Sys Solutions Holdings Limited

軟迅科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2005

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Lam Chi Shing *(Chairman)*
Mr. Chan Chi Hung

Non-executive Director
Mr. Yuen Kin Tong
(appointed on 30 September 2004)

Independent Non-executive Directors
Mr. Lau Siu Ki Kevin
Mr. Wang Yat Yee Mark
(appointed on 30 September 2004)
Mr. Wong Man Chung Francis
(resigned on 31 August 2005)
Mr. Zhang Guo Xuan
(appointed on 3 August 2005)

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. Wang Yat Yee Mark
Mr. Zhang Guo Xuan

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 A, 7th Floor
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (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

Fan, Mitchell & Co.
Certified Public Accountants
3rd Floor, Chinachem Tower
34-37 Connaught 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 2005.

OVERVIEW

It has been a year of challenge and change, with a new management structure and a strategy review resulting in a plan which repositions the Group into the three main streams of business of information technology integrations and solutions, software development for e-commerce and human resources management, as well as information technology services and consultations. The Group was committed to helping every corporate reaping the full benefits of information technology enhancements in business operations, and providing more effective and user-friendly software and solutions for simplifying customers' business operations.

The Group has been benefited from establishing new business relationships with information technology partners and launching a self-branded human resources management information system solution. The Group recorded an increase in turnover by 41.8% to approximately HK$22,514,000 (2004: HK$15,881,000) for the year ended 31 July 2005.

Looking forward, after some years of well managed change, the Group will continue to improve and refine. We will continue to monitor the performance of the Group's business, eliminate loss-making businesses, reduce our cost base and improve our operational effectiveness.

We expect the year ahead to be challenging with continued intense competition. There is a high level of commitment from the management team of the Group to achieve ambitious targets in the coming years. The Group was well prepared to face the coming challenges. Our focus will build on the experience and establishments of the past to implement a strategy for the next stage of development. The Group will strengthen the performance of three main streams of business in order to grasp profitable growth opportunities.

I was very pleased to welcome the new directors to join the Board, each brining in their wide experience and vision to the Group. As we had previously announced, Mr. Wong Man Chung Francis resigned as an independent non-executive director of the Company on 31 August 2005. Mr. Wong has made a strong and valuable contribution to the Company and I would like to thank him for his these years of dedicated service.

APPRECIATION

On behalf of the Board, I would like to think our fellow shareholders and business partners for their support and co-operations for the past years, and also our customers for their business and for putting their trust in us. In addition, our management teams and staff members have also given their hard work and commitment and we are grateful for their tremendous effort and enthusiasm during the year.

Lam Chi Shing
Chairman

Hong Kong, 25 October 2005

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the Group continued to invest and to strengthen its position to provide the best-of-breed information technology solutions and services in Hong Kong and Mainland China, including information technology integrations and solutions, software development for e-commerce and human resources management, as well as information technology services and consultations.

The Group launched a self-branded human resources management information system solution during the year, which was newly developed last year. The solution is a web-based software, which could simplify the processes in human resources management, including leave records, salary calculation, staff training management and performance appraisal. The web-based operation mode could especially fit for multi-national corporations in managing human resources duties in a number of branch offices all over the world. Given powerful functionalities and specialization of the solution, we are confident that it could enable the Group to obtain favourable returns.

In view of the Group's continuing business development, the Group collaborated with a number of internationally renowned software vendors, in order to provide our customers with solutions in areas of data storage and management, data encryption, data backup and recovery, network management and system security. In addition, the Group has started its root in Hong Kong and aimed at accelerating its business expansion into the market of Mainland China. Having footprint in Hong Kong, Guangzhou, Shanghai and Hangzhou, the Group could effectively provide its customers with one-stop-trans-territorial solutions and services.

FINANCIAL REVIEW

For the year ended 31 July 2005, turnover of the Group increased by 41.8% to HK$22,514,000 (2004: HK$15,881,000). This is mainly attributable to the increase in revenues from the sales of computer hardware and software, as a result of the establishment of new business relationships with information technology companies in Hong Kong and effective promotional campaigns carried out throughout the year.

The gross profit margin ratio for the year ended 31 July 2005 was about 10.1%, while it was about 13.9% in the previous year. The decrease was attributable to the increase in the revenue generated from the sales of computer hardware which comparatively had a lower gross profit margin ratio.

As a result of an impairment of an investment in a jointly-controlled entity made during the year under review, the loss before tax for the year ended 31 July 2005 increased by 11.9% to HK$13,619,000 (2004: HK$12,165,000).

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 2005, a loan of HK$5,000,000 was advanced from a director, which was unsecured, interest free and fully settled subsequent to the balance sheet date.

As at 31 July 2005, the Group had net assets of approximately HK$3,679,000 (2004: HK$16,051,000), of which approximately HK$7,513,000 (2004: HK$13,788,000) were bank and cash balances.

As at 31 July 2005, the Group did not have any composite banking facilities (2004: HK$4.5 million).

CAPITAL STRUCTURE

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

Other than those disclosed in the prospectus dated 30 January 2003 under the section headed "Business Objectives and Implementation Plans" and the Company's announcements dated 24 October 2003 and 21 October 2004, the Company did not have any plan for material investments and acquisition of material capital assets as at 31 July 2005.

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 2005.

COMMENTS ON SEGMENTAL INFORMATION

The directors of the Company 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 of the Company 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 2005, the Group had 33 full-time employees (2004: 30) working in Hong Kong and Mainland China. The total staff costs, including directors' emoluments, amounted to approximately HK$8,073,000 for the year under review (2004: HK$7,733,000). 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 was pledged to secure general banking facilities granted to the Group. During the year under review, the pledged time deposits of HK$3 million were released as a result of withdrawal of the bank facilities at the request of the Group.

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 2.07 as at 31 July 2005 (2004: 0.39). The increase in gearing ratio was mainly due to the decrease in shareholders' equity caused by enlarged accumulated losses during the year ended 31 July 2005.

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 2005, the Group did not have any significant contingent liabilities (2004: Nil).

OUTLOOK

The Group's missions are to help our customers to maximize their return by advanced resources management, as well as to apply latest technologies through our best practice for this purposes. The Group's performance will be driven by offering self-branded web-based resources management information system solution, distributing our global partners' technology products and offering our best consultation services.

A booming economy is expected with China's entering into the World Trade Organization. In view of that, the state enterprises and private enterprises will have a bigger demand in their information technologies requirement to cope with the growing market. The Group has a long track record in providing unsurpassed information technology solutions and services. The investment we have been made throughout the years has enabled us to build a sustainable foundation which is essential for the future growth of our business in Hong Kong and Mainland China.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 30 January 2003 (the "Prospectus") for the period from 1 February 2005 to 31 July 2005:

Business objectives as stated in the Prospectus	Actual business progress
Business development	
• Continue to establish new business partnerships/relationships with additional technology companies.	• During the period under review, the Group continued to strengthen the relationships with new technology companies and collaborated with a number of internationally renowned software vendors.
• Continue to provide infrastructure maintenance and reinforcement services to education department or the secondary schools in Guangzhou, the PRC or other entities appointed by them (the "Guangzhou School Project").	• As refer to the Company's announcement dated 24 October 2003, the Directors have proposed to shelve the Guangzhou School Project.
Sales and marketing	
• Continue to enlarge the client base by promoting the Group's total network infrastructure solutions and services to new customers in both Hong Kong and the PRC.	• The Group continued to attend major exhibitions and seminars and established new business relationships with a few technology companies and software vendors during the period under review. The client base of the Group was enlarged.
Technical and engineering support	
• Continue to monitor the client's networks and computer systems and provide consultancy and maintenance services to them.	• The Group continued to provide consultancy and maintenance services to its customers. With eminent experience and sophisticated professional knowledge, our technical professionals proactively provided the best-customised consultancy and maintenance services to the customers.
Research and development	
• Complete development of Phase IV of WOTS.	• The Group is in the progress of developing the WOTS. The schedule has been deferred due to re-allocation of some internal resources to develop additional application solutions newly introduced by the Group last year. It was expected that the new application solutions could enable the Group to achieve further business growth in the coming years.

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 as set out in the Company's announcement dated 21 October 2004 *HK$' million*	**Actual fundings utilised up to 31 July 2005** *HK$' million*
Research and development:		
– Strengthening of overall research capilities and development of network software	1.0	1.0
– Establishment of new research and development center in Guangzhou, the PRC	3.6	3.6
Investment projects:		
– Investment in a Hangzhou joint venture company	2.0	2.0
– Other project(s)	4.0	1.2
Sales and marketing	1.8	1.8
Repayment of a loan due to a shareholder	2.6	2.6
Working capital	17.0	17.0
	32.0	29.2

The directors of the Company 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 40, 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 over ten years experience in accounting and financial management and business administration.

Mr. Chan Chi Hung, aged 30, 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 42, 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 about ten year's experience in sales management and business administration.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki Kevin, aged 47, 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. Wang Yat Yee Mark, aged 56, 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.

Mr. Zhang Guo Xuan, aged 59, was appointed as an independent non-executive director of the Company on 3 August 2005. Mr. Zhang holds a master degree in Engineering from Tsing Hua University in Beijing, the PRC. Mr. Zhang is experienced in academic researches and studies on computer and software development in the PRC.

SENIOR MANAGEMENT

Mr. Tsui Chun Chung Michael, aged 41, joined the Group in May 2004 and is the chief executive officer of the Group. Mr. Tsui is responsible for managing the overall operations, business development and alliance building of the Group. Mr. Tsui holds a master degree in Business Administration from the East Asia Open Institute, Macau. Before joining the Group, Mr. Tsui was a sales manger, regional business development manager and general manager of various IT companies, namely Borland (HK) Limited and Sybase Hong Kong Limited, and has about twenty years experience in IT industry.

Mr. Lai Hon Wai Harry, aged 47, joined the Group in February 2005 and is the sales director of the Group. Mr. Lai is responsible for sales, marketing and business development of the Group and holds a master degree in Information Systems from the University of London. He has worked for top vendors for more than fifteen years. Prior to joining the Group, Mr. Lai has worked as sales manager and chief representative for various international IT companies.

Mr. Kwan Tat Yin Laurence, aged 44, joined the Group in October 2004 and is the senior consultant of the Group. Mr. Kwan is responsible for research and development of software solutions of the Group. Mr. Kwan has more than 20 years of experience in IT industry since he acquired his professional diploma in Computer Science. Mr. Kwan has in-depth experiences in project management, quality assurance and quality control with his past experience in private sectors as well as government sectors.

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 2005.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 July 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 58.

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.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and assets and liabilities of the Group for the last five 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

	Year ended 31 July				
	2005	2004	2003	2002	2001
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Turnover	**22,514,073**	15,881,193	10,188,743	7,873,892	5,200,621
Loss before tax	**(13,619,267)**	(12,165,261)	(9,376,639)	(8,534,704)	(6,253,082)
Tax	**–**	–	–	–	–
Net loss attributable to shareholders	**(13,619,267)**	(12,165,261)	(9,376,639)	(8,534,704)	(6,253,082)

Assets and liabilities

	As at 31 July				
	2005	2004	2003	2002	2001
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Non-current assets	**1,198,004**	3,033,000	1,779,923	2,276,165	3,317,920
Current assets	**10,079,922**	19,285,711	28,993,731	4,565,126	4,817,005
Current liabilities	**(7,599,293)**	(6,268,211)	(2,557,893)	(1,629,077)	(638,005)
Net current assets	**2,480,629**	13,017,500	26,435,838	2,936,049	4,179,000
Non-current liabilities	**–**	–	–	–	(12,750,000)
Net assets/(liabilities)	**3,678,633**	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.

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year ended 31 July 2005, together with the reasons therefor, are set out in notes 22 and 23 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 24 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 July 2005, the Company had no reserves available for distribution, except that under the provisions of the Companies Law of the Cayman Islands, the Company's share premium account and capital reserve, of HK$30,556,817 in aggregate at 31 July 2005, 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 71.5% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 34.8%.

Purchases from the Group's five largest suppliers accounted for approximately 89.1% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 31.6%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Lam Chi Shing
Mr. Chan Chi Hung

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)

Subsequent to the balance sheet date, on 3 August 2005, Mr. Zhang Guo Xuan was appointed as an independent non-executive director of the Company and Mr. Wong Man Chung Francis resigned as an independent non-executive director of the Company on 31 August 2005.

In accordance with articles 108 and 112 of the articles of association of the Company, Mr. Lau Siu Ki Kevin and Mr. Zhang Guo Xuan will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting respectively.

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 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, Mr. Wang Yat Yee Mark and Mr. Zhang Guo Xuan, each of whom entered into a 2-year service contract with the Company commencing from their respective date of appointment, the other 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.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 July 2005, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept 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	*Notes*	Corporate interests	Percentage of the Company's issued share capital	Capacity and nature of interest
Mr. Lam Chi Shing	*(a)*	144,044,550	36.3	Through a controlled corporation
		11,340,000	2.9	Directly beneficially owned
		155,384,550	39.2	
Mr. Yuen Kin Tong	*(b)*	71,336,003	18.0	Through controlled corporation

Notes:

(a) These shares are held by Cyber Mission Ventures Limited. The entire issued share capital of Cyber Mission Ventures Limited is beneficially owned by Mr. Lam Chi Shing, who is therefore deemed to be interested in the shares held by Cyber Mission Ventures Limited.

(b) 51,795,450 and 19,540,553 shares are held by Cyber Profit Group Limited and Hankison Investments Limited respectively. The respective entire issued share capitals of Cyber Profit Group Limited and Hankison Investments Limited are beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the shares held by Cyber Profit Group Limited and Hankison Investments Limited.

In addition to the above, Mr. Lam Chi Shing has non-beneficial personal equity interests in certain subsidiaries of the Company 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 2005, none of the directors and chief executives had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and 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 23 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.

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 23 to the financial statements.

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

At 31 July 2005, the following interests and short positions of 5% or more of the issued shares capital of the Company held by the following parties (other than directors or chief executive 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
Substantial shareholders				
Cyber Mission Ventures Limited	*(a)*	144,044,550	Directly beneficially owned	36.3
Cyber Profit Group Limited	*(b)*	51,795,450	Directly beneficially owned	13.1
Other shareholders				
Century Pilot Investments Limited	*(c)*	28,350,000	Directly beneficially owned	7.2
Mr. Wong Wing Hong	*(c)*	28,350,000	Through a controlled corporation	7.2
Expeditious Management Limited	*(d)*	28,350,000	Directly beneficially owned	7.2
Ms. Wong Sze Shun Syson	*(d)*	28,350,000	Through a controlled corporation	7.2
Ms. Elizabeth Helen Narain		20,670,000	Directly beneficially owned	5.2

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (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. Mr. Lam Chi Shing's indirect interest in 144,044,550 shares in the Company held through Cyber Mission Ventures Limited has also been set out in the above section heading "Directors' and chief executive's interests and short positions in shares and underlying shares".

(b) The entire issued share capital of Cyber Profit Group Limited is beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the 51,795,450 shares in the Company held by Cyber Profit Group Limited. Mr. Yuen Kin Tong's indirect interest in 51,795,450 shares in the Company held through Cyber Profit Group Limited has also been set out in the above section heading "Directors' and chief executive's interests and short positions in shares and underlying shares".

(c) The entire issued share capital of Century Pilot Investments Limited is beneficially owned by Mr. Wong Wing Hong, who is therefore deemed to be interested in the 28,350,000 shares held by Century Pilot Investments Limited.

(d) The entire issued share capital of Expeditious Management Limited is beneficially owned by Ms. Wong Sze Shun Syson, who is therefore deemed to be interested in the 28,350,000 shares held by Expeditious Management Limited.

Save as disclosed above, as at 31 July 2005, 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 SPONSOR/COMPLIANCE ADVISOR

As at 31 July 2005, neither Celestial Capital Limited ("Celestial Capital"), the sponsor/compliance advisor of the Company up to 31 July 2005, 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 an agreement dated 30 January 2003 entered into between the Company and Celestial Capital, Celestial Capital is entitled to receive a fee for acting as the sponsor (and now the compliance advisor) of the Company for the period from 18 February 2003 to 31 July 2005, or until the agreement is terminated upon the terms and conditions set out therein. The agreement was expired on 31 July 2005.

BOARD PRACTICES AND PROCEDURES

During the year, the Company complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules before the replacement of those rules by the Code on Corporate Governance Practices (the "Code") as set out in the new Appendix 15 to the GEM Listing Rules with effect from 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Group will start to report on its compliance with the Code provisions for the year ending 31 July 2006 in accordance with the requirement on Corporate Governance Report set out in the new Appendix 16 to the GEM Listing Rules.

BOARD PRACTICES AND PROCEDURES (continued)

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has complied with Rules 5.46 to 5.68 of the GEM Listing Rules concerning securities transactions by directors of the Company throughout the accounting period covered by this annual report and all directors of the Company have complied with the required standard of dealings set out therein.

COMPETITION AND CONFLICT OF INTERESTS

As at 31 July 2005, 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.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28, 5.29 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 who are 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 four meetings during the year. The Group's audited consolidated financial statements for the year ended 31 July 2005 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, 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 resigned as auditors of the Company on 9 September 2005 and Fan, Mitchell & Co. were appointed as auditors of the Company on 14 September 2005 by directors of the Company to fill the casual vacancy following the resignation of Ernst & Young. A resolution for the Company to re-appoint Fan, Mitchell & Co. 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, 25 October 2005

REPORT OF THE AUDITORS

FAN, MITCHELL & CO .
Certified Public Accountants

TO THE MEMBERS OF
SYS SOLUTIONS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 58 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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS OF THE GROUP

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. The Group's financial statements have been prepared on a going concern basis, the validity of which is dependent upon the successful outcome of the Group's funding plans, the ability to obtain continuing financial support from the controlling shareholder and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of such measures.

We consider that appropriate disclosures have been made, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether 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 2005 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

FAN, MITCHELL & CO.
Certified Public Accountants

Hong Kong, 25 October 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 July 2005

	Notes	2005 HK$	2004 HK$
Turnover	6	**22,514,073**	15,881,193
Cost of sales		**(20,238,879)**	(13,668,306)
Gross profit		**2,275,194**	2,212,887
Other revenue	6	**105,334**	96,379
Administrative and operating expenses		**(13,999,422)**	(14,038,512)
Impairment loss recognised in respect of an investment in a jointly-controlled entity	15	**(1,457,726)**	–
Loss from operating activities		**(13,076,620)**	(11,729,246)
Finance costs	7	**(64,759)**	–
Share of loss of a jointly-controlled entity		**(477,888)**	(436,015)
Loss before tax	7	**(13,619,267)**	(12,165,261)
Tax	10	**–**	–
Net loss attributable to shareholders	11	**(13,619,267)**	(12,165,261)
Loss per share	12		
Basic		**HK3.44 cents**	HK3.16 cents
Diluted		**N/A**	N/A

The annexed notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 July 2005

	Notes	2005 HK$	2004 HK$
Non-current assets			
Fixed assets	13	**1,198,004**	797,386
Investment in a jointly-controlled entity	15	**–**	1,935,614
Investments in securities	16	**–**	300,000
		1,198,004	3,033,000
Current assets			
Inventories	17	**73,402**	460,982
Accounts receivable	18	**825,438**	4,127,507
Deposits, prepayments and other receivables		**1,367,780**	909,290
Investments in securities	16	**300,000**	–
Pledged time deposits		**–**	3,000,315
Non-pledged time deposits		**–**	8,500,000
Cash and bank balances		**7,513,302**	2,287,617
		10,079,922	19,285,711
Current liabilities			
Accounts payable	19	**476,081**	3,235,818
Deposits received	20	**1,265,273**	1,838,354
Accrued liabilities and other payables		**857,939**	1,194,039
Amount due to a director	21	**5,000,000**	–
		7,599,293	6,268,211
Net current assets		**2,480,629**	13,017,500
NET ASSETS		**3,678,633**	16,050,500
CAPITAL AND RESERVES			
Issued capital	22	**3,961,800**	3,848,400
Reserves	24	**(283,167)**	12,202,100
		3,678,633	16,050,500

The annexed notes form an integral part of these financial statements.

Lam Chi Shing
Director

Chan Chi Hung
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2005

	Notes	2005 HK$	2004 HK$
At beginning of year – total equity		**16,050,500**	28,215,761
Exercise of share options	*22*	**1,247,400**	–
Net loss for the year		**(13,619,267)**	(12,165,261)
At end of year – total equity		**3,678,633**	16,050,500

The annexed notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2005

	Notes	2005 HK$	2004 HK$
Cash flows from operating activities			
Loss from operating activities		**(13,076,620)**	(11,729,246)
Adjustments for:			
Bank interest income	*6*	**(27,192)**	(72,698)
Depreciation	*7*	**481,261**	950,869
Impairment loss recognised in respect of an investment in a jointly-controlled entity	*7*	**1,457,726**	–
Loss/(gain) on disposal of fixed assets	*7*	**33,964**	(1,000)
Written off of fixed assets	*7*	**74,956**	–
Operating cash outflow before working capital changes		**(11,055,905)**	(10,852,075)
Decrease/(increase) in inventories		**387,580**	(312,031)
Decrease/(increase) in accounts receivable		**3,302,069**	(2,094,934)
(Increase)/decrease in deposits, prepayments and other receivables		**(458,490)**	78,606
(Decrease)/increase in accounts payable		**(2,759,737)**	2,361,880
(Decrease)/increase in deposits received		**(573,081)**	1,309,938
(Decrease)/increase in accrued liabilities and other payables		**(336,100)**	38,500
Net cash used in operating activities		**(11,493,664)**	(9,470,116)
Cash flows from investing activities			
Bank interest received		**27,192**	72,698
Purchase of fixed assets	*13*	**(1,017,212)**	(268,332)
Investment in a jointly-controlled entity		**–**	(2,371,629)
Proceeds from disposal of fixed assets		**26,413**	1,000
Net cash used in investing activities		**(963,607)**	(2,566,263)

For the year ended 31 July 2005

	Notes	2005 HK$	2004 HK$
Cash flows from financing activities			
Proceeds from loans from a director	21	**5,000,000**	–
Proceeds from exercise of share options	22	**1,247,400**	–
Interest expenses	7	**(64,759)**	–
Net cash from financing activities		**6,182,641**	–
Net decrease in cash and cash equivalents		**(6,274,630)**	(12,036,379)
Cash and cash equivalents at beginning of year		**13,787,932**	25,824,311
Cash and cash equivalents at end of year		**7,513,302**	13,787,932
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**7,513,302**	2,287,617
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	8,500,000
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities		**–**	3,000,315
		7,513,302	13,787,932

The annexed notes form an integral part of these financial statements.

BALANCE SHEET

At 31 July 2005

	Notes	2005 HK$	2004 HK$
Non-current assets			
Fixed assets	13	**93,020**	342,534
Interests in subsidiaries	14	**–**	4,071,107
Investments in securities	16	**–**	300,000
		93,020	4,713,641
Current assets			
Deposits, prepayments and other receivables		**289,600**	305,769
Investments in securities	16	**300,000**	–
Time deposits		**–**	8,500,000
Cash and bank balances		**219,362**	1,284,515
		808,962	10,090,284
Current liabilities			
Accrued liabilities and other payables		**487,059**	660,061
Net current assets		**321,903**	9,430,223
NET ASSETS		**414,923**	14,143,864
CAPITAL AND RESERVES			
Issued capital	22	**3,961,800**	3,848,400
Reserves	24	**(3,546,877)**	10,295,464
		414,923	14,143,864

The annexed notes form an integral part of these financial statements.

Lam Chi Shing
Director

Chan Chi Hung
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

1. CORPORATE INFORMATION

The principal place of business of the Company is located at Unit A, 7th Floor, Guangdong Investment Tower, 148 Connaught Road Central, 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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (hereinafter collectively referred to as "new HKFRSs") that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 July 2005. HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. HKFRS 3 did not have any impact on the Group's financial statements for the year ended 31 July 2005.

The Group has already commenced an assessment of the impact of the new HKFRSs but is not yet in a position to state whether the new HKFRSs would have a significant impact on its results of operations and financial position.

3. BASIS OF PRESENTATION – GOING CONCERN

The Group sustained a consolidated net loss attributable to shareholders of HK$13,619,267 for the year ended 31 July 2005 (2004: HK$12,165,261). In view of the substantial losses in consecutive years and the liquidity problems faced by the Group, the directors have adopted the following measures with a view to maintain the Group's existence as a going concern basis and to improve the Group's overall financial and cash flow position:

(i) Possible increase in the capital of the Group through various fund-raising exercises, including but not limited to, private placements of the Company's shares;

(ii) To obtain financial support from the controlling shareholder of the Group and to obtain third party financing;

(iii) To explore and pursue plans for acquiring future profitable operations; and

(iv) To implement cost control measures to reduce the administrative and operating expenses.

3. BASIS OF PRESENTATION – GOING CONCERN (continued)

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 July 2005.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with accounting standards issued by the HKICPA, 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.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2005. 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.

(c) 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.

(d) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Jointly-controlled entities (continued)

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 ventures, 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.

(e) 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.

(f) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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.

(i) Inventories

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments in securities

Investments in dated debt securities, equity securities and certificate of deposit intended to be held for a continuing strategic or identified long term purpose are stated at cost less any impairment losses, on an individual investment basis.

(k) 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.

(l) 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

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.

(m) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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:

(i) 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;

(ii) from the rendering of network maintenance and reinforcement services, on a time proportion basis over the year of the contract or when the related services are rendered;

(iii) from the rendering of other professional value-added solutions and services and data processing fee income, when the related services are rendered;

(iv) dataline rental income, on an accrual basis; and

(v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(o) 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.

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits (continued)

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

No provision has been recognised as no employees of the Group 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.

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.

(r) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Foreign currencies (continued)

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.

5. 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 2004 and 2005.

5. SEGMENT INFORMATION (continued)

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

	Network infrastructure construction solutions segment *HK$*	Network infrastructure maintenance and reinforcement services segment *HK$*	Other professional value-added solutions and services segment *HK$*	Consolidated *HK$*
2005				
Segment revenue:				
Sales to external customers	20,150,642	1,388,517	974,914	22,514,073
Segment results	(3,021,203)	612,743	(1,120,442)	(3,528,902)
Unallocated income				105,334
Unallocated expenses				(9,653,052)
Loss from operating activities				(13,076,620)
Finance costs				(64,759)
Share of loss of a jointly-controlled entity				(477,888)
Loss before tax				(13,619,267)
Tax				–
Net loss attributable to shareholders				(13,619,267)
Segment assets	789,714	74,300	685,557	1,549,571
Unallocated assets				9,728,355
Total assets				11,277,926
Segment liabilities	472,115	1,126,723	169,138	1,767,976
Unallocated liabilities				5,831,317
Total liabilities				7,599,293
Other segment information:				
Depreciation	–	–	59,251	59,251
Unallocated depreciation				422,010
				481,261
Provision for bad and doubtful debts	1,370,492	–	–	1,370,492
Provision for slow-moving and obsolete inventories	228,366	–	–	228,366
Unallocated impairment loss recognised in respect of an investment in a jointly-controlled entity				1,457,726
Capital expenditure	–	–	220,000	220,000
Unallocated capital expenditure				797,212
				1,017,212

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

6. TURNOVER AND OTHER REVENUE

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

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

	2005	2004
	HK$	*HK$*
Turnover		
Network infrastructure construction solutions		
– Sale of computer hardware and software and the provision of related services	**20,150,642**	12,085,031
Rendering of network infrastructure maintenance and reinforcement services	**1,388,517**	1,053,936
Other professional value-added solutions and services	**974,914**	2,742,226
	22,514,073	15,881,193
Other revenue		
Bank interest income	**27,192**	72,698
Other interest income	**64,733**	–
Sundry income	**13,409**	23,681
	105,334	96,379
Total revenue	**22,619,407**	15,977,572

For the year ended 31 July 2005

7. LOSS BEFORE TAX

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

	2005 HK$	2004 HK$
Cost of inventories sold*	**19,006,862**	11,640,620
Cost of services provided**	**1,232,017**	2,027,686
Depreciation *(note 13)*	**481,261**	950,869
Impairment loss recognised in respect of an investment in a jointly-controlled entity	**1,457,726**	–
Provision for slow-moving and obsolete inventories	**228,366**	113,406
Provision for doubtful debts/(written back) *(i)*	**1,370,492**	(12,328)
Written off of fixed assets	**74,956**	–
Loss/(gain) on disposal of fixed assets	**33,964**	(1,000)
Minimum lease payments under operating leases:		
Land and buildings	**1,176,553**	1,187,404
Dataline	**64,900**	70,800
Auditors' remuneration		
– provision for the year	**200,000**	380,000
– overprovision in prior year	**(1,294)**	–
	198,706	380,000
Research and development costs		
– current year expenditure***	**–**	147,475
Staff costs, including directors' remuneration *(note 8)*		
Wages and salaries	**7,793,994**	7,477,111
Pension scheme contributions	**278,874**	256,144
	8,072,868	7,733,255
Finance costs		
– Bank interest wholly repayable within five years	**64,759**	–
Exchange losses, net	**24,624**	20,191

7. LOSS BEFORE TAX (continued)

* *The cost of inventories sold includes HK$228,366 (2004: HK$113,406) 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$804,750 (2004: HK$500,100) relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above.*

*** *For the year ended 31 July 2004, the research and development costs represented staff costs, which were also included in the total amounts of staff costs disclosed separately above.*

Note:

(i) Provision for bad and doubtful debts

The provision for bad and doubtful debts of HK$1,370,492 was made in respect of an accounts receivable due from one of the independent trading party (the "Trading Party") of Sys Solutions Limited ("SSL"), a wholly-owned subsidiary of the Company.

In October and November 2004, the Trading Party agreed to make two sale referrals to SSL provided that SSL purchased its products from a specified hardware and software supplier, and in turn sold the products to a specified customer. Neither written agreements were entered into between the Trading Party and SSL nor were any documents made in respect of such arrangement. Although SSL estimated that a loss would be suffered as a result of the above sales transactions, it continued the deal with the Trading Party since a previous oral agreement has been reached stating that such trading loss plus a margin would be compensated by the Trading Party in the amount of US$163,332 (Equivalent to HK$1,273,986) subsequent to the completion of the sales transactions. In addition, the Trading Party agreed to bear all of the interest expenses and bank charges incurred by SSL in relation to the trust receipt loan borrowed for the purchase of its products. Both of the invoiced value of goods sold to the customer and the amount of compensation which the Trading Party agreed to pay SSL were recognized as sales income upon the delivery of goods.

Subsequent to the completion of the sales transactions, loan interest expenses and bank charges of HK$96,506 were incurred by SSL. However, the Trading Party denied the previous mutual agreement with SSL and refused to make any compensation for the SSL's trading loss. In an attempt to recover the compensation due from the Trading Party, SSL has considered whether it should file a lawsuit against the Trading Party. However, after obtaining the legal consultation, the Directors believed that the likelihood of a favourable outcome from filing a lawsuit against the Trading Party is uncertain. Since the recoverability of the debt may be remote, the Directors have decided not to take any legal action against the Trading Party in the meantime. Accordingly, full provision for the amount due from the Trading Party was made in the current year.

8. 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:

Name of Director	Directors' fee 2005 *HK$*	Salary 2005 *HK$*	Pension scheme contributions 2005 *HK$*	Total 2005 *HK$*	Total 2004 *HK$*
Executive directors					
Lam Chi Shing	–	600,000	34,000	634,000	600,000
Chan Chi Hung	–	450,000	12,000	462,000	77,000
Su Chi Wen	–	–	–	–	910,000
	–	1,050,000	46,000	1,096,000	1,587,000
Non-executive director					
Yuen Kin Tong	8,333	–	–	8,333	–
Independent non-executive directors					
Lau Siu Ki Kevin	180,000	–	–	180,000	180,000
Wong Man Chung Francis	180,000	–	–	180,000	180,000
Wang Yat Yee Mark	100,000	–	–	100,000	–
	460,000	–	–	460,000	360,000
Total	468,333	1,050,000	46,000	1,564,333	1,947,000

8. DIRECTORS' REMUNERATION (continued)

Emolument of Mr. Su Chi Wen for the year ended 31 July 2004 represented his remunerations received in the capacity of executive Director before his resignation on 31 May 2004.

No share options were granted to the Directors during the year ended 31 July 2005. Details of the movements of share options of the Directors are set out in note 23.

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.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors. Details of the remuneration of the remaining three (2004: three) non-director, highest paid individuals are as follows:

	Group	
	2005	2004
	HK$	*HK$*
Salaries, allowances and benefits in kind	**1,621,904**	1,443,244
Compensation for loss of office	**–**	92,992
Pension scheme contributions	**26,000**	34,000
	1,647,904	1,570,236

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

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group.

10. TAX

Hong Kong profits tax has not been provided (2004: 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 (2004: 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% (2004: 17.5%). The statutory tax rate of corporate income tax in Mainland China is 33% (2004: 33%).

For the year ended 31 July 2005

10. TAX (continued)

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:

	Group			
	2005		2004	
	HK$	*%*	*HK$*	*%*
Loss before tax	**(13,619,267)**		(12,165,261)	
Tax credit at statutory tax rate	**(2,383,372)**	**(17.5)**	(2,128,921)	(17.5)
Higher tax rate for specific provinces and local authority	**(209,095)**	**(1.5)**	(114,869)	(0.9)
Income not subject to tax	**(4,750)**	**(0.1)**	(13,386)	(0.1)
Expenses not deductible for tax	**1,001,324**	**7.4**	1,075,391	8.8
Temporary differences not recognised	**(119,466)**	**(0.9)**	–	–
Tax losses not recognised as deferred tax assets	**1,715,359**	**12.6**	1,181,785	9.7
	–		–	

The Group has unrecognised deferred tax assets from tax losses of HK$7,087,802 (2004: HK$4,685,744) that are available 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. Included in unrecognised tax losses are losses of HK$1,323,511 (2004: HK$878,342) that will expire in five years from the respective year of loss. Other losses could be carried forward indefinitely.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company was HK$14,976,341 (2004: HK$14,071,897) (note 24).

12. 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$13,619,267 (2004: HK$12,165,261) and the weighted average of 395,807,178 (2004: 384,840,000) ordinary shares in issue during the year.

Diluted loss per share for each of the years ended 31 July 2004 and 2005 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.

13. FIXED ASSETS

	Leasehold improvements	Computer equipment and software	Furniture and fixtures	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Group					
Cost:					
At 1 August 2004	1,627,128	2,557,035	298,742	281,765	4,764,670
Additions	580,222	389,320	43,020	4,650	1,017,212
Disposal	–	(1,435,639)	(99,232)	(35,000)	(1,569,871)
Written-off	(1,627,128)	(4,832)	–	–	(1,631,960)
At 31 July 2005	**580,222**	**1,505,884**	**242,530**	**251,415**	**2,580,051**
Accumulated depreciation:					
At 1 August 2004	1,463,430	2,204,436	158,257	141,161	3,967,284
Provided during the year	113,308	251,691	59,830	56,432	481,261
Disposal	–	(1,414,433)	(79,894)	(15,167)	(1,509,494)
Written-off	(1,553,863)	(3,141)	–	–	(1,557,004)
At 31 July 2005	**22,875**	**1,038,553**	**138,193**	**182,426**	**1,382,047**
Net book value:					
At 31 July 2005	**557,347**	**467,331**	**104,337**	**68,989**	**1,198,004**
At 31 July 2004	163,698	352,599	140,485	140,604	797,386

For the year ended 31 July 2005

13. FIXED ASSETS (continued)

	Leasehold improvements	Computer equipment and software	Furniture and fixtures	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Company					
Cost:					
At 1 August 2004	263,762	50,087	86,348	100,090	500,287
Additions	–	–	1,740	–	1,740
Disposal	–	–	(31,230)	(35,000)	(66,230)
Written off	(263,762)	(4,832)	–	–	(268,594)
At 31 July 2005	**–**	**45,255**	**56,858**	**65,090**	**167,203**
Accumulated depreciation:					
At 1 August 2004	100,064	10,811	23,807	23,071	157,753
Provided during the year	90,433	15,026	17,951	20,018	143,428
Disposal	–	–	(18,192)	(15,168)	(33,360)
Written off	(190,497)	(3,141)	–	–	(193,638)
At 31 July 2005	**–**	**22,696**	**23,566**	**27,921**	**74,183**
Net book value:					
At 31 July 2005	**–**	**22,559**	**33,292**	**37,169**	**93,020**
At 31 July 2004	163,698	39,276	62,541	77,019	342,534

14. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$	*HK$*
Unlisted shares, at cost	**891,031**	891,031
Due from subsidiaries	**22,535,306**	15,378,607
	23,426,337	16,269,638
Provision for impairment	**(23,426,337)**	(12,198,531)
	–	4,071,107

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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 ("SSL")	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

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14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sys Solutions System Management Limited ("Sys System Management")	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$1,800,500	–	100	Provision of technical services and research and development of web-based software

** *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.*

Not audited by Fan, Mitchell & Co.

15. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2005 HK$	2004 HK$
Share of net assets, unlisted	**1,457,726**	1,935,614
Provision for impairment	**(1,457,726)**	–
	–	1,935,614

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest	voting power	profit sharing	Principal activities
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

15. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

Hangzhou JV is a sino-foreign equity joint enterprise established by Sys System Management 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 venturer can exercise unilateral control over its economic activity.

The jointly-controlled entity is not audited by Fan, Mitchell & Co.

The following financial information and share of loss of the jointly-controlled entity as shown in the consolidated profit and loss account were derived from unaudited management accounts of jointly-controlled entity.

	2005	For the period from 10 October 2003 (date of incorporation) to 31 July 2004
	HK$	*HK$*
Operating results		
Turnover	**36,240**	7,547
Net loss for the year/period	**(955,776)**	(872,030)

		At 31 July, 2004
		HK$
Assets and liabilities		
Non-current assets	**385,980**	443,872
Current assets	**3,022,409**	3,585,275
Current liabilities	**(492,938)**	(157,919)

The Directors considered that in the light of the recurring operating losses of the jointly-controlled entity and the unfavourable market conditions, the interest in the jointly-controlled entity is considered to be irrecoverable. Accordingly, impairment loss in respect of interest in the jointly-controlled entity of HK$1,457,726 (2004: HK$Nil) was recognised in the profit and loss account for the year.

15. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

At 31 July 2005, Hangzhou JV had a number of unsettled obligations due to problem in recovering of debts due from third parties with an approximate total amount of HK$3,019,000. Due to the financial difficulty of the jointly-controlled entity, the Directors are uncertain whether it is able to repay the debts at the balance sheet date. In case of failure of repayment, Hangzhou JV may incur additional liabilities such as penalties for late payment, or be exposed to possible lawsuits. Since there is no clause in the joint venture agreement signed with the joint venturer in Mainland China stating that Sys System Management has a commitment to provide additional financial support to Hangzhou JV other than the contributed amount stated in the joint venture agreement, the Directors are not aware of the possibility of any contingent liability.

16. INVESTMENTS IN SECURITIES

	Group and Company	
	2005	2004
	HK$	*HK$*
Certificate of deposit, unlisted and at cost	**300,000**	300,000

As the certificate of deposit would be due by June 2006, accordingly, the investment in securities was re-classified as current assets in the financial statements in the current year.

17. INVENTORIES

	Group	
	2005	2004
	HK$	*HK$*
Computer hardware and software held for re-sale	**73,402**	460,982

None of the inventories included above were carried at net realisable value as at 31 July 2005 (2004: Nil).

18. 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 (net of specific provision for doubtful debts) as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005	2004
	HK$	*HK$*
Within 30 days	**570,296**	2,388,712
Between 31 – 60 days	**63,692**	1,217,576
Between 61 – 90 days	**1,800**	23,320
Between 91 – 180 days	**129,715**	497,899
Over 181 days	**59,935**	–
	825,438	4,127,507

Included in the Group's accounts receivable are amounts 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.

Particulars of which disclosed pursuant to Section 161B of the Hong Kong Companies Ordinances are as follows:

	Balance at		Maximum amount outstanding
Name of related company	**31 July 2005**	31 July 2004	during the year
	HK$	*HK$*	*HK$*
Pushang Management Services Limited	**67,740**	10,494	67,740
Speed Sourcing Limited	**–**	6,940	6,940
	67,740	17,434	

The amounts due are unsecured, interest-free and repayable on credit terms similar to those offered to the other customers of the Group.

19. ACCOUNTS PAYABLE

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

	Group	
	2005	2004
	HK$	*HK$*
Within 30 days	**359,929**	2,222,240
Between 31 – 60 days	**51,672**	679,625
Between 61 – 90 days	**18,403**	63,729
Between 91 – 180 days	**44,459**	19,040
Over 181 days	**1,618**	251,184
	476,081	3,235,818

20. 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.

21. AMOUNT DUE TO A DIRECTOR

	Group	
Name of director	**2005**	2004
	HK$	*HK$*
Lam Chi Shing	**5,000,000**	–

The amount due to a director was unsecured, interest-free and fully settled subsequent to the balance sheet date.

22. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares *HK$*
Authorised:		
At 31 July 2004 and 31 July 2005	5,000,000,000	50,000,000
Issued and fully paid:		
At 1 August 2003 and 1 August 2004	384,840,000	3,848,400
Exercise of share options *(note)*	11,340,000	113,400
At 31 July 2005	**396,180,000**	**3,961,800**

Note:

On 13 August 2004, options were exercised to subscribe for 11,340,000 ordinary shares in the Company at a consideration of HK$1,247,400, of which HK$113,400 was credited to share capital and the balance of HK$1,134,000 was credited to the share premium account.

23. 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 capitalization 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.

23. SHARE OPTION SCHEMES (continued)

(i) (continued)

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

	Number of share options granted on 25 January 2003					
Name or category of participant	At 1 August 2004	Exercised during the year	Lapsed during the year	At 31 July 2005	Exercise period of share options	Exercise price per share
						HK$
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
	22,680,000	(11,340,000)	(11,340,000)	**–**		
Senior management	1,548,000	–	(1,548,000)	**–**	18 February 2004 to 17 February 2007	0.19
Other employees	2,856,000	–	(1,902,000)	**954,000**	18 February 2004 to 17 February 2007	0.27
	27,084,000	(11,340,000)	(14,790,000)	**954,000**		

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. During the year, 14,790,000 share options lapsed following the resignation of a director, senior management and other employees, and as at the date of approval of these financial statements 954,000 share options are available for issue under the Pre-Scheme, representing 0.24% of the issued share capital of the Company at that date.

23. 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 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 2005 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.

24. RESERVES

	Share premium account HK$	Capital reserve HK$	Accumulated losses HK$	Total HK$
Group				
At 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)
At 31 July and 1 August 2004	28,551,786	19,980,000	(36,329,686)	12,202,100
Exercise of share options	1,134,000	–	–	1,134,000
Net loss for the year	–	–	(13,619,267)	(13,619,267)
At 31 July 2005	**29,685,786**	**19,980,000**	**(49,948,953)**	**(283,167)**
Company				
At 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)
At 31 July and 1 August 2004	28,551,786	871,031	(19,127,353)	10,295,464
Exercise of share options	1,134,000	–	–	1,134,000
Net loss for the year	–	–	(14,976,341)	(14,976,341)
At 31 July 2005	**29,685,786**	**871,031**	**(34,103,694)**	**(3,546,877)**

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.

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements for terms ranging from one to three years. None of the leases includes contingent rentals.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Within one year	**687,370**	908,839	**–**	397,200
After 1 year but within 5 years	**983,488**	297,900	**–**	297,900
	1,670,858	1,206,739	**–**	695,100

26. COMMITMENTS

Except for the operating lease commitments detailed in note 25 above, the Group and the Company had no significant commitments outstanding at the balance sheet date.

	Group		Company	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Sponsor fee*	**–**	360,000	**–**	360,000
	–	360,000	**–**	360,000

* *Pursuant to a sponsor agreement date 30 January 2003 entered into between the Company and the Sponsor, the Sponsor was 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. The above amount was charged to the profit and loss account in the current year.*

27. RELATED PARTY TRANSACTIONS

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

	Notes	2005 HK$	2004 HK$
Speed Sourcing Limited*			
Network infrastructure construction solutions income	(i)	–	24,160
Network maintenance and reinforcement services income	(i)	**188,233**	230,250
Other professional value-added solutions and services income and dataline rental income	(ii)	**76,340**	99,560
Pushang Management Services Limited*			
Network infrastructure construction solutions income	(i)	**79,743**	74,907
Other professional value-added solutions and services income and dataline rental income	(v)	**35,000**	23,335
Wong Sze Shun Syson**			
Consultancy fee paid	(iii)	–	58,500
Staff cost	(iv)	**429,434**	510,051
Wong Wing Hong**			
Renovation fee paid (included in leasehold improvement cost capitalised in fixed assets)	(v)	**487,580**	–
Lam Chi Shing			
Loan from a director	(vi)	**5,000,000**	–

* *Speed Sourcing Limited and Pushang Management 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 significant shareholder of the Company.*

27. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The directors of the Company consider that the prices and terms of the sales transactions with related companies of the Company approximated to those with independent third parties.

(ii) The income includes sales of internally developed software and dataline rental income. The sales 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%.

(iii) The consultancy fee for the year ended 31 July 2004 was charged at a fixed rate of HK$58,000 per month determined between the Company and the related party.

(iv) The staff cost was charged on a monthly basis plus a performance bonus based on gross profits determined between the Company and the related party.

(v) The transactions were conducted in accordance with the quotation agreed by the directors of the Company.

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.

(vi) The loan was unsecured, interest-free and fully settled subsequent to the balance sheet date in accordance with the relevant loan agreement.

28. POST BALANCE SHEET EVENTS

Save as disclosed in note 21 to the financial statements, the Group did not have any other significant events taken place subsequent to the balance sheet date.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 October 2005.