



SYS SOLUTIONS HOLDINGS LIMITED

軟迅科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2004/05

SYS SOLUTIONS



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

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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 six months ended 31 January 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 six months ended 31 January 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

	Notes	Three months ended 31 January		Six months ended 31 January	
		2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
TURNOVER	3	7,996,929	5,536,340	16,251,401	8,393,375
Cost of sales		(7,263,766)	(4,855,459)	(14,646,931)	(7,126,437)
Gross profit		733,163	680,881	1,604,470	1,266,938
Other revenue	3	48,858	20,469	70,271	98,108
Administrative and operating expenses		(3,710,960)	(3,675,134)	(6,652,543)	(7,134,687)
LOSS FROM OPERATING ACTIVITIES	4	(2,928,939)	(2,973,784)	(4,977,802)	(5,769,641)
Finance costs	5	(37,316)	–	(37,316)	–
Share of loss of a jointly-controlled entity		(111,511)	(109,899)	(247,266)	(109,899)
LOSS BEFORE TAX		(3,077,766)	(3,083,683)	(5,262,384)	(5,879,540)
Tax	6	–	–	–	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(3,077,766)	(3,083,683)	(5,262,384)	(5,879,540)
LOSS PER SHARE	7				
Basic		HK0.78 cent	HK0.80 cent	HK1.33 cents	HK1.53 cents
Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 January 2005

	Notes	31 January 2005 HK\$ (Unaudited)	31 July 2004 HK\$ (Audited)
NON-CURRENT ASSETS			
Fixed assets	8	703,783	797,386
Investment in a jointly-controlled entity	9	1,688,348	1,935,614
Investments in securities		300,000	300,000
		2,692,131	3,033,000
CURRENT ASSETS			
Inventories		1,258,639	460,982
Accounts receivable	10	8,444,542	4,127,507
Deposits, prepayments and other receivables		2,250,123	909,290
Pledged time deposits		3,004,737	3,000,315
Non-pledged time deposits		–	8,500,000
Cash and cash balances		4,691,071	2,287,617
		19,649,112	19,285,711
CURRENT LIABILITIES			
Accounts payable	11	2,361,014	3,235,818
Deposits received		1,785,944	1,838,354
Accrued liabilities and other payables		890,718	1,194,039
Interest-bearing bank loans		5,268,051	–
		10,305,727	6,268,211
NET CURRENT ASSETS		9,343,385	13,017,500
		12,035,516	16,050,500
CAPITAL AND RESERVES			
Issued capital	12	3,961,800	3,848,400
Reserves	13	8,073,716	12,202,100
		12,035,516	16,050,500

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 January 2005

	Six months ended 31 January	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
At beginning of period – total equity	16,050,500	28,215,761
Exercise of share options	1,247,400	–
Net loss for the period	(5,262,384)	(5,879,540)
At end of period – total equity	12,035,516	22,336,221

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 January 2005

	Six months ended 31 January	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Net cash outflow from operating activities	(12,494,967)	(4,534,619)
Net cash outflow from investing activities	(112,608)	(4,423,499)
Net cash inflow from financing activities	3,510,714	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,096,861)	(8,958,118)
Cash and cash equivalents at beginning of period	13,787,932	25,824,311
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,691,071	16,866,193
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,691,071	13,866,165
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	–	3,000,028
	4,691,071	16,866,193

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group are prepared in accordance with Hong Kong Statements of Standard Accounting Practice “Interim financial reporting” 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 financial statements are in accordance with those used in the preparation of the Company’s annual report for the year ended 31 July 2004.

2. SEGMENT INFORMATION

No analysis for geographical segment is presented as over 90% of the Group's revenue was derived from services rendered in or located in Hong Kong during each of the six months ended 31 January 2004 and 2005.

An analysis of the Group's revenue and profit/(loss) for the Group's business segments is as follows:

	Network infrastructure construction solutions segment HK\$ (Unaudited)	Network infrastructure maintenance and reinforcement services segment HK\$ (Unaudited)	Other professional value-added solutions and services segment HK\$ (Unaudited)	Consolidated HK\$ (Unaudited)
Six months ended 31 January 2005				
Segment revenue:				
Sales to external customers	14,588,917	617,036	1,045,448	16,251,401
Segment results	(606,100)	120,467	83,010	(402,623)
Unallocated income				70,271
Unallocated expenses				(4,645,450)
Loss from operating activities				(4,977,802)
Finance costs				(37,316)
Share of loss of a jointly-controlled entity				(247,266)
Loss before tax				(5,262,384)
Tax				-
Net loss attributable to shareholders				(5,262,384)

	Network infrastructure construction solutions segment HK\$ (Unaudited)	Network infrastructure maintenance and reinforcement services segment HK\$ (Unaudited)	Other professional value-added solutions and services segment HK\$ (Unaudited)	Consolidated HK\$ (Unaudited)
Six months ended 31 January 2004				
Segment revenue:				
Sales to external customers	7,652,772	585,876	154,727	8,393,375
Segment results	(167,685)	(506,903)	(900,719)	(1,575,307)
Unallocated income				98,108
Unallocated expenses				(4,292,442)
Loss from operating activities				(5,769,641)
Share of loss of a jointly-controlled entity				(109,899)
Loss before tax				(5,879,540)
Tax				-
Net loss attributable to shareholders				(5,879,540)

3. 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.

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

	Three months ended 31 January		Six months ended 31 January	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Turnover				
Network infrastructure construction solutions				
– Sale of computer hardware and software and the provision of related services	7,343,406	5,206,482	14,588,917	7,652,772
Rendering of network infrastructure maintenance and reinforcement services	405,273	280,058	617,036	585,876
Other professional value-added solutions and services	248,250	49,800	1,045,448	154,727
	7,996,929	5,536,340	16,251,401	8,393,375
Other revenue				
Interest income	11,353	4,576	20,180	72,104
Sundry income	37,505	15,893	50,091	26,004
	48,858	20,469	70,271	98,108
Total revenue	8,045,787	5,556,809	16,321,672	8,491,483

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Three months ended 31 January		Six months ended 31 January	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Cost of inventories sold	6,918,336	4,748,088	14,146,959	6,881,842
Cost of services provided	345,430	107,371	499,972	244,595
Depreciation	114,672	294,797	226,392	622,183

5. FINANCE COSTS

	Three months ended 31 January		Six months ended 31 January	
	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Interest on trust receipt loans	37,316	–	37,316	–

6. 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 six months ended 31 January 2005 (three months and six months ended 31 January 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%).

7. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 31 January 2005 is based on the unaudited net loss attributable to shareholders of HK\$3,077,766 and HK\$5,262,384 respectively (three months and six months ended 31 January 2004: HK\$3,083,683 and HK\$5,879,540, respectively) and the weighted average of 396,180,000 and 395,440,435 ordinary shares in issue for the three months and six months ended 31 January 2005 respectively (three months and six months ended 31 January 2004: 384,840,000 ordinary shares in issue).

Diluted loss per share amount for each of the three months and six months ended 31 January 2005 and 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.

8. FIXED ASSETS

During the period from 1 August 2004 to 31 January 2005, the Group had additions to fixed assets in the amount of HK\$132,788. The Group did not dispose of any fixed assets during the period.

9. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	31 January 2005 (Unaudited)	31 July 2004 (Audited)
Share of net assets	1,688,348	1,935,614

Particulars of the jointly-controlled entity are as follows:

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

10. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit for which the credit period is generally for a period of 30 to 60 days.

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

	31 January 2005 HK\$ (Unaudited)	31 July 2004 HK\$ (Audited)
Within 30 days	1,490,237	2,388,712
Between 31-60 days	197,565	1,217,576
Between 61-90 days*	3,345,756	23,320
Between 91-180 days*	3,410,984	497,899
	8,444,542	4,127,507

- * As at 31 January 2005, the balance with ageing between 61 days to 180 days included trade receivable of US\$839,070 (equivalent to about HK\$6,544,746) due from a customer of the Group, NCSI (HK) Limited (the "NCSI"). 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. It is unsecured and interest free. NCSI will pay 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 28 February 2005 for those purchase of goods in the amount of US\$418,448 (equivalent to about HK\$3,263,894) and 30 June 2005 for those purchase of goods in the amount of US\$420,622 (equivalent to about HK\$3,280,852). Subsequent to the balance sheet date, NCSI has settled the amount of US\$418,448 (equivalent to about HK\$3,263,894).

11. ACCOUNTS PAYABLE

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

	31 January 2005 HK\$ (Unaudited)	31 July 2004 HK\$ (Audited)
Within 30 days	870,460	2,222,240
Between 31-60 days	724,979	679,625
Between 61-90 days	114,185	63,729
Between 91-180 days	647,455	19,040
Over 181 days	3,935	251,184
	2,361,014	3,235,818

12. SHARE CAPITAL

	Number of shares		Nominal value	
	At 31 January 2005	At 31 July 2004	At 31 January 2005 HK\$	At 31 July 2004 HK\$
Authorised:				
Ordinary shares of HK\$0.01 each	5,000,000,000	5,000,000,000	50,000,000	50,000,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	396,180,000	384,840,000	3,961,800	3,848,400

13. RESERVES

	Share premium account HK\$	Capital reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 August 2003	28,551,786	19,980,000	(24,164,425)	24,367,361
Net loss for the six months ended 31 January 2004	–	–	(5,879,540)	(5,879,540)
At 31 January 2004	28,551,786	19,980,000	(30,043,965)	18,487,821
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 six months ended 31 January 2005	–	–	(5,262,384)	(5,262,384)
At 31 January 2005	29,685,786	19,980,000	(41,592,070)	8,073,716

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.

14. RELATED PARTY TRANSACTIONS

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

	Notes	Three months ended 31 January		Six months ended 31 January	
		2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Speed Sourcing Limited*					
Network infrastructure construction solutions income	(i)	–	–	–	24,160
Network infrastructure maintenance and reinforcement services income	(i)	17,000	64,000	89,500	138,500
Other professional value-added solutions and services income and dataline rental income	(ii)	20,820	20,820	41,640	48,580
Pushang Management Services Limited*					
Network infrastructure construction solutions income	(i)	1,550	–	33,603	15,010
Wong Sze Shun Syson**					
Consultancy fee	(iii)	–	–	–	58,500
Staff cost	(iv)	165,625	140,400	291,934	234,000

* Speed Sourcing Limited and Pushang Management Services Limited are companies incorporated in Hong Kong, each of which Mr. Lam Chi Shing, the chairman and an executive director of the Company, is also a director.

** Ms. Wong Sze Shun Syson is a shareholder of the Company, holding about 7.2% shareholding interest in the Company.

Notes:

- (i) The directors of the Company consider that the prices and terms of the sales and purchase transactions with related companies of the Company approximated to those with independent third parties.
- (ii) The income includes dataline rental income and data processing fee income. Dataline rental income was recorded based on a cost-plus basis according to the direct costs incurred, with a margin of 18%. Data processing fee income was the actual costs incurred in respect of the provision of data input and updating services.
- (iii) The consultancy fee was charged at a fixed rate of HK\$58,500 per month determined by the Company and the related party.
- (iv) The staff cost was charged on a monthly basis, plus a performance bonus based on gross profits determined between the Company and the related party.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in ordinary course of business.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 31 January 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group continued to focus and strengthen its business on the provision of network infrastructure solutions and services in Hong Kong and China. The Group achieved a significant growth in terms of the Group's turnover and gross profit under the current competitive market condition. In addition, the Group has committed to explore new market opportunities in China, and has recruited new experienced sales and marketing executives who focused on the development of the business in the PRC.

Financial review

For the six months ended 31 January 2005, unaudited turnover of the Group increased by 94% to HK\$16,251,401 (2004: HK\$8,393,375). This is mainly attributable to the increase in revenues from the sales of computer hardware and software, as a result from the establishment of new business relationships with information technology companies and effective promotional campaigns carried out throughout the period.

The unaudited gross profit margin ratio for the six months ended 31 January 2005 is 10%, while it was 15% for the corresponding period last year. The decrease is attributable to the increase in the revenue generated from the sales of computer hardware which comparatively had a lower gross profit margin ratio.

The unaudited loss from operating activities before tax for the six months ended 31 January 2005 decreased by 10% from HK\$5,879,540 to HK\$5,262,384. This decrease was mainly due to the enlarged revenues for the six months ended 31 January 2005, and the more efficient method of resources allocation applied by the Group.

Liquidity and financial resources

For the period 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 January 2005, trust receipts loans of HK\$5,268,051 were drawn down under composite banking facilities from bank for payables to the Group's supplier.

As at 31 January 2005, the Group had net assets of HK\$12,035,516 (31 July 2004: HK\$16,050,500), of which approximately HK\$7,695,808 (31 July 2004: HK\$13,787,932) were bank and cash balances.

Capital structure

The shares of the Company were listed on the GEM of the Stock Exchange on 18 February 2003. On 13 August 2004, a total of 11,340,000 share options were exercised at a subscription price of HK\$0.11 per share and resulted in the issue of 11,340,000 new ordinary shares in the Company of HK\$113,400. The excess of the cash consideration received over the nominal value of the issued shares of HK\$1,134,000 was credited to the share premium account.

Significant investments and future plans for material investments

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

Acquisitions and disposals of subsidiaries and affiliated companies

The Group had no material acquisition or disposal of subsidiaries and affiliated companies during the period under review.

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 periods.

Employee information

As at 31 January 2005, the Group had 33 full-time employees (31 July 2004: 30) working in Hong Kong and Mainland China. The total staff costs, including directors' emoluments, amounted to approximately HK\$4,176,991 for the period under review (2004: HK\$3,588,719). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Charge on group assets

As at 31 January 2005, the Group's time deposits of HK\$3 million (31 July 2004: HK\$3 million) was pledged to secure general banking facilities granted to the Group.

Gearing ratio

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.86 as at 31 January 2005 (31 July 2004: 0.39). The increase in the gearing ratio was mainly due to the outstanding trust receipt loans of HK\$5,268,051 as at 31 January 2005 (31 July 2004: Nil) and the decrease in shareholders' equity caused by enlarged accumulated losses during the six months ended 31 January 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 rates between Hong Kong dollars, Renminbi, as well as United States dollars.

Contingent liabilities

As at 31 January 2005, the Group did not have any significant contingent liabilities (31 July 2004: Nil).

Outlook

The Group is taking an attentive approach to expand its penetration into various industries and enlarge its client base in Mainland China. The Group will continue to strengthen its cooperation with the business partners to enhance the Group's competitiveness and to enlarge the distribution networks, as well as to explore new market opportunities in both Hong Kong and Mainland China.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 30 January 2003:

Business objectives for the six months ended 31 January 2005 as disclosed in the Prospectus

Actual business progress for the six months ended 31 January 2005

Business development

- Establish an additional sales and marketing presence in the PRC.
- Continue to establish new business partnerships/relationships with additional technology companies.
- Instead of establishing an additional presence in the PRC, the Group focused its development in its existing offices in the PRC. The Group recruited additional professionally qualified and experienced sales and marketing executives so as to explore new opportunities in Mainland China.
- During the period under review, the Group continued to trace for business cooperations with new technology companies, and successfully strengthened the business partner relationships.

Business objectives for the six months ended 31 January 2005 as disclosed in the Prospectus

- Provide infrastructure maintenance and reinforcement services to education department or the secondary schools in Guangzhou, the PRC or other entities appointed by them (the “Guangzhou School Project”).
- Commence to launch Phase III of WOTS.

Actual business progress for the six months ended 31 January 2005

- As refer to the Company’s announcement dated 24 October 2003, the directors of the Company has proposed to shelve the Guangzhou School Project.
- The Group is in the progress of developing the Phase III of WOTS. The schedule has been deferred due to re-allocation of some internal resources to develop additional application solutions newly introduced by the Group last year.

Sales and marketing

- Continue to enlarge the client base by promoting the Group’s total network infrastructure solutions and services to new customers.
- The Group continued to attend major exhibitions and seminars and established new business relationships with a few technology companies during the period under review. The client base of the Group was enlarged, and the Group successfully secured orders from certain new customers.
- Recruit at least two additional qualified and experienced sales and marketing executives, who have extensive business network in the PRC, knowledge in IT industry and strong communication skill, for the new sales and marketing presence in the PRC.
- During the period, the Group recruited two additional experienced sales and marketing executives, who focused on development of the Group’s business in the PRC.

Business objectives for the six months ended 31 January 2005 as disclosed in the Prospectus

Technical and engineering support

- Continue to monitor the clients' networks and computer systems and provide consultancy and maintenance services to them.

Research and development

- Commence the development of Phase IV of WOTS to target on (i) development of simplified Chinese version of the web-based software; (ii) development of mobile extension of WOTS (which will enable the application of WOTS in personal digital assistant (PDA)); and (iii) development of materials resource planning (MRP) module (which completion will enable the extended application of WOTS in manufacturing industry).

Actual business progress for the six months ended 31 January 2005

- The Group continued to provide consultancy and maintenance services to its customers, and our technical professionals proactively helped the customers to manage their operations efficiently.

- As mentioned above, the Group is in the progress of developing the Phase III of WOTS. The schedule has been deferred due to re-allocation of some internal resources to develop additional application solutions newly introduced by the Group last year.

USE OF PROCEEDS

The net proceeds from the issue of new shares of the Company at the time of its listing on the GEM on 18 February 2003 through a placement of 132,300,000 ordinary shares of HK\$0.01 each in the share capital of the Company (including 101,340,000 new shares and 30,960,000 sales shares) at the price of HK\$0.38 per share, after deduction of the related issue expenses, were approximately HK\$32 million (the "IPO Proceeds"). According to the Company's announcement dated 21 October 2004, HK\$15 million of the IPO Proceeds would be applied to finance the following events while a total of HK\$9 million has been utilised up to 31 January 2005:

	Proposed application of fundings up to 31 January 2005 HK\$'million	Actual fundings utilised up to 31 January 2005 HK\$'million
Research and development:		
– Strengthening of overall research capabilities and development of network software	0.6	0.6
– Establishment of new research and development center in Guangzhou, the PRC	2.8	1.8
Investment projects:		
– Investment in a Hangzhou joint venture company	2.0	2.0
– Other project(s)	0.5	0.5
Sales and marketing	1.5	1.5
Repayment of a loan due to a shareholder	2.6	2.6
	10.0	9.0

The balance of the IPO Proceeds of HK\$17 million would be used as working capital of the Group. As at 31 January 2005, a total of HK\$15 million has been applied as general working capital.

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

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

As at 31 January 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, 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
		<hr/> 155,384,550 <hr/>	39.2	
Mr. Yuen Kin Tong	(b)	<hr/> 71,336,003 <hr/>	18.0	Through controlled corporations

Notes:

- (a) These shares are held by Cyber Mission Ventures Limited. The entire 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 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 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 January 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

At 31 January 2005, the following interests and short positions of 5% or more of the issued share capital and share options 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 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 have also been set out in the above section heading "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures".

- (b) The entire issued share capital of Cyber Profit Group Limited is beneficially owned by Mr. Yuen Kin Tong, who is therefore deemed to be interested in the 51,795,450 shares held by Cyber Profit Group Limited. Mr. Yuen Kin Tong's indirect interest in 51,795,450 shares in the Company held through Cyber Profit Group 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 and debentures".
- (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 Exeditious Management Limited is beneficially owned by Ms. Wong Sze Shun Syson, who is therefore deemed to be interested in the 28,350,000 shares held by Exeditious Management Limited.

Save as disclosed above, as at 31 January 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 and debentures" 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 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 31 January 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 31 January 2005, no share options had been granted by the Company under the Post-Scheme.

INTERESTS OF SPONSOR/COMPLIANCE ADVISER

As at 31 January 2005, neither Celestial Capital Limited ("Celestial Capital"), the sponsor/compliance advisor of the Company, nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to an agreement dated 30 January 2003 entered into between the Company and Celestial Capital, Celestial Capital is entitled to receive a fee for acting as the sponsor (and now the compliance advisor) of the Company for the period from 18 February 2003 to 31 July 2005, or until the agreement is terminated upon the terms and conditions 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 Code provisions for the year ending 31 July 2006 in accordance with the requirement on corporate governance report set out in 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 accounting period covered by this half-year report and all directors of the Company have complied with the required standard of dealings set out therein.

COMPETITION AND CONFLICT OF INTERESTS

As at 31 January 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 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members who are the three independent non-executive directors of the Company. Mr. Lau Siu Ki Kevin is the chairman of the audit committee. The Group's unaudited results for the six months ended 31 January 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 and 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, 14 March 2005