



SYS SOLUTIONS HOLDINGS LIMITED

軟迅科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT **2004**

SYS SOLUTIONS

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.

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

This annual report, for which the directors of Sys Solutions Holdings Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Sys Solutions Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

	Pages
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
MANAGEMENT DISCUSSION AND ANALYSIS	4-6
BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON	7
USE OF PROCEEDS	8
DIRECTORS AND SENIOR MANAGEMENT PROFILE	9-10
REPORT OF THE DIRECTORS	11-18
REPORT OF THE AUDITORS	19
CONSOLIDATED PROFIT AND LOSS ACCOUNT	20
CONSOLIDATED BALANCE SHEET	21
CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY	22
CONSOLIDATED CASH FLOW STATEMENT	23-24
BALANCE SHEET	25
NOTES TO THE FINANCIAL STATEMENTS	26-54

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Chi Shing (*Chairman*)
 Mr. Chan Chi Hung
 (appointed on 31 May 2004)
 Mr. Su Chi Wen
 (resigned on 31 May 2004)

Non-executive Director

Mr. Yuen Kin Tong
 (appointed on 30 September 2004)

Independent Non-executive Directors

Mr. Lau Siu Ki Kevin
 Mr. Wong Man Chung Francis
 Mr. Wang Yat Yee Mark
 (appointed on 30 September 2004)

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Chi Hung CPA ACCA

COMPLIANCE OFFICER

Mr. Lam Chi Shing

AUTHORISED REPRESENTATIVES

Mr. Lam Chi Shing
 Mr. Chan Chi Hung

AUDIT COMMITTEE MEMBERS

Mr. Lau Siu Ki Kevin
 Mr. Wong Man Chung Francis
 Mr. Wang Yat Yee Mark
 (appointed on 30 September 2004)

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

Chairman's Statement

On behalf of the board of directors (the "Board") of Sys Solutions Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 July 2004.

OVERVIEW

For the year under review, the Hong Kong IT industry remained difficult, and it has been a challenging year for the Group. The Group has continued to grow under the competitive economic environment in the local market. The Group recorded a turnover of approximately HK\$15,881,000 (2003: HK\$10,189,000), representing a 55.9% increase as compared with the previous year.

To further develop the business in the People's Republic of China (the "PRC"), the Group established a joint venture company in Hangzhou, the PRC, which is principally engaged in the provision of information technology consulting services. Together with our existing regional offices in Guangzhou and Shanghai, the Group is tasked to penetrate into the IT industry in the PRC; and our customers could receive comprehensive sales services and technical support.

During the year, we are glad to have new management team to join the Group. With the new management team, the Group has strengthened business partnerships and alliances to reinforce fruitful partnerships with some leading global IT vendors.

I would also like to welcome the new directors to join the Board, each bringing in their valuable experience and vision to the Group.

Looking forward, the Group will continue to align its directions to fulfil customer demands and the changing market situations. We are committed to continuously improving our service level, building up outstanding sales and service teams, as well as enlarging our distribution networks.

In view of the many opportunities ahead in the PRC market, the Group will further strength its sales and marketing presence in the PRC, and will continue to promote the Group's total network infrastructure solutions and services to new customers, as well as drive the revitalised partnership strategy and explore new market opportunities in both Hong Kong and the PRC.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my thankfulness to all our management teams and our staff members for their hard work, commitment and inspiration during this challenging year. I would also like to thank our fellow shareholders, business partners and customers for their valuable supports.

Lam Chi Shing

Chairman

Hong Kong, 21 October 2004

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 July 2004, the Group continued to experience growth under the competitive market condition, and focused on its three main stream lines of business, namely business system integration, security consulting, training and other professional services, and software development.

During the year under review, the Group recruited a new senior management team, that is tasked to strengthen the Group's business lines, and to explore new market opportunities in China. The team is committed to capitalise on the Group's footprint in Shanghai and Guangzhou to answer the growing information technology requirements of enterprises in China.

In late 2003, the Group established a jointly-controlled entity in Hangzhou, the PRC, and its principal activity is the provision of information technology consulting services. The Group aims at accelerating its business expansion into the market of Mainland China through the business relationship with its Chinese partner in Hangzhou, the PRC.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 July 2004 increased by 55.9% to HK\$15,881,000 (2003: HK\$10,189,000). This is mainly attributable to the increase in revenue from the sales of computer hardware and software, as a result of the gradual recovery of the economy during the year under review. Orders from certain new customers were secured, due to effective promotional campaigns carried out throughout the year, as well as the establishment of new business relationships with certain information technology companies.

The gross profit margin ratio for the year ended 31 July 2004 is 13.9%, while it was 27.2% in the previous year. The decrease is attributable to the increase in the revenue generated from the sales of computer hardware which comparatively had lower gross profit margin ratio. In addition, for the year ended 31 July 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 year.

The loss before tax for the year ended 31 July 2004 increased by 29.7% from HK\$9,377,000 to HK\$12,165,000. In addition to the lower gross profit due to the reasons mentioned above, the increase in loss was mainly due to the additional operating expenses incurred for the organisational restructuring during the year and the salaries of new managerial staff, to cope with the Group's future operations and development. Notwithstanding the increment mentioned above, the Group maintained a stable and effective overhead structure and applied more efficient method of resources allocation.

LIQUIDITY AND FINANCIAL RESOURCES

For the year under review, the Group financed its operations 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 July 2004, the Group had net current assets of approximately HK\$13,018,000 (2003: HK\$26,436,000), of which approximately HK\$13,788,000 (2003: HK\$25,824,000) were bank and cash balances.

As at 31 July 2004, the Group had an aggregate composite banking facilities from bank of approximately HK\$4.5 million (2003: Nil), and the Group did not utilise the facilities as at the year end date.

Management Discussion and Analysis

CAPITAL STRUCTURE

The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (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. Subsequent to the balance sheet date, on 13 August 2004, a total of 11,340,000 share options were exercised at a subscription price of HK\$0.11 per share and resulted in the issue of 11,340,000 new ordinary shares in the Company of HK\$113,400. The excess of the cash consideration received over the nominal value of the issued shares of HK\$1,134,000 was credited to the share premium account.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

During the year 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. The Group will continue to monitor closely the progress and performance of this jointly-controlled entity in particular during its initial set-up stage.

Other than those disclosed in the prospectus dated 30 January 2003 (the "Prospectus") under the section headed "Business Objectives and Implementation Plans" 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 July 2004.

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 2004.

COMMENTS ON SEGMENTAL INFORMATION

The Directors consider that the Group's primary segment reporting basis is by business segment. The Group's operating businesses are structured and managed separately, according to the nature of their operations and products and services they provide.

The Directors consider that 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 the current and the prior year.

EMPLOYEE INFORMATION

As at 31 July 2004, the Group had 30 full-time employees (2003: 33) working in Hong Kong and Mainland China. The total staff costs, including directors' emoluments, amounted to approximately HK\$7,733,000 for the year under review (2003: HK\$6,259,000). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

CHARGE ON GROUP ASSETS

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

Management Discussion and Analysis

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.39 as at 31 July 2004 (2003: 0.09). The increase in the gearing ratio was due to the loss incurred during the year.

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 rate between Hong Kong dollars, Renminbi, as well as United States dollars.

CONTINGENT LIABILITIES

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

OUTLOOK

The Group is taking an attentive approach 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 and the Chinese partner in Hangzhou, the PRC to enhance the Group's competitiveness and enlarge our distribution networks. The Group will establish an additional sales presence in the offices in the PRC by recruiting qualified and experienced executives to explore new opportunities in Mainland China.

The Group will continue to review and strengthen the Group's existing product portfolio. During the year under review, the Group's portfolio has been enriched by new application package solutions, including a project management system and a human resource system. It is the objective of the Group to enrich the portfolio by evaluating and upgrading its existing value-added solutions and services in order to have favourable returns.

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 for the period from 1 February 2004 to 31 July 2004.

Business objectives as stated in the Prospectus

Actual business progress

Business development

- | | |
|---|---|
| <ul style="list-style-type: none"> • Continue to establish new business partnerships/relationships with additional technology companies. • Complete the network infrastructure construction for the education department or secondary schools in Guangzhou, the PRC or other entities appointed by them (the "Guangzhou School Project"). | <ul style="list-style-type: none"> • During the period under review, the Group continued to trace for business cooperations with new technology companies, and successfully strengthened the business partner relationships. • As refer to the Company's announcement dated 24 October 2003, the Directors has proposed to shelve the Guangzhou School Project. |
|---|---|

Sales and marketing

- | | |
|--|--|
| <ul style="list-style-type: none"> • Continue to enlarge the client base by promoting the Group's total network infrastructure solutions and services to new customers. | <ul style="list-style-type: none"> • The Group attended certain major exhibitions and organised promotion seminars during the period under review. The client base of the Group continued to be enlarged, and the Group successfully secured orders from certain new customers. |
|--|--|

Technical and engineering support

- | | |
|--|--|
| <ul style="list-style-type: none"> • Continue to monitor the client's networks and computer systems and provide consultancy and maintenance services to them. | <ul style="list-style-type: none"> • 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. |
|--|--|

Research and development

- | | |
|--|---|
| <ul style="list-style-type: none"> • Complete develop of Phase III of WOTS. • Continue to enrich the Group's portfolio by evaluating and upgrading existing value-added solutions and services, and developing new solutions and services. | <ul style="list-style-type: none"> • The Group is in the progress of developing the Phase III of WOTS, and expected to complete by the last quarter of 2004. • The Group has implemented the business objectives as planned. The Group's portfolio has been enriched by additional Java-based application package solutions, including a project management system and a human resource system. |
|--|---|

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").

	Proposed application of fundings <i>HK\$'million</i>	Actual fundings utilised up to 31 July 2004 <i>HK\$'million</i>
Research and development:		
– Strengthening of overall research capabilities and development of network software	1.0	0.1
– Establishment of new research and development center in Guangzhou, the PRC	3.6	0.8
Investment projects:		
– Investment in a Hangzhou joint venture company	2.0	2.0
– Other project(s)	4.0	0.5
Sales and marketing	1.8	1.1
Repayment of a loan due to a shareholder	2.6	2.6
Working capital	17.0	10.8
	<u>32.0</u>	<u>17.9</u>

The directors has updated the original intention of certain of its use of IPO Proceeds as set out in the Prospectus to other purposes. The details of the update on the original intention of use of proceeds has been set out in the Company's announcements dated 24 October 2003 and 21 October 2004.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Lam Chi Shing, aged 39, is the chairman of the Company and an executive director and is responsible for corporate planning, business development strategy and overall direction of the Group. Mr. Lam is the founder of the Group and has been a beneficial shareholder 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 eleven years experience in accounting and financial management and business administration.

Mr. Chan Chi Hung, aged 29, joined the Group in August 2003 and is an executive director of the Company and 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 member of the Hong Kong Institute of Certified Public Accountant ("HKICPA") and an associate of the Association of Chartered Certified Accountants ("ACCA"). Before joining the Group, Mr. Chan worked for international accounting firms in the auditing and accounting fields for about six years.

NON-EXECUTIVE DIRECTOR

Mr. Yuen Kin Tong, aged 41, was appointed as a non-executive director of the Company on 30 September 2004, and is one of the substantial shareholders of the Company. Mr. Yuen is a Chartered Engineer of the Engineering Council in the United Kingdom. He has more than eight year's experience in sales management and business administration.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki Kevin, aged 46, joined the Group in September 2002 and 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 HKICPA and ACCA. 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. Wong Man Chung Francis, aged 40, joined the Group in January 2003 and is a Practicing CPA and has over seventeen 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 a fellow member of ACCA, HKICPA and the Taxation Institute of Hong Kong.

Mr. Wang Yat Yee Mark, aged 55, was appointed as an independent non-executive director of the Company on 30 September 2004. Mr. Wang holds master degrees in Economics and Business Administration from the University of Chicago in the United States of America. Mr. Wang has more than 30 years' experience in the IT industry.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. Lee Lik Hang, aged 30, joined the Group in May 2004 and is the chief executive officer of the Group. Mr. Lee is responsible for managing the overall operations of the Group and in charge of sales and marketing activities of the Group. Before joining the Group, Mr. Lee worked in senior management level in two listed companies in Hong Kong. His experience spans various facets in the IT industry from software, internet application system, system integration and sales and administration management.

Mr. Tsui Chun Chung Michael, aged 40, joined the Group in May 2004 and is the senior vice president of the Group. Mr. Tsui is responsible for handling business development and alliance building of the Group. Mr. Tsui holds a master's degree in Business Administration from the East Asia Open Institute, Macau. Before joining the Group, Mr. Tsui was a sales manager, regional business development manager and general manager of various IT companies, namely Borland (HK) Limited and Sybase Hong Kong Limited, and has more than eighteen years' experience in IT industry.

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2004.

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 13 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 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 54.

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 8 of the annual report.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and the Prospectus as set out in the note below. This summary does not form part of the audited financial statements.

Results

	2004 HK\$	Year ended 31 July		
		2003 HK\$	2002 HK\$	2001 HK\$
Turnover	15,881,193	10,188,743	7,873,892	5,200,621
Loss before tax	(12,165,261)	(9,376,639)	(8,534,704)	(6,253,082)
Tax	—	—	—	—
Net loss attributable to shareholders	(12,165,261)	(9,376,639)	(8,534,704)	(6,253,082)

Assets and liabilities

	2004 HK\$	As at 31 July		
		2003 HK\$	2002 HK\$	2001 HK\$
Non-current assets	3,033,000	1,779,923	2,276,165	3,317,920
Current assets	19,285,711	28,993,731	4,565,126	4,817,005
Current liabilities	(6,268,211)	(2,557,893)	(1,629,077)	(638,005)
Net current assets	13,017,500	26,435,838	2,936,049	4,179,000
Non-current liabilities	—	—	—	(12,750,000)
Net assets/(liabilities)	16,050,500	28,215,761	5,212,214	(5,253,080)

Note: The summary of the consolidated results of the Group for each of the 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 prepared on a combined basis as if the current structure of the Group had been in existence throughout the periods and have been extracted from the Company's Prospectus.

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the share options of the Company during the year ended 31 July 2004, together with the reasons therefor, are set out in note 21 to the financial statements.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 22 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 July 2004, 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\$10,295,464. This includes the Company's share premium account and capital reserve, of HK\$29,422,817 in aggregate at 31 July 2004, 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 34.5% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 11.9%.

Purchases from the Group's five largest suppliers accounted for approximately 63.3% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 21.7%.

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.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Lam Chi Shing

Mr. Chan Chi Hung

(appointed on 31 May 2004)

Mr. Su Chi Wen

(resigned on 31 May 2004)

Independent non-executive directors:

Mr. Lau Siu Ki Kevin

Mr. Wong Man Chung Francis

Subsequent to the balance sheet date, on 30 September 2004, Mr. Yuen Kin Tong and Mr. Wang Yat Yee Mark, were appointed as a non-executive director and an independent non-executive director of the Company, respectively.

In accordance with article 112 of the articles of association of the Company, Mr. Chan Chi Hung, Mr. Yuen Kin Tong and Mr. Wang Yat Yee Mark will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of Mr. Lau Siu Ki Kevin, Mr. Wong Man Chung Francis and Mr. Wang Yat Yee Mark an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and the Company still considers the independent non-executive directors to be independent.

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 9 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lam Chi Shing has 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 with not less than three months' notice served in writing.

Except for Mr. Yuen Kin Tong and Mr. Wang Yat Yee Mark, each of whom has entered into a 2-year service contract with the Company commencing from their respective date of appointment, the other non-executive directors (including the independent non-executive directors) have no fixed terms of office. They are subject to the provisions governing the retirement and rotation of directors in the articles of association of the Company.

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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 26 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 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 (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Corporate interests	Percentage of the Company's issued share capital	Capacity and nature of interest	Number of share option held
Mr. Lam Chi Shing	144,044,550	37.4	Through a controlled corporation	11,340,000

The details of the share options outstanding during the year are separately disclosed in note 21 to the financial statements.

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.

Save as disclosed above, as at 31 July 2004, none of the directors and chief executive had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 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 21 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 minor children, 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.

Report of the Directors

SHARE OPTION SCHEMES

On 25 January 2003, the Pre-IPO Share Option Scheme (the "Pre-Scheme") and Post-IPO Share Option Scheme (the "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.

Further details of the Pre-Scheme and Post-Scheme are set out in note 21 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 July 2004, the following interests and short positions of 5% more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Number of ordinary shares held	Capacity and nature of interest	Percentage of holding	Number of share options held
Cyber Mission Ventures Limited	(a)	144,044,550	Directly beneficially owned	37.4	-
Mr. Lam Chi Shing	(a)	144,044,550	Through a controlled corporation	37.4	11,340,000
Cyber Profit Group Limited	(b)	51,795,450	Directly beneficially owned	13.5	-
Mr. Yuen Kin Tong	(b)	65,480,003	Through controlled corporations	17.0	-
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	-

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

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, who is therefore deemed to be interested in the 144,044,550 shares held by Cyber Mission Ventures Limited.

Subsequent to the balance sheet date, Mr. Lam Chi Shing exercised 11,340,000 share options, further details of which are set out in notes 21 and 27 to the financial statements.

- (b) The entire issued share capital of Cyber Profit Group Limited is beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the 51,795,450 shares held by Cyber Profit Group Limited. In addition, Hankison Investments Limited held 13,684,553 shares of the Company. The entire issued capital of Hankison Investments Limited is beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the another 13,684,553 shares held by Hankinson Investments Limited. Subsequent to the balance sheet date, on 30 September 2004, Mr. Yuen Kin Tong was appointed as a non-executive director of the Company.
- (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, no person, other than the directors and chief executive 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 registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

INTERESTS OF THE SPONSOR

As at 31 July 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.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 27 to the financial statements.

Report of the Directors

COMPETITION AND CONFLICT OF INTERESTS

As at 31 July 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 businesses of the Group, or have any other conflict of interests with the Group.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has complied with Rules 5.48 to 5.67 of the GEM Listing Rules concerning securities transactions by directors throughout the accounting period covered by this annual report and all directors have complied with the required standard of dealings set out therein.

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 year under review.

AUDIT COMMITTEE

The Company has an audit committee which was established 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 three members including the three independent non-executive directors of the Company. Mr. Lau Siu Ki Kevin is the chairman of the audit committee. The audit committee held five meetings during the year. The Group's audited financial statements for the year ended 31 July 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.

AUDITORS

Ernst & Young have been auditors of the Company since its incorporation on 3 July 2002. 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, 21 October 2004

Report of the Auditors



To the members

Sys Solutions Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 54 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 Institute of Certified Public 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 2004 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, 21 October 2004

Consolidated Profit and Loss Account

Year ended 31 July 2004

	Notes	2004 HK\$	2003 HK\$
TURNOVER	5	15,881,193	10,188,743
Cost of sales		<u>(13,668,306)</u>	<u>(7,413,401)</u>
Gross profit		2,212,887	2,775,342
Other revenue	5	96,379	78,713
Administrative and operating expenses		<u>(14,038,512)</u>	<u>(12,230,694)</u>
LOSS FROM OPERATING ACTIVITIES		(11,729,246)	(9,376,639)
Share of loss of a jointly-controlled entity		<u>(436,015)</u>	<u>–</u>
LOSS BEFORE TAX	6	(12,165,261)	(9,376,639)
Tax	9	<u>–</u>	<u>–</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(12,165,261)</u>	<u>(9,376,639)</u>
LOSS PER SHARE	11		
Basic		<u>HK3.16 cents</u>	<u>HK2.85 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet

31 July 2004

	Notes	2004 HK\$	2003 HK\$
NON-CURRENT ASSETS			
Fixed assets	12	797,386	1,479,923
Investment in a jointly-controlled entity	14	1,935,614	–
Investments in securities	15	300,000	300,000
		3,033,000	1,779,923
CURRENT ASSETS			
Inventories	16	460,982	148,951
Accounts receivable	17	4,127,507	2,032,573
Deposits, prepayments and other receivables		909,290	987,896
Pledged time deposits		3,000,315	–
Non-pledged time deposits		8,500,000	24,050,343
Cash and bank balances		2,287,617	1,773,968
		19,285,711	28,993,731
CURRENT LIABILITIES			
Accounts payable	18	3,235,818	873,938
Deposits received	19	1,838,354	528,416
Accrued liabilities and other payables		1,194,039	1,155,539
		6,268,211	2,557,893
NET CURRENT ASSETS			
		13,017,500	26,435,838
		16,050,500	28,215,761
CAPITAL AND RESERVES			
Issued capital	20	3,848,400	3,848,400
Reserves	22	12,202,100	24,367,361
		16,050,500	28,215,761

Lam Chi Shing
Director

Chan Chi Hung
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 July 2004

	2004 HK\$	2003 HK\$
At beginning of year – total equity	28,215,761	5,212,214
Issue of new shares for cash consideration	–	38,509,200
Share issue expenses	–	(6,129,014)
Net loss for the year	(12,165,261)	(9,376,639)
At end of year – total equity	<u>16,050,500</u>	<u>28,215,761</u>

Consolidated Cash Flow Statement

Year ended 31 July 2004

	Notes	2004 HK\$	2003 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss from operating activities		(11,729,246)	(9,376,639)
Adjustments for:			
Interest income	5	(72,698)	(56,176)
Depreciation	6	950,869	1,449,818
Gain on disposal of fixed assets	6	(1,000)	(3,410)
Operating cash outflow before working capital changes		(10,852,075)	(7,986,407)
Increase in inventories		(312,031)	(86,533)
Increase in accounts receivable		(2,094,934)	(643,017)
Decrease in deposits, prepayments and other receivables		78,606	992,007
Increase in accounts payable		2,361,880	430,038
Increase/(decrease) in deposits received		1,309,938	(179,801)
Increase in accrued liabilities and other payables		38,500	678,579
Cash used in operations and net cash outflow from operating activities		(9,470,116)	(6,795,134)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		72,698	56,176
Purchases of fixed assets	12	(268,332)	(659,896)
Investment in a jointly-controlled entity	14	(2,371,629)	–
Investments in securities	15	–	(300,000)
Proceeds from disposal of fixed assets		1,000	9,730
Repayment of advances to directors		–	26,697
Net cash outflow from investing activities		(2,566,263)	(867,293)

Continued/...

Consolidated Cash Flow Statement

Year ended 31 July 2004
(continued)

	Notes	2004 HK\$	2003 HK\$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	38,509,200
Share issue expenses		-	(6,129,014)
		<hr/>	<hr/>
Net cash inflow from financing activities		-	32,380,186
		<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(12,036,379)	24,717,759
Cash and cash equivalents at beginning of year		25,824,311	1,106,552
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>13,787,932</u>	<u>25,824,311</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,287,617	1,773,968
Non-pledged time deposits with original maturity of less than three months when acquired		8,500,000	24,050,343
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities		3,000,315	-
		<hr/>	<hr/>
		<u>13,787,932</u>	<u>25,824,311</u>

Balance Sheet

31 July 2004

	Notes	2004 HK\$	2003 HK\$
NON-CURRENT ASSETS			
Fixed assets	12	342,534	422,673
Interests in subsidiaries	13	4,071,107	2,607,133
Investments in securities	15	300,000	300,000
		4,713,641	3,329,806
CURRENT ASSETS			
Deposits, prepayments and other receivables		305,769	308,641
Time deposits		8,500,000	24,050,343
Cash and bank balances		1,284,515	1,118,356
		10,090,284	25,477,340
CURRENT LIABILITIES			
Accrued liabilities and other payables		660,061	591,385
NET CURRENT ASSETS			
		9,430,223	24,885,955
		14,143,864	28,215,761
CAPITAL AND RESERVES			
Issued capital	20	3,848,400	3,848,400
Reserves	22	10,295,464	24,367,361
		14,143,864	28,215,761

Lam Chi Shing
Director

Chan Chi Hung
Director

Notes to Financial Statements

31 July 2004

1. 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.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements. This SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is on the measurement and recognition of deferred tax assets and liabilities. Deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

A deferred tax has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These disclosures are detailed in notes 3 and 9 to the financial statements and include a reconciliation between the accounting loss and the tax credit for the year.

3. 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.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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.

Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control, directly or indirectly, over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 year 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 year in which it arises.

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 year 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%

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.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and a jointly-controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 construction 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 and reinforcement services, on a time proportion basis over the year of the contract;
- (c) from the rendering of other 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 operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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.

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.

Notes to Financial Statements

31 July 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 schemes 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.

Notes to Financial Statements

31 July 2004

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business 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 segment 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 segment 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 segment 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 2003 and 2004.

Notes to Financial Statements

31 July 2004

4. 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 solutions segment HK\$	Network infrastructure maintenance and reinforcement services segment HK\$	Other professional value-added solutions and services segment HK\$	Consolidated HK\$
2004				
Segment revenue:				
Sales to external customers	<u>12,085,031</u>	<u>1,053,936</u>	<u>2,742,226</u>	<u>15,881,193</u>
Segment results	<u>(601,422)</u>	<u>(1,090,834)</u>	<u>(1,604,216)</u>	<u>(3,296,472)</u>
Unallocated income				96,379
Unallocated expenses				<u>(8,529,153)</u>
Loss from operating activities				(11,729,246)
Share of loss of a jointly-controlled entity				<u>(436,015)</u>
Loss before tax				(12,165,261)
Tax				-
Net loss attributable to shareholders				<u>(12,165,261)</u>
Segment assets	2,329,274	27,167	2,295,425	4,651,866
Unallocated assets				<u>17,666,845</u>
Total assets				<u>22,318,711</u>
Segment liabilities	1,720,554	1,840,654	1,708,509	5,269,717
Unallocated liabilities				<u>998,494</u>
Total liabilities				<u>6,268,211</u>
Other segment information:				
Depreciation	-	-	497,846	497,846
Unallocated depreciation				<u>453,023</u>
				<u>950,869</u>
Other non-cash expenses	113,406	-	-	113,406
Unallocated other non-cash income, net				<u>(12,328)</u>
				<u>101,078</u>
Capital expenditure	-	-	34,400	34,400
Unallocated capital expenditure				<u>233,932</u>
				<u>268,332</u>

Notes to Financial Statements

31 July 2004

4. SEGMENT INFORMATION (continued)

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

Notes to Financial Statements

31 July 2004

5. 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:

	2004	2003
	HK\$	HK\$
Turnover		
Network infrastructure construction solutions		
– Sale of computer hardware and software and the provision of related services	12,085,031	6,839,304
Rendering of network infrastructure maintenance and reinforcement services	1,053,936	1,854,047
Other professional value-added solutions and services	2,742,226	1,495,392
	15,881,193	10,188,743
Other revenue		
Interest income	72,698	56,176
Sundry income	23,681	22,537
	96,379	78,713
Total revenue	15,977,572	10,267,456

Notes to Financial Statements

31 July 2004

6. LOSS BEFORE TAX

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

	2004 HK\$	2003 HK\$
Cost of inventories sold*	11,640,620	6,408,051
Cost of services provided**	2,027,686	1,005,350
Depreciation (note 12)	950,969	1,449,818
Provision for slow-moving and obsolete inventories	113,406	–
Written back of provision for doubtful debts	(12,328)	–
Gain on disposal of fixed assets	(1,000)	(3,410)
Minimum lease payments under operating leases:		
Land and buildings	1,187,404	1,002,882
Dataline	70,800	66,577
Auditors' remuneration	380,000	380,000
Research and development costs – current year expenditure***	147,475	584,871
Staff costs, including directors' remuneration (note 7):		
Wages and salaries	7,477,111	6,067,375
Pension scheme contributions	256,144	191,494
	<u>7,733,255</u>	<u>6,258,869</u>
Exchange losses, net	<u>20,191</u>	<u>2,674</u>

* The cost of inventories sold includes HK\$113,406 (2003: Nil) relating to the provision for slow-moving and obsolete inventories, which is also included in the total amount disclosed above.

** The cost of services provided includes HK\$500,100 (2003: HK\$484,620) relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above.

*** The research and development costs represent staff costs, which are also included in the total amounts of staff costs disclosed separately above.

Notes to Financial Statements

31 July 2004

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$	HK\$
Fees of the independent non-executive directors	360,000	320,726
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	1,175,000	1,141,667
Compensation for loss of office	400,000	–
Pension scheme contributions	12,000	12,000
	1,947,000	1,474,393

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

The three executive directors received emoluments for their service as director of HK\$910,000 (2003: HK\$612,000), HK\$600,000 (2003: HK\$541,667) and HK\$77,000 (2003: Nil), respectively and the two independent non-executive directors received fees of HK\$180,000 (2003: HK\$162,500), HK\$180,000 (2003: HK\$98,226), respectively for the year ended 31 July 2004. An independent non-executive director who resigned during the year ended 31 July 2003 received fees of HK\$60,000 for that year.

For these directors appointed during the year, the amount disclosed above include the portion of their remuneration for the period they acted as directors.

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.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors. Details of the remuneration of the remaining three (2003: three) non-director, highest paid individuals are as follows:

	Group	
	2004	2003
	HK\$	HK\$
Salaries, allowances and benefits in kind	1,443,244	1,440,729
Compensation for loss of office	92,992	–
Pension scheme contributions	34,000	36,000
	1,570,236	1,476,729

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

Notes to Financial Statements

31 July 2004

8. FIVE HIGHEST PAID EMPLOYEES (continued)

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.

9. TAX

Hong Kong profits tax has not been provided (2003: Nil) as the Group did not generate any assessable profits in Hong Kong during the year. No provision for corporate income tax for a subsidiary and the jointly-controlled entity established and operating in Mainland China (2003: Nil) has been made as no assessable profits arose from their operations during the year. The statutory tax rate for Hong Kong profits tax is 17.5% (2003: 17.5%). The statutory tax rate of corporate income tax in Mainland China is 33% (2003: 33%).

A reconciliation of the tax credit applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax credit at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2004		Group		2003	
	HK\$	%	HK\$	%	HK\$	%
Loss before tax	<u>(12,165,261)</u>		<u>(9,376,639)</u>			
Tax credit at statutory tax rate	(2,128,921)	(17.5)	(1,640,912)		(17.5)	
Higher tax rate for specific provinces and local authority	(114,869)	(0.9)	(144,240)		(1.5)	
Income not subject to tax	(13,386)	(0.1)	(10,431)		(0.1)	
Expenses not deductible for tax	1,075,391	8.8	682,481		7.2	
Tax losses not recognised as deferred tax assets	<u>1,181,785</u>	<u>9.7</u>	<u>1,113,102</u>		<u>11.9</u>	
	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong of HK\$4,685,744 (2003: HK\$3,503,959) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 July 2003. Accordingly, no prior year adjustment is included in the financial statements.

Notes to Financial Statements

31 July 2004

10. 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\$14,071,897 (2003: HK\$5,055,456) (note 22).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of the Company for the year of HK\$12,165,261 (2003: HK\$9,376,639) and the weighted average of 384,840,000 (2003: 329,033,589) ordinary shares in issue during the year.

The weighted average number of shares used in the calculation of the loss per share for the year ended 31 July 2003 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 Solutions (BVI) Limited, and the capitalisation issue of 281,500,000 shares and 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 amounts for each of the years ended 31 July 2003 and 2004 have not been presented, as the share options outstanding during the years had an anti-dilutive effect on the basic loss per share for the respective years.

12. FIXED ASSETS

	Leasehold improvements HK\$	Computer equipment and software HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Group					
Cost:					
At 1 August 2003	1,604,866	3,137,184	275,686	270,515	5,288,251
Additions	22,262	211,764	23,056	11,250	268,332
Disposal	-	(16,427)	-	-	(16,427)
Written-off	-	(775,486)	-	-	(775,486)
	<u>1,627,128</u>	<u>2,557,035</u>	<u>298,742</u>	<u>281,765</u>	<u>4,764,670</u>
At 31 July 2004	1,627,128	2,557,035	298,742	281,765	4,764,670
Accumulated depreciation:					
At 1 August 2003	1,338,642	2,287,220	96,241	86,225	3,808,328
Provided during the year	124,788	709,129	62,016	54,936	950,869
Disposal	-	(16,427)	-	-	(16,427)
Written-off	-	(775,486)	-	-	(775,486)
	<u>1,463,430</u>	<u>2,204,436</u>	<u>158,257</u>	<u>141,161</u>	<u>3,967,284</u>
At 31 July 2004	1,463,430	2,204,436	158,257	141,161	3,967,284
Net book value:					
At 31 July 2004	<u>163,698</u>	<u>352,599</u>	<u>140,485</u>	<u>140,604</u>	<u>797,386</u>
At 31 July 2003	<u>266,224</u>	<u>849,964</u>	<u>179,445</u>	<u>184,290</u>	<u>1,479,923</u>

Notes to Financial Statements

31 July 2004

12. FIXED ASSETS (continued)

	Leasehold improvements HK\$	Computer equipment and software HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Company					
Cost:					
At 1 August 2003	241,500	23,207	76,629	100,090	441,426
Additions	22,262	26,880	9,719	-	58,861
	<u>263,762</u>	<u>50,087</u>	<u>86,348</u>	<u>100,090</u>	<u>500,287</u>
At 31 July 2004					
Accumulated depreciation:					
At 1 August 2003	11,986	1,160	2,554	3,053	18,753
Provided during the year	88,078	9,651	21,253	20,018	139,000
	<u>100,064</u>	<u>10,811</u>	<u>23,807</u>	<u>23,071</u>	<u>157,753</u>
At 31 July 2004					
Net book value:					
At 31 July 2004	<u>163,698</u>	<u>39,276</u>	<u>62,541</u>	<u>77,019</u>	<u>342,534</u>
At 31 July 2003	<u>229,514</u>	<u>22,047</u>	<u>74,075</u>	<u>97,037</u>	<u>422,673</u>

13. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	891,031	891,031
Due from subsidiaries	15,378,607	4,968,095
	<u>16,269,638</u>	5,859,126
Provision for impairment	(12,198,531)	(3,251,993)
	<u>4,071,107</u>	<u>2,607,133</u>

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

Notes to Financial Statements

31 July 2004

13. INTERESTS IN SUBSIDIARIES (continued)

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 ("Sys BVI")	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
Sys Solutions GlobalSoft Limited*	Hong Kong	HK\$10,000 ordinary	–	100	Provision of network infrastructure solutions and services
Sys Solutions System Management Limited*	Hong Kong	HK\$10,000 ordinary	–	100	Investment holding
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

* 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 the date of issuance of its business licence of 2 July 2001. This subsidiary is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Notes to Financial Statements

31 July 2004

14. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004	2003
	HK\$	HK\$
Share of net assets, unlisted	<u>1,935,614</u>	<u>–</u>

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			ownership interest	voting power	profit sharing	
杭州軟均信息 系統工程監理 有限公司 ("Hangzhou JV")	Corporate	People's Republic of China	50	60	50	Provision of information technology consulting services

Hangzhou JV is a sino-foreign equity joint enterprise established by Sys Solutions System Management Limited and a joint venturer in Mainland China for a period of 20 years commencing from the date of issuance of its business licence of 10 October 2003. Hangzhou JV is accounted for as a jointly-controlled entity by virtue of the fact that neither the Group nor the joint venture can exercise unilateral control over its economic activity.

The jointly-controlled entity is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

A summary of the results for the period ended 31 July 2004 and the assets and liabilities at that date of the jointly-controlled entity is set out below:

	For the period from 10 October 2003 (date of incorporation) to 31 July 2004 HK\$
OPERATING RESULTS	
Turnover	<u>7,547</u>
Net loss for the period	<u>(872,030)</u>
	At 31 July 2004 HK\$
ASSETS AND LIABILITIES	
Non-current assets	443,872
Current assets	3,585,275
Current liabilities	<u>(157,919)</u>

Notes to Financial Statements

31 July 2004

15. INVESTMENTS IN SECURITIES

	Group and Company	
	2004	2003
	HK\$	HK\$
Certificate of deposit, unlisted and at cost	<u>300,000</u>	<u>300,000</u>

16. INVENTORIES

	Group	
	2004	2003
	HK\$	HK\$
Computer hardware and software held for re-sale	<u>460,982</u>	<u>148,951</u>

None of the inventories included above were carried at net realisable value as at 31 July 2004 (2003: 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 60 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	
	2004	2003
	HK\$	HK\$
Within 30 days	2,388,712	670,609
Between 31 – 60 days	1,217,576	528,312
Between 61 – 90 days	23,320	17,310
Between 91 – 180 days	497,899	754,742
Over 181 days	–	61,600
	<u>4,127,507</u>	<u>2,032,573</u>

Included in the Group's accounts receivable are amounts of HK\$17,434 (2003: HK\$115,735) 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 credit terms similar to those offered to the other customers of the Group.

Notes to Financial Statements

31 July 2004

18. 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	
	2004	2003
	HK\$	HK\$
Within 30 days	2,222,240	834,053
Between 31 – 60 days	679,625	39,885
Between 61 – 90 days	63,729	–
Between 91 – 180 days	19,040	–
Over 181 days	251,184	–
	<hr/> 3,235,818 <hr/>	<hr/> 873,938 <hr/>

19. DEPOSITS RECEIVED

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

Notes to Financial Statements

31 July 2004

20. 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)	<u>4,970,000,000</u>	<u>49,700,000</u>
At 31 July 2003 and 31 July 2004		<u><u>5,000,000,000</u></u>	<u><u>50,000,000</u></u>
Issued and fully paid:			
Allotted 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)	<u>–</u>	<u>10,000</u>
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)	<u>281,500,000</u>	<u>–</u>
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)	<u>101,340,000</u>	<u>1,013,400</u>
At 31 July 2003 and 31 July 2004		<u><u>384,840,000</u></u>	<u><u>3,848,400</u></u>

Notes to Financial Statements

31 July 2004

20. 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 (the "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 a price of 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.

There was no movement in the share capital of the Company during the year ended 31 July 2004.

Notes to Financial Statements

31 July 2004

21. 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 prices ranging from HK\$0.11 to HK\$0.27 per share. 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 following share options were outstanding under the Pre-Scheme during the year:

Name or category of participant	Number of share options granted on 25 January 2003			Exercise period of share options	Exercise price per share HK\$
	At 1 August 2003	Lapsed during the year	At 31 July 2004		
Executive directors:					
Mr. Lam Chi Shing	11,340,000	–	11,340,000	18 February 2004 to 17 February 2007	0.11
Mr. Su Chi Wen	11,340,000	–	11,340,000	18 February 2004 to 17 February 2007	0.11
	<u>22,680,000</u>	<u>–</u>	<u>22,680,000</u>		
Senior management	3,408,000	(1,860,000)	1,548,000	18 February 2004 to 17 February 2007	0.19
Other employees	4,080,000	(1,224,000)	2,856,000	18 February 2004 to 17 February 2007	0.27
	<u>30,168,000</u>	<u>(3,084,000)</u>	<u>27,084,000</u>		

Subsequent to the balance sheet date, on 13 August 2004, a total of 11,340,000 share options were exercised at a subscription price of HK\$0.11 per share and resulted in the issue of 11,340,000 new ordinary shares in the Company of HK\$113,400. The excess of the cash consideration received over the nominal value of the issued shares of HK\$1,134,000 was credited to the share premium account. From August to October 2004, 13,302,000 share options lapsed following the resignation of a director and other employees, and as at the date of approval of these financial statements 2,442,000 share options are available for issue under the Pre-Scheme, representing 0.62% of the issued share capital of the Company at that date.

Notes to Financial Statements

31 July 2004

21. SHARE OPTION SCHEMES (continued)

- (ii) On 25 January 2003, another 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 contribution of the participants to the Group and to motivate the participants to continuously work to the benefit of the Group by offering 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 10 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 option. 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 during the year ended 31 July 2004 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 2.10% of the issued share capital of the Company at that date.

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

Notes to Financial Statements

31 July 2004

22. RESERVES

	Share premium account HK\$	Capital reserve HK\$ (Note)	Accumulated losses HK\$	Total HK\$
Group				
At 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)	–	–	(6,219,014)
Net loss for the year	–	–	(9,376,639)	(9,376,639)
	<u>28,551,786</u>	<u>19,980,000</u>	<u>(24,164,425)</u>	<u>24,367,361</u>
At 31 July and 1 August 2003	28,551,786	19,980,000	(24,164,425)	24,367,361
Net loss for the year	–	–	(12,165,261)	(12,165,261)
	<u>28,551,786</u>	<u>19,980,000</u>	<u>(36,329,686)</u>	<u>12,202,100</u>
At 31 July 2004	<u>28,551,786</u>	<u>19,980,000</u>	<u>(36,329,686)</u>	<u>12,202,100</u>
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)	–	–	(6,219,014)
Net loss for the year	–	–	(5,055,456)	(5,055,456)
	<u>28,551,786</u>	<u>871,031</u>	<u>(5,055,456)</u>	<u>24,367,361</u>
At 31 July and 1 August 2003	28,551,786	871,031	(5,055,456)	24,367,361
Net loss for the year	–	–	(14,071,897)	(14,071,897)
	<u>28,551,786</u>	<u>871,031</u>	<u>(19,127,353)</u>	<u>10,295,464</u>
At 31 July 2004	<u>28,551,786</u>	<u>871,031</u>	<u>(19,127,353)</u>	<u>10,295,464</u>

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 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.

Notes to Financial Statements

31 July 2004

23. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year ended 31 July 2003, 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.

24. OPERATING LEASE ARRANGEMENTS

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

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Within one year	908,839	999,186	397,200	331,000
In the second to fifth years, inclusive	297,900	1,190,920	297,900	695,100
	<u>1,206,739</u>	<u>2,190,106</u>	<u>695,100</u>	<u>1,026,100</u>

25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24 above, the Group and the Company had the following commitments at the balance sheet date.

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Consultancy fee*	-	315,920	-	-
Sponsor fee**	360,000	720,000	360,000	720,000
	<u>360,000</u>	<u>1,035,920</u>	<u>360,000</u>	<u>720,000</u>

* The consultancy fee was 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 26(iii)).

** 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 the 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

31 July 2004

26. RELATED PARTY TRANSACTIONS

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

	Notes	2004 HK\$	2003 HK\$
Speed Sourcing Limited *			
Network infrastructure construction solutions income	(i)	24,160	472,250
Network maintenance and reinforcement services income	(i)	230,250	410,580
Other professional value-added solutions and services income and dataline rental income	(ii)	99,560	885,276
Pushang Management Services Limited*			
Network infrastructure construction solutions income	(i)	74,907	185,699
Other professional value-added solutions and services income and dataline rental income	(ii)	23,335	-
Wong Sze Shun Syson**			
Consultancy fee (note 25)	(iii)	58,500	292,500
Staff cost	(iv)	510,051	-
Wong Wing Hong**			
Purchase of fixed assets	(i)	-	251,040
		<u> </u>	<u> </u>

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

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, dataline rental income, and data processing fee income. The sales of internally developed software were made according to the actual costs incurred for the software development and approximated to those with independent third parties. Dataline rental income was recorded based on a cost-plus basis according to the direct costs incurred, with a margin of 18%. Data processing fee income was the actual costs incurred in respect of the provision of data input and updating services.
- (iii) The consultancy fee was charged at a fixed rate of HK\$58,500 per month determined between the Company and the related party.
- (iv) The staff cost was charged on a monthly basis for the period from September 2003 to July 2004, plus a performance bonus based on gross profits determined between the Company and the related party.

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.

Notes to Financial Statements

31 July 2004

27. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following transactions:

- (a) On 13 August 2004, 11,340,000 share options were exercised by a director of the Company at a subscription price of HK\$0.11 per share for an aggregate cash consideration of HK\$1,247,400.
- (b) Pursuant to the Company's announcement dated 21 October 2004 (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 the use of the proceeds have been set out in the Announcement and the Report of the Directors.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 October 2004.