

# 2003/04

## Third Quarterly 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.

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

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

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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 nine months ended 30 April 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 nine months ended 30 April 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 30 April		Nine months ended 30 April	
		2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)
TURNOVER	2	<b>2,960,967</b>	3,159,661	<b>11,354,342</b>	7,794,417
Cost of sales		<b>(2,475,793)</b>	(1,805,194)	<b>(9,602,230)</b>	(5,207,661)
Gross profit		<b>485,174</b>	1,354,467	<b>1,752,112</b>	2,586,756
Other revenue		<b>9,834</b>	3,120	<b>107,942</b>	10,732
Administrative and operating expenses		<b>(3,383,361)</b>	(3,208,996)	<b>(10,518,048)</b>	(8,770,080)
LOSS FROM OPERATING ACTIVITIES		<b>(2,888,353)</b>	(1,851,409)	<b>(8,657,994)</b>	(6,172,592)
Share of losses of a jointly-controlled entity		<b>(186,631)</b>	—	<b>(296,530)</b>	—
LOSS BEFORE TAX		<b>(3,074,984)</b>	(1,851,409)	<b>(8,954,524)</b>	(6,172,592)
Tax	3	—	—	—	—
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<b>(3,074,984)</b>	(1,851,409)	<b>(8,954,524)</b>	(6,172,592)
LOSS PER SHARE	4	<b>HK0.80 cent</b>	HK0.51 cent	<b>HK2.33 cents</b>	HK1.99 cents
Basic		<b>N/A</b>	N/A	<b>N/A</b>	N/A
Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

Notes:

**1. Basis of preparation**

The unaudited consolidated results of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice 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 unaudited consolidated results are in accordance with those used in the preparation of the Company's annual report for the year ended 31 July 2003.

**2. 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.

**3. 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 nine months ended 30 April 2004 (three months and nine months ended 30 April 2003: Nil).

**4. Loss per share**

The calculation of basic loss per share for the three months and nine months ended 30 April 2004 is based on the unaudited net loss attributable to shareholders of HK\$3,074,984 and HK\$8,954,524 respectively (three months and nine months ended 30 April 2003: HK\$1,851,409 and HK\$6,172,592, respectively) and the weighted average of 384,840,000 ordinary shares in issue for the three months and nine months ended 30 April 2004 (three months and nine months ended 30 April 2003: 365,482,921 and 310,227,033 ordinary shares in issue, respectively).

Diluted loss per share amount for the three months and nine months ended 30 April 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.

## 5. 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
Placing of shares	37,495,800	—	—	37,495,800
Placing and listing expenses	(6,129,014)	—	—	(6,129,014)
Capitalisation issue	(2,815,000)	—	—	(2,815,000)
Net loss for the nine months ended 30 April 2003	—	—	(6,172,592)	(6,172,592)
At 30 April 2003	28,551,786	19,980,000	(20,960,378)	27,571,408
At 1 August 2003	28,551,786	19,980,000	(24,164,425)	24,367,361
Net loss for the nine months ended 30 April 2004	—	—	(8,954,524)	(8,954,524)
At 30 April 2004	28,551,786	19,980,000	(33,118,949)	15,412,837

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.

## **DIVIDEND**

The directors do not recommend the payment of an interim dividend for the nine months ended 30 April 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 nine months ended 30 April 2004, the Group reported an unaudited turnover of HK\$11,354,342 (2003: HK\$7,794,417), representing an increase of approximately 46% from previous corresponding period's turnover. This is mainly attributable to the increase in revenues from the sales of computer hardware and software, as a result of the gradual recovery of economy during the period under review. 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 nine months ended 30 April 2004 is 15%, while it was 33% for the corresponding period last year. The decrease is attributable to the increase in revenue generated from the sales of computer hardware which comparatively had lower gross profit margin ratio. In addition, for the nine months ended 30 April 2003, the Group generated

higher gross profit margin from trading of its self-developed web-based software applications, which attributed to the overall high gross profit for the last corresponding period.

The unaudited loss from operating activities for nine months ended 30 April 2004 increased by approximately 45% from HK\$6,172,592 to HK\$8,954,524. In addition to the lower gross profit due to the reasons as mentioned above, 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.

During the period under review, the jointly-controlled entity in Hangzhou, China commenced its operations. The principal activity of the jointly-controlled entity is provision of information technology consulting services. The Group aims at expanding its business in mainland China and is confident that the jointly-controlled entity could contribute favourable returns to the overall performance in future.

### **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 will accelerate its business expansion into the market of Mainland China through the business relationship with Chinese partner. 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.

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

As at 30 April 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 5.46 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 Corporate interests	Interest in underlying Shares Personal interests	Aggregate interests	Approximate percentage of issued share capital as at 30 April 2004
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 30 April 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 (please refer to note (d) below). These 51,795,450 shares represent a long position of approximately 13.46% of the issued share capital of the Company on 30 April 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 directors 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 30 April 2004. These options are unlisted and represent physically settled equity derivatives.

- (d) Mr. Su Chi Wen has resigned as executive director of the Company with effect from 31 May 2004, which has been set out in the Company’s announcement dated 1 June 2004.

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 30 April 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 5.46 of the GEM Listing Rules.

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

At 30 April 2004, 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	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 section 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 as at 30 April 2004. 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 section heading "Directors' and chief executive's interests and short positions in

shares, underlying shares and debentures". Mr. Su has resigned as executive director of the Company with effect from 31 May 2004, which has been set out in the Company's announcement dated 1 June 2004.

- (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 30 April 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 30 April 2004, 3,084,000 options were lapsed as a result of resignation of employees.

The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 27,084,000 additional shares of the Company of HK\$0.01 each. No pre-IPO share option was exercised as at 30 April 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 30 April 2004, no share options had been granted by the Company under the Post-Scheme.

### **INTERESTS OF SPONSOR**

As at 30 April 2004, neither Celestial Capital Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Rule 6.36 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 30 April 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 5.34 TO 5.45 OF THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules 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 nine months ended 30 April 2004.

## **AUDIT COMMITTEE**

The Company established an audit committee on 25 January 2003 with written terms of reference in compliance with Rules 5.28 and 5.33 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 two members including Mr. Lau Siu Ki Kevin, Mr. Wong Man Chung Francis, the independent non-executive directors 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 nine months ended 30 April 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.

As at 10 June 2004, the executive directors of the Company are Mr. Lam Chi Shing and Mr. Chan Chi Hung, and the independent non-executive directors of the Company are Mr. Lau Siu Ki Kevin and Mr. Wong Man Chung Francis.

By order of the Board  
**Lam Chi Shing**  
*Chairman*

Hong Kong, 10 June 2004