



Information Technology Integrations and Solution
e-Commerce

Human Resources Management
Technology Consultations

Annual Report **06**



Sys Solutions Holdings Limited

軟迅科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8182

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

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

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

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

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

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Chi Shing (*Chairman*)
Mr. Yuen Kin Tong
Mr. Chan Chi Hung

Independent Non-executive Directors

Mr. Lau Siu Ki Kevin
Mr. Wang Yat Yee Mark
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 FCCA*

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
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

AUDITORS

Lak & Associates C.P.A. Limited
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 2006.

OVERVIEW

During the year under review, we focused on strengthening our development force for our self-developed application solutions. We continued to enrich our product portfolio by establishing business relationships with information technology partners.

Cost control remains a high priority for the Group, in order to ensure that all financial resources are channeled to our core business. A review of our overhead costs was undertaken in the continued pursuit of achieving the corporate efficiencies necessary to ensure our competitiveness in the years ahead. It is pleasing to note that the Group's operating expenses were decreased by 41% from HK\$13,999,422 last year to HK\$8,247,844 in this year after having effective resources allocation and cost control review.

The Board understands that effective governance structures and procedures are essential to the long-term sustainability of our business. We are committed to observing sound corporate governance principles, such as independence, transparency and accountability, in order to protect our assets, our shareholders' interests and our reputation.

Looking forward, the information technology industry continues to be highly competitive. We will continue to focus on improving efficiency and service and managing cost. We face exciting and challenging times in the years ahead and face future with confidence.

APPRECIATION

On behalf of the Board, I sincerely thank our management teams and staff members for their loyalty, hard work and commitment, and our fellow shareholders, business partners and our customers for their support and co-operations for the past years.

Lam Chi Shing

Chairman

Hong Kong, 20 October 2006

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the Group continued to strengthen its performance of main streams line of business, including information technology solutions and services, software development for e-commerce and human resources management, as well as information technology services and consultations, in order to grasp growth opportunities.

The Group focused on developing and brand building for our self-developed human resources management information system. The self-branded solution is a web-based software, which could simply 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.

FINANCIAL REVIEW

For the year ended 31 July 2006, the Group recorded a turnover of HK\$6,988,225, representing a decrease of 69% as compared with HK\$22,514,073 of last year. The gross profit margin ratio for the year was 5%, while it was about 10% in the pervious year. The decrease was mainly attributable to gross loss incurred as a result of failure of some software development projects during the year. The Group has strengthened its controls to closely monitor costing and progress of the software development projects.

The loss from operating activities for the year ended 31 July 2006 decreased by 40% from HK\$13,076,620 to HK\$7,786,129, as a result of decrease in overall administrative and operating expenses by 41% from HK\$13,999,422 last year to HK\$8,247,844 in this year. Such decrease was due to more efficient method of resources allocation applied by the Group, as a result of performance review conducted during the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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 2006, a loan of HK\$3,187,329 was advanced from a director, which was unsecured, interest-free and repayable on demand.

As at 31 July 2006, the Group had net liabilities of approximately HK\$4,164,328 (2005: net assets of HK\$3,678,633), of which approximately HK\$485,791 (2005: HK\$7,513,302) were bank and cash balances.

As at 31 July 2006, the Group did not have any composite banking facilities (2005: Nil).

For the year ended 31 July 2006, there was no change in the capital structure and issued capital of the Group.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 July 2006, the Group had not authorised or contracted for any capital expenditure commitments and no future plans for material investments or capital assets.

Management Discussion and Analysis *(Continued)*

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 2006.

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 2006, the Group had 28 full-time employees (2005: 33) working in Hong Kong and Mainland China. The total staff costs, including directors' emoluments, amounted to approximately HK\$5,305,372 for the year under review (2005: HK\$8,072,868). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

CHARGE ON GROUP ASSETS

As at 31 July 2006, the Group did not have any charge on group assets or any significant contingent liabilities (31 July 2005: Nil).

GEARING RATIO

The gearing ratio of the Group calculated as a ratio of total liabilities to total assets was 2.36 as at 31 July 2006 as compared to 0.67 as at 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 2006, the Group did not have any significant contingent liabilities (2005: Nil).

OUTLOOK

The information technology industry in 2006 continued on the path of increasing competition. We intend to continue our emphasis on disciplined cost-control, monitoring the performance of the Group's business, eliminating loss-making businesses and targeting higher levels of efficiency and effectiveness.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 15 of the GEM Listing Rules with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the CG Code, except for the following deviations:

CODE PROVISION A.4.2

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Relevant amendments to the articles of association of the Company to comply with code provision A.4.2 will be proposed at the forthcoming annual general meeting of the Company.

CODE PROVISION E.1.2

Code provision E.1.2 stipulates that the chairman of the board of a listed issuer should attend the issuer's annual general meeting. Mr. Lam Chi Shing, the chairman of the Board was unable to attend 2005 annual general meeting of the Company on 9 December 2005 as he had another important business engagement. Despite his absence, he had arrange for Mr. Chan Chi Hung, an executive director of the Company, taking chair of the meeting and answering shareholders' questions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors of the Company (the "Directors") on terms no less exacting than the required standard of dealings as sent out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 July 2006. Having made specific enquiry of all Directors, the Directors have complied such code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 July 2006.

BOARD OF DIRECTORS

The composition of the Board ensures a balance of skills and experience appropriate for the requirements of the business of the Company. The Board of the Company as at the date of the annual report comprises:

Executive directors:

Mr. Lam Chi Shing (*Chairman*)
Mr. Yuen Kin Tong
Mr. Chan Chi Hung

Independent non-executive directors:

Mr. Lau Siu Ki Kevin
Mr. Wang Yat Yee Mark
Mr. Zhang Guo Xuan

Corporate Governance Report *(Continued)*

BOARD OF DIRECTORS *(Continued)*

The Board is responsible to the shareholders for overseeing the Group's overall business, strategic decisions and directions, annual budget, and other major corporate matters. The management team was delegated the authority and responsibility by the Board for daily operations and administration of the Group.

The Board held four regular meetings during the year ended 31 July 2006. The attendance record of each Director is as follows:

	Number of Board meetings attended/eligible to attend
<i>Executive Directors:</i>	
Mr. Lam Chi Shing	0/4
Mr. Yuen Kin Tong	0/4
Mr. Chan Chi Hung	4/4
<i>Independent Non-executive Directors:</i>	
Mr. Lau Siu Ki Kevin	4/4
Mr. Wang Yat Yee Mark	4/4
Mr. Zhang Guo Xuan	4/4

Board minutes are kept by the Company Secretary of the Company. Draft and final versions of the Board minutes are sent to the Directors for their comments and records, in both cases within a reasonable time after the meeting.

Throughout the year ended 31 July 2006, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. In addition, more than one-third of the Board is independent non-executive directors so that there is strong element of independence in the Board to exercise independent judgement.

Each of the independent non-executive directors has made an annual confirmation of independent pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with terms of the guidelines.

To the knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each others.

Corporate Governance Report *(Continued)*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman is responsible for management of the Board and strategic planning of the Group. The chief executive officer's responsibility is to manage the Group's day-to-day management of the Group's business.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 July 2006, the chairman and chief executive officer of the Company are Mr. Lam Chi Shing and Mr. Tsui Chun Chung Michael, ("Mr. Tsui") respectively. Upon departure of Mr. Tsui on 31 August 2006, there was no official appointment of a chief executive officer, as the Board considers that the executive Directors and the senior management staff can adequately undertake daily business decisions with the relatively small size of the Group. The Board will review the existing structure from time to time.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive Directors, except for Mr. Lau Siu Ki Kevin, are appointed for specific term. All Directors are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of associations of the Company.

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the articles of association of the Company, at each annual general meeting, the number nearest to, but not exceeding one-third of the directors (other than the chairman, deputy chairman, managing director or joint managing director) shall retire from office by rotation. Having reviewed the relevant articles of association of the Company, the Board will propose to put forth special resolution to amend the articles of association of the Company to comply with the said code provision.

As the Board as a whole is responsible for reviewing the Board composition, selection and approval of candidates for appointment as directors to the Board, the Company has not set up a nomination committee in accordance with the requirements for the time being. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates. Any newly appointed director by the Board shall hold office only until the next following general meeting of the company and shall then be eligible for re-election at that meeting, subject to the approval of the proposed amendments to the articles of association of the Company at the forthcoming annual general meeting of the Company. The Board will review its composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Biographical details of Directors as at the date of this report are set out on page 11 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 July 2006, auditor's remuneration of HK\$220,000 is payable to Lak & Associates C.P.A. Limited for annual audit services.

Corporate Governance Report *(Continued)*

AUDIT COMMITTEE

The audit committee comprises three members who are the three independent non-executive Directors, namely, Mr. Lau Siu Ki Kevin, Mr. Wang Yat Yee Mark and Mr. Zhang Guo Xuan. Mr. Lau Siu Ki Kevin is the chairman of the audit committee.

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 reviews the quarterly, interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with the accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

During the year ended 31 July 2006, four meetings of the audit committee have been held with the following attendances:

	Number of committee meetings attended/eligible to attend
Mr. Lau Siu Ki Kevin	4/4
Mr. Wang Yat Yee Mark	4/4
Mr. Zhang Guo Xuan	4/4

Full minutes of audit committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of the minutes of the audit committee meetings are sent to all members of the committee for their comments and records, in both cases within a reasonable time after the meeting.

REMUNERATION COMMITTEE

The remuneration committee currently comprises two independent non-executive Directors, namely Mr. Lau Siu Ki Kevin and Mr. Wang Yat Yee Mark and one executive Director, namely Mr. Chan Chi Hung. Mr. Wang Yat Yee Mark is the chairman of the remuneration committee. The principal responsibilities of the remuneration committee include the formulation of the Company's remuneration policy, the approval or recommendation of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

One meeting of the remuneration committee has been held during the year. All members of the remuneration committee attended the meeting.

Corporate Governance Report *(Continued)*

ACCOUNTABILITY AND AUDIT

The Board acknowledged their responsibility for preparing the financial statements of the Group and ensured the financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of Hong Kong Financial Reporting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors.

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Company's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Lam Chi Shing, aged 41, 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. Yuen Kin Tong, aged 43, joined the Group in 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 over ten year's experience in sales management and business administration.

Mr. Chan Chi Hung, aged 31, 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 a member of the Hong Kong Institute of Certified Public Accountant ("HKICPA") and a fellow member 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki Kevin, aged 48, joined the Group in September 2002 and has over twenty-five 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 57, joined the Group in 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 60, 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. Kwan Tat Yin Laurence, aged 45, 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 2006.

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 15 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 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 60.

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

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				
	2006 HK\$	2005 HK\$	2004 HK\$	2003 HK\$	2002 HK\$
Turnover	<u>6,988,225</u>	<u>22,514,073</u>	<u>15,881,193</u>	<u>10,188,743</u>	<u>7,873,892</u>
Loss before tax	<u>(7,786,129)</u>	<u>(13,619,267)</u>	<u>(12,165,261)</u>	<u>(9,376,639)</u>	<u>(8,534,704)</u>
Tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss attributable to shareholders	<u>(7,786,129)</u>	<u>(13,619,267)</u>	<u>(12,165,261)</u>	<u>(9,376,639)</u>	<u>(8,534,704)</u>

Report of the Directors *(Continued)*

SUMMARY FINANCIAL INFORMATION *(Continued)*

Assets and liabilities

	2006 HK\$	As at 31 July			
		2005 HK\$	2004 HK\$	2003 HK\$	2002 HK\$
Non-current assets	685,315	1,198,004	3,033,000	1,779,923	2,276,165
Current assets	2,362,722	10,100,922	19,285,711	28,993,731	4,565,126
Current liabilities	(7,212,365)	(7,620,293)	(6,268,211)	(2,557,893)	(1,629,077)
Net current (liabilities)/assets	(4,849,643)	2,480,629	13,017,500	26,435,838	2,936,049
Net (liabilities)/assets	(4,164,328)	3,678,633	16,050,500	28,215,761	5,212,214

Note: The summary of the consolidated results of the Group for the year ended 31 July 2002 and of the consolidated assets and liabilities of the Group as at 31 July 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 14 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 2006, together with the reasons therefor, are set out in notes 24 and 25 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 26 to the financial statements and in the consolidated statement of changes in equity.

Report of the Directors *(Continued)*

DISTRIBUTABLE RESERVES

At 31 July 2006, 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 2006, 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 69.8% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 23.5%.

Purchases from the Group's five largest suppliers accounted for approximately 83.8% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 33.0%.

One of the Group's five largest customers for the year ended 31 July 2006 (accounted for 3.8% of the Group's total sales for the year) was Pushang Management Services Limited, a company incorporated in Hong Kong and a director of which is Mr. Lam Chi Shing, the chairman and executive director of the Company.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Lam Chi Shing
 Mr. Yuen Kin Tong*
 Mr. Chan Chi Hung

Independent non-executive directors:

Mr. Lau Siu Ki Kevin
 Mr. Wang Yat Yee Mark
 Mr. Zhang Guo Xuan (appointed on 3 August 2005)
 Mr. Wong Man Chung Francis (resigned on 31 August 2005)

* The position of Mr. Yuen Kin Tong in the Company has changed from a non-executive director to an executive director with effect from 24 April 2006.

In accordance with article 108 of the articles of association of the Company, Mr. Wang Yat Yee Mark will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting respectively.

Report of the Directors *(Continued)*

DIRECTORS *(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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and senior management of the Group are set out on page 11 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, the other non-executive directors (including the independent non-executive directors) have no fixed terms of office. They are subject to the provisions governing the retirement and rotation of directors in the articles of association of the Company.

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings and monitored by the remuneration committee on a continuous basis. Other emoluments are determined by the Company's remuneration committee with reference to directors' duties and responsibilities.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors *(Continued)*

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

As at 31 July 2006, 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)	112,580,003	28.4	Through controlled corporations

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) These shares are held by Cyber Profit Group Limited, Hankison Investments Limited, Expeditious Management Limited and Sun Strategic Investments Limited (collectively the "Shareholding Companies"). The respective entire issued share capitals of the Shareholding Companies are beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the shares held by the Shareholding Companies.

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 2006, 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.

Report of the Directors *(Continued)*

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 25 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 25 to the financial statements.

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

At 31 July 2006, 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. Elizabeth Helen Narain		20,670,000	Directly beneficially owned	5.2

Report of the Directors *(Continued)*

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, the executive director of the Company, 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 Mr. Yuen Kin Tong, the executive director of the Company, who is therefore deemed to be interested in the 28,350,000 shares held by Expeditious Management Limited. Mr. Yuen Kin Tong's indirect interest in 28,350,000 shares in the Company held through Expeditious Management Limited have also been set out in the above section heading "Directors' and chief executive's interests and short positions in shares and underlying shares".

Save as disclosed above, as at 31 July 2006, 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.

COMPETITION AND CONFLICT OF INTERESTS

As at 31 July 2006, 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.

AUDITORS

Ernst & Young have been auditors of the Company since its incorporation on 3 July 2002, and acted as auditors of the Company for the years 31 July 2003 and 2004. Fan, Mitchell & Co. acted as auditors of the Company for the year ended 31 July 2005.

During the year, Fan, Mitchell & Co. was dissolved and Lak & Associates C.P.A. Limited was appointed by directors of the Company to fill the casual vacancy so arising. A resolution for the Company to re-appoint Lak & Associates C.P.A. Limited 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, 20 October 2006

Report of the Auditors

力恒會計師事務所有限公司

LAK & ASSOCIATES C.P.A. LIMITED

**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 60 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 Hong Kong Standards on Auditing 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.

Report of the Auditors *(Continued)*

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 2006 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.

Lak & Associates C.P.A. Limited

Certified Public Accountants

Hong Kong, 20 October 2006

Fung Lak

Practising Certificate Number P01301

Consolidated Profit and Loss Account

For the year ended 31 July 2006

	Note	2006 HK\$	2005 HK\$
Turnover	7	6,988,225	22,514,073
Cost of sales		(6,600,069)	(20,238,879)
Gross profit		388,156	2,275,194
Other revenue	7	73,559	105,334
Administrative and operating expenses		(8,247,844)	(13,999,422)
Impairment loss recognised in respect of an investment in a jointly-controlled entity	16	–	(1,457,726)
Loss from operating activities		(7,786,129)	(13,076,620)
Finance costs	8	–	(64,759)
Share of loss of a jointly-controlled entity	16	–	(477,888)
Loss before tax	8	(7,786,129)	(13,619,267)
Tax	11	–	–
Net loss attributable to equity holders of the Company	12	(7,786,129)	(13,619,267)
Loss per share	13		
Basic		HK\$1.97 cents	HK\$3.44 cents
Diluted		N/A	N/A

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

Consolidated Balance Sheet

At 31 July 2006

	Note	2006 HK\$	2005 HK\$
Non-current assets			
Fixed assets	14	685,315	1,198,004
Investment in a jointly-controlled entity	16	–	–
		<u>685,315</u>	<u>1,198,004</u>
Current assets			
Inventories	17	3,874	73,402
Trade receivables	18	694,247	825,438
Deposits, prepayments and other receivables		1,178,810	1,367,780
Available-for-sale investments/Investments in securities	19	–	300,000
Cash and bank balances	20	485,791	7,513,302
		<u>2,362,722</u>	<u>10,079,922</u>
Current liabilities			
Trade payables	21	1,526,385	476,081
Deposits received	22	1,642,675	1,265,273
Accrued liabilities and other payables		855,976	857,939
Amount due to a director	23	3,187,329	5,000,000
		<u>7,212,365</u>	<u>7,599,293</u>
Net current (liabilities)/assets		<u>(4,849,643)</u>	<u>2,480,629</u>
NET (LIABILITIES)/ASSETS		<u>(4,164,328)</u>	<u>3,678,633</u>
CAPITAL AND RESERVES			
Issued capital	24	3,961,800	3,961,800
Reserves	26	(8,126,128)	(283,167)
		<u>(4,164,328)</u>	<u>3,678,633</u>

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 2006

	<i>Note</i>	2006 HK\$	2005 <i>HK\$</i>
At beginning of year – total equity		3,678,633	16,050,500
Exercise of share options		–	1,247,400
Exchange differences on translation of the financial statements of an overseas subsidiary	26	(56,832)	–
Net loss for the year		(7,786,129)	(13,619,267)
At end of year – total equity		<u>(4,164,328)</u>	<u>3,678,633</u>

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

Consolidated Cash Flow Statement

For the year ended 31 July 2006

	Note	2006 HK\$	2005 HK\$
Cash flows from operating activities			
Loss from operating activities		(7,786,129)	(13,076,620)
Adjustments for:			
Bank interest income	7	(6,101)	(27,192)
Depreciation	8	531,118	481,261
Impairment loss recognised in respect of an investment in a jointly-controlled entity	8	–	1,457,726
Loss on disposal of fixed assets	8	10,370	33,964
Written off of fixed assets	8	14,211	74,956
Operating cash outflow before working capital changes		(7,236,531)	(11,055,905)
Decrease in inventories		69,528	387,580
Decrease in trade receivables		131,191	3,302,069
Decrease/(increase) in deposits, prepayments and other receivables		188,970	(458,490)
Increase/(decrease) in trade payables		1,050,304	(2,759,737)
Increase/(decrease) in deposits received		377,402	(573,081)
Decrease in accrued liabilities and other payables		(1,963)	(336,100)
Net cash used in operating activities		(5,421,099)	(11,493,664)
Cash flows from investing activities			
Bank interest received		6,101	27,192
Purchase of fixed assets	14	(52,733)	(1,017,212)
Proceeds from disposal of fixed assets		11,879	26,413
Proceeds from available-for-sale investments		300,000	–
Net cash from/(used in) investing activities		265,247	(963,607)
Cash flows from financing activities			
Advance/loans from a director	29c	3,187,329	5,000,000
Repayment to a director	29c	(5,000,000)	–
Proceeds from exercise of share options		–	1,247,400
Interest expenses	8	–	(64,759)
Net cash (used in)/from financing activities		(1,812,671)	6,182,641
Net decrease in cash and cash equivalents		(6,968,523)	(6,274,630)
Cash and cash equivalents at beginning of year		7,513,302	13,787,932
Effect of foreign exchange rate changes		(58,988)	–
Cash and cash equivalents at end of year		485,791	7,513,302
Analysis of balances of cash and cash equivalents			
Cash and bank balances	20	485,791	7,513,302

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

Balance Sheet

At 31 July 2006

	Note	2006 HK\$	2005 HK\$
Non-current assets			
Fixed assets	14	54,260	93,020
Interests in subsidiaries	15	–	–
		<u>54,260</u>	<u>93,020</u>
Current assets			
Deposits, prepayments and other receivables		140,689	289,600
Available-for-sale investments/Investments in securities	19	–	300,000
Cash and bank balances	20	15,596	219,362
		<u>156,285</u>	<u>808,962</u>
Current liabilities			
Accrued liabilities and other payables		296,216	487,059
		<u>(139,931)</u>	<u>321,903</u>
Net current (liabilities)/assets			
		<u>(85,671)</u>	<u>414,923</u>
NET (LIABILITIES)/ASSETS			
		<u>(85,671)</u>	<u>414,923</u>
CAPITAL AND RESERVES			
Issued capital	24	3,961,800	3,961,800
Reserves	26	(4,047,471)	(3,546,877)
		<u>(85,671)</u>	<u>414,923</u>

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 2006

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.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Group.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group has applied, for the first time, a number of new/ revised Hong Kong Financial Reporting Standards (HKFRS) and Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") below which are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2005.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS Int-15	Operating Leases – Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 31, 32, 33, 36, 37, 38, 39, HKFRS 3 and HKAS Int-15 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements. The impact of adopting the other HKFRSs is summarized as follows:

(a) Definition of related parties (HKAS 24 Related Party Disclosures)

As a result of the adoption of HKAS 24 Related Party Disclosures, the definition of related parties as disclosed in note 4(t) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. HKAS 24 has affected the identification of related parties and some other related-party disclosures, as compared to those that would have been reported had SSAP 20 Related Party Disclosures, still been in effect.

(b) Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. In relation to share options granted before 1 August 2005, in accordance with the relevant transitional provision, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 that had vested before 1 January 2005. As all outstanding share options of the Group were granted and vested before 1 January 2005, the application of HKFRS 2 has had no financial impact on the results of the Group for current or prior accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

3. BASIS OF PRESENTATION – GOING CONCERN

The Group sustained a consolidated net loss attributable to shareholders of HK\$7,786,129 for the year ended 31 July 2006 (2005: HK\$13,619,267). 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.

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 2006.

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.

The preparation of the financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 31.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2006. 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.

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.

Equity accounting is discontinued from the date on which the Group ceases to have joint control over, or have significant influence in, a jointly controlled entity. When the carrying amount of the investment in the jointly controlled entity reaches zero, equity accounting is discontinued unless the Group has obligations or guaranteed obligations in respect of the jointly controlled entity.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) 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.

(f) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated 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 provided to write off the cost of each asset over its estimated useful life and after taking into account its estimated residual value, using the straight line method. 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	30–50%
Furniture and fixtures	20%
Office equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in the year which the item is derecognised.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amounts of the inventories are recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(i) Investments in securities

From 1 August 2004 to 31 July 2005:

Investments in securities represented certificates of deposit which were intended to be held for a continuing strategic or identified long term purpose and were stated at cost less any impairment losses, on an individual investment basis.

From 1 August 2005 onwards:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) **Investments in securities** *(Continued)*

Available-for-sale financial assets (Continued)

Non-trading investments in securities, which are classified as available-for-sale securities and do not have quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(j) **Trade and other payables**

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) **Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances, demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of consolidated cash flow statement.

(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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

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 and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

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 Group operates equity-settled share-based compensation scheme ("Scheme") to remunerate its employees.

For share options granted under the Scheme, the fair value of the employee's services rendered in exchange for the grant of the options is recognized as an expense immediately and credited to the share-based payment reserve under equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting periods. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of the original estimates, if any, in the profit and loss account, and a corresponding adjustment to the share-based payment reserve.

Upon exercise of the 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 over the nominal value of the shares is recorded by the Company in the share premium account. If the options lapse unexercised, the related share-based payment reserve is transferred directly to retained earnings.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their profit and loss accounts are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in a separate component of equity, the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the profit and loss account.

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

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade and other receivables and plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Segment reporting *(Continued)*

Unallocated items mainly comprise financial and corporate assets, amount due to a director, borrowings, corporate and financial expenses.

(t) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

5. FINANCIAL RISK MANAGEMENT

The principal financial instruments of the Group comprise the amount due to a director, trade receivables, trade and other payables and cash and bank balances. The main purpose of these financial instruments is to finance the operations of the Group.

(i) Foreign exchange rate risk

The Group's financial assets and financial liabilities are substantially denominated in Hong Kong Dollar. Accordingly, the management considers the foreign exchange rate risk to the Group is not significant.

(ii) Credit risk

The Group has limited exposure to credit risk due to tight control of working capital management on the credit policies.

(iii) Fair value and cash flow interest rate risks

The Group's exposure to fair value and cash flow interest risks is minimal as the Group does not have any material long term financial assets or liabilities.

(iv) Price risk

The Group was not exposed to equity securities price risk during the year, since it held no investments which were classified as available-for-sale financial assets or as financial assets at fair value through the profit and loss account. In addition, the Group was not exposed to commodity price risk.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(v) Liquidity risk

The Group is exposed to liquidity risk. At 31 July 2006, the current liabilities of the Group exceeded its current assets by approximately HK\$4,849,000. The maintenance of the Group as a going concern is mainly dependent on the successful outcome of the Group's funding plans and the ongoing support from one of the director of the Company.

6. 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 2005 and 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

6. 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\$
2006				
Segment revenue:				
Sales to external customers	<u>3,869,256</u>	<u>542,143</u>	<u>2,576,826</u>	<u>6,988,225</u>
Segment results	<u>(564,261)</u>	<u>98,137</u>	<u>(1,028,316)</u>	<u>(1,494,440)</u>
Unallocated income				73,559
Unallocated expenses				<u>(6,365,248)</u>
Loss from operating activities				<u>(7,786,129)</u>
Finance costs				-
Share of loss of a jointly-controlled entity				-
Loss before tax				<u>(7,786,129)</u>
Tax				-
Net loss attributable to equity holders of the Company				<u>(7,786,129)</u>
Segment assets	430,846	227,575	889,125	1,547,546
Unallocated assets				1,500,491
Total assets				<u>3,048,037</u>
Segment liabilities	1,548,785	1,054,923	841,062	3,444,770
Unallocated liabilities				3,767,595
Total liabilities				<u>7,212,365</u>
Other segment information:				
Depreciation	-	-	110,000	110,000
Unallocated depreciation				421,118
				<u>531,118</u>
Provision for bad and doubtful debts	-	-	-	-
Provision for slow-moving inventories	13,803	-	-	13,803
Unallocated impairment loss recognised in respect of an investment in a jointly-controlled entity				-
Capital expenditure				-
Unallocated capital expenditure	-	-	-	52,733
				<u>52,733</u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

6. 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\$
2005				
Segment revenue:				
Sales to external customers	<u>20,150,642</u>	<u>1,388,517</u>	<u>974,914</u>	<u>22,514,073</u>
Segment results	<u>(3,021,203)</u>	<u>612,743</u>	<u>(1,120,442)</u>	(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 equity holders of the Company				<u>(13,619,267)</u>
Segment assets	789,714	74,300	685,557	1,549,571
Unallocated assets				9,728,355
Total assets				<u>11,277,926</u>
Segment liabilities	472,115	1,126,723	169,138	1,767,976
Unallocated liabilities				5,831,317
Total liabilities				<u>7,599,293</u>
Other segment information:				
Depreciation	-	-	59,251	59,251
Unallocated depreciation				422,010
	<u>-</u>	<u>-</u>	<u>59,251</u>	<u>481,261</u>
Provision for bad and doubtful debts	1,370,492	-	-	1,370,492
Provision for slow-moving 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
	<u>-</u>	<u>-</u>	<u>220,000</u>	<u>1,017,212</u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

7. 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:

	2006	2005
	HK\$	HK\$
Turnover		
Network infrastructure construction solutions		
– Sale of computer hardware and software		
and the provision of related services	3,869,256	20,150,642
Rendering of network infrastructure maintenance		
and reinforcement services	542,143	1,388,517
Other professional value-added solutions and services	2,576,826	974,914
	6,988,225	22,514,073
Other revenue		
Bank interest income	6,101	27,192
Other interest income	–	64,733
Sundry income	17,294	13,409
Exchange gain, net	50,164	–
	73,559	105,334
Total revenue	7,061,784	22,619,407

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

8. LOSS BEFORE TAX

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

	2006	2005
	HK\$	HK\$
Cost of inventories sold*	3,452,062	19,006,862
Cost of services provided**	3,148,007	1,232,017
Depreciation (note 14)	531,118	481,261
Impairment loss recognised in respect of an investment in a jointly-controlled entity	–	1,457,726
Provision for slow-moving inventories	13,803	228,366
Provision for doubtful debts	–	1,370,492
Written off of fixed assets	14,211	74,956
Loss on disposal of fixed assets	10,370	33,964
Minimum lease payments under operating leases:		
Land and buildings	776,062	1,176,553
Dateline	2,855	64,900
Auditors' remuneration		
– provision for the year	220,000	200,000
– overprovision in prior year	–	(1,294)
	220,000	198,706
Staff costs, including directors' remuneration (note 9)		
Wages and salaries	5,132,124	7,793,994
Pension scheme contributions	173,248	278,874
	5,305,372	8,072,868
Finance costs		
– Bank interest wholly repayable within five years	–	64,759
Exchange (gain)/losses, net	(50,164)	24,624

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

8. LOSS BEFORE TAX (Continued)

* The cost of inventories sold includes HK\$13,803 (2005: HK\$228,366) relating to the provision for slow-moving inventories, which is also included in the total amount disclosed above.

** The cost of services provided includes HK\$437,710 (2005: HK\$804,750) relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above.

9. 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'	Pension		Total	Total
	fee	Salary	contributions		
	2006	2006	2006	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$
Executive directors					
Lam Chi Shing	-	250,000	5,000	255,000	634,000
Chan Chi Hung	-	463,500	12,000	475,500	462,000
Yuen Kin Tong (note i)	3,844	-	-	3,844	-
	<u>3,844</u>	<u>713,500</u>	<u>17,000</u>	<u>734,344</u>	<u>1,096,000</u>
Non-executive director					
Yuen Kin Tong	6,156	-	-	6,156	8,333
Independent non-executive directors					
Lau Siu Ki Kevin	180,000	-	-	180,000	180,000
Wong Man Chung Francis	15,000	-	-	15,000	180,000
Wang Yat Yee Mark	120,000	-	-	120,000	100,000
Zhang Guo Xuan	10,000	-	-	10,000	-
	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>325,000</u>	<u>460,000</u>
Total	<u>335,000</u>	<u>713,500</u>	<u>17,000</u>	<u>1,065,500</u>	<u>1,564,333</u>

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

9. DIRECTORS' REMUNERATION *(Continued)*

Note:

- (i) The position of Mr. Yuen Kin Tong in the Company was changed from Non-executive Director to Executive Director on 24 April 2006.
- (ii) Emolument of Mr. Wong Man Chung Francis for the year ended 31 July 2006 represented his remunerations received in the capacity of Non-executive Director before his resignation on 31 August 2005.
- (iii) No share options were granted to the Directors during the year ended 31 July 2006. Details of the movements of share options are set out in note 25.
- (iv) Mr. Lam Chi Shing waived emoluments of HK\$350,000 during the year ended 31 July 2006. There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 July 2005. In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group during the years ended 31 July 2005 and 31 July 2006.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, whose remuneration are disclosed in note 9. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees are as follows:

	Group	
	2006	2005
	HK\$	HK\$
Salaries, allowances and benefits in kind	1,197,907	1,621,904
Pension scheme contributions	34,813	26,000
	<u>1,232,720</u>	<u>1,647,904</u>

The remuneration of the three 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.

11. TAX

Hong Kong profits tax has not been provided (2005: 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 (2005: 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% (2005: 17.5%). The statutory tax rate of corporate income tax in Mainland China is 33% (2005: 33%).

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

11. 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:

	2006		2005	
	HK\$	%	HK\$	%
Loss before tax	(7,786,129)		(13,619,267)	
Tax credit at statutory tax rate	(1,362,572)	(17.5)	(2,383,372)	(17.5)
Higher tax rate for specific provinces and local authority	(188,135)	(2.4)	(209,095)	(1.5)
Income not subject to tax	(1,068)	(0.1)	(4,750)	(0.1)
Expenses not deductible for tax	3,551	0.1	1,001,324	7.4
Temporary differences not recognised	69,252	0.9	(119,466)	(0.9)
Tax losses not recognised as deferred tax assets	1,478,972	19.0	1,715,359	12.6
	-		-	

The Group has unrecognised deferred tax assets from tax losses of HK\$10,027,914 (2005: HK\$7,087,802) 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\$1,724,059 (2005: HK\$1,323,511) that will expire in five years from the respective year of loss. Other losses could be carried forward indefinitely.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to equity holders of the Company for the year dealt with in the financial statements of the Company was HK\$500,594 (2005: HK\$14,976,341) (note 26).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to equity holders of the Company for the year of HK\$7,786,129 (2005: HK\$13,619,267) and the weighted average of 396,180,000 (2005: 395,807,178) ordinary shares in issue during the year.

Diluted loss per share for each of the years ended 31 July 2005 and 2006 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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

14. FIXED ASSETS

Group	Leasehold	Computer	Furniture	Office	Total
	improvements	equipment	and fixtures	equipment	
	HK\$	HK\$	HK\$	HK\$	HK\$
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 and 1 August 2005	580,222	1,505,884	242,530	251,415	2,580,051
Exchange adjustment	1,065	2,736	–	494	4,295
Additions	–	51,913	820	–	52,733
Disposal	(49,084)	(55,944)	(2,580)	–	(107,608)
Written-off	–	(117,466)	(110,655)	(1,700)	(229,821)
At 31 July 2006	532,203	1,387,123	130,115	250,209	2,299,650
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 and 1 August 2005	22,875	1,038,553	138,193	182,426	1,382,047
Exchange adjustment	311	1,400	–	428	2,139
Provided during the year	201,943	266,567	30,472	32,136	531,118
Disposal	(38,858)	(45,168)	(1,333)	–	(85,359)
Written-off	–	(117,057)	(97,745)	(808)	(215,610)
At 31 July 2006	186,271	1,144,295	69,587	214,182	1,614,335
Net book value:					
At 31 July 2006	345,932	242,828	60,528	36,027	685,315
At 31 July 2005	557,347	467,331	104,337	68,989	1,198,004

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

14. FIXED ASSETS (Continued)

	Leasehold improvements	Computer equipment and software	Furniture and fixtures	Office equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2005 and 1 August 2005	–	45,255	56,858	65,090	167,203
Additions	–	160	–	–	160
Disposal	–	–	(2,580)	–	(2,580)
Written off	–	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2006	–	45,415	54,278	65,090	164,783
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2005 and 1 August 2005	–	22,696	23,566	27,921	74,183
Charge for the year	–	13,585	11,070	13,018	37,673
Disposal	–	–	(1,333)	–	(1,333)
Written off	–	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2006	–	36,281	33,303	40,939	110,523
Net book value:					
At 31 July 2006	–	9,134	20,975	24,151	54,260
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 July 2005	–	22,559	33,292	37,169	93,020
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

15. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK\$	<i>HK\$</i>
Unlisted shares, at cost	891,031	891,031
Due from subsidiaries	21,316,195	22,535,306
	22,207,226	23,426,337
Provision for impairment	(22,207,226)	(23,426,337)
	-	-

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

The carrying amount of amounts due from subsidiaries approximates to its fair value.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sys Solutions (BVI) Limited [#]	British Virgin Islands/Hong Kong	US\$10,000 ordinary	100	-	Investment holding
Sys Solutions (China) Limited	Hong Kong	HK\$1,000,000 ordinary	-	100	Dormant
Sys Solutions Limited	Hong Kong	HK\$1,000,000 ordinary	-	100	Provision of network infrastructure solutions and services
Sys Solutions Technology Consulting Limited	Hong Kong	HK\$10,000 ordinary	-	100	Provision of network infrastructure solutions and services
Sys Solutions GlobalSoft Limited	Hong Kong	HK\$10,000 ordinary	-	100	Provision of network infrastructure solutions and services

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

15. 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		Principal activities
			Direct	Indirect	
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\$2,000,400	-	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 Lak & Associates C.P.A. Limited

16. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2006 HK\$	2005 HK\$
Share of net assets, unlisted	1,457,726	1,457,726
Provision for impairment	(1,457,726)	(1,457,726)
	-	-

Particulars of the jointly-controlled entity are as follows:

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

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

16. 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 Lak & Associates C.P.A. Limited.

In view of the recurring operating losses of the jointly-controlled entity and the unfavourable market conditions, an impairment loss of HK\$1,457,726 was charged to the consolidated profit and loss account in the prior year.

At 31 July 2006, 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\$3,119,000 (2005: 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.

The Group discontinued the use of equity accounting method as the carrying amount of the investment was reduced to nil.

The following financial information and share of loss of the jointly-controlled entity as shown in the consolidated profit and loss account for the year ended 31 July 2005 were derived from unaudited management accounts of jointly-controlled entity.

	2005 HK\$
Operating results	
Turnover	<u>36,240</u>
Net loss for the year	<u>(955,776)</u>
	At 31 July 2005 HK\$
Assets and liabilities	
Non-current assets	385,980
Current assets	3,022,409
Current liabilities	<u>(492,938)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

17. INVENTORIES

	Group	
	2006 HK\$	2005 HK\$
Computer hardware and software held for re-sale	<u><u>3,874</u></u>	<u><u>73,402</u></u>

None of the inventories included above were carried at net realisable value as at 31 July 2006 (2005: Nil).

18. TRADE RECEIVABLES

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

	Group	
	2006 HK\$	2005 HK\$
Within 30 days	422,859	570,296
Between 31 – 60 days	166,481	63,692
Between 61 – 90 days	103,407	1,800
Between 91 – 180 days	1,500	129,715
Over 181 days	–	59,935
	<u><u>694,247</u></u>	<u><u>825,438</u></u>

The carrying amount of trade receivables approximates to its fair value.

Included in the Group's trade receivables 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:

Name of related company	Balance at		Maximum amount outstanding during the year HK\$
	31 July 2006 HK\$	31 July 2005 HK\$	
Pushang Management Services Limited	<u><u>1,500</u></u>	<u><u>67,740</u></u>	142,853

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

18. TRADE RECEIVABLES (Continued)

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

Included in the trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
United States Dollars	<u>546</u>	<u>43,111</u>

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

	Group and Company	
	2006	2005
	HK\$	HK\$
Certificate of deposit, unlisted and at cost	<u>-</u>	<u>300,000</u>

20. CASH AND BANK BALANCES

	The Group		The Company	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Bank balances	<u>469,185</u>	7,489,164	<u>15,596</u>	217,362
Cash balances	<u>16,606</u>	<u>24,138</u>	<u>-</u>	<u>2,000</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>485,791</u>	<u>7,513,302</u>	<u>15,596</u>	<u>219,362</u>

Included in the cash and bank balances are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	2006	2005
United States Dollars	<u>1,566</u>	57,251	<u>-</u>	-
Renminbi	<u>62,666</u>	<u>107,874</u>	<u>-</u>	<u>-</u>

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and bank balances approximate to their fair values.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

21. TRADE PAYABLES

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

	Group	
	2006 HK\$	2005 HK\$
Within 30 days	725,691	359,929
Between 31 – 60 days	34,755	51,672
Between 61 – 90 days	225,427	18,403
Between 91 – 180 days	158,050	44,459
Over 181 days	382,462	1,618
	<u>1,526,385</u>	<u>476,081</u>

The carrying amount of trade payables approximates to its fair value.

Included in the trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
United States Dollars	<u>144,141</u>	<u>28,529</u>

22. 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.

23. AMOUNT DUE TO A DIRECTOR

Name of director	Group	
	2006 HK\$	2005 HK\$
Lam Chi Shing	<u>3,187,329</u>	<u>5,000,000</u>

The amount due to a director was unsecured, interest-free and repayable on demand.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

24. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$
Authorised:		
At 31 July 2005 and 31 July 2006	<u>5,000,000,000</u>	<u>50,000,000</u>
Issued and fully paid:		
At 1 August 2004	384,840,000	3,848,400
Exercise of share options	<u>11,340,000</u>	<u>113,400</u>
At 31 July 2005 and 31 July 2006	<u>396,180,000</u>	<u>3,961,800</u>

There was no movement in the share capital of the Company for the year ended 31 July 2006.

25. 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.

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

Category of participant	Number of share options granted on 25 January 2003			At 31 July 2006	Exercise period of share options	Exercise price per share HK\$
	At 1 August 2005	Exercised during the year	Lapsed during the year			
Employees of the Group	954,000	–	(684,000)	270,000	18 February 2004 to 17 February 2007	0.27
	<u>954,000</u>	<u>–</u>	<u>(684,000)</u>	<u>270,000</u>		

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

25. SHARE OPTION SCHEMES *(Continued)*

(i) *(Continued)*

During the year, 684,000 share options lapsed following the resignation of employees. The outstanding 270,000 share options have been lapsed subsequent to the balance sheet date following the resignation of employees.

- (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 2006 or up to the date of approval of these financial statements.

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

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

26. RESERVES

	Share premium account <i>HK\$</i>	Capital reserve <i>HK\$</i>	Exchange reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Group					
At 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 and 1 August 2005	29,685,786	19,980,000	–	(49,948,953)	(283,167)
Net loss for the year	–	–	–	(7,786,129)	(7,786,129)
Exchange differences on translation of the financial statements of an overseas subsidiary	–	–	(56,832)	–	(56,832)
At 31 July 2006	<u>29,685,786</u>	<u>19,980,000</u>	<u>(56,832)</u>	<u>(57,735,082)</u>	<u>(8,126,128)</u>
Company					
At 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 and 1 August 2005	29,685,786	871,031	–	(34,103,694)	(3,546,877)
Net loss for the year	–	–	–	(500,594)	(500,594)
At 31 July 2006	<u>29,685,786</u>	<u>871,031</u>	<u>–</u>	<u>(34,604,288)</u>	<u>(4,047,471)</u>

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

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

27. 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	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Within one year	689,056	687,370	-	-
After 1 year but within 5 years	447,853	983,488	-	-
	<u>1,136,909</u>	<u>1,670,858</u>	<u>-</u>	<u>-</u>

28. COMMITMENTS

Except for the operating lease commitments detailed in note 27 above, the Group and the Company had no significant commitments outstanding at the balance sheet date.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the years ended 31 July 2006 and 2005.

	2006	2005
	HK\$	HK\$
Speed Sourcing Limited*		
Network maintenance and reinforcement services income	13,250	188,233
Other professional value-added solutions and services income and dataline rental income	3,470	76,340
Pushang Management Services Limited*		
Network infrastructure construction solutions income	176,255	79,743
Network maintenance and reinforcement services income	86,600	–
Other professional value-added solutions and services income and dataline rental income	9,000	–
Rental income	14,795	35,000
Sales proceeds on disposal of furniture	1,250	–
Wong Sze Shun Syson****		
Staff cost	–	429,434
Wong Wing Hong**		
Renovation fee paid (included in leasehold improvement cost capitalised in fixed assets)	–	487,580
Hong Shing Decoration Co.***		
Renovation fee paid	27,600	–
Lam Chi Shing		
Cash advance from a director	3,187,329	–
Loan from a director	–	5,000,000
	3,187,329	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.

** Mr. Wong Wing Hong is a significant shareholder of the Company.

*** Mr. Wong Wing Hong is the owner of the company.

**** Ms. Wong Sze Shun Syson was a significant shareholder of the Company until 24 January 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2006

29. RELATED PARTY TRANSACTIONS (Continued)**(b) Key management personnel compensation**

	2006	2005
	HK\$	HK\$
Short-term employee benefits	1,332,407	1,737,793
Post-employment benefits	28,113	58,000
	<u>1,360,520</u>	<u>1,795,793</u>

(c) Movement of non-trade balance with related party

	2006	2005
	HK\$	HK\$
Non-trade balance due to: <i>Director – Mr. Lam Chi Shing</i>		
Beginning of the year	5,000,000	–
Loan to the Group	–	5,000,000
Cash advance to the Group	3,187,329	–
Repayment of loan	(5,000,000)	–
End of the year	<u>3,187,329</u>	<u>5,000,000</u>

30. POST BALANCE SHEET EVENTS

Save as disclosed in note 25(i) to the financial statements, the Group did not have any other significant events taken place subsequent to the balance sheet date.

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**(a) Impairment of investment in a jointly-controlled entity**

The Group's management determines impairment of investment in the jointly-controlled entity on an annual basis. In the previous year, full impairment of investment in the jointly-controlled entity in Hangzhou has been made. Details of the basis of the impairment are disclosed in the note 16 to these financial statements. The management will reassess the impairment of the provision for impairment at each balance sheet date.

(b) Depreciation

The Group's net book value of fixed assets as at 31 July 2006 was HK\$685,315. The Group depreciates its fixed assets on a straight line basis over the estimated useful life as set out in note 4(f), commencing from the date the fixed asset is placed into productive use. The estimated useful life and dates that the Group places the fixed asset into productive use reflects the Directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's fixed assets.

Notes to the Financial Statements *(Continued)*

For the year ended 31 July 2006

32. POTENTIAL IMPACT ON STANDARDS, AMENDMENTS OR INTERPRETATIONS NOT YET EFFECTIVE

The Group has commenced considering the potential impact of the following new standards, amendments or interpretations that have been issued but are not effective, but is not yet in a position to determine whether these standards, amendments or interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These standards, amendments and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS – INT 4	Determining whether an arrangement contains a lease ²
HKFRS – INT 5	Right to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁵
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁶
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁷

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

⁵ Effective for annual periods beginning on or after 1 May 2006.

⁶ Effective for annual periods beginning on or after 1 June 2006.

⁷ Effective for annual periods beginning on or after 1 November 2006.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 October 2006.