 12 to the accounts on pages 55 and 56.

No geographical analysis is shown as the activities of the Group during the year were mainly carried out in Hong Kong.

## Subsidiaries

Particulars of the principal subsidiaries of the Company as at 30th June, 2005 are set out on page 69.

## Results

Details of the Group's results for the year ended 30th June, 2005 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 35 to 70.

## Dividends

The Directors do not recommend the payment of a final dividend for the year ended 30th June, 2005.

## Charitable Donations

The Group made no charitable donations during the year (2004: HK$1,000).

## Fixed Assets

Particulars of the movements in fixed assets during the year are set out in note 13 to the accounts on pages 57 and 58.

## Bank Loans, Overdrafts and Other Borrowings

The Group's bank overdraft as at 30th June, 2005 was unsecured and repayable on demand, the particulars of which are set out in note 20 to the accounts on page 62.

## Interest Capitalised

No interest was capitalised by the Group for the year ended 30th June, 2005.

## Reserves

Particulars of the movements in the reserves of the Group and the Company for the year ended 30th June, 2005 are set out in note 23 to the accounts on pages 64 and 65.

## Share Capital

Details of the share capital of the Company are set out in note 22 to the accounts on page 63.

## Use of Proceeds of IPO

Of the total net proceeds of approximately HK$894 million raised from the initial public offering on 14th July, 2000, approximately HK$207.5 million had been used up to 30th June, 2004. During the year ended 30th June, 2005, further amount of HK$1.4 million and HK$1.9 million were used for iCare hardware and software respectively, and HK$1.5 million was used for iCare advertising. The amount unutilised as at 30th June, 2005 was HK$681.7 million, included in net bank balances of HK$674.3 million and investment in debt securities of HK$11.5 million.

## Group Financial Summary

The results, assets and liabilities of the Group for the last five years are summarized on page 71.

## Directors' Remuneration

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited are set out in note 7 to the accounts on page 53. The Directors' fees shall be subject to shareholders' approval at general meetings. Other remuneration shall from time to time determined by the Board of Directors by reference to their duties and responsibilities.

## Directors

The Directors of the Company during the financial year and up to the date of this report were:

***Executive Directors:***

Dr. Lee Shau Kee *(Chairman)*

Chan Wing Kin, Alfred

Lam Ko Yin, Colin

Lee Ka Kit

Lee Ka Shing

Yip Ying Chee, John

Douglas H. Moore

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

Dr. The Hon. Sir David Li Kwok Po

Professor Ko Ping Keung

Leung Yuk Kwong
*(appointed on 29th November, 2004)*

***Non-executive Director:***

Woo Ka Biu, Jackson
*(re-designated as non-executive director on 29th November, 2004)*

Mr. Leung Yuk Kwong shall retire at the forthcoming annual general meeting in accordance with Article 86(3) of the Company's Articles of Association and, being eligible, offer himself for re-election.

Mr. Lee Ka Kit, Mr. Yip Ying Chee, John and Mr. Woo Ka Biu, Jackson retire by rotation at the forthcoming annual general meeting in accordance with Article 87(1) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

The Company has received confirmation of independence from Dr. The Hon. Sir David Li Kwok Po, Professor Ko Ping Keung and Mr. Leung Yuk Kwong and considers them to be independent.

## Biographical Details of Directors and Senior Management

### *Executive Directors*

**Dr. LEE Shau Kee,** *D.B.A.(Hon.), D.S.Sc.(Hon.), LL.D.(Hon.)*, aged 76, father of Mr. Lee Ka Kit and Mr. Lee Ka Shing. Dr. Lee has been the Chairman of Henderson Land Development Company Limited ("HL") since 1976 and the Chairman of Henderson Investment Limited ("HI") since 1975. He was appointed a Director of the Company in April, 2000. He is also the Chairman of The Hong Kong and China Gas Company Limited ("China Gas") and Miramar Hotel and Investment Company, Limited, the Vice Chairman of Sun Hung Kai Properties Limited as well as a director of Hong Kong Ferry (Holdings) Company Limited and The Bank of East Asia, Limited. Dr. Lee is a director of Henderson Development Limited, HL, HI and China Gas which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**CHAN Wing Kin, Alfred,** *B.B.S., B.Sc.(Eng), M.Sc.(Eng), C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I.*, aged 54. Mr. Chan joined The Hong Kong and China Gas Company Limited ("China Gas") in 1992 as General Manager – Marketing and was appointed as General Manager – Marketing & Customer Service in 1995. He was appointed to the Board of Directors of China Gas in January, 1997 and as Managing Director in May, 1997. He was appointed a Director of the Company in January, 2000. He holds a B.Sc. (Eng) degree and a M.Sc. (Eng) degree from the University of Hong Kong. He was awarded the Bronze Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2005. He is a director of China Gas, Towngas Investment Company Limited and Technology Capitalization Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**LAM Ko Yin, Colin,** *B.Sc., A.C.I.B., M.B.I.M., F.C.I.L.T.*, aged 54. Mr. Lam joined Henderson Land Development Company Limited ("HL") in 1982 and has been an Executive Director since 1985 and Vice Chairman since 1993. He has also been an Executive Director of Henderson Investment Limited ("HI") since 1988 and Vice Chairman since 1993. He was appointed a Director of the Company in April, 2000 and has been involved in the business of the Group since 1998. He holds a B.Sc. (Honours) degree from the University of Hong Kong and has over 32 years' experience in banking and property development. He is also the Chairman of Hong Kong Ferry (Holdings) Company Limited and a director of The Hong Kong and China Gas Company Limited ("China Gas") and Miramar Hotel and Investment Company, Limited. Mr. Lam was appointed a Director of The University of Hong Kong Foundation for Educational Development and Research Limited in October, 2003. Mr. Lam is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development

Limited, HL, HI, China Gas, Best Selection Investments Limited and Felix Technology Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**LEE Ka Kit,** aged 42, National Committee Member of the Political Consultative Conference, PRC., son of Dr. Lee Shau Kee and brother of Mr. Lee Ka Shing. Mr. Lee has been an Executive Director of Henderson Land Development Company Limited ("HL") since 1985 and Vice Chairman since 1993. He has also been an Executive Director and Vice Chairman of Henderson Investment Limited ("HI") since 1993. He was appointed a Director of the Company in April, 2000. Educated in the United Kingdom, Mr. Lee is also the Chairman and President of Henderson China Holdings Limited as well as a director of The Hong Kong and China Gas Company Limited ("China Gas"). He is a director of Henderson Development Limited, HL, HI and China Gas which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**LEE Ka Shing,** aged 34, a Committee Member of the 9th Guangxi Zhuangzu Zizhiqu Committee and of the 9th Foshan Committee of Political Consultative Conference, PRC., son of Dr. Lee Shau Kee and brother of Mr. Lee Ka Kit. Mr. Lee has been an Executive Director of Henderson Land Development Company Limited ("HL") and Henderson Investment Limited ("HI") since 1993 and Vice Chairman since 2005. He was educated in Canada. He is also a director of The Hong Kong and China Gas Company Limited ("China Gas") and Miramar Hotel and Investment Company, Limited. He was appointed a Director of the Company in April, 2000. Mr. Lee is a director of Henderson Development Limited, HL, HI, China Gas, Best Selection Investments Limited and Felix Technology Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**YIP Ying Chee, John,** *LL.B., F.C.I.S.,* aged 56, has been an Executive Director of Henderson Land Development Company Limited ("HL") since 1997. He was appointed a Director of the Company in April, 2000 and has been involved in the business of the Group since early 1998. He graduated from the University of Hong Kong and the London School of Economics and is a solicitor and a certified public accountant. He has over 25 years' experience in corporate finance, and corporate and investment management. Mr. Yip is a director of HL which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**Douglas H. MOORE,** *LL.B.,* aged 47, Chief Executive Officer of the Company. He was appointed a Director of the Company in May, 2001. Prior to joining the Company in April, 2000, Mr. Moore was a director of Credit Suisse Investment Advisory (Hong Kong) Limited, a subsidiary of Credit Suisse Group-Zurich where he worked for six years as head of the Hong Kong market. He practised international taxation law for 10 years before joining Credit Suisse and has extensive experience in finance, management, high technology and strategic planning.

### *Independent Non-Executive Directors*

**Dr. The Hon. Sir David LI Kwok Po,** *G.B.S., O.B.E., Officier de la Légion d'Honneur, M.A., Hon. LL.D. (Cantab), Hon. D.Soc.Sc., F.C.A., F.C.P.A., F.C.P.A. (Aust.), F.C.I.B., F.H.K.I.B., F.B.C.S., C.I.T.P., F.C.I.Arb., J.P.,* aged 66. Sir David was appointed to the Board of Directors of The Hong Kong and China Gas Company Limited ("China Gas") in 1984. He was appointed a Director of the Company in April, 2000. He is the Chairman and Chief Executive of The Bank of East Asia, Limited, Chairman of The Chinese Banks' Association, Limited and Chairman of the Hong Kong Management Association. Sir David is also a director of PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and The Hongkong and Shanghai Hotels, Limited. He is currently a member of the Banking Advisory Committee and the Exchange Fund Advisory Committee. Sir David is an independent non-executive director of China Gas which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**Professor KO Ping Keung,** *Ph.D., F.I.E.E.E., F.H.K.I.E., J.P.,* aged 54. Professor Ko holds a Bachelor of Science (Honours) degree from the University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Adjunct Professor of University of California at Berkeley and Beijing University and Professor of Electrical & Electronic Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the Vice Chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley in 1991 – 1993 and a member of Technical staff, Bell Labs, Holmdel, in 1982 – 1984. He was appointed a Director of the Company in April, 2000. Professor Ko is an independent non-executive director of Henderson Land Development Company Limited and Henderson Investment Limited, which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is also a director of Cycom Technology Limited.

**LEUNG Yuk Kwong,** aged 51, has been an Independent Non-executive Director of the Company since 29th November, 2004. He is also an independent non-executive director of Henderson China Holdings Limited. He graduated from the School of Business of Hong Kong Baptist University and has 25 years' experience in property development, finance and investment.

### *Non-Executive Director*

**WOO Ka Biu, Jackson,** *M.A.(Oxon),* aged 44, was appointed an Independent Non-executive Director of the Company in September, 2002 and was re-designated as Non-executive Director of the Company on 29th November, 2004. He is a director of Kailey Group of Companies. He holds a MA degree in Jurisprudence from the Oxford University and is a qualified solicitor in England and Wales, Hong Kong Special Administrative Region and Australia. He was a director of N. M. Rothschild & Sons (Hong Kong) Limited ("Rothschild"). Prior to joining Rothschild, Mr. Woo was a partner in the corporate finance department of

Woo, Kwan, Lee & Lo. Mr. Woo is the son of Sir Po-shing Woo. Since July, 2000, he has been an alternate director to Sir Po-shing Woo, a non-executive director for both Henderson Land Development Company Limited and Henderson Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

*Senior Management*

**LEE Wai Kwong, Sunny,** *M.Sc., M.Eng., M.B.C.S., C.Eng., M.H.K.C.S.,* aged 46, Chief Executive Officer and Director of iCare.com Limited ("iCare"). Mr. Lee holds a Bachelor and Master Degree in Operations Research and Industrial Engineering from Cornell University, USA. Prior to joining The Hong Kong and China Gas Company Limited in 1996, Mr. Lee was the Vice President and Systems Director of Bank of America in Hong Kong, where he played a key role in building the IT capabilities to support the expansion of the bank's retail banking business in Asia. Before returning to Hong Kong in 1990, Mr. Lee held various key positions in financial, management consulting and manufacturing companies in the USA. He has extensive experience in IT transformation, business process re-engineering, organisation change management, product marketing and management consulting. Mr. Lee was recognised as one of Hong Kong's "Ten Outstanding Young Digi Persons" in 1999. He joined iCare in December, 1999.

**CHEONG Kam Fai, Ricky,** *B.Sc., M.B.A.,* aged 39, Chief Executive Officer of Henderson Data Centre Limited. Mr. Cheong holds a Bachelor Degree in Applied Computing and Master Degree of Business Administration. He has 20 years' experience in the IT industry of telecommunication and Internet sector in Canada and Hong Kong. Mr. Cheong worked for the group since November, 2000.

**LAI Man Kwong, Patrick,** aged 42, Manager of Future Home Limited ("Future Home"). Mr. Lai graduated from the Lingnan College and possesses an Honour Diploma of Computer Studies. He has 18 years' experience in Management Information Systems and the IT industry. Mr. Lai joined the Henderson Group in 1989 and has been actively involved in the development of web applications and the design of network infrastructure. He was appointed Manager of Future Home in March, 2000.

**LEE Wai Sheung, Violet,** *B.A., M.Sc. (Finance),* aged 43, Chief Business Strategist of Henderson Cyber. Ms. Lee holds a Bachelor Degree from University of Toronto, Canada and a Master Degree in Finance from Golden Gate University, USA. Prior to joining the Henderson Group in September, 2000, Ms. Lee was a partner of Aristo Investment Group, San Francisco, where she contributed extensively to the strategic growth of the partnership. Before joining Aristo Investment Group, Ms. Lee was a director of Cadysis Corp, San Jose, which specialised in artificial intelligence solutions for Computer Aided Design/Computer Aided Engineering applications. Ms. Lee has extensive experience in areas of investment, finance, high technology, and strategic planning.

**KUM Tak Cheung, Bassanio,** aged 41, Deputy Manager of Future Home Limited ("Future Home"). Mr. Kum holds an Advanced Diploma in Computer Studies and International Higher Diploma in Computer Studies. He has 21 years' experience in software development and system integration, specialising in security control, multimedia, telecommunications and web application. He joined the Henderson Group in 1994. He was appointed Deputy Manager of Future Home in March, 2000.

**AU Tit Ying,** *B.Sc.,* aged 55. Mr. Au holds a Bachelor of Science degree in Pure Mathematics and a Graduate Diploma in Information Systems and has 33 years' IT experience. He started his career with a software company and then spent five years in Cathay Pacific Airways Ltd., followed by eight years with Cable & Wireless HKT, where he led the Engineering Computer Application Group. He joined the Hong Kong Jockey Club in 1994 as Micro Processor Systems Manager and joined the Henderson Group in 1996 as EDP Manager. He was appointed a Director of Future Home Limited in April, 2000.

**TAM Ka Wa, Kelvin,** *B.Sc.(Eng), M.B.A., C.Eng., C.P.Eng., R.P.E., F.I.E.E., F.C.I.B.S.E., F.H.K.I.E., F.I.E. Aust.,* aged 57. Mr. Tam has over 35 years of practical experience in electrical and mechanical engineering. Prior to joining the Henderson Group in 1999, he held senior executive positions in various organisations including Group Chief Engineer of Miramar Hotel and Investment Co., Ltd., Managing Director of Kelvin Tam & Associates Ltd., Director of Bylander Meinhardt Partnership Consulting Engineers, as well as senior posts in Ryoden Engineering Co. Ltd., Associated Consulting Engineers and China Light & Power Co. Ltd. Mr. Tam was appointed a Director of Henderson Data Centre Limited in April, 2000.

**FOK Man Kin, Simon,** *B.A.A.S.(Hons)(HK), B.Arch.(HK)., H.K.I.A., R.I.B.A., Registered Architect,* aged 44, Director of Henderson Data Centre Limited ("HDC"). After graduation from the University of Hong Kong with a Bachelor degree in Architecture in 1985, Mr. Fok worked in private architectural practice as an architect. He joined Henderson Land Development Company Limited in 1992, where he has held the positions of Architect and Deputy General Manager of the Project Management Department. He has extensive experience in managing property development and carried out and completed the fitting out works for the data centre at Well Tech Centre. Mr. Fok was appointed a Director of HDC in April, 2000.

**CHAN Tat Hung, Ronald,** *F.C.P.A., F.C.C.A., F.C.M.A., F.C.P.A.(Aust.), F.C.I.S., M.H.K.S.I.,* aged 61. Mr. Chan joined The Hong Kong and China Gas Company Limited ("China Gas") as Chief Accountant in 1973. He was promoted to Financial Controller and Company Secretary in 1980 and was appointed to the Board of Directors of China Gas as Finance Director in 1988 and as Executive Director of China Gas in 1995. He has more than 35 years' experience in the utilities businesses and finance in Hong Kong and was appointed a Director of iCare.com Limited in November, 1999.

**KWAN Yuk Choi, James,** *B.Sc.(Eng), M.B.A., C.Eng., F.IGEM., F.H.K.I.E., F.E.I., F.C.I.B.S.E., F.I.Mech.E.,* aged 54, Director of iCare.com Limited ("iCare"). Mr. Kwan joined the Engineering Division of The Hong Kong and China Gas Company Limited ("China Gas") in 1975 and was appointed to the Board of Directors of China Gas in January, 1997. He has been involved in setting up the marketing and customer service departments of iCare and was appointed a Director of iCare in November, 1999. Mr. Kwan was elected the President of the Institution of Gas Engineers, UK, in May, 2000 and the President of the Hong Kong Institute of Engineers in June, 2004.

**KWOK Ping Ho, Patrick,** *B.Sc., M.Sc., Post-Graduate Diploma in Surveying, A.C.I.B.,* aged 53, holds the directorship of Henderson Land Development Company Limited, Henderson Investment Limited and Henderson China Holdings Limited. His academic qualifications include a B.Sc. (Engineering) degree as well as a M.Sc. (Administrative Sciences) degree and he is also a holder of the Post-Graduate Diploma in Surveying (Real Estate Development). Also, Mr. Kwok is an Associate Member of The Chartered Institute of Bankers of the United Kingdom and he has previously worked in the banking industry for more than 11 years with postings in London, Chicago, Kuala Lumpur, Singapore as well as in Hong Kong. He joined the Henderson Land group of companies in 1987.

**WONG Sau Yan,** *M.B.A., F.C.C.A., F.C.P.A.,* aged 45, joined the Henderson Land Group in 1988 and was appointed Qualified Accountant of the Company in April, 2000. She holds a Master Degree in Business Administration from Heriot-Watt University in UK. She is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. She has over 20 years' experience in accounting and auditing.

## Disclosure of Interests

### *Directors' Interests in Shares*

As at 30th June, 2005, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the GEM Listing Rules were as follows:

**Ordinary Shares** *(unless otherwise specified)*

*Long Positions*

| Name of Company | Name of Director | Note | Personal Interests | Family Interests | Corporate Interests | Other Interests | Total | % Interest |
|---|---|---|---|---|---|---|---|---|
| Henderson Cyber Limited | Lee Shau 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 |
| | Lam Ko Yin, Colin | 2 | 55 | | | | 55 | 0.00 |
| Henderson Land Development Company Limited | Lee Shau Kee | 3 | | | 1,122,938,300 | | 1,122,938,300 | 61.88 |
| | Lee Ka Kit | 3 | | | | 1,122,938,300 | 1,122,938,300 | 61.88 |
| | Lee Ka Shing | 3 | | | | 1,122,938,300 | 1,122,938,300 | 61.88 |
| | Woo Ka Biu, Jackson | 4 | | 2,000 | | | 2,000 | 0.00 |
| | Chan Wing Kin, Alfred | 5 | 32,000 | | | | 32,000 | 0.00 |
| Henderson Investment Limited | Lee Shau Kee | 6 | 34,779,936 | | 2,075,859,007 | | 2,110,638,943 | 74.92 |
| | Lee Ka Kit | 6 | | | | 2,075,859,007 | 2,075,859,007 | 73.68 |
| | Lee Ka Shing | 6 | | | | 2,075,859,007 | 2,075,859,007 | 73.68 |
| | Leung Yuk Kwong | 7 | 310 | | | | 310 | 0.00 |
| Henderson China Holdings Limited # | Lee Shau Kee | 8 | | | 325,133,977 | | 325,133,977 | 65.32 |
| | Lee Ka Kit | 8 | | | | 325,133,977 | 325,133,977 | 65.32 |
| | Lee Ka Shing | 8 | | | | 325,133,977 | 325,133,977 | 65.32 |
| | Woo Ka Biu, Jackson | 9 | 544,802 | | | | 544,802 | 0.11 |

# Henderson China Holdings Limited was privatised by and became a wholly-owned subsidiary of Henderson Land Development Company Limited on 15th August, 2005.

## Ordinary Shares *(unless otherwise specified)* (cont'd)

*Long Positions*

| Name of Company | Name of Director | Note | Personal Interests | Family Interests | Corporate Interests | Other Interests | Total | % Interest |
|---|---|---|---|---|---|---|---|---|
| Henderson Development Limited | Lee Shau Kee | 10 | | | 8,190 (Ordinary A Shares) | | 8,190 (Ordinary A Shares) | 100.00 |
| | Lee Shau Kee | 11 | | | 3,510 (Non-voting B Shares) | | 3,510 (Non-voting B Shares) | 100.00 |
| | Lee Shau Kee | 12 | 35,000,000 (Non-voting Deferred Shares) | | 15,000,000 (Non-voting Deferred Shares) | | 50,000,000 (Non-voting Deferred Shares) | 100.00 |
| | Lee Ka Kit | 10 | | | | 8,190 (Ordinary A Shares) | 8,190 (Ordinary A Shares) | 100.00 |
| | Lee Ka Kit | 11 | | | | 3,510 (Non-voting B Shares) | 3,510 (Non-voting B Shares) | 100.00 |
| | Lee Ka Kit | 12 | | | | 15,000,000 (Non-voting Deferred Shares) | 15,000,000 (Non-voting Deferred Shares) | 30.00 |
| | Lee Ka Shing | 10 | | | | 8,190 (Ordinary A Shares) | 8,190 (Ordinary A Shares) | 100.00 |
| | Lee Ka Shing | 11 | | | | 3,510 (Non-voting B Shares) | 3,510 (Non-voting B Shares) | 100.00 |
| | Lee Ka Shing | 12 | | | | 15,000,000 (Non-voting Deferred Shares) | 15,000,000 (Non-voting Deferred Shares) | 30.00 |
| China Investment Group Limited | Woo Ka Biu, Jackson | 13 | | | 16,000 | | 16,000 | 5.33 |
| Henfield Properties Limited | Lee Ka Kit | 14 | | | 4,000 | 6,000 | 10,000 | 100.00 |
| Heyield Estate Limited | Lee Shau Kee | 15 | | | 100 | | 100 | 100.00 |
| | Lee Ka Kit | 15 | | | | 100 | 100 | 100.00 |
| | Lee Ka Shing | 15 | | | | 100 | 100 | 100.00 |
| Pettystar Investment Limited | Lee Shau Kee | 16 | | | 3,240 | | 3,240 | 80.00 |
| | Lee Ka Kit | 16 | | | | 3,240 | 3,240 | 80.00 |
| | Lee Ka Shing | 16 | | | | 3,240 | 3,240 | 80.00 |
| Shellson International Limited | Lee Ka Kit | 17 | | | 25 | 75 | 100 | 100.00 |

Save as disclosed above, none of the Directors or Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

## Share Option Schemes

On 28th June, 2000, the shareholders of the Company approved the Pre-IPO Share Option Plan ("Option Plan") and the Share Option Scheme (collectively referred to as the "Schemes"). A summary of the Schemes is as below:

***(1) Purpose***

The purpose of the Option Plan is to recognise the contribution of the participants of the Option Plan to the growth of the Group and/or to the listing of shares of the Company ("Shares") on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The purpose of the Share Option Scheme is to assist in the recruitment and retention of high calibre executives and employees by providing them with incentives of share options.

***(2) Participants***

Options to subscribe for 32,000,000 Shares under the Option Plan were granted on 28th June, 2000, immediately prior to the listing of the Shares on GEM on 14th July, 2000 ("IPO Date").

The Company may grant options to subscribe for Shares under the Share Option Scheme to any executive directors and full time employees of the Group.

***(3) Maximum number of Shares available for subscription***

Pursuant to the Option Plan, options to subscribe for the maximum number of 32,000,000 Shares were granted and all options had lapsed. No further options may be granted under the Option Plan after the IPO Date.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 30 per cent. of the total number of Shares in issue from time to time (excluding (i) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)).

***(4) Maximum entitlement of each participant***

Pursuant to the Schemes, no participant may be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25 per cent. of the aggregate number of Shares for the time being issued and issuable under the Schemes.

***(5) Minimum and maximum periods for the exercise of options***

Pursuant to the Schemes, an option may be exercised in accordance with the terms of the respective Schemes at any time during such period or periods to be notified by the Board of Directors of the Company to each grantee provided that the period within which the option may be exercised shall be not less than 3 years and not more than 10 years from the date on which an offer of the grant of the option ("Offer Date") is accepted.

***(6) Payment on acceptance of option***

Pursuant to the Schemes, HK$1.00 is payable to the Company by the grantee on acceptance of the grant of an option within 28 days from the Offer Date.

***(7) Basis of determining the subscription price***

The subscription price per Share under the Option Plan is HK$1.25, being the price per Share at which the Shares were offered for subscription by the public at the initial public offering of the Shares.

The subscription price per Share under the Share Option Scheme is determined by the Board of Directors of the Company and shall be the highest of:

(i) the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the Offer Date, which must be a business day;

(ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of a Share.

***(8) Remaining life of the Schemes***

No further options shall be granted under the Option Plan after the IPO Date. Share options granted under the Option Plan on or prior to the IPO Date lapsed on 14th July, 2004.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 28th June, 2000. No further options shall be granted under the revised Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. All share options granted under the Share Option Scheme had lapsed.

## Arrangements to Purchase Shares or Debentures

### (i) Options to subscribe for shares in the Company

The following were the particulars of share options of the following Directors of the Company which were granted on 28th June, 2000 at the consideration of HK$1.00 for each grant of options under the Pre-IPO Share Option Plan of the Company (the "Option Plan"):

| Name of Director | Number of share options at 1st July, 2004 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Number of share options outstanding at 30th June, 2005 |
|---|---|---|---|---|---|
| Dr. Lee Shau Kee | 2,400,000 | — | — | 2,400,000 | — |
| Chan Wing Kin, Alfred | 1,200,000 | — | — | 1,200,000 | — |
| Lam Ko Yin, Colin | 1,200,000 | — | — | 1,200,000 | — |
| Lee Ka Kit | 1,200,000 | — | — | 1,200,000 | — |
| Lee Ka Shing | 1,200,000 | — | — | 1,200,000 | — |
| Yip Ying Chee, John | 1,200,000 | — | — | 1,200,000 | — |
| Dr. The Hon. Sir David Li Kwok Po | 1,200,000 | — | — | 1,200,000 | — |
| Professor Ko Ping Keung | 1,200,000 | — | — | 1,200,000 | — |
| Douglas H. Moore | 1,200,000 | — | — | 1,200,000 | — |

The following were the particulars of share options of four employees of the Company at the consideration of HK$1.00 for each grant of options under the Option Plan:

| Date of Grant | Aggregate number of share options at 1st July, 2004 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Aggregate number of share options outstanding at 30th June, 2005 |
|---|---|---|---|---|---|
| 28/06/2000 | 1,850,000 | — | — | 1,850,000 | — |

The following were the particulars of share options of thirty nine other participants under the Option Plan:

| Date of Grant | Aggregate number of share options at 1st July, 2004 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Aggregate number of share options outstanding at 30th June, 2005 |
|---|---|---|---|---|---|
| 28/06/2000 | 13,650,000 | — | — | 13,650,000 | — |

Subject to the terms and conditions of the Option Plan, each of the above Directors, employees and other participants was entitled to exercise at the price of HK$1.25 per share (i) 30 per cent. of the share options so granted at any time after the expiry of 12 months from 14th July, 2000, (ii) a further 30 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 to the aforesaid Directors, employees and other participants of the Company under the Option Plan lapsed on 14th July, 2004.

The following were particulars of share options of the employee of the Company under the Share Option Scheme of the Company (the "Share Option Scheme"):

| Date of Grant | Aggregate number of share options at 1st July, 2004 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Aggregate number of share options outstanding at 30th June, 2005 |
|---|---|---|---|---|---|
| 04/10/2000 | 100,000 | — | — | 100,000 | — |

Subject to the terms and conditions of the Share Option Scheme, the employee of the Company was entitled to exercise at the price of HK$0.89 per share (i) 30 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 30 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. Share options granted to the aforesaid employee of the Company under the Share Option Scheme lapsed on 30th September, 2004.

As at 30th June, 2005, there were no outstanding share options under the Option Plan and the Share Option Scheme.

Save as disclosed above, no share options under the Option Plan and the Share Option Scheme had been granted, exercised, cancelled or lapsed during the year ended 30th June, 2005.

*(ii) Options to subscribe for shares in associated corporation*

The following Directors of the Company had interests in options to subscribe for shares in Henderson China Holdings Limited, an associated corporation of the Company:

| Name of Director | Number of share options | Exercisable Period |
|---|---|---|
| Lam Ko Yin, Colin | 1,500,000 | 21/08/2001 – 20/08/2004 |
| Lee Ka Kit | 1,500,000 | 02/11/2001 – 01/11/2004 |

The above Directors were entitled to exercise the share options in whole or in part at the price of HK$4.00 per share at any time during the respective exercisable periods. The share options granted to Mr. Lam Ko Yin, Colin and Mr. Lee Ka Kit lapsed on 21st August, 2004 and 2nd November, 2004 respectively.

Except for the above, at no time during the year was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June, 2005, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

*Long Positions*

| Name of Company | Number of Shares in which interested | % Interest |
|---|---|---|
| Technology Capitalization Limited (Note 1) | 902,700,000 | 18.05 |
| Towngas Investment Company Limited (Note 1) | 902,700,000 | 18.05 |
| The Hong Kong and China Gas Company Limited (Note 1) | 902,700,000 | 18.05 |
| Felix Technology Limited (Note 1) | 3,333,213,616 | 66.67 |
| Best Selection Investments Limited (Note 1) | 3,333,213,616 | 66.67 |
| Henderson Investment Limited (Note 1) | 4,235,913,616 | 84.72 |
| Henderson Land Development Company Limited (Note 1) | 4,244,968,019 | 84.90 |
| Henderson Development Limited (Note 1) | 4,244,968,019 | 84.90 |
| Rimmer (Cayman) Limited (Note 1) | 4,244,996,094 | 84.90 |
| Riddick (Cayman) Limited (Note 1) | 4,244,996,094 | 84.90 |
| Hopkins (Cayman) Limited (Note 1) | 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 Limited, a wholly-owned subsidiary of Towngas Investment Company Limited which was 100% held by The Hong Kong and China Gas Company Limited ("China Gas") which in turn was 37.15% held by Henderson Investment Limited ("HI"); (ii) 3,333,213,616 shares were owned by Felix Technology Limited, a wholly-owned subsidiary of Best Selection Investments Limited which was 100% held by HI which in turn was 73.48% held by Henderson Land Development Company Limited ("HL"); (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 Investment Limited, Covite Investment Limited, Markshing Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which was 100% held by HL which in turn was 61.87% held by Henderson Development Limited ("HD"); and (iv) 28,075 shares were owned by Fu Sang Company Limited ("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 these shares by virtue of the SFO. As directors of the Company 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.

2 Mr. Lam Ko Yin, Colin was the beneficial owner of these shares.

3 Of these shares, (i) 570,743,800 shares were owned by HD; (ii) 7,962,100 shares owned by Sandra Investment Limited which was a wholly-owned subsidiary of HD; (iii) 145,090,000 shares were owned by Cameron Enterprise Inc.; 222,045,300 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 61,302,000 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 55,000,000 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 55,000,000 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iv) 5,602,600 shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of China Gas which was 37.15% held by HI. HI was 73.48% held by HL which in turn was 61.87% held by HD; and (v) 192,500 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in China Gas, HD and Fu Sang as set out in Note 1 and HL by virtue of the SFO. As directors of the Company 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.

4 These shares were owned by the wife of Mr. Woo Ka Biu, Jackson.

5 Mr. Chan Wing Kin, Alfred was the beneficial owner of these shares.

6 Of these shares, Dr. Lee Shau Kee was the beneficial owner of 34,779,936 shares, and for the remaining 2,075,859,007 shares, (i) 802,854,200 shares, 602,168,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; and (ii) 5,615,148 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HL and Fu Sang as set out in Notes 1 and 3 and HI by virtue of the SFO. As directors of the Company 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.

7 Mr. Leung Yuk Kwong was the beneficial owner of these shares.

8 Of these shares, 175,000,000 shares, 75,233,977 shares and 74,900,000 shares were respectively owned by Primeford Investment Limited, Timsland Limited and Quantum Overseas Limited, all of which

were wholly-owned subsidiaries of Brightland Enterprises Limited which in turn was 100% held by HL. Dr. Lee Shau Kee was taken to be interested in HL as set out in Note 3 and Henderson China Holdings Limited ("HC") by virtue of the SFO. As directors of the Company 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.

9 Mr. Woo Ka Biu, Jackson was the beneficial owner of these shares.

10 These shares were held by Hopkins as trustee of the Unit Trust.

11 These shares were held by Hopkins as trustee of the Unit Trust.

12 Of these shares, Dr. Lee Shau Kee was the beneficial owner of 35,000,000 shares, and the remaining 15,000,000 shares were owned by Fu Sang.

13 These shares were held by Pearl Assets Limited which was 60% owned by Mr. Woo Ka Biu, Jackson.

14 Of these shares, (i) 4,000 shares were owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit, and (ii) 6,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by HC.

15 Of these shares, (i) 80 shares were owned by Tactwin Development Limited, a wholly-owned subsidiary of HL; (ii) 10 shares were owned by Henderson Finance Company Limited, a wholly-owned subsidiary of HD; and (iii) 5 shares each were owned by Perfect Bright Properties Inc. and Furnline Limited, both of which were wholly-owned subsidiaries of Jetwin International Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire issued share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr. Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in such shares by virtue of the SFO.

16 Of these shares, (i) 3,038 shares were owned by HL; and (ii) 202 shares were owned by Allied Best Investment Limited which was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, both of which were wholly-owned subsidiaries of Jetwin International Limited.

17 Of these shares, (i) 25 shares were owned by Shine King International Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 75 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by HC.

## CONNECTED TRANSACTIONS

**(1)** The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has granted a waiver to the Company from strict compliance with the connected transaction requirements under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Hong Kong Stock Exchange ("GEM Listing Rules") in respect of the lease arrangements and the licence arrangements for the first five-year term subject to the following conditions that:

**1.** the continuing connected transactions are entered into:

**(i)** in the ordinary and usual course of the business of the Group;

**(ii)** either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing these continuing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;

2. the aggregate amount of these continuing connected transactions within each such category for each financial year of the Company shall not exceed the maximum aggregate annual value (the "Cap Amounts") set;

3. the Independent Non-executive Directors of the Company shall review the continuing connected transactions annually and confirm in the Company's annual report and accounts that these have been conducted in the manner as stated in paragraph 1 above;

4. the Auditors of the Company shall review the continuing connected transactions annually and confirm in a letter (the "Letter") to the Board of Directors (the "Board") (a copy of which shall be provided to the Hong Kong Stock Exchange) confirming that the continuing connected transactions:

   (i) have received the approval of the Board;

   (ii) are in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

   (iii) have been entered into in accordance with the relevant agreements governing the continuing connected transactions; and

   (iv) have not exceeded the relevant Cap Amounts agreed with the Hong Kong Stock Exchange; and

5. details of the continuing connected transactions are to be disclosed as required under the GEM Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the Independent Non-executive Directors and the Auditors of the Company referred to in paragraphs 3 and 4 above.

In respect of the above-mentioned waiver, the Group had entered into the following continuing connected transactions and arrangements as described below with persons who are "connected persons" for the purposes of the GEM Listing Rules of the Hong Kong Stock Exchange during the year under review.

(i) On 28th June, 2000, Henderson Data Centre Limited ("HDC"), a subsidiary of the Company, entered into an agreement for lease with Landrise Development Limited ("LD"), a subsidiary of Henderson Land Development Company Limited ("HL"), an intermediate holding company of the Company. Pursuant to the agreement for lease, LD will lease the entire building, the Wealth Centre, to be purposely built for the Group for a term of five years with two renewal options for a term of five years each at a monthly rental (exclusive of rates, management fees and other outgoings) of HK$11 per square foot for the initial five year period and to be adjusted to account for inflation/deflation by reference to the Consumer Price Index published by the Special Administrative Region of the Hong Kong Government at the expiration of the initial five year period and at the then prevailing market rate for the third five year period (the "Lease Arrangements"). As at 30th June, 2005, the construction of the Wealth Centre has not yet been completed. The maximum aggregate annual consideration payable by the Group under the Lease Arrangements within the initial five year term shall not exceed HK$31,000,000.

As at 30th June, 2005, an initial deposit amounting to approximately HK$2,515,000 in respect of the Lease Arrangements was paid by the Group to LD.

**(ii)** On 28th June, 2000, the Company entered into an agreement with HL and Henderson Investment Limited ("HI") pursuant to which HL and HI will procure their respective relevant members to grant licences/tenancies to the relevant members of the Group the rights to install LMDS hubs and remote stations and other equipment relating to the provision of local wireless FTNS in buildings developed, owned and/or managed by HL and its subsidiaries but excluding the Group (collectively "Henderson Group") for a period of five years from the date of the agreement (the "Licence Arrangements") at a fee calculated by reference to fees charged by the relevant members of the Henderson Group to other unrelated customers or, if there is no such references available, at a fee no less favourable than fees at which the Group may obtain from other unrelated parties. The maximum aggregate annual fee payable by the Group under the Licence Arrangements shall not exceed HK$20,000,000.

During the year, no licence fees were paid or payable by the Group in respect of the Licence Arrangements. As at 30th June, 2005, no deposits were paid by the Group.

The Independent Non-executive Directors of the Company have reviewed and confirmed that the continuing connected transactions have been entered into by the Group in accordance with the waiver conditions granted by the Hong Kong Stock Exchange as stated in paragraph 1 above.

The Auditors of the Company have also confirmed that the continuing connected transactions have been conducted in the manner as stated in paragraph 4 above.

**(2)** The material related party transactions as set out in note 28 to the accounts on page 67 constitute continuing connected transactions for which the disclosure requirements under the GEM Listing Rules have been met.

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

## Competing Interests

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

## Service Contracts

Each of Mr. Chan Wing Kin, Alfred, Mr. Lam Ko Yin, Colin and Mr. Yip Ying Chee, John, executive directors of the Company, has entered into a service contract with the Company. 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 to 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.

The term of office of all the Independent Non-executive Directors (including Non-executive Director) has been fixed for a specific term until 31st December, 2005.

Apart from the above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

## Subsequent Event

Henderson Land Development Company Limited, Henderson Investment Limited ("Henderson Investment"), The Hong Kong and China Gas Company Limited ("China Gas") and the Company issued a joint announcement on 16th August, 2005 regarding a proposed privatisation of the Company by Henderson Investment and China Gas involving the cancellation and extinguishment of shares (other than those indirectly held by Henderson Investment and China Gas) in the Company at the cancellation price of HK$0.42 in cash per share. At present, Henderson Investment has a 66.67% equity interest and China Gas has an 18.05% equity interest in the Company respectively. If the privatisation becomes effective, the Company will be indirectly owned by Henderson Investment as to approximately 78.69% and China Gas as to approximately 21.31%.

## Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## Major Customers and Suppliers

For the financial year ended 30th June, 2005:

**(a)** the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30 per cent. of the Group's total purchases.

**(b)** the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 per cent. of the Group's total turnover.

## Management Discussion and Analysis

A management discussion and analysis of the Group's annual results is shown on pages 8 to 11.

## Pension Scheme

The Group's eligible employees can participate in defined contribution provident fund schemes (the "Schemes"). Particulars of the Schemes are set out in note 24 to the accounts on page 65.

## Audit Committee and Remuneration Committee

The Audit Committee was established on 25th May, 2000 and reports to the Board of Directors. The members of the Audit Committee are Dr. The Hon. Sir David Li Kwok Po (Chairman), Independent Non-executive Director, Professor Ko Ping Keung, Independent Non-executive Director and Mr. Woo Ka Biu, Jackson, Non-executive Director. The written terms of reference include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and internal control procedures. The Audit Committee members have reviewed the annual report and accounts, half-yearly report and quarterly reports of the Group for the financial year under review and Audit Committee meetings were held in February, 2005 and September, 2005.

The Remuneration Committee which was established on 3rd January, 2005 comprises Mr. Douglas H. Moore, Executive Director, Dr. The Hon. Sir David Li Kwok Po, Independent Non-executive Director and Professor Ko Ping Keung, Independent Non-executive Director. The written terms of reference include the specific duties of making recommendations to the board of Directors of the Company on the Company's policy and structure for all remuneration of directors and senior management, having the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management and making recommendations to the Board of Directors of the remuneration of non-executive directors.

## Management Contracts

On 28th June, 2000, the Company entered into an agreement with Henderson Land Development Company Limited ("HL") pursuant to which HL will provide, inter alia, legal, secretarial, accounting, computer and other related services and the use of office equipment to the Group at reimbursement costs for a period of three years commencing from the date of the agreement. The agreement was extended for a further period of three years from 28th June, 2003. For the year ended 30th June, 2005, payment made to HL for the above services amounted to approximately HK$600,000.

Save as disclosed above, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Corporate Governance

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules which were in force until 1st January, 2005.

As rules 5.34 to 5.45 of the GEM Listing Rules incorporated amendments in relation to the Code on Corporate Governance Practices (the "CGP Code") which became effective on 1st January, 2005 subject to the transitional arrangements, the Company has been taking action to follow the code provisions set out in the CGP Code.

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Code.

## Auditors

KPMG have been Auditors of the Company since its incorporation on 10th January, 2000. A resolution for the re-appointment of KPMG as Auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Lee Shau Kee**
*Chairman*

Hong Kong, 16th September, 2005

**Auditors' report to the shareholders of Henderson Cyber Limited**

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

We have audited the accounts on pages 35 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.



## Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Basis of opinion

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

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

## Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30th June, 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

Hong Kong, 16th September, 2005

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30th June, 2005

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Turnover | 2 | **83,842** | 87,341 |
| Other revenue | 3 | **17,516** | 11,714 |
| Other net loss | 4 | **(42)** | (51) |
| | | **101,316** | 99,004 |
| Direct costs and operating expenses | | **(79,136)** | (93,416) |
| Selling and distribution costs | | **(18,913)** | (17,265) |
| Administrative expenses | | **(7,344)** | (8,726) |
| Loss from operations | | **(4,077)** | (20,403) |
| Finance costs | 5 | **(5)** | (6) |
| Loss on disposal of investment securities | | **—** | (788) |
| Release of capital surplus contributed by minority shareholders upon disposal of subsidiaries | 23 | **—** | 2,096 |
| | | **(4,082)** | (19,101) |
| Share of losses of jointly controlled entities | | **(14)** | (14) |
| Loss from ordinary activities before taxation | 5 | **(4,096)** | (19,115) |
| Income tax | 6(a) | **—** | — |
| Loss from ordinary activities after taxation | | **(4,096)** | (19,115) |
| Minority interests | | **—** | 1,297 |
| Loss attributable to shareholders | 9 | **(4,096)** | (17,818) |
| Loss attributable to shareholders is absorbed by: | | | |
| The Company and its subsidiaries | | **(4,082)** | (17,804) |
| Jointly controlled entities | | **(14)** | (14) |
| | | **(4,096)** | (17,818) |
| Loss per share | | | |
| Basic | 11 | **HK 0.08 cent** | HK 0.36 cent |

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

# BALANCE SHEETS

at 30th June, 2005

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

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

Colin Lam Ko Yin )
Directors
John Yip Ying Chee )

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June, 2005

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





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

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

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

## Note to the Consolidated Cash Flow Statement

### (a) Disposal of subsidiaries

| | **2005** | 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 | — | 19 |
| Satisfied by: | | |
| Other receivable | — | 19 |
| Net cash outflow arising on disposal: | | |
| Cash and cash equivalents disposed of | — | (58) |

## 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).

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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.

## 1 Significant accounting policies (continued)

**(e)** Goodwill (continued)

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.

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.

## 1 Significant accounting policies (continued)

**(f)** Investment in securities (continued)

**(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.

**(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.

## 1 Significant accounting policies (continued)

**(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;

— 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.

## 1 Significant accounting policies (continued)

**(i)** Impairment of assets (continued)

**(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.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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.

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.

## 1 Significant accounting policies (continued)

**(m)** Income tax (continued)

**(iii)** (continued)

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.

## 1 Significant accounting policies (continued)

**(o)** Revenue recognition (continued)

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

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

**(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.

## 1 Significant accounting policies (continued)

**(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.

## 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** | 2004 |
| | **HK$'000** | HK$'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 |
| | **83,842** | 87,341 |

## 3 Other revenue

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

## 4 Other net loss

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Loss on disposal of fixed assets | **(42)** | (93) |
| Exchange gain | **—** | 42 |
| | **(42)** | (51) |

## 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 |
| 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) |

## 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 | **(4,096)** | (19,115) |
| 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 | **3,447** | 5,184 |
| Actual tax expense | **—** | — |

**(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.

## 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 |
| Total | **440** | **40** | **2** | **482** | 840 |

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.

## 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** | 2004 |
| | HK$'000 | HK$'000 |
| Basic salaries, housing and other allowances and benefits in kind | **4,045** | 5,118 |
| Retirement scheme contributions | **198** | 168 |
| | **4,243** | 5,286 |

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

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| Remuneration bands: | Number of individuals | Number of individuals |
| HK$ | | |
| Nil - 1,000,000 | **4** | 3 |
| 1,000,001 - 1,500,000 | **1** | 2 |
| | **5** | 5 |

## 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.

## 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) |

## 12 Segmental information (continued)

The Group (continued)

| | 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 | **7,713** | 7,028 | **4,539** | 4,907 | **123** | 138 | **–** | – | | | | |
| 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 | | | | | | | | | | | **766,451** | 772,169 |
| 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 | | | | | | | | | | | **(10,528)** | (12,150) |
| Capital expenditure incurred during the year | **3,464** | 4,276 | **154** | 45 | **26** | 18 | **–** | – | | | | |

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 | **45,113** | **7,083** | **—** | **89,597** | **141,793** |
| 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 | **5,092** | **4,890** | **—** | **72,026** | **82,008** |
| Net book value: | | | | | |
| At 30th June, 2005 | **40,021** | **2,193** | **—** | **17,571** | **59,785** |
| At 30th June, 2004 | 41,038 | 2,411 | — | 25,139 | 68,588 |

## 13 Fixed assets (continued)

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 |

## 14 Interests in subsidiaries

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

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

## 15 Interests in jointly controlled entities

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | HK$'000 | HK$'000 |
| Share of net liabilities | **(74)** | (60) |
| Amounts due from jointly controlled entities | **111** | 104 |
| | **37** | 44 |

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

## 16 Investment securities

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | HK$'000 | HK$'000 |
| Unlisted equity securities, at cost | **12,560** | 12,560 |
| Provision for impairment loss | **(5,002)** | (5,002) |
| | **7,558** | 7,558 |



## 17 Held-to-maturity securities

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

## 18 Inventories

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

## 19 ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

(a)

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade receivables | **4,560** | 4,913 | **—** | — |
| Other receivables, deposits and prepayments | **5,750** | 11,231 | **110** | 120 |
| | **10,310** | 16,144 | **110** | 120 |

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.

(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** | 2004 |
| | HK$'000 | HK$'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 |
| | **4,560** | 4,913 |

## 20 Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'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 | **674,309** | 623,028 | **2** | 8 |

## 21 Accounts payable and accrued expenses

(a)

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

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.

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

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | HK$'000 | HK$'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 | **—** | — |
| | **5,971** | 5,083 |

## 22 SHARE CAPITAL

| | Number of shares 2005 '000 | Number of shares 2004 '000 | Nominal value 2005 HK$'000 | Nominal value 2004 HK$'000 |
|---|---|---|---|---|
| Authorised | | | | |
| Ordinary shares of HK$0.1 each | **10,000,000** | 10,000,000 | **1,000,000** | 1,000,000 |
| Issued and fully paid | | | | |
| Ordinary shares of HK$0.1 each | **5,000,000** | 5,000,000 | **500,000** | 500,000 |

(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.

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

| | **2005** Number of share options | | 2004 Number of share options | |
|---|---|---|---|---|
| | Option Plan | Share Option Scheme | 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** |

## 23 Reserves (continued)

(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).

## 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 | **3,163** | **694** | 2,235 | 2,476 |
| After 1 year but within 5 years | **1,704** | **48** | 1,181 | 252 |
| | **4,867** | **742** | 3,416 | 2,728 |

## 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.

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 The Company | Subsidiaries | Principal activities |
|---|---|---|---|---|---|
| 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.

# 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 The Company | Attributable percentage of equity interest held by Subsidiaries | Principal activities |
|---|---|---|---|---|---|---|
| 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 |

A summary of the published financial information of the Group is set out below:

## RESULTS

| | Year ended 30th June | | | | |
|---|---|---|---|---|---|
| | 2001 HK$'000 | 2002 HK$'000 | 2003 HK$'000 | 2004 HK$'000 | **2005 HK$'000** |
| Turnover | 28,306 | 67,452 | 83,751 | 87,341 | **83,842** |
| Loss from ordinary activities after taxation | (86,098) | (141,498) | (17,025) | (19,115) | **(4,096)** |
| Minority interests | 1,841 | 5,058 | 14 | 1,297 | **—** |
| Loss attributable to shareholders | (84,257) | (136,440) | (17,011) | (17,818) | **(4,096)** |

## ASSETS AND LIABILITIES

| | As at 30th June | | | | |
|---|---|---|---|---|---|
| | 2001 HK$'000 | 2002 HK$'000 | 2003 HK$'000 | 2004 HK$'000 | **2005 HK$'000** |
| Total assets | 999,717 | 815,563 | 800,887 | 772,169 | **766,451** |
| Total liabilities | (63,802) | (17,401) | (19,750) | (12,150) | **(10,528)** |
| Minority interests | (2,314) | (1,001) | (441) | — | **—** |
| | 933,601 | 797,161 | 780,696 | 760,019 | **755,923** |

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at 75/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Friday, 16th December, 2005 at 3:00 p.m. for the following purposes:

**1.** To receive and consider the Audited Statement of Accounts and the Reports of the Directors and Auditors for the year ended 30th June, 2005.

**2.** To re-elect retiring Directors and authorise the Board of Directors to fix the Directors' remuneration.

**3.** To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.

**4.** To consider as special business and, if thought fit, pass the following resolutions as Ordinary Resolutions:

**A.** "THAT:

**(a)** subject to paragraph (c) of this Resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined in paragraph (d) of this Resolution) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

**(b)** the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

**(c)** the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution and the said approval shall be limited accordingly; and

**(d)** for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company.

"Rights Issue" means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares of the Company or any class thereof whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in or in any territory applicable to the Company)."

**B.** "THAT:

**(a)** subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all powers of the Company to repurchase its own issued shares in the capital of the Company in accordance with laws and requirements and regulations of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

**(b)** the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

**(c)** for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

**(i)** the conclusion of the next annual general meeting of the Company;

**(ii)** the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

**(iii)** the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company."

**C.** "THAT:

subject to the passing of the Ordinary Resolution Nos. 4A and 4B, the general mandate granted to the Directors of the Company to allot, issue and deal with additional securities pursuant to Resolution No. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 4B, provided that such amount of shares so repurchased shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution."

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

Hong Kong, 27th September, 2005

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

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

*Notes:*

(1) In order to qualify for attending the forthcoming Annual General Meeting of the Company, all share 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, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.

(2) Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies (if a member is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.

(3) To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting or any adjournment thereof.

(4) An Explanatory Statement containing further details regarding Ordinary Resolution No. 4B above as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be dispatched to the members of the Company together with the 2005 Annual Report.