

# 2003/04

## Interim Report



**SYS SOLUTIONS HOLDINGS LIMITED**

**軟迅科技控股有限公司**

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



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

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

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*This report, for which the directors of Sys Solutions Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to Sys Solutions Holdings Limited. The directors of Sys Solutions Holdings Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the three months and six months ended 31 January 2004

The board of directors (the "Board") of Sys Solutions Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 31 January 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 31 January		Six months ended 31 January	
		2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)
TURNOVER	3	<b>5,536,340</b>	3,049,156	<b>8,393,375</b>	4,634,756
Cost of sales		<b>(4,855,459)</b>	(2,373,906)	<b>(7,126,437)</b>	(3,402,467)
Gross profit		<b>680,881</b>	675,250	<b>1,266,938</b>	1,232,289
Other revenue	3	<b>20,469</b>	3,120	<b>98,108</b>	7,612
Administrative and operating expenses		<b>(3,675,134)</b>	(2,887,988)	<b>(7,134,687)</b>	(5,561,084)
LOSS FROM OPERATING ACTIVITIES	4	<b>(2,973,784)</b>	(2,209,618)	<b>(5,769,641)</b>	(4,321,183)
Share of profits and losses of a jointly-controlled entity		<b>(109,899)</b>	—	<b>(109,899)</b>	—
LOSS BEFORE TAX		<b>(3,083,683)</b>	(2,209,618)	<b>(5,879,540)</b>	(4,321,183)
Tax	5	—	—	—	—
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<b>(3,083,683)</b>	(2,209,618)	<b>(5,879,540)</b>	(4,321,183)
LOSS PER SHARE	6				
Basic		<b>HK0.80 cent</b>	HK0.78 cent	<b>HK1.53 cents</b>	HK1.52 cents
Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)***As at 31 January 2004*

	Notes	31 January 2004 HK\$ (Unaudited)	31 July 2003 HK\$ (Audited)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	<b>934,714</b>	1,479,923
Interest in a jointly-controlled entity	8	<b>1,308,730</b>	—
Investments in securities		<b>300,000</b>	300,000
		<b>2,543,444</b>	1,779,923
<b>CURRENT ASSETS</b>			
Inventories		<b>277,341</b>	148,951
Accounts receivable	9	<b>4,070,685</b>	2,032,573
Deposits, prepayments and other receivables		<b>1,112,016</b>	987,896
Pledged deposits		<b>3,000,000</b>	—
Cash and cash equivalents		<b>16,866,193</b>	25,824,311
		<b>25,326,235</b>	28,993,731
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	<b>3,665,013</b>	873,938
Deposits received		<b>4,710</b>	528,416
Accrued liabilities and other payables		<b>1,863,735</b>	1,155,539
		<b>5,533,458</b>	2,557,893
<b>NET CURRENT ASSETS</b>			
		<b>19,792,777</b>	26,435,838
		<b>22,336,221</b>	28,215,761
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>3,848,400</b>	3,848,400
Reserves	12	<b>18,487,821</b>	24,367,361
		<b>22,336,221</b>	28,215,761

**CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES  
IN EQUITY (UNAUDITED)**

*For the six months ended 31 January 2004*

	<b>Six months ended 31 January</b>	
	<b>2004 HK\$ (Unaudited)</b>	2003 HK\$ (Unaudited)
At beginning of period — total equity	<b>28,215,761</b>	5,212,214
Net loss for the period	<b>(5,879,540)</b>	(4,321,183)
At end of period — total equity	<b>22,336,221</b>	891,031

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)***For the six months ended 31 January 2004*

	<b>Six months ended 31 January</b>	
	<b>2004 HK\$ (Unaudited)</b>	2003 HK\$ (Unaudited)
Net cash outflow from operating activities	<b>(4,534,619)</b>	(3,368,295)
Net cash outflow from investing activities	<b>(4,423,499)</b>	(44,787)
Net cash inflow from financing activities	—	2,600,000
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,958,118)</b>	(813,082)
Cash and cash equivalents at beginning of period	<b>25,824,311</b>	1,106,552
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>16,866,193</b>	293,470
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>16,866,193</b>	293,470

Notes:

**1. Basis of preparation**

The unaudited condensed consolidated financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) “Interim financial reporting”, and Chapter 18 of the Listing Rules of GEM of the Stock Exchange.

The accounting policies and methods of computation used in the preparation of the interim financial statements are in accordance with those used in the preparation of the Company’s annual report for the year ended 31 July 2003.

**2. Segment information**

No analysis for geographical segment is presented as over 90% of the Group’s revenue was derived from services rendered in or located in Hong Kong during the six months ended 31 January 2004 and 2003.

An analysis of the Group's revenue and profit/(loss) for the Group's business segments is as follows:

	Network infrastructure construction segment HK\$ (Unaudited)	Network infrastructure maintenance and reinforcement segment HK\$ (Unaudited)	Other professional value-added solutions and services segment HK\$ (Unaudited)	Consolidated HK\$ (Unaudited)
<b>2004</b>				
<b>Segment revenue:</b>				
Sales to external customers	7,652,772	585,876	154,727	8,393,375
<b>Segment results</b>	<b>(167,685)</b>	<b>(506,903)</b>	<b>(900,719)</b>	<b>(1,575,307)</b>
Unallocated income				98,108
Unallocated expenses				<u>(4,292,442)</u>
Loss from operating activities				(5,769,641)
Share of profits and losses of a jointly- controlled entity				<u>(109,899)</u>
Loss before tax				(5,879,540)
Tax				<u>—</u>
Net loss attributable to shareholders				<u>(5,879,540)</u>



	Network infrastructure construction segment HK\$ (Unaudited)	Network infrastructure maintenance and reinforcement segment HK\$ (Unaudited)	Other professional value-added solutions and services segment HK\$ (Unaudited)	Consolidated HK\$ (Unaudited)
2003				
Segment revenue:				
Sales to external customers	3,438,906	711,490	484,360	4,634,756
Segment results	(17,721)	169,049	(1,094,597)	(943,269)
Unallocated income				7,612
Unallocated expenses				(3,385,526)
Loss before tax				(4,321,183)
Tax				—
Net loss attributable to shareholders				(4,321,183)

### 3. Turnover

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:

	Three months ended 31 January		Six months ended 31 January	
	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)
<b>Turnover</b>				
Network infrastructure solutions				
— Sale of computer hardware and software and the provision of related services	<b>5,206,482</b>	2,346,811	<b>7,652,772</b>	3,438,906
Rendering of network maintenance services	<b>280,058</b>	371,019	<b>585,876</b>	711,490
Professional value-added solutions and services	<b>49,800</b>	331,326	<b>154,727</b>	484,360
	<b>5,536,340</b>	3,049,156	<b>8,393,375</b>	4,634,756
<b>Other revenue</b>				
Interest income	<b>4,576</b>	—	<b>72,104</b>	—
Sundry income	<b>15,893</b>	3,120	<b>26,004</b>	7,612
	<b>20,469</b>	3,120	<b>98,108</b>	7,612
Total revenue	<b>5,556,809</b>	3,052,276	<b>8,491,483</b>	4,642,368

#### 4. Loss from operating activities

The Group's loss from operating activities is arrived at after charging/(crediting):

	Three months ended 31 January		Six months ended 31 January	
	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)
Cost of inventories sold	4,748,088	2,065,948	6,881,842	2,933,450
Cost of services provided	107,371	238,221	244,595	358,004
Depreciation	294,797	358,945	622,183	716,219
Loss/(gain) on disposal/ write-off of fixed assets, net	—	(2,830)	—	31,396

#### 5. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the three months and six months ended 31 January 2004 (three months and six months ended 31 January 2003: Nil).

#### 6. Loss per share

The calculation of basic loss per share for the three months and six months ended 31 January 2004 is based on the unaudited net loss attributable to shareholders of HK\$3,083,683 and HK\$5,879,540 respectively (three months and six months ended 31 January 2003: HK\$2,209,618 and HK\$4,321,183, respectively) and the weighted average of 384,840,000 for the three months and six months ended 31 January 2004 (three months and six months ended 31 January 2003: 283,500,000) ordinary shares in issue.

Diluted loss per share amount for the three months and six months ended 31 January 2004 and 2003 has not been presented, as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the periods.

## 7. Fixed assets

During the period from 1 August 2003 to 31 January 2004, the Group had additions to fixed assets in the amount of HK\$76,974. The Group did not dispose of any fixed assets during the period.

## 8. Interest in a jointly-controlled entity

	31 January 2004 (Unaudited)	31 July 2003 (Audited)
Share of net assets	1,308,730	—

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
杭州載均信息系統 工程監理有限公司	Corporate	People's Republic of China ("PRC")/ Mainland China	50%	60%	50%	Provision of information technology consulting services

## 9. 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 the invoice date, is as follows:

	<b>31 January 2004 HK\$ (Unaudited)</b>	31 July 2003 HK\$ (Audited)
Within 30 days	<b>2,375,876</b>	670,609
Between 31–60 days	<b>466,536</b>	528,312
Between 61–90 days	<b>990,255</b>	17,310
Between 91–180 days	<b>179,475</b>	754,742
Over 181 days	<b>58,543</b>	61,600
	<b>4,070,685</b>	2,032,573

## 10. Accounts payable

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

	<b>31 January 2004 HK\$ (Unaudited)</b>	31 July 2003 HK\$ (Audited)
Within 30 days	<b>2,701,775</b>	834,053
Between 31–90 days	<b>876,474</b>	39,885
Between 91–180 days	<b>29,292</b>	—
Over 181 days	<b>57,472</b>	—
	<b>3,665,013</b>	873,938

## 11. Share capital

	Number of shares		Nominal value	
	At 31 January 2004	At 31 July 2003	At 31 January 2004 HK\$	At 31 July 2003 HK\$
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	5,000,000,000	5,000,000,000	50,000,000	50,000,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.01 each	384,840,000	384,840,000	3,848,400	3,848,400

## 12. Reserves

	Share premium account HK\$	Capital reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 August 2002	—	19,980,000	(14,787,786)	5,192,214
Net loss for the six months ended 31 January 2003	—	—	(4,321,183)	(4,321,183)
At 31 January 2003	—	19,980,000	(19,108,969)	871,031
At 1 August 2003	28,551,786	19,980,000	(24,164,425)	24,367,361
Net loss for the six months ended 31 January 2004	—	—	(5,879,540)	(5,879,540)
At 31 January 2004	28,551,786	19,980,000	(30,043,965)	18,487,821

*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.

### 13. Related party transactions

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

	Notes	Three months ended 31 January		Six months ended 31 January	
		2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)
Speed Sourcing Limited*					
Network infrastructure construction income	(i)	—	257,435	<b>24,160</b>	333,255
Network maintenance services income	(i)	<b>64,000</b>	68,580	<b>138,500</b>	108,113
Dataline rental income	(ii)	<b>20,820</b>	20,820	<b>48,580</b>	50,576
Pushang Management Services Limited*					
Network infrastructure construction income	(i)	—	—	<b>15,010</b>	—
Wong Sze Shun Syson**					
Consultancy fee	(iii)	—	—	<b>58,500</b>	—
Staff costs	(iii)	<b>140,400</b>	—	<b>234,000</b>	—

\* 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.

\*\* Wong Sze Shun Syson is deemed to be interested in about 7.4% shareholding interest in the Company through her 100% owned company, Expeditious Management Limited.

*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) Dataline rental income was determined based on a cost-plus basis on the direct costs incurred, with a margin of 18%.
- (iii) The consultancy fee was charged at a rate determined between the Company and the related party. From 1 September 2003, the Company employed the related party as an employee, and paid monthly salaries to the related party.

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



## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 31 January 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

During the period 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.

For the six months ended 31 January 2004, the Group reported an unaudited turnover of HK\$8,393,375 (2003: HK\$4,634,756), representing an increase of approximately 81% from previous period's turnover. This is mainly attributable to increase in revenues from sectors of sales of computer hardware and software. Sales to existing customers were increased as a result of the gradual recovery of economy during the period under review. In addition, orders from certain new customers were secured, because of effective promotional campaigns carried out throughout the period, as well as establishment of new business relationships with certain new technology companies.

The unaudited gross profit margin ratio for the six months ended 31 January 2004 is 15%, while it was 27% for the corresponding period last year. The decrease is attributable to the increase in revenue generated from sales of computer hardware which comparatively had lower gross profit margin ratio.

The unaudited loss from operating activities before tax for six months ended 31 January 2004 increased by approximately 36% from HK\$4,321,183 to HK\$5,879,540. 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 and shares registrar 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**

The Group financed its operation primarily with internally generated cash flows and the balance of the net proceeds from the listing of the Company's shares on GEM on 18 February 2003.

As at 31 January 2004, the Group had net assets of approximately HK\$22,336,221 (31 July 2003: HK\$28,215,761), of which approximately HK\$19,866,193 (31 July 2003: HK\$25,824,311) were bank and cash balances.

As at 31 January 2004, the Group had an aggregate composite banking facilities from bank of approximately HK\$4.5 million (31 July 2003: Nil), and the Group did not utilise the facilities throughout the period under review.

### **Gearing ratio**

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.25 as at 31 January 2004 (31 July 2003: 0.09). The increase in the gearing ratio was due to the increase in payables due to vendors as at 31 January 2004, as a result of improvement of sales during the period.

**Foreign exchange exposure**

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

**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 January 2004, the Group's time deposits of HK\$3 million (31 July 2003: Nil) was pledged to secure general banking facilities granted to the Group.

As at 31 January 2004, the Group did not have any significant contingent liabilities (31 July 2003: Nil).

**Acquisitions and disposals of subsidiaries and affiliated companies**

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the period ended 31 January 2004.

**Significant investments and future plans for material investments**

During the period under review, the Group established a jointly-controlled entity in Hangzhou, the PRC, with an independent third party. The jointly-controlled entity is engaged in the provision of information technology consulting services. As at 31 January 2004, the jointly-controlled entity has not commenced its operation and total contribution of the Group amounted to approximately HK\$1.4 million.

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 did not have any plan for material investments and acquisition of material capital assets as at 31 January 2004.

### **Employee information**

As at 31 January 2004, the Group had 33 full-time employees (31 July 2003: 33) working in Hong Kong and Mainland China. The total staff costs, including directors' emoluments, amounted to approximately HK\$3,588,719 for the six months ended 31 January 2004 (2003: HK\$2,900,000). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

### **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 strengthen the cooperation with our business partners to enhance the Group's competitiveness and enlarge our distribution networks, by conducting promotional and marketing campaigns. The Group has established a jointly controlled entity in Hangzhou, the PRC. The Group will accelerate its business expansion into the market of Mainland China through the business relationship with Chinese partner. In addition, the Group has commenced the development of Phase III of Worldwide Online Tracking System ("WOTS") to test J2EE platform in Linux server and develop the traditional Chinese version of WOTS. The Group will continue to enrich the Group's product portfolio by evaluating and upgrading existing value-added solutions and services, as well as developing new solutions and services to explore different market opportunities. The Group aims at expanding its business in mainland China, in the expectation of contributing favourable returns to the overall performance.

## **BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON**

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 30 January 2003:

### **Business objectives for the six months ended 31 January 2004 as disclosed in the Prospectus**

### **Actual business progress for the six months ended 31 January 2004**

#### *Business development*

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>● Continue to establish new business partnerships/relationships with additional technology companies.</li><br/><li>● Continue to launch Phase II of WOTS.</li><br/><li>● Continue the establishment and/or business development of a sino-foreign joint venture with Beijing Yanshan Petrochemical Group Company of China Petrochemical Corporation ("Beijing Yanshan").</li></ul> | <ul style="list-style-type: none"><li>● During the period under review, the Group continued to trace for business cooperations with new technology companies, and successfully established new business partner relationships.</li><br/><li>● The development of Phase II of WOTS has been completed, and the Group has implemented the business objectives as planned.</li><br/><li>● The Group is still in negotiation with Beijing Yanshan regarding the establishment of the joint venture.</li></ul> |
|--|---|

**Business objectives for the six months ended 31 January 2004 as disclosed in the Prospectus**

- Continue to provide network infrastructure construction solutions and services for education department on the secondary schools in Guangzhou, the PRC or other entities appointed by them (the "Guangzhou School Project").

*Sales and marketing*

- Continue to enlarge the client base by promoting the Group's total network infrastructure solutions and services to new customers.
- Continue to conduct marketing campaigns to further promote sales and the corporate profile of the Group.

**Actual business progress for the six months ended 31 January 2004**

- As refer to the Company's announcement dated 24 October 2003, the Directors has proposed to shelve the Guangzhou School Project.

- The client base of the Group continued to be enlarged, and the Group successfully secured orders from certain new customers.

- During the period under review, the Group conducted several marketing campaigns and seminars in Hong Kong and the PRC, so as to increase the presence of the Group in the market.

**Business objectives for the six months ended 31 January 2004 as disclosed in the Prospectus***Technical and engineering support*

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

*Research and development*

- Establish a new research and development center in Guangzhou, the PRC focusing on web-based software development.
- Recruit six additional skilled professionals.

**Actual business progress for the six months ended 31 January 2004**

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

- The Group is in negotiation with the landlord regarding the tenancy terms for new research and development center.

- As mentioned above, the schedule for establishing the new research and development center has been deferred. Additional skilled professionals will be recruited upon the establishment of the new research and development center.

**Business objectives for the six months ended 31 January 2004 as disclosed in the Prospectus**

- Commence the development of Phase III of WOTS to test J2EE platform in Linux server and develop the traditional Chinese version of WOTS.
- Continue to enrich the Group's product portfolio by evaluating and upgrading existing value-added solutions and services, and developing new solutions and services.

**Actual business progress for the six months ended 31 January 2004**

- The Group has implemented the business objectives as planned.
- The Group has implemented the business objectives as planned.



## USE OF PROCEEDS

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 sales 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 under review, the Group utilised a total of about HK\$6.0 million of the IPO Proceeds as HK\$4.2 million as working capital and as to HK\$1.8 million for the following purposes:

	From 1 August 2003 to 31 January 2004		Notes
	Proposed Note 1 HK\$'million	Actual HK\$'million	
Research and development:			
— Strengthening of overall research and development capabilities and development of network software	0.2	—	2
— Establishment of new research and development center in Guangzhou, the PRC	3.0	—	2
Investment projects:			
— Investment with Beijing Yanshan	3.0	—	3
— Investment in a Hangzhou JV Co.	2.0	1.4	
Sales and marketing	0.4	0.4	
	8.6	1.8	

## Notes:

1. According to the proposed use of IPO Proceeds set out in the announcement of the Company dated 24 October 2003.
2. The Group is in negotiation with the landlord regarding the tenancy terms for new research and development center and the schedule for establishing Guangzhou new research and development center has been postponed.
3. The Group is still in negotiation with Beijing Yanshan regarding the establishment of the joint venture.

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

As at 31 January 2004, 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")) 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 Rule 5.40 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") were as follows:

### 1. Interests in ordinary shares of HK\$0.01 each ("Shares")/ underlying shares of the Company

Name of directors	Interest in Shares	Interest in underlying shares	Aggregate interests	Approximate percentage of issued share capital as at 31 January 2004
	Corporate interests	Personal interests		
Mr. Lam Chi Shing	144,044,550 <i>(note a)</i>	11,340,000 <i>(note c)</i>	155,384,550	40.38
Mr. Su Chi Wen	51,795,450 <i>(note b)</i>	11,340,000 <i>(note c)</i>	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 January 2004.
- (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 January 2004.
- (c) The personal interest of each of these two directors represents their long positions 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. As at the beginning and end of the six months ended 31 January 2004, each of Mr. Lam Chi Shing and Mr. Su Chi Wen held 11,340,000 options. During this six months, no option was granted to or exercised by Mr. Lam Chi Shing and Mr. Su Chi Wen. The underlying shares of each director represent approximately 2.95% of the issued share capital of the Company on 31 January 2004. 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 January 2004, 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31 January 2004, the following persons (other than the directors and chief executives 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	Capacity and nature of interest	Percentage of holding
<b>Substantial shareholders</b>				
Cyber Mission Ventures Limited	(a)	144,044,550	Directly beneficially owned	37.4
Cyber Profit Group Limited	(b)	51,795,450	Directly beneficially owned	13.5
<b>Other shareholders</b>				
Century Pilot Investments Limited	(c)	28,350,000	Directly beneficially owned	7.4
Mr. Wong Wing Hong	(c)	28,350,000	Through a controlled corporation	7.4
Expeditious Management Limited	(d)	28,350,000	Directly beneficially owned	7.4
Ms. Wong Sze Shun Syson	(d)	28,350,000	Through a controlled corporation	7.4
Ms. Elizabeth Helen Narain		20,670,000	Directly beneficially owned	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. Mr. Lam's indirect interest in 144,044,550 Shares in the Company held through Cyber Mission Ventures Limited together with the effect of the share options granted to Mr. Lam have been set out in the above heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".

- (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. Mr. Su's indirect interest in 51,795,450 Shares in the Company held through Cyber Profit Group Limited together with the effect of the share options granted to Mr. Su have been set out in the above heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".
- (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.

Save as disclosed above, as at 31 January 2004, 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, underlying shares and debentures" above had an interest or short position in the Shares or underlying shares of the Company required to be kept under Section 336 of SFO.

## **SHARE OPTION SCHEMES**

On 25 January 2003, 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 share placing on 25 January 2003 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. As at 31 January 2004, 1,458,000 options were lapsed as a result of resignation of an employee.

The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 28,710,000 additional Shares of the Company of HK\$0.01 each. No pre-IPO share option was exercised as at 31 January 2004.

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 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.

As at 31 January 2004, no share options had been granted by the Company under the Post-Scheme.

## **INTERESTS OF SPONSOR**

As at 31 January 2004, 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**

As at 31 January 2004, 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 for the period under review.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the six months ended 31 January 2004.

## 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 Group's unaudited results for the three months and six months ended 31 January 2004 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.

By order of the Board

**Lam Chi Shing**

*Chairman*

Hong Kong, 9 March 2004