



SYS SOLUTIONS HOLDINGS LIMITED

軟迅科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

THIRD QUARTERLY REPORT

2004/05

sys solutions



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

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

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

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

The Stock Exchange takes no responsibility for the contents of this 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 report.

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the three months and nine months ended 30 April 2005

The board of directors (the "Board") of Sys Solutions Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 April 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

| | Notes | Three months ended 30 April | | Nine months ended 30 April | |
|--|-------|--------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | | 2005 HK\$ (Unaudited) | 2004 HK\$ (Unaudited) | 2005 HK\$ (Unaudited) | 2004 HK\$ (Unaudited) |
| TURNOVER | 2 | 2,490,782 | 2,960,967 | 18,742,183 | 11,354,342 |
| Cost of sales | | (1,573,167) | (2,475,793) | (16,220,098) | (9,602,230) |
| Gross profit | | 917,615 | 485,174 | 2,522,085 | 1,752,112 |
| Other revenue | | 31,681 | 9,834 | 101,952 | 107,942 |
| Administrative and operating expenses | | (3,151,131) | (3,383,361) | (9,803,674) | (10,518,048) |
| Provision for bad and doubtful debts | | (1,370,492) | - | (1,370,492) | - |
| LOSS FROM OPERATING ACTIVITIES | | (3,572,327) | (2,888,353) | (8,550,129) | (8,657,994) |
| Finance costs | | (27,417) | - | (64,733) | - |
| Share of loss of a jointly-controlled entity | | (167,963) | (186,631) | (415,229) | (296,530) |
| LOSS BEFORE TAX | | (3,767,707) | (3,074,984) | (9,030,091) | (8,954,524) |
| Tax | 3 | - | - | - | - |
| NET LOSS ATTRIBUTABLE TO SHAREHOLDERS | | (3,767,707) | (3,074,984) | (9,030,091) | (8,954,524) |
| LOSS PER SHARE | 5 | | | | |
| Basic | | HK0.95 cent | HK0.80 cent | HK2.28 cents | HK2.33 cents |
| Diluted | | N/A | N/A | N/A | N/A |

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated results of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice and Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies and methods of computation used in the preparation of the unaudited consolidated results are in accordance with those used in the preparation of the Company's annual report for the year ended 31 July 2004.

2. TURNOVER

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

3. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the three months and nine months ended 30 April 2005 (three months and nine months ended 30 April 2004: Nil). No provision for corporate income tax for a subsidiary and the jointly-controlled entity established and operated in Mainland China (2004: Nil) has been made as no assessable profits arose from operations during the period. The statutory tax rate for Hong Kong profits tax is 17.5% (2004: 17.5%). The statutory tax rate of corporate income tax in Mainland China is 33% (2004: 33%).

4. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the nine months ended 30 April 2005 (2004: Nil).

5. LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30 April 2005 is based on the unaudited net loss attributable to shareholders of HK\$3,767,707 and HK\$9,030,091 respectively (three months and nine months ended 30 April 2004: HK\$3,074,984 and HK\$8,954,524, respectively) and the weighted average of 396,180,000 and 395,681,538 ordinary shares in issue for the three months and nine months ended 30 April 2005 respectively (three months and nine months ended 30 April 2004: 384,840,000 ordinary shares in issue).

Diluted loss per share amount for each of the three months and nine months ended 30 April 2005 and the correspondence periods in 2004 has not been presented, as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the respective periods.

6. RESERVES

| | Share premium account <i>HK\$</i> | Capital reserve <i>HK\$</i> | Accumulated losses <i>HK\$</i> | Total <i>HK\$</i> |
|---|--|-----------------------------------|--------------------------------------|----------------------|
| At 1 August 2003 | 28,551,786 | 19,980,000 | (24,164,425) | 24,367,361 |
| Net loss for the nine months ended 30 April 2004 | – | – | (8,954,524) | (8,954,524) |
| At 30 April 2004 | 28,551,786 | 19,980,000 | (33,118,949) | 15,412,837 |
| 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 nine months ended 30 April 2005 | – | – | (9,030,091) | (9,030,091) |
| At 30 April 2005 | 29,685,786 | 19,980,000 | (45,359,777) | 4,306,009 |

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.

7. ON-GOING FINANCIAL EXPOSURE

The Company, in accordance with Rules 17.15 and 17.17 of the GEM Listing Rules, announced on 3 November 2004 that a trade receivable ("Trade Receivable"), the amounts of which exceeded 8% of the audited consolidated total asset value of the Group as at 31 July 2004, was due from a customer of the Group, NCSI (HK) Limited ("NCSI").

It was further announced by the Company pursuant to Rules 17.16 and 17.17 of the GEM Listing Rules on 30 November 2004 that the Trade Receivable had increased by an amount which exceeded 3% of the total market capitalization and the audited consolidated total asset value of the Group as at 31 July 2004.

As at 30 April 2005, the balance of the Trade Receivable amounted to US\$420,622 (equivalent to about HK\$3,280,852), which still exceeded 8% of the audited consolidated total asset value of the Group as at 31 July 2004. NCSI is a customer of the Group and is independent of, and is not connected with, the Company or its subsidiaries, the directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates.

The Trade Receivable was resulted from the sales of computer hardware to NCSI by the Group in its ordinary course of business and on normal commercial terms. The Trade Receivable is unsecured and interest free. NCSI will repay the Trade Receivable to the Group for its purchases upon successful user acceptance and reliability test in accordance with terms of sales agreed by the Group and NCSI, which are expected to take place on or before 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group continued to invest and to strengthen its position to provide the best-of-breed information technology solutions and services in Hong Kong and China. The Group has committed to explore new market opportunities in China and to allocate internal resources to develop self-branded application solutions which were newly introduced last year. As compared to the corresponding nine months ended 30 April 2004, the Group recorded a significant growth in turnover and gross profit amount under the current recovering market condition.

Financial review

For the nine months ended 30 April 2005, unaudited turnover of the Group increased by about 65% to HK\$18,742,183 (2004: HK\$11,354,342). This was mainly attributable to the increase in revenues from the sales of computer hardware and software, as a result of the establishment of new business relationships with information technology companies in Hong Kong and effective promotional campaigns carried out throughout the period.

The unaudited gross profit margin ratio for nine months ended 30 April 2005 was about 13%, while it was about 15% for the corresponding period last year. The decrease was attributable to the increase in the revenue generated from the sales of computer hardware which comparatively had a lower gross profit margin ratio.

The performance of the Group was improved by the enlarged revenue for the nine months ended 30 April 2005 and the more efficient method of resources allocation applied by the Group. However, a provision for bad and doubtful debts was made during the period under review. As a result, there was no material changes in the unaudited loss before tax for the nine months ended 30 April 2005 as compared to the corresponding period.

Outlook

The Group is focusing on helping our customers to maximize their return by advanced resources management, as well as applying latest technologies through our best practice for this purpose. The Group's performance will be driven by offering self-branded web-based application solutions, distributing our global partners' technology products and

offering our best consultation services. The investment that we have been making throughout the years has enabled us to build a sustainable foundation which is essential for the future growth of our business in Hong Kong and China.

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

As at 30 April 2005, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in ordinary shares in 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 |
| | | <u>155,384,550</u> | <u>39.2</u> | |
| Mr. Yuen Kin Tong | (b) | <u>71,336,003</u> | 18.0 | 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) 51,795,450 and 19,540,553 shares are held by Cyber Profit Group Limited and Hankison Investments Limited respectively. The respective entire issued share capitals of Cyber Profit Group Limited and Hankison Investments Limited are beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the shares held by Cyber Profit Group Limited and Hankison Investments Limited.

In addition to the above, Mr. Lam Chi Shing has non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 April 2005, none of the directors and chief executive had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 30 April 2005, the following interests and short positions of 5% or more of the issued share capital of the Company held by the following parties (other than directors or chief executive of the Company) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name | Notes | Number of ordinary shares held | Capacity and nature of interest | Percentage of holding |
|-----------------------------------|-------|--------------------------------|----------------------------------|-----------------------|
| Substantial shareholders | | | | |
| Cyber Mission Ventures Limited | (a) | 144,044,550 | Directly beneficially owned | 36.3 |
| Cyber Profit Group Limited | (b) | 51,795,450 | Directly beneficially owned | 13.1 |
| Other shareholders | | | | |
| Century Pilot Investments Limited | (c) | 28,350,000 | Directly beneficially owned | 7.2 |
| Mr. Wong Wing Hong | (c) | 28,350,000 | Through a controlled corporation | 7.2 |
| Expeditious Management Limited | (d) | 28,350,000 | Directly beneficially owned | 7.2 |
| Ms. Wong Sze Shun Syson | (d) | 28,350,000 | Through a controlled corporation | 7.2 |
| Ms. Elizabeth Helen Narain | | 20,670,000 | Directly beneficially owned | 5.2 |

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 in the Company held by Cyber Mission Ventures Limited. Mr. Lam Chi Shing's indirect interest in 144,044,550 shares in the Company held through Cyber Mission Ventures Limited has also been set out in the above section heading "Directors' and chief executive's interests and short positions in shares and underlying shares".
- (b) The entire issued share capital of Cyber Profit Group Limited is beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the 51,795,450 shares in the Company held by Cyber Profit Group Limited. Mr. Yuen Kin Tong's indirect interest in 51,795,450 shares in the Company held through Cyber Profit Group Limited has also been set out in the above section heading "Directors' and chief executive's interests and short positions in shares and underlying shares".
- (c) The entire issued share capital of Century Pilot Investments Limited is beneficially owned by Mr. Wong Wing Hong, who is therefore deemed to be interested in the 28,350,000 shares in the Company held by Century Pilot Investments Limited.
- (d) The entire issued share capital of Expeditious Management Limited is beneficially owned by Ms. Wong Sze Shun Syson, who is therefore deemed to be interested in the 28,350,000 shares in the Company held by Expeditious Management Limited.

Save as disclosed above, as at 30 April 2005, no person (other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

On 25 January 2003, the Pre-IPO 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 of the Company and 18 employees to subscribe for a total of 30,168,000 shares, representing in aggregate approximately 7.84% of the then issued share capital of the Company immediately following the completion of the share placing on 25 January 2003 and the capitalisation issue, at a subscription price ranged from HK\$0.11 each to HK\$0.27 each. No further options can be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. All these options granted may be exercised after the expiry of 12 months from 18 February 2003, the listing date, and in each case, not later than four years from the listing date. Each grantee has paid HK\$1 to the Company as consideration for such grant.

On 13 August 2004, a total of 11,340,000 share options granted under the Pre-Scheme were exercised by Mr. Lam Chi Shing, the Chairman and an executive director of the Company, at a subscription price of HK\$0.11 per share and resulted in the issue of 11,340,000 new ordinary shares in the Company of HK\$0.01 each. The excess of the cash consideration received over the nominal value of the issued shares of HK\$1,134,000 was credited to the share premium account.

As at 30 April 2005, a total of 17,634,000 share options granted under the Pre-Scheme were lapsed as a result of resignation of a director and certain employees.

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 to the participants an opportunity to have personal interest in the share capital 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 ten years with effect from 25 January 2003.

The maximum number of shares in respect of which options may be granted under the Post-Scheme and any other share option scheme of the Company may not exceed 10% of the issued share capital of the Company, or may not exceed a maximum of 30% should the shareholders renew the 10% limit, from time to time which have been duly allotted and issued.

The exercise price for shares under the Post-Scheme may be determined by the Board at its absolute discretion but in any event will be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of the shares on the date of grant of the option.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value based on the closing price of the shares of the Company at the date of grant in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time, in any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The options granted may be exercised at any time or times during a period to be determined and notified by the Board which period of time shall commence on the expiration of three years after the date of grant of the option and expire on such date as determined by the Board in any event no later than 10 years from the date of the grant of the options. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option under the Post-Scheme.

As at 30 April 2005, no share options had been granted by the Company under the Post-Scheme.

INTERESTS OF SPONSOR/COMPLIANCE ADVISER

As at 30 April 2005, neither Celestial Capital Limited (“Celestial Capital”), the sponsor/compliance adviser of the Company, nor any of its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to an agreement dated 30 January 2003 entered into between the Company and Celestial Capital, Celestial Capital is entitled to receive a fee for acting as the sponsor (and now the compliance adviser) of the Company for the period from 18 February 2003 to 31 July 2005, or until the agreement is terminated upon the terms and conditions as set out therein.

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 period under review.

BOARD PRACTICES AND PROCEDURES

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has complied with Rules 5.48 to 5.67 of the GEM Listing Rules concerning securities transactions by directors of the Company throughout the nine-month period ended 30 April 2005 and all directors of the Company have complied with the required standard of dealings set out therein.

COMPETITION AND CONFLICT OF INTERESTS

As at 30 April 2005, none of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates have engaged in any business that competes or may compete with the businesses of the Group, or have any other conflict of interests with the Group.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members who are the three independent non-executive directors of the Company. Mr. Lau Siu Ki Kevin is the chairman of the audit committee. The Group's unaudited results for the nine months ended 30 April 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

As at the date of this report, the directors of the Company are

Executive director:

Lam Chi Shing
Chan Chi Hung

Non-executive director:

Yuen Kin Tong

Independent non-executive director:

Lau Siu Ki Kevin
Wong Man Chung Francis
Wang Yat Yee Mark

By order of the Board
Lam Chi Shing
Chairman

Hong Kong, 10 June 2005