

2003

Annual Report



SYS SOLUTIONS HOLDINGS LIMITED

軟迅科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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2003 ANNUAL REPORT

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Chi Shing (*Chairman*)
Mr. Su Chi Wen

Independent Non-executive Directors

Mr. Lau Siu Ki Kevin
Mr. Wong Man Chung Francis

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Foo Chun Ngai Redford *AHKSA ACCA*
(*resigned on 1 September 2003*)
Mr. Chan Chi Hung *AHKSA ACCA*
(*appointed on 1 September 2003*)

COMPLIANCE OFFICER

Mr. Lam Chi Shing

AUTHORISED REPRESENTATIVES

Mr. Lam Chi Shing
Mr. Su Chi Wen

AUDIT COMMITTEE MEMBERS

Mr. Lau Siu Ki Kevin
Mr. Wong Man Chung Francis
Mr. Lam Chi Shing

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5, 16th Floor
1 Peking Road
Tsim Sha Tsui
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong

SPONSOR

Celestial Capital Limited
21st Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

LEGAL ADVISORS

Richards Butler
20th Floor, Alexandra House
16-20 Chater House
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

COMPANY WEBSITE

www.syssolutions.net

GEM STOCK CODE

8182

On behalf of the Board of Directors (the "Board"), I am pleased to present the first annual results of Sys Solutions Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 July 2003.

Operating Results

The listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 February 2003 marked a milestone in the development of the Group. For the year ended 31 July 2003, the Group recorded a turnover of approximately HK\$10,189,000 million, representing a 29.4% increase as compared with the previous year. Net loss attributable to shareholders was approximately HK\$9,377,000 million this year, representing an increase of around 9.9%.

Business Review

The Group is an IT integrated solution provider and is principally engaged in the provision of network infrastructure solutions and services in Hong Kong and the People's Republic of China (the "PRC"), and has been taking proactive approaches in gearing towards profitability since its successful listing on GEM.

It has been a difficult and challenging year for the Group. During the year under review, the outbreak of the Severe Acute Respiratory Syndrome (the "SARS") in the Asia Pacific Region and the outbreak of war in Iraq adversely affected the overall business environment across the world. The SARS disaster has created considerable negative impact on the depressing economy of Hong Kong, and the economic recovery within the region continues to be uncertain. As a consequence, certain of the Group's business plans have been deferred, and the Group's performance was suffered undoubtedly for the year ended 31 July 2003.

In spite of that, the Group has focused its efforts by promoting the Group's total network infrastructure solutions and services to new customers and establishing new business relationships with certain technology companies. By constantly revisiting the existing value-added network infrastructure solutions and services, the Group continued to enrich its portfolio and develop new standalone solutions and services, in order to respond to the increasing and changing demand of the customers.

Future Prospects

For the year ahead, the Group is ready and able to respond to the rapidly changing market conditions. The Group will continue to strengthen the cooperation with our business partners to enhance the Group's competitiveness and enlarge our distribution networks.

Meanwhile, the Group may commence to establish a sino-foreign joint venture in Beijing upon the completion of the negotiation with Beijing Yanshan Petrochemical Group Company of China Petrochemical Corporation ("Beijing Yanshan"). In addition, the Group will seek other investment opportunities and may form joint ventures with other local organisations or entities in the PRC as and when the Directors deem appropriate. The Group is aimed at expanding its business in the PRC, in the expectation of contributing favorable returns to the overall performance.

Future Prospects (continued)

The Group is cautiously optimistic about its future prospects in the coming financial year, and will carefully respond to every new challenge in the coming new year.

Appreciation

On behalf of the Board, I would like to take this opportunity to express our appreciation to all our management and staff members for their dedication and contribution to the Group throughout the year. I would also like to express our sincere thanks to our shareholders, business partners and customers for their continuous encouragement and support.

Lam Chi Shing

Chairman

Hong Kong, 24 October 2003

BUSINESS REVIEW

During the year under review, the Group continued to engage in the provision of network infrastructure solutions and services. The Group designs, installs, implements and maintains a wide range of network infrastructure solutions and services, including infrastructure construction and infrastructure maintenance and reinforcement which are basic solutions and services to set up, maintain, reinforce and enhance the security, functionality and efficiency of customers' networks and computer systems. In addition, the Group also offers other professional value-added solutions and services to its customers in order to enhance the functionality and extensibility of their networks and computer systems. The Group is pleased to report progresses in these areas.

For the year under review, the Group reported a turnover of HK\$10,189,000 (2002: HK\$7,874,000) representing an increase of approximately 29.4% from previous year's turnover. This is mainly attributable to increase in revenues from sectors of network infrastructure maintenance and reinforcement services and other professional value-added solutions and services.

The increase in network infrastructure maintenance and reinforcement services mainly resulted from the Group's marketing effort in securing new customers and the increased demands from customers on firewall setup and maintenance service and file encryption solutions. On the other hand, because of the uncertainty about the price of long-distance calls between Hong Kong and mainland China, the Group succeeded in rendering VoIP and VPN solutions to its customers.

The Group also succeeded in closing its first contract on Worldwide Online Tracking Systems (WOTS), its self-developed web-based software applications facilitating business processing and management for garment trading and distribution companies.

The gross profit margin ratio for the year ended 31 July 2003 is 27.2%, while it was 16.1% in the previous year. The significant increase is attributable to the turnover generated from WOTS, where costs incurred were staff remuneration which were absorbed in the profit and loss accounts as research and development costs.

The loss from operating activities before tax for year ended 31 July 2003 increased by approximately 9.9% from HK\$8,535,000 to HK\$9,377,000. The increase in loss was mainly due to the additional administrative expenses resulting from the listing of the Company on GEM of the Stock Exchange. Such expenses include auditors' and independent non-executive directors' remuneration, fees payable to sponsor as well as salaries for new managerial staff. Notwithstanding the increment mentioned above, the Group maintained a stable and effective overhead structure.

LIQUIDITY AND FINANCIAL RESOURCES

For the year under review, the Group financed its operations with a non-interest bearing shareholder's loan from a shareholder of the Company (such loan was fully settled after the listing of the Company on GEM), net proceeds from the issuance of new shares and internally generated resources.

As at 31 July 2003, the Group had net current assets of approximately HK\$26,436,000 (2002: HK\$2,936,000), of which approximately HK\$25,824,000 (2002: HK\$1,107,000) were bank and cash balances.

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.1 as at 31 July 2003 (2002: 0.3). The decrease in the gearing ratio was due to the improvement in the shareholders' equity resulting from the listing of the shares of the Company in February 2003 on GEM for which net proceeds of approximately HK\$32,380,000 were received.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in Hong Kong dollars and Renminbi. Risk on exposure to fluctuation in exchange rates should be minimal as there is no material fluctuation in the exchange rate between Hong Kong dollars and Renminbi.

CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 18 February 2003. There has been no change in the capital structure of the Company since the Company's listing on that date.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 July 2003, the Group did not have any charge on group assets or any significant contingent liabilities.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 July 2003.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any significant investments for the year ended 31 July 2003 (2002: Nil). Other than those disclosed in the Prospectus under the section headed "Statement of Business Objectives" and the Company's announcement dated 24 October 2003, the Company currently does not have any plan for material investments and acquisition of material capital assets in the coming year. Further details of the Group's actual business progress compared to its implementation plans as stated in the Prospectus are set out on pages 8 to 10 of this annual report.

EMPLOYEE INFORMATION

As at 31 July 2003, the Group had 33 full-time employees (2002: 31) working in Hong Kong and mainland China. The total staff costs, including directors' emoluments, amounted to approximately HK\$6,259,000 for the year under review (2002: HK\$4,907,000). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

EMPLOYEE INFORMATION (continued)

During the year, there were 30,168,000 share options granted by the Company under a pre-IPO share option scheme adopted on 25 January 2003, to two executive directors, five senior management employees and thirteen other employees.

On 25 January 2003, a further share option scheme (the “Post-Scheme”) was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to recognise the contributions of the participants to the Group and to motivate the participants to continuously work to the benefit of the Group by offering to the participants an opportunity to have personal interest in the share capital of the Company. At the date of this report, no share options were granted under the Post Scheme.

OUTLOOK

It is the objective of the Group to expand and further develop its business in providing network infrastructure solutions and services in Hong Kong and mainland China. The Group will continue to establish new business relationships with additional technologies companies, and will make every effort to expand the distribution network for our applications and services by conducting promotional and marketing campaigns. Apart from the business opportunities in the local market, the Group will accelerate its business expansion into the PRC market through the business relationships with Chinese partners.

In addition, the Group will establish a new research and development center in Guangzhou, so as to enrich the corporate and product profile. The Group will commence the development of Phase III of WOTS to test J2EE platform in Linux server and develop the traditional Chinese version of WOTS. The Group will continue to evaluate and upgrade existing value-added solutions and services, as well as to develop new solutions and services to explore different market opportunities.

The Group will also focus on controlling expenditure across all functional areas through streamlining the organisational structure and enhancing efficiency.

Business Objectives and Actual Business Progress Comparison

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from listing date to 31 July 2003:

Business objectives as stated in the Prospectus dated 30 January 2003

Actual business progress from listing date to 31 July 2003

Business development

- Establish new business partnerships/relationships with additional technology companies.
 - Continue and complete the negotiation with Beijing Yanshan in relation to the establishment of sino-foreign joint venture in Beijing, the PRC and commence to establish such joint venture.
 - Commence feasibility study for the construction of network infrastructure for education department or secondary schools in Guangzhou (the “Guangzhou School Project”), the PRC or entities nominated by them and subject to findings of the feasibility study start up the project.
- During the period under review, the Group successfully established new business relationships with certain new technology companies.
 - Due to the outbreak of the SARS in the PRC and Hong Kong, the progress of negotiation between the Group and Beijing Yanshan has been slower than expected. The Group is still in negotiation with Beijing Yanshan regarding the establishment of the joint venture.
 - There was no progress of the negotiation between the Group and the counter party of the Guangzhou School Project over the past few months due to the SARS. In addition, the recent response since the outbreak of the SARS from the counter party of the Guangzhou School Project has indicated that it is less enthusiastic about the project. The Directors believe that the negotiation in relation to the Guangzhou School Project cannot be proceeded further. Therefore, the Directors propose to shelve the Guangzhou School Project after the year ended 31 July 2003. (Please also see the Company’s announcement dated 24 October 2003.)

Business objectives as stated in the Prospectus dated 30 January 2003

- Expand the operations of the representative office in Shanghai in order to extend the market presence of the Group in Shanghai and Guangdong Province, the PRC, which in turn helps to promote direct contact between the Group and the local customers and capture business opportunities.

Sales and marketing

- Enlarge customer base by promoting the Group's total network infrastructure solutions and services to new customers in Hong Kong and the PRC.
- Conduct marketing campaigns, such as participation in IT related seminars and exhibitions, to further promote sales and corporate profile of the Group.
- Commence marketing campaign in form of participation in IT related seminars and co-operative assignments with renowned players in the IT industry in the PRC to develop the Group's brand name in the PRC through the sino-foreign joint venture formed with Beijing Yanshan.

Technical and engineering support

- Continue to monitor the customers' networks and computer systems and provide consultancy and maintenance services to them.

Actual business progress from listing date to 31 July 2003

- The plan for expanding the operations of the representative office is deferred, as the management, after reviewing the existing market conditions and environment, considered that the existing resources are sufficient to meet the demand from local customers within the relevant regions.

- The Company successfully secured the orders from certain new customers, as a result of effective promotional campaigns carried out throughout the period.
- The Group conducted several marketing campaigns and seminars through co-operations with the leading technologies companies and established our presence in the market.
- The Group continues to negotiate with Beijing Yanshan to set up the joint venture in Beijing. The marketing campaign will be commenced upon the establishment of the joint venture.

- The Group continued to provide consultancy and maintenance services to the customers, and our technical professionals proactively helped our customers to manage their operations efficiently.

Business Objectives and Actual Business Progress Comparison

Business objectives as stated in the Prospectus dated 30 January 2003

Actual business progress from listing date to 31 July 2003

Research and development

- Commence and complete the development of Phase II of WOTS to migrate Microsoft platform version to J2EE platform and to test the J2EE platform in Solaris server. J2EE platform is another platform distinguished from Microsoft platform, which may extend the functionality of WOTS to non-Microsoft users. Solaris server is a Sun-Microsystems product, which is a larger scale server for enterprises. Therefore upon completion of its development, Phase II of WOTS can support not only small scale servers for small and medium enterprises but also larger scale server for medium to large enterprises.
- Continue to enrich the Group's portfolio of network infrastructure solutions and services by evaluating and upgrading existing value-added solutions and services, the developing new solutions and services.
- The development of Phase II of WOTS has been completed, and the Group will launch the product to the market in the coming year.
- The Group has implemented the business objectives as planned.

The net proceeds from the issue of new shares of the Company at the time of its listing on the GEM on 18 February 2003 through a placement of 132,300,000 ordinary shares of HK\$0.01 each in the share capital of the Company (including 101,340,000 new shares and 30,960,000 sale shares) at the price of HK\$0.38 per share, after deduction of the related issue expenses, were approximately HK\$32 million (the "IPO Proceeds"). During the period from the listing of the Company's shares on 18 February 2003 to 31 July 2003, the Group utilised a total of about HK\$5.9 million of the IPO proceeds as to HK\$3.0 million as working capital and as to HK\$2.9 million for the following purposes:

	Notes	Proposed application of fundings up to 31 July 2003 HK\$'million	Actual fundings utilised up to 31 July 2003 HK\$'million
Hardware procurement to start up Guangzhou new research and development center	1	4.0	—
Investment with Beijing Yanshan	2	7.0	—
Sales and marketing		0.4	0.3
Repayment of a loan due to shareholder		2.6	2.6
		14.0	2.9

Notes:

1. The schedule for establishing the Guangzhou new research and development center is deferred as a result of the outbreak of the SARS in the PRC and Hong Kong.
2. Due to the outbreak of the SARS, the progress of negotiation with Beijing Yanshan in relation to the establishment of the joint venture has been slower than expected. The Group is still in negotiation with Beijing Yanshan regarding the establishment of the joint venture. It is estimated that the agreement may be reached by the parties by first quarter of 2004.

Change in the proposed use of the IPO Proceeds

The directors intend to change the proposed use of IPO Proceeds as set out in the Prospectus. The details of the change of the proposed use of proceeds has been set out in the Company's announcement dated 24 October 2003.

EXECUTIVE DIRECTORS

Mr. Lam Chi Shing, aged 38, is the chairman of the Company and an executive Director (being appointed on 17 July 2002) and is responsible for corporate planning, business development strategy and overall direction of the Group. Mr. Lam is one of the two founders of the Group and has been a beneficial shareholder and a director of each of the subsidiaries of the Company since its date of incorporation. Mr. Lam holds a bachelor degree in Business Administration from The Chinese University of Hong Kong in 1996 and has more than ten years experience in accounting and financial management and business administration. Mr. Lam is also a director of Speed Sourcing Limited, a renowned garment distributor in the U.S., responsible for finance and management.

Mr. Su Chi Wen, aged 36, is an executive Director (being appointed on 17 July 2002) and chief executive officer of the Company. He is responsible for managing the overall operations of the Group and in charge of sales and marketing activities of the Group. Mr. Su is one of the two founders of the Group and has been a beneficial shareholder and a director of each of the subsidiaries of the Company since its date of incorporation. He holds a bachelor degree of Commerce in Marketing from Dalhousie University in Canada in 1995. Mr. Su plays an important role in developing and promoting the Group's total network infrastructure solutions and services and has more than seven years experience in the IT industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki Kevin, aged 45, has over twenty years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently in the financial advisory field by working as a director of Hin Yan Consultants Limited and a consultant of Paul Chan & Partners, a medium sized Certified Public Accountant firm. Prior to that, Mr. Lau had worked in an international accounting firm, Ernst & Young, for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Society of Accountants. He is now a member of the Council of ACCA. He has also served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for 2000/2001. Mr. Lau is also an independent non-executive director of four other listed companies in Hong Kong. Mr. Lau was appointed as an independent non-executive Director on 6 September 2002.

Mr. Wong Man Chung Francis, aged 39, is a Certified Public Accountant and has over sixteen years' experience in auditing, taxation, management and financial advisory. Mr. Wong is currently the managing director of a professional accounting firm, namely Francis Wong C.P.A. Co. Limited and a director of another professional accounting firm, namely Union Alpha C.P.A. Limited. Prior to that, he worked for an international accounting firm, being KPMG, for six years and the Compliance Department for the Hong Kong Securities Clearing Company Limited for about two years. Mr. Wong is an independent non-executive director of Yardway Group Limited, a listed company in Hong Kong. In addition, he is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. Mr. Wong was appointed as an independent non-executive Director on 15 January 2003.

SENIOR MANAGEMENT

Mr. Au Sze Keung, aged 45, joined the Group in September 2000 and is the senior project manager of the Group. Before joining the Group, Mr. Au served in the administration department of a number of companies and worked as a project manager in certain IT companies. Mr. Au is responsible for overseeing the operation of the Technical Department of the Group, including the network infrastructure design, network construction and the research and development of network application software.

Mr. Chan Chi Hung, aged 28, joined the Group in August 2003 and is the financial controller of the Group. Mr. Chan is responsible for overall financial and accounting management of the Group. Mr. Chan holds a bachelor degree in Business Administration in Accounting from The Hong Kong University of Science and Technology in 1997. He is an associate of ACCA and the Hong Kong Society of Accountants. Before joining the Group, Mr. Chan worked for international accounting firms in the auditing and accounting fields for about six years.

Mr. Tse Man Wai Sunny, aged 36, joined the Group in December 2000 and is the chief technical officer of the Group. Mr. Tse is responsible for research and development of network and software solutions of the Group. He holds a diploma of International Marketing from The State University of Connecticut, the U.S. in 1993. Before joining the Group, Mr. Tse was a software product consultant specialising in software products for network development in various multinational corporations, namely Trend Leader Holdings Limited, Partner Tech Corporation and Silicon Valley Group. Mr. Tse has more than ten years' experience in various levels of software application development. He was also accredited as a professional for Java expert in 1996 and had completed the Network Professional Training launched by IBM in 1997.

Mr. Ng Sik Fung, aged 39, joined the Group in June 2001. Mr. Ng is a sales manager of the Group and is responsible for sales and marketing of the Group. Mr. Ng obtained a degree of bachelor of Science in Computer Science from York University, Canada. Before joining the Group, Mr. Ng was a systems consultant and sales manager of various IT consultancy companies, namely AZN Research Incorporated, Artwide Technology Limited, m/400 Recruiter, System Management Consultancy Limited and Infosys Technologies Consultants Limited, and has more than ten years of sales and marketing experience in the IT industry.

Mr. Chu Ming Wai, aged 34, joined the Group in August 2002. Mr. Chu is a general manager of the Group and is responsible for sales and marketing activities of the Group. Mr. Chu has more than seven years of sales and marketing experience in the IT industry. Before joining the Group, Mr. Chu was a sales manager, sales director and general manager for three computer companies, namely System Pro Computers Limited, Epro Systems Limited and Epro Solutions Limited.

The directors present their first report and the audited financial statements of the Company for the period from 3 July 2002 (date of incorporation of the Company) to 31 July 2003 and of the Group for the year ended 31 July 2003.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 3 July 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the shares of the Company on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the other companies now comprising the Group on 25 January 2003. Further details of the Group Reorganisation are set out in notes 1 and 21 to the financial statements, and the Company’s prospectus (the “Prospectus”) dated 30 January 2003.

The shares of the Company were listed on the GEM on 18 February 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 July 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 57.

The directors do not recommend the payment of any dividends in respect of the year.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY

Details of the use of proceeds from the initial public offering of the Company are set out on page 11 of the annual report.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and assets and liabilities of the Group for the last three financial years prepared on the basis set out in the note below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 July		
	2003 HK\$	2002 HK\$	2001 HK\$
Turnover	10,188,743	7,873,892	5,200,621
Loss before tax	(9,376,639)	(8,534,704)	(6,253,082)
Tax	—	—	—
Net loss from ordinary activities attributable to shareholders	(9,376,639)	(8,534,704)	(6,253,082)

Assets and liabilities

	As at 31 July		
	2003 HK\$	2002 HK\$	2001 HK\$
Non-current assets	1,779,923	2,276,165	3,317,920
Current assets	28,993,731	4,565,126	4,817,005
Current liabilities	(2,557,893)	(1,629,077)	(638,005)
Net current assets	26,435,838	2,936,049	4,179,000
Non-current liabilities	—	—	(12,750,000)
Net assets/(liabilities)	28,215,761	5,212,214	(5,253,080)

Note: The summary of the consolidated results of the Group for each of two years ended 31 July 2002 and of the consolidated assets and liabilities of the Group as at 31 July 2001 and 2002 have been extracted from the Prospectus. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 1 to the financial statements. The consolidated results of the Group for the year ended 31 July 2003 and the consolidated assets and liabilities of the Group as at 31 July 2003 are extracted from the audited financial statements as set out on pages 24 and 25, respectively, of this annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the period from 3 July 2002 (date of incorporation of the Company) to 31 July 2003, together with the reasons therefor, are set out in notes 21 and 22 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The shares of the Company were listed on GEM on 18 February 2003. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company between that date and 31 July 2003.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 July 2003, the reserves of the Company available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$24,367,361. This includes the Company's share premium account and capital reserve, of HK\$29,422,817 in aggregate at 31 July 2003, which may be distributed provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 50.5% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 17.4%.

Purchases from the Group's five largest suppliers accounted for approximately 79.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 39.8%.

The Group's largest customer for the year ended 31 July 2003 was Speed Sourcing Limited, a company incorporated in Hong Kong and a director of which is Mr. Lam Chi Shing, the chairman and an executive director of the Company.

MAJOR CUSTOMERS AND SUPPLIERS (continued)

Saved as disclosed above, during the year none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the issued share capital of the Company) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the period from 3 July 2002 (date of incorporation) to 31 July 2003 were:

Executive directors:

Mr. Lam Chi Shing (appointed on 17 July 2002)
Mr. Su Chi Wen (appointed on 17 July 2002)

Non-executive director:

Mr. Neil T. Cox (appointed on 3 July 2002 and resigned on 17 July 2002)

Independent non-executive directors:

Mr. Lau Siu Ki Kevin (appointed on 6 September 2002)
Mr. Wong Man Chung Francis (appointed on 15 January 2003)
Mr. Tang Tin Sek (appointed on 6 September 2002 and resigned on 15 January 2003)

In accordance with article 112 of the articles of association of the Company, all directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and senior management of the Group are set out on pages 12 to 13 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the two executive directors of the Company entered into a service contract with the Company on 25 January 2003 for an initial term of three years commencing from 25 January 2003 which is automatically renewable for successive terms of one year upon the expiry of the then current term until terminated by either party on the other not less than three months' notice served in writing.

Save as aforesaid, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The non-executive directors (including the independent non-executive directors) have no fixed terms of office, but are subject to the provisions governing the retirement and rotation of directors in the articles of association of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 to the financial statements, no director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 July 2003, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of 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 pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") were as follows:

1. Interests in shares/underlying shares of the Company

Name of directors	Corporate interests	Personal interests	Aggregate interests	Approximate percentage of issued share capital as at 31 July 2003
Mr. Lam Chi Shing	144,044,550 (note a)	11,340,000 (note c)	155,384,550	40.38
Mr. Su Chi Wen	51,795,450 (note b)	11,340,000 (note c)	63,135,450	16.41

Notes:

- (a) These shares are held by Cyber Mission Ventures Limited, the entire issued share capital of which is beneficially owned by Mr. Lam Chi Shing. These 144,044,550 shares represent a long position of approximately 37.43% of the issued share capital of the Company on 31 July 2003.
- (b) These shares are held by Cyber Profit Group Limited, the entire issued share capital of which is beneficially owned by Mr. Su Chi Wen. These 51,795,450 shares represent a long position of approximately 13.46% of the issued share capital of the Company on 31 July 2003.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

- (c) The personal interest of each of these two directors represents his long position in the underlying shares of the Company by virtue of options granted to the director pursuant to a pre-IPO share option scheme adopted by the Company on 25 January 2003 ("Pre-Scheme") (further details of which are set out under the section headed "Share option schemes" below). These options were granted on 25 January 2003 and each director has undertaken that he would not exercise these options if to do so would result in the public float of the Company being less than 25% and he would not exercise such options within 12 months from 18 February 2003, being the date of which dealing in the shares of the Company first commenced on the GEM. Subject to the aforesaid, the options may be exercised between 18 February 2004 and 17 February 2007 at a price of HK\$0.11 per share. The underlying shares of each director represent approximately 2.95% of the issued share capital of the Company on 31 July 2003. These options are unlisted and represent physically settled equity derivatives.

In addition to the above, Mr. Lam Chi Shing has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

2. Short positions in the underlying shares of the Company

Since Mr. Lam Chi Shing, via Cyber Mission Ventures Limited, is beneficially interested in more than one-third of the issued share capital of the Company, he is deemed to have a short position in the underlying shares of the Company as a result of the share options granted by the Company under the Pre-Scheme.

Save as disclosed above and in the section under the heading "Share option schemes" below, as at 31 July 2003, none of the directors had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above and the share option scheme disclosures in note 22 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

On 25 January 2003, the Pre-Scheme and Post-IPO Share Option Scheme ("Post-Scheme") were approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme and Post-Scheme were to recognise the contribution of certain employees of the Group to the growth of the Group's business and/or to the listing of ordinary shares of the Company on the GEM of the Stock Exchange.

SHARE OPTION SCHEMES (continued)

On 25 January 2003, the Company granted pre-IPO share options under the Pre-Scheme to two executive directors and 18 employees to subscribe for a total of 30,168,000 shares, representing in aggregate approximately 7.84% of the issued share capital of the Company as at 31 July 2003.

Further details of the Pre-Scheme and Post-Scheme are set out in note 22 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS

At 31 July 2003, the following persons (other than the directors of the Company) had interests or short positions in the shares and underlying shares of the Company which as recorded in the register required to be kept under Section 336 of the SFO:

Name	Notes	Number of ordinary shares held	Percentage of holding
Substantial shareholders			
Cyber Mission Ventures Limited	(a)	144,044,550	37.4
Cyber Profit Group Limited	(b)	51,795,450	13.5
Other shareholders			
Century Pilot Investments Limited	(c)	28,350,000	7.4
Mr. Wong Wing Hong	(c)	28,350,000	7.4
Expeditious Management Limited	(d)	28,350,000	7.4
Ms. Wong Sze Shun Syson	(d)	28,350,000	7.4
Ms. Elizabeth Helen Narain		20,670,000	5.4

Notes:

- (a) The entire issued share capital of Cyber Mission Ventures Limited is beneficially owned by Mr. Lam Chi Shing, the chairman and an executive director of the Company. The effect of the share options granted to Mr. Lam Chi Shing have been set out in the above heading "Directors' and chief executive's interests and short positions in shares and underlying shares".
- (b) The entire issued share capital of Cyber Profit Group Limited is beneficially owned by Mr. Su Chi Wen, an executive director of the Company. The effect of the share options granted to Mr. Su Chi Wen have been set out in the above heading "Directors' and chief executive's interests and short positions in shares and underlying shares".
- (c) The entire issued share capital of Century Pilot Investments Limited is beneficially owned by Mr. Wong Wing Hong, who is therefore deemed to be interested in the 28,350,000 shares held by Century Pilot Investments Limited.
- (d) The entire issued share capital of Expeditious Management Limited is beneficially owned by Ms. Wong Sze Shun Syson, who is therefore deemed to be interested in the 28,350,000 shares held by Expeditious Management Limited.

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS' INTERESTS (continued)

Save as disclosed above, as at 31 July 2003, there was no person (other than the directors of the Company), whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

INTERESTS OF THE SPONSOR

As at 31 July 2003, neither Celestial Capital Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to a sponsor agreement dated 30 January 2003 entered into between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the sponsor of the Company for the period from 18 February 2003 to 31 July 2005, or until the sponsor agreement is terminated upon the terms and conditions as set out therein.

COMPETITION AND CONFLICT OF INTERESTS

Up to the date of this report, none of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the shares of the Company on the GEM on 18 February 2003.

AUDIT COMMITTEE

The Company established an audit committee on 25 January 2003 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members including Mr. Lau Siu Ki Kevin, Mr. Wong Man Chung Francis, the independent non-executive directors of the Company, and Mr. Lam Chi Shing, the Chairman and an executive director of the Company. Mr. Lau Siu Ki Kevin is the chairman of the audit committee. The audit committee held two meetings during the year ended 31 July 2003. The Group's audited financial statements for the year ended 31 July 2003 have been reviewed by the audit committee, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period ended 31 July 2003.

Ernst & Young retire and a resolution for the reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lam Chi Shing

Chairman

Hong Kong, 24 October 2003



To the members

Sys Solutions Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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 Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong, 24 October 2003

Consolidated Profit and Loss Account

Year ended 31 July 2003

	Notes	2003 HK\$	2002 HK\$
TURNOVER	6	10,188,743	7,873,892
Cost of sales		(7,413,401)	(6,604,146)
Gross profit		2,775,342	1,269,746
Other revenue	6	78,713	282,083
Administrative and operating expenses		(12,230,694)	(10,086,533)
LOSS BEFORE TAX	7	(9,376,639)	(8,534,704)
Tax	10	—	—
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	(9,376,639)	(8,534,704)
LOSS PER SHARE	12		
Basic		HK2.85 cents	HK3.01 cents
Diluted		N/A	N/A

Consolidated Balance Sheet

31 July 2003

	Notes	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Fixed assets	13	1,479,923	2,276,165
Investments in securities	15	300,000	—
		1,779,923	2,276,165
CURRENT ASSETS			
Inventories	16	148,951	62,418
Accounts receivable	17	2,032,573	1,389,556
Deposits, prepayments and other receivables		987,896	1,979,903
Due from a director	18	—	26,697
Time deposits		24,050,343	—
Cash and bank balances		1,773,968	1,106,552
		28,993,731	4,565,126
CURRENT LIABILITIES			
Accounts payable	19	873,938	443,900
Deposits received	20	528,416	708,217
Accrued liabilities and other payables		1,155,539	476,960
		2,557,893	1,629,077
NET CURRENT ASSETS			
		26,435,838	2,936,049
		28,215,761	5,212,214
CAPITAL AND RESERVES			
Issued capital	21	3,848,400	20,000
Reserves	23	24,367,361	5,192,214
		28,215,761	5,212,214

Lam Chi Shing
Director

Su Chi Wen
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 July 2003

	Notes	2003 HK\$	2002 HK\$
At beginning of year — total equity		5,212,214	(5,253,080)
Issue of new shares of a subsidiary		—	999,998
Issue of new shares of a subsidiary to independent investors		—	12,000,000
Issue of new shares of a subsidiary for capitalisation of amounts due to former shareholders of a subsidiary and a related company	24(ii)	—	6,000,000
Issue of new shares for cash consideration	21(v)	38,509,200	—
Share issue expenses	21(v)	(6,129,014)	—
Net loss for the year		(9,376,639)	(8,534,704)
At end of year — total equity		28,215,761	5,212,214

Consolidated Cash Flow Statement

Year ended 31 July 2003

	Notes	2003 HK\$	2002 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(9,376,639)	(8,534,704)
Adjustments for:			
Interest income	6	(56,176)	—
Depreciation	7	1,449,818	1,426,559
Loss/(gain) on disposal/write-off of fixed assets, net	7	(3,410)	119,018
<hr/>			
Operating loss before working capital changes		(7,986,407)	(6,989,127)
Decrease/(increase) in inventories		(86,533)	110,983
Increase in accounts receivable		(643,017)	(701,796)
Decrease/(increase) in prepayments, deposits and other receivables		992,007	(1,142,076)
Increase in accounts payable		430,038	227,321
Increase/(decrease) in deposits received		(179,801)	644,027
Increase in accrued liabilities and other payables		678,579	119,724
<hr/>			
Cash used in operations and net cash outflow from operating activities		(6,795,134)	(7,730,944)
<hr/>			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		56,176	—
Purchases of fixed assets	13	(659,896)	(503,822)
Investment in securities	15	(300,000)	—
Proceeds from disposal of fixed assets		9,730	—
Advances to directors		—	(8,527)
Repayment of advances to directors		26,697	—
<hr/>			
Net cash outflow from investing activities		(867,293)	(512,349)

Consolidated Cash Flow Statement

Year ended 31 July 2003

	Notes	2003 HK\$	2002 HK\$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	21(v)	38,509,200	—
Share issue expenses	23	(6,129,014)	—
Advances from former shareholders of a subsidiary		—	3,000,000
Advances from a related party		—	500,000
Repayment of loans from former shareholders of a subsidiary		—	(9,462,000)
Repayment of loan from a related company		—	(788,000)
Proceeds from issue of new shares of subsidiaries	23	—	12,999,998
Net cash inflow from financing activities		32,380,186	6,249,998
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		24,717,759	(1,993,295)
Cash and cash equivalents at beginning of year		1,106,552	3,099,847
CASH AND CASH EQUIVALENTS AT END OF YEAR		25,824,311	1,106,552
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,773,968	1,106,552
Non-pledged time deposits with original maturity of less than three months when acquired		24,050,343	—
		25,824,311	1,106,552

Balance Sheet
31 July 2003

	Notes	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Fixed assets	13	422,673	—
Interests in subsidiaries	14	2,607,133	—
Investments in securities	15	300,000	—
		3,329,806	—
CURRENT ASSETS			
Deposits, prepayments and other receivables		308,641	—
Time deposits		24,050,343	—
Cash and bank balances		1,118,356	—
		25,477,340	—
CURRENT LIABILITIES			
Accrued liabilities and other payables		591,385	—
NET CURRENT ASSETS			
		24,885,955	—
		28,215,761	—
CAPITAL AND RESERVES			
Issued capital	21	3,848,400	—
Reserves	23	24,367,361	—
		28,215,761	—

Lam Chi Shing
Director

Su Chi Wen
Director

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 3 July 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 February 2003. On incorporation, the Company had authorised share capital of HK\$300,000 divided into 30,000,000 shares of HK\$0.01 each, 1,000,000 shares of which were allotted and issued nil paid on 17 July 2002. Apart from the foregoing, no other transactions were carried out by the Company during the period from 3 July 2002 (date of incorporation of the Company) to 31 July 2002. Accordingly, the Company did not have any profits and losses for the period or any assets and liabilities as at 31 July 2002.

Group reorganisation

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 25 January 2003. This was accomplished by acquiring the entire issued share capital of Sys Solutions (BVI) Limited (“Sys BVI”), the then immediate holding company of the other subsidiaries, in consideration of and in exchange for which the Company (i) allotted and issued credited as fully paid, 1,000,000 new shares of HK\$0.01 each; and (ii) credited as fully paid at par the 1,000,000 nil paid shares of HK\$0.01 each in the share capital of the Company, to the then shareholders of Sys BVI. Further details of the Group Reorganisation are set out in note 21 to the financial statements and the prospectus of the Company dated 30 January 2003 (the “Prospectus”).

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) 27 “Accounting for group reconstructions”. On this basis, the Company has been treated as the holding company of the subsidiaries throughout the financial years presented or from the respective dates of incorporation of these subsidiaries where this is a shorter period, rather than from the date of their acquisitions on 25 January 2003. Accordingly, the consolidated results and cash flows of the Group for the years ended 31 July 2002 and 2003 include the results and cash flows of the Company and its subsidiaries with effect from 1 August 2001 or since their respective dates of incorporation where this is a shorter period. The comparative consolidated balance sheet as at 31 July 2002 has been prepared on the basis that the current group structure had been in existence as at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant transactions and balances among the companies comprising the Group are eliminated on consolidation.

2. CORPORATE INFORMATION

The principal place of business of the Company is located at Unit 5, 16th Floor, No. 1 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong.

During the year, the Group's principal activities were the provision of network infrastructure solutions and services. There were no significant changes in the nature of the Group's principal activities during the year.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of an overseas subsidiary is now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously it was translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flow from the overseas subsidiary arising during the year is now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously it was translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 4 to the financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option schemes, as detailed in note 22 to the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Fixed assets and depreciation

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

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

Leasehold improvements	33% or over the lease terms, whichever is shorter
Computer equipment and software	30%
Furniture and fixtures	20%
Office equipment	20%

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities

Debt security is intended to be held to maturity and is stated at cost and where applicable, adjusted to give effect to amortisation of premium and accretion of discount on purchase over periods to maturity, less any impairment losses.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Related parties

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of computer hardware and software and the provision of related network infrastructure services, when the installation work is completed and the customer has accepted the goods together with significant risks and rewards of ownership;
- (b) from the rendering of network maintenance services, on a time proportion basis over the period of the contract;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (c) from the rendering of professional value-added solutions and services and data processing fee income, when the related services are rendered;
- (d) dataline rental income, on an accrual basis; and
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government (the “PRC Scheme”). This subsidiary is required to make contributions for its employees who are registered as permanent residents in Mainland China. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the PRC Scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of an overseas subsidiary are translated into Hong Kong dollars using the net investment method. The profit and loss account of the overseas subsidiary is translated into Hong Kong dollars at the weighted average exchange rates for the year, and its balance sheet is translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss account and the cash flows of the overseas subsidiary were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAPs 11 and 15 have had no material effect on the financial statements.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the network infrastructure construction solutions comprises the provision of hardware and software for network infrastructure solutions and the design and installation of network infrastructure systems;
- (ii) the network infrastructure maintenance and reinforcement services comprises the provision of support and maintenance services to customers' existing computer networks and systems; and
- (iii) the other professional value-added solutions and services offers server co-location and management services, web-hosting and e-mail hosting services, web-based software applications and the provision of user training services.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

No analysis for geographical segment is presented as over 90% of the Group's revenue, assets and liabilities were derived from services rendered in or located in Hong Kong during each of the years ended 31 July 2002 and 2003.

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5. SEGMENT INFORMATION (continued)

An analysis of the Group's revenue and profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments is as follows:

	Network infrastructure construction segment HK\$	Network infrastructure maintenance and reinforcement segment HK\$	Other professional value-added solutions and services segment HK\$	Consolidated HK\$
2003				
Segment revenue:				
Sales to external customers	6,839,304	1,854,047	1,495,392	10,188,743
Segment results	(561,007)	20,081	(1,531,917)	(2,072,843)
Unallocated income				78,713
Unallocated expenses				(7,382,509)
Loss before tax				(9,376,639)
Tax				—
Net loss from ordinary activities attributable to shareholders				(9,376,639)
Segment assets	1,859,784	256,428	849,483	2,965,695
Unallocated assets				27,807,959
Total assets				30,773,654
Segment liabilities	664,178	670,824	79,333	1,414,335
Unallocated liabilities				1,143,558
Total liabilities				2,557,893
Other segment information:				
Depreciation	—	—	742,317	742,317
Unallocated depreciation				707,501
				1,449,818
Other non-cash expenses	8,902	—	11,832	20,734
Capital expenditure	—	—	28,556	28,556
Unallocated capital expenditure				631,340
				659,896

Notes to Financial Statements

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5. SEGMENT INFORMATION (continued)

	Network infrastructure construction segment HK\$	Network infrastructure maintenance and reinforcement segment HK\$	Other professional value-added solutions and services segment HK\$	Consolidated HK\$
2002				
Segment revenue:				
Sales to external customers	6,422,215	1,378,345	73,332	7,873,892
Segment results	(343,032)	94,875	(2,501,760)	(2,749,917)
Unallocated income				282,083
Unallocated expenses				(6,066,870)
Loss before tax				(8,534,704)
Tax				—
Net loss from ordinary activities attributable to shareholders				(8,534,704)
Segment assets	1,366,577	50,488	1,332,772	2,749,837
Unallocated assets				4,091,454
Total assets				6,841,291
Segment liabilities	492,290	216,236	443,591	1,152,117
Unallocated liabilities				476,960
Total liabilities				1,629,077
Other segment information:				
Depreciation	—	—	709,786	709,786
Unallocated depreciation				716,773
				1,426,559
Other non-cash expenses	—	—	101,658	101,658
Unallocated other non-cash expenses				17,360
				119,018
Capital expenditure	—	—	14,302	14,302
Unallocated capital expenditure				489,520
				503,822

Notes to Financial Statements

31 July 2003

6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered. All significant transactions among the companies now comprising the Group have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	2003 HK\$	2002 HK\$
Turnover		
Network infrastructure solutions		
— Sale of computer hardware and software and the provision of related services	6,839,304	6,422,215
Rendering of network maintenance services	1,854,047	1,378,345
Professional value-added solutions and services	1,495,392	73,332
	10,188,743	7,873,892
Other revenue		
Interest income	56,176	—
Data processing fee income	—	216,000
Sundry income	22,537	66,083
	78,713	282,083
Total revenue	10,267,456	8,155,975

Notes to Financial Statements

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7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2003 HK\$	2002 HK\$
Cost of inventories sold	6,408,051	5,609,773
Cost of services provided*	1,005,350	994,373
Depreciation (note 13)	1,449,818	1,426,559
Loss/(gain) on disposal/write-off of fixed assets, net	(3,410)	119,018
Research and development costs — current year expenditure**	584,871	598,176
Minimum lease payments under operating leases:		
Land and buildings	1,002,882	926,048
Dataline	66,577	105,600
Auditors' remuneration	380,000	140,000
Staff costs, including directors' remuneration (note 8):		
Wages and salaries	6,067,375	4,746,236
Pension scheme contributions	191,494	160,496
	6,258,869	4,906,732
Exchange losses, net	2,674	2,996

* The cost of services provided includes HK\$484,620 (2002: HK\$414,502) relating to staff costs, which is also included in the total amounts of staff costs disclosed separately above.

** Research and development costs represent staff costs, which is also included in the total amounts of staff costs disclosed separately above.

Notes to Financial Statements
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8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK\$	HK\$
Fees of the independent non-executive directors	320,726	—
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	1,141,667	600,000
Pension scheme contributions	12,000	12,000
	1,474,393	612,000

The remuneration of each of the directors fell within the band of nil to HK\$1,000,000.

The two executive directors received emoluments of HK\$612,000 (2002: HK\$612,000), HK\$541,667 (2002: Nil), respectively and the three independent non-executive directors received fees of HK\$162,500 (2002: Nil), HK\$98,226 (2002: Nil) and HK\$60,000 (2002: Nil), respectively for the year ended 31 July 2003. There were no emoluments paid or payable to the remaining non-executive director of the Company during the year (2002: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2002: Nil).

Notes to Financial Statements

31 July 2003

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2002: four) non-director, highest paid individuals are as follows:

	Group	
	2003 HK\$	2002 HK\$
Salaries, allowances and benefits in kind	1,440,729	1,370,067
Pension scheme contributions	36,000	43,000
	1,476,729	1,413,067

The remuneration of each of the non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2002: Nil).

10. TAX

Hong Kong profits tax has not been provided (2002: Nil) as the Group did not generate any assessable profits in Hong Kong during the year. The directors consider that the Group is not liable to tax in any other jurisdiction.

The principal components of the deferred tax liability/(asset) not provided for/(recognised) as at the balance sheet date were as follows:

	Group	
	2003 HK\$	2002 HK\$
Tax losses carried forward	(3,503,959)	(2,390,857)
Accelerated depreciation allowances	40,443	218,018
	(3,463,516)	(2,172,839)

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company was HK\$5,055,456 (Period ended 31 July 2002: Nil).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders of the Company for the year of HK\$9,376,639 (2002: HK\$8,534,704) and the weighted average of 329,033,589 (2002: 283,500,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the loss per share for the year ended 31 July 2002 includes the pro forma issued share capital of the Company, comprising the 2,000,000 shares issued as consideration for the acquisition of the entire issued share capital of Sys BVI and the capitalisation issue of 281,500,000 shares, as further detailed in note 21 to the financial statements. The weighted average number of shares used in the calculation of the loss per share for the year ended 31 July 2003 in addition includes the 101,340,000 shares issued subsequently by way of placing in connection with the listing of the Company's shares on the GEM on 18 February 2003.

Diluted loss per share amount for the year ended 31 July 2003 has not been presented, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

Diluted loss per share amount for the year ended 31 July 2002 had not been presented as no diluting events existed during that year.

Notes to Financial Statements
31 July 2003

13. FIXED ASSETS

	Leasehold improvements HK\$	Computer equipment and software HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Group					
Cost:					
At 1 August 2002	1,363,366	2,904,257	199,057	169,275	4,635,955
Additions	241,500	240,527	76,629	101,240	659,896
Disposal	—	(7,600)	—	—	(7,600)
At 31 July 2003	1,604,866	3,137,184	275,686	270,515	5,288,251
Accumulated depreciation:					
At 1 August 2002	867,097	1,389,512	53,881	49,300	2,359,790
Provided during the year	471,545	898,988	42,360	36,925	1,449,818
Disposal	—	(1,280)	—	—	(1,280)
At 31 July 2003	1,338,642	2,287,220	96,241	86,225	3,808,328
Net book value:					
At 31 July 2003	266,224	849,964	179,445	184,290	1,479,923
At 31 July 2002	496,269	1,514,745	145,176	119,975	2,276,165
Company					
Cost:					
Additions during the year and balance at 31 July 2003	241,500	23,207	76,629	100,090	441,426
Accumulated depreciation:					
Provided during the year and balance at 31 July 2003	11,986	1,160	2,554	3,053	18,753
Net book value:					
At 31 July 2003	229,514	22,047	74,075	97,037	422,673

Notes to Financial Statements

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14. INTERESTS IN SUBSIDIARIES

	Company HK\$
Unlisted shares, at cost	891,031
Due from subsidiaries	4,968,095
	5,859,126
Provision for impairment	(3,251,993)
	2,607,133

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sys Solutions (BVI) Limited	British Virgin Islands/ Hong Kong	US\$10,000 ordinary	100	—	Investment holding
Sys Solutions (China) Limited	Hong Kong	HK\$1,000,000 ordinary	—	100	Dormant
Sys Solutions Limited	Hong Kong	HK\$1,000,000 ordinary	—	100	Provision of network infrastructure solutions and services
Sys Solutions Technology Consulting Limited*	Hong Kong	HK\$10,000 ordinary	—	100	Provision of network infrastructure solutions and services
廣州軟迅網絡科技 有限公司** Sys Solutions (Guangzhou) Limited	People's Republic of China	HK\$1,000,000	—	100	Provision of technical services and research and development of web-based software

* Subsidiary incorporated during the year

** Sys Solutions (Guangzhou) Limited is a wholly foreign-owned enterprise established by Sys Solutions Limited in Mainland China for a period of 11 years commencing from the date of issuance of its business licence of 2 July 2001.

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15. INVESTMENTS IN SECURITIES

	Group and Company	
	2003	2002
	HK\$	HK\$
Certificate of deposit, unlisted and at cost	300,000	—

16. INVENTORIES

	Group	
	2003	2002
	HK\$	HK\$
Computer hardware and software held for re-sale	148,951	62,418

None of the inventories included above were carried at net realisable values as at 31 July 2003 (2002: Nil).

17. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit for which the credit period is generally for a period of 30 to 90 days.

An aged analysis of the accounts receivable of the Group as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$	HK\$
Within 30 days	670,609	584,659
Between 31–60 days	528,312	167,231
Between 61–90 days	17,310	349,559
Between 91–180 days	754,742	273,062
Over 181 days	61,600	15,045
	2,032,573	1,389,556

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17. ACCOUNTS RECEIVABLE (continued)

Included in the Group's accounts receivable are amounts of HK\$115,735 (2002: HK\$102,022) due from the Group's related companies of which Mr. Lam Chi Shing, the chairman and an executive director of the Company, is also a director, which are repayable on similar credit terms to those offered to the other customers of the Group.

18. DUE FROM A DIRECTOR

Particulars of the amount due from a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	31 July 2003 HK\$	Maximum amount outstanding during the year HK\$	1 August 2002 HK\$
Mr. Su Chi Wen	—	26,697	26,697

The amount due from a director was unsecured, interest-free and was fully settled during the year.

19. ACCOUNTS PAYABLE

An aged analysis of the accounts payable of the Group as at the balance sheet date, based on invoice date, is as follows:

	Group 2003 HK\$	2002 HK\$
Within 30 days	834,053	342,376
Between 31–90 days	39,885	55,385
Between 91–180 days	—	15,084
Over 181 days	—	31,055
	873,938	443,900

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20. DEPOSITS RECEIVED

The deposits received represent an unearned portion of deposits received from customers in respect of the provision of the network maintenance services and professional value-added solutions and services.

21. SHARE CAPITAL

	Notes	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$
Authorised:			
On incorporation	(i)	30,000,000	300,000
Increase in authorised share capital	(ii)	4,970,000,000	49,700,000
At 31 July 2003		5,000,000,000	50,000,000
Issued and fully paid:			
Alloted and issued as nil paid	(i)	1,000,000	—
On acquisition of Sys BVI			
— consideration shares	(iii)	1,000,000	10,000
— nil paid shares credited as fully paid	(iii)	—	10,000
Pro forma issued share capital as at 31 July 2002 before capitalisation issue		2,000,000	20,000
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public by way of placing	(iv)	281,500,000	—
Pro forma issued share capital as at 31 July 2002 after capitalisation issue		283,500,000	20,000
Capitalisation of share premium account as set out above	(iv)	—	2,815,000
New issue of shares by way of placing	(v)	101,340,000	1,013,400
At 31 July 2003		384,840,000	3,848,400

Notes to Financial Statements

31 July 2003

21. SHARE CAPITAL (continued)

The following changes in the authorised and issued share capital of the Company took place during the period from 3 July 2002 (date of incorporation of the Company) to 31 July 2003:

Notes:

- (i) On 3 July 2002, the authorised share capital of the Company was HK\$300,000 divided into 30,000,000 ordinary shares of HK\$0.01 each, 1,000,000 shares of which were allotted and issued nil paid on 17 July 2002. The said shares were subsequently credited as fully paid as described in (iii) below.
- (ii) Pursuant to written resolutions of all shareholders of the Company passed on 25 January 2003, the authorised share capital of the Company was increased from HK\$300,000 to HK\$50,000,000 by the creation of an additional 4,970,000,000 ordinary shares of HK\$0.01 each.
- (iii) On 25 January 2003, the Company acquired the entire share capital of Sys BVI and became the holding company of the Group in exchange for the allotted and issued 1,000,000 ordinary shares of HK\$0.01 each of the Company, credited as fully paid, and credited as fully paid another 1,000,000 nil paid shares held by the shareholders as the consideration for the acquisition of the entire issued share capital of Sys BVI.
- (iv) Pursuant to written resolutions of all shareholders of the Company passed on 25 January 2003, the conditions of the share placement ("Placing") set out in the Prospectus being fulfilled, an aggregate of 281,500,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK\$2,815,000 from the share premium account arising from the Placing, to the existing shareholders of the Company in proportion to their respective shareholdings.
- (v) Pursuant to the listing of the shares of the Company on the GEM on 18 February 2003, the Company issued 101,340,000 ordinary shares of HK\$0.01 each at HK\$0.38 per share to the public by way of the Placing for a total consideration of HK\$38,509,200 before issue expenses of HK\$6,129,014.

22. SHARE OPTION SCHEMES

- (i) On 25 January 2003, a share option scheme (the “Pre-Scheme”) was approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme was to recognise the contribution of certain employees of the Group to its growth. The Company had granted pre-IPO share options thereunder to two executive directors and 18 employees to subscribe for a total of 30,168,000 shares, representing in aggregate approximately 7.84% of the then issued share capital of the Company immediately following the completion of the Placing and the capitalisation issue, at a subscription price ranged from HK\$0.11 each to HK\$0.27 each. No further options can be granted under the Pre-Scheme after the listing of the Company’s shares on the GEM. All these options granted may be exercised after the expiry of 12 months from 18 February 2003, the listing date, and in each case, not later than four years from the listing date. Each grantee has paid HK\$1 to the Company as consideration for such grant.

The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 30,168,000 additional shares of the Company of HK\$0.01 each. No pre-IPO share option was exercised up to the date of approval of these financial statements.

The following share options were outstanding under the Pre-Scheme during the period:

Name or category of participant	Number of share options granted on 25 January 2003 and remained outstanding at 31 July 2003	Exercise period of share options	Exercise price per share HK\$
Executive directors:			
Mr. Lam Chi Shing	11,340,000	18 February 2004 to 17 February 2007	0.11
Mr. Su Chi Wen	11,340,000	18 February 2004 to 17 February 2007	0.11
	22,680,000		
Senior management	3,408,000	18 August 2004 to 17 February 2007	0.19
Other employees	4,080,000	18 February 2004 to 17 February 2007	0.19 to 0.27
	30,168,000		

22. SHARE OPTION SCHEMES (continued)

- (ii) On 25 January 2003, a further share option scheme (the “Post-Scheme”) was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to recognise the contributions of the participants to the Group and to motivate the participants to continuously work to the benefit of the Group by offering to the participants an opportunity to have personal interest in the share capital of the Company. The board of directors of the Company (the “Board”) may, at its discretion, grant options to any employee, consultants and advisers of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company. The Post-Scheme remains in force for a period of ten years with effect from 25 January 2003.

The maximum number of shares in respect of which options may be granted under the Post Scheme and any other share option scheme of the Company may not exceed 10% of the issued share capital of the Company, or may not exceed a maximum of 30% should the shareholders renew the 10% limit, from time to time which have been duly allotted and issued.

The exercise price for shares under the Post-Scheme may be determined by the Board at its absolute discretion but in any event will be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of the shares on the date of grant of the option.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value based on the closing price of the shares of the Company at the date of grant in excess of HK\$5 million, in any 12-month period, are subject to shareholders’ approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time, in any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The options granted may be exercised at any time or times during a period to be determined and notified by the Board which period of time shall commence on the expiration of three years after the date of grant of the option and expire on such date as determined by the Board in any event no later than 10 years from the date of the grant of the options. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option under the Post-Scheme.

No share options had been granted under the Post-Scheme as at 31 July 2003 or up to the date of approval of these financial statements. As at the date of approval of these financial statements, 8,316,000 shares are available for issue under the Post-Scheme, representing 2.16% of the issued share capital of the Company at that date.

- (iii) Share options do not confer rights on the holders to dividends or vote at shareholders’ meetings.

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23. RESERVES

	Share premium account HK\$	Capital reserve HK\$ (Note)	Accumulated losses HK\$	Total HK\$
Group				
At 1 August 2001	—	980,002	(6,253,082)	(5,273,080)
Issue of new shares of a subsidiary	—	999,998	—	999,998
Issue of new shares of a subsidiary to independent investors	—	12,000,000	—	12,000,000
Issue of new shares of a subsidiary for capitalisation of amounts due to former shareholders of a subsidiary and a related company	—	6,000,000	—	6,000,000
Net loss for the year	—	—	(8,534,704)	(8,534,704)
At 31 July 2002 and 1 August 2002	—	19,980,000	(14,787,786)	5,192,214
Issue of shares	37,495,800	—	—	37,495,800
Capitalisation issue	(2,815,000)	—	—	(2,815,000)
Share issue expenses	(6,129,014)	—	—	(6,129,014)
Net loss for the year	—	—	(9,376,639)	(9,376,639)
At 31 July 2003	28,551,786	19,980,000	(24,164,425)	24,367,361
Company				
Arising on Group Reorganisation	—	871,031	—	871,031
Issue of shares	37,495,800	—	—	37,495,800
Capitalisation issue	(2,815,000)	—	—	(2,815,000)
Share issue expenses	(6,129,014)	—	—	(6,129,014)
Net loss for the year	—	—	(5,055,456)	(5,055,456)
At 31 July 2003	28,551,786	871,031	(5,055,456)	24,367,361

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23. RESERVES (continued)

Note: The capital reserve of the Group represents the difference between the nominal value of the share capital and share premium account of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor. The capital reserve of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor. Under the Companies Law of the Cayman Islands, the capital reserve of the Company may be distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

- (i) During the year, the Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Sys BVI by the issue of shares of the Company, further details of which are set out in note 1 to the financial statements.
- (ii) During the year ended 31 July 2002, the amounts due to the former shareholders and a related company of a subsidiary approximated to HK\$5,538,000 and HK\$462,000 were capitalised in consideration of the allotment and issue of 923 and 77 shares, respectively, of US\$1.00 each in the capital of Sys BVI.

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements for terms ranging from one to three years.

At 31 July 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Within one year	999,186	548,896	331,000	—
In the second to fifth years, inclusive	1,190,920	—	695,100	—
	2,190,106	548,896	1,026,100	—

Notes to Financial Statements

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26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25 above, the Group and the Company had the following commitments at the balance sheet date.

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Consultancy fee*	315,920	—	—	—
Sponsor fee**	720,000	—	720,000	—
	1,035,920	—	720,000	—

* The consultancy fee is payable under the agreements entered into between Ms. Wong Sze Shun Syson and the Group in respect of the Group's marketing activities in Hong Kong, Taiwan and Mainland China (note 27(iv)).

** Pursuant to a sponsor agreement dated 30 January 2003 entered into between the Company and the sponsor, the sponsor is appointed to act as the retaining sponsor to the Company, for the purpose of the listing of the Company's shares on the GEM, for a period from 18 February 2003 (the date of the listing of the Company's shares) to 31 July 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

Notes to Financial Statements

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27. RELATED PARTY TRANSACTIONS

Particulars of significant transactions between the Group and related parties during the year are summarised below:

	Notes	2003 HK\$	2002 HK\$
Speed Sourcing Limited*			
Network infrastructure solutions income	(i)	472,250	311,794
Network maintenance services income	(i)	410,580	232,000
Other professional value-added solutions and services income and dataline rental income	(ii)	885,276	124,320
Data processing fee income	(iii)	—	216,000
Pushang Management Services Limited*			
Network infrastructure construction income	(i)	185,699	—
Wong Wing Hong**			
Purchase of fixed assets	(i)	251,040	—
Wong Sze Shun Syson**			
Consultancy fee	(iv)	292,500	—
Cyber Mission Ventures Limited***			
Management fee paid	(v)	—	220,000

* Speed Sourcing Limited and Pushang Management Services Limited are companies incorporated in Hong Kong, each of which Mr. Lam Chi Shing, the chairman and an executive director of the Company, is also a director.

** Each of Wong Wing Hong and Wong Sze Shun Syson is a substantial shareholder of the Company.

*** Cyber Mission Ventures Limited, a company incorporated in the British Virgin Islands, is a substantial shareholder of the Company.

27. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The directors of the Company consider that the prices and terms of the sales and purchase transactions with related companies of the Company approximated to those with independent third parties;
- (ii) The income includes sales of internally developed software and dataline rental income. The sales transaction was charged with reference to the actual costs incurred for the software development and approximated to those with independent third parties. Dataline rental income was determined based on a cost-plus basis on the direct costs incurred, with a margin of 18%;
- (iii) Data processing fee income was charged with reference to the actual costs incurred in respect of the provision of data input and updating services;
- (iv) The consultancy fee was charged at a fixed rate of HK\$58,500 per month determined between the Company and the related party; and
- (v) Management fee was charged with reference to the actual costs incurred in respect of the provision of accounting and payroll services.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in the ordinary course of business.

28. POST BALANCE SHEET EVENT

- (i) Subsequent to the balance sheet date, on 19 September 2003, the Group entered into a joint venture agreement with an independent third party to establish a joint venture in Hangzhou, the PRC, for the engagement in examining the construction of the information network systems and providing related technology consultancy services. Pursuant to the joint venture agreement, the total investment in the joint venture is RMB4,000,000 and the Group has a 50% equity interest in the joint venture. As at the date of the approval of these financial statements, the registered capital of the joint venture is RMB3,000,000. The Group's investment in the joint venture of RMB1,500,000 is expected to be fully paid up by March 2004. Up to the date of the approval of these financial statements, the Group has not made any payment in respect of the investment in the joint venture.
- (ii) Pursuant to the Company's announcement dated 24 October 2003 (the "Announcement"), the Company intends to change the use of certain of the proceeds from the original intentions as set out in the Prospectus to other purposes. The details of the change of the original intention of use of proceeds have been set out in the Announcement and the Report of the Directors.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 October 2003.

NOTICE IS HEREBY GIVEN that the first annual general meeting of Sys Solutions Holdings Limited (the “Company”) will be held at the Conference Room, Unit 5, 16th Floor, 1 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong on Friday, 5 December 2003 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and reports of the directors and auditors for the year ended 31 July 2003;
2. To re-elect the retiring directors of the Company and to authorise the board of directors of the Company (“Board of Directors”) to fix the Directors’ remuneration;
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration;
4. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:
 - (1) **“THAT:**
 - (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under any share option scheme of the Company or any other 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 shares in the Company or rights to acquire shares in the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in the Company in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which carry rights to subscribe for or are convertible into shares in the Company, unissued shares in the capital of the Company and to make or grant offers, agreements and options which would or 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 authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing 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 law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange in any territory applicable to the Company).”

(2) **“THAT:**

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares in the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, subject to and in accordance with the rules and regulations of the Securities and Future Commission, The Stock Exchange of Hong Kong Limited, the Companies Law of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares in the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly;
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;

Notice of Annual General Meeting

- (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 other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”

(3) **“THAT:**

Conditional upon resolution Nos. (1) and (2) set out in item 4 of the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares in the Company pursuant to the said resolution No. (1) be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company pursuant to the said resolution No. (2), provided that the amount of shares so repurchased by the Company shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company on the date of this resolution.”

By Order of the Board

Chan Chi Hung

Company Secretary

Hong Kong, 31 October 2003

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the above meeting. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 48 hours before the time appointed for the meeting.
3. With regard to ordinary resolution No. (2) set out in item 4 of this notice, a circular containing an explanatory statement which sets out information regarding the repurchase by the Company of its own shares will be sent to shareholders of the Company together with the annual report.