



**SYSCAN Technology Holdings Limited**  
**矽感科技控股有限公司**



*Portable Scanner*  
*The Best Companion for Mobile Office*  
*TravelScan*  
*CIM technology*  
*CIS technology*

**Annual Report**

**2001**

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

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*This report, for which the directors of SYSCAN Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to SYSCAN Technology 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 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 report misleading; and (3) 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.*

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## Corporate Information

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### EXECUTIVE DIRECTORS

Cheung Wai, *Chairman*  
Darwin Hu, *Chief Executive Officer*  
Zhang Hongru, *Chief Financial Officer*

### NON-EXECUTIVE DIRECTORS

Joseph Liu

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Lo Wai Ming  
Lo Hang Fong

### COMPANY SECRETARY

Chow Suk Han, *Caroline*

### QUALIFIED ACCOUNTANT

Chan Man Ching

### COMPLIANCE OFFICER

Zhang Hongru

### AUTHORISED REPRESENTATIVES

Cheung Wai  
Darwin Hu

### AUDIT COMMITTEE

Lo Wai Ming  
Lo Hang Fong

### AUDITORS

Arthur Andersen & Co  
*Certified Public Accountants*

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
Bank of China  
Fujian Industrial Bank

### SHARE REGISTRARS

Central Registration Hong Kong Limited  
Rooms 1901-1905, 19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### REGISTERED OFFICE

Cedar House  
41 Cedar Avenue  
Hamilton, HM12  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 808, 8th Floor  
K. Wah Centre  
191 Java Road  
North Point  
Hong Kong

# Financial Summary

(Amounts expressed in Hong Kong dollars)



## Consolidated income statements

	Years ended 31st December,			
	2001 \$'000	2000 \$'000	1999 \$'000	1998 \$'000
Turnover	<b>34,170</b>	32,200	6,022	6,353
Cost of sales	<b>(25,191)</b>	(24,746)	(5,733)	(4,295)
Gross profit before provision against inventories	<b>8,979</b>	7,454	289	2,058
Other revenue	<b>7,237</b>	–	–	–
Provision against inventories and receivables	<b>(26,990)</b>	(6,731)	(195)	(2,406)
Research and development expenses	<b>(15,813)</b>	(19,389)	(19,510)	(13,857)
Selling and distribution expenses	<b>(5,958)</b>	(7,054)	(4,350)	(1,446)
General and administrative expenses	<b>(27,074)</b>	(21,616)	(16,409)	(14,838)
Loss from operations	<b>(59,619)</b>	(47,336)	(40,175)	(30,489)
Interest income	<b>1,558</b>	7,415	1,337	–
Interest expense	<b>(2,248)</b>	–	–	–
Loss before taxation	<b>(60,309)</b>	(39,921)	(38,838)	(30,489)
Taxation	<b>(7)</b>	(7)	(7)	(7)
Loss attributable to shareholders	<b>(60,316)</b>	(39,928)	(38,845)	(30,496)
Dividend	–	–	–	–



## Financial Summary

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### Consolidated balance sheets

	As at 31st December,		
	2001 \$'000	2000 \$'000	1999 \$'000
Properties, machinery and equipment	<b>19,968</b>	17,212	16,788
Properties under development	<b>102,303</b>	42,903	–
Long-term investments	<b>28,562</b>	32,775	–
Current assets	<b>125,797</b>	141,302	65,816
Current liabilities	<b>(99,039)</b>	(12,826)	(8,244)
Net assets	<b><u>177,591</u></b>	<u>221,366</u>	<u>74,360</u>
Capital and reserves:			
Share capital	<b>102,256</b>	88,887	193,153
Reserves	<b>301,203</b>	297,592	6,392
Accumulated deficit	<b>(225,868)</b>	(165,113)	(125,185)
Shareholders' equity	<b><u>177,591</u></b>	<u>221,366</u>	<u>74,360</u>

Note:

1. Pursuant to a group reorganisation scheme ("the Reorganisation") in preparation for the listing of the Company's shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 27th March, 2000. The summary of consolidated balance sheet as at 31st December, 1999 and the consolidated income statements for the years ended 31st December, 1998, 1999 and 2000 were prepared as if the current group structure had been in existence throughout those years.



I am pleased to present to the shareholders herewith the annual results of SYSCAN Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December, 2001.

### FINANCIAL PERFORMANCE

#### Turnover and Performance

For the year ended 31st December, 2001, the Group recorded a turnover of approximately HK\$34,170,000 (2000: HK\$32,200,000), representing an increase of approximately 6.1%. The audited loss attributable to shareholders was approximately HK\$60,316,000 (2000: HK\$39,928,000).

For the year ended 31st December, 2001, the Group made other income of approximately HK\$7,237,000 in comparison of zero other income in 2000. The total revenue for the year ended 31st December, 2001 reached approximately HK\$42,965,000 representing an increase of approximately 8.5% over that for year 2000.

#### Improved Margins

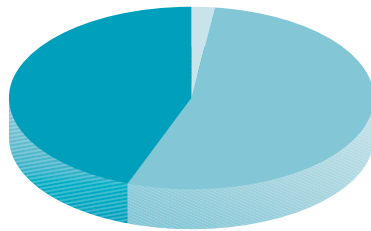
Due to the improved economies of scale and the Group's efforts in production cost control as well as the increase in module design fee income, the gross profit margin before provision against inventories was improved from approximately 23.1% in 2000 to approximately 26.3% in 2001.

#### Provision Against Inventories and Receivables

The business of the Group in the fourth quarter indicated that the negative impacts of 9-11 tragedy on the Group's clients and the market demand for the Group's products seem far more serious than it had been perceived initially. In order for the Group to have a more solid balance sheet facing expected slow market demand recovery, the Group made a provision against inventories and receivables of approximately HK\$26,990,000 for the year 2001 as compared to the provision of approximately HK\$6,731,000 for year 2000.

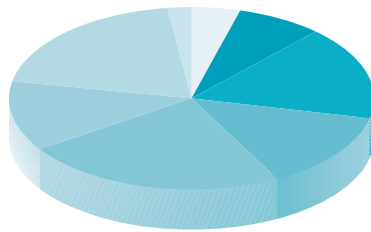


### TURNOVER BREAKDOWN BY PRODUCTS



52%	Optical image capturing devices
43%	Modules of optical image capturing devices
5%	Chips and other optoelectronic products

### TURNOVER BREAKDOWN BY GEOGRAPHICAL LOCATION



7.6%	United States of America
16.6%	Hong Kong
13.7%	Mainland China
23.4%	Malaysia
12.4%	Japan
19.9%	Taiwan
2.1%	Belgium
4.3%	Others





The year of 2001 has been a difficult and turbulent year for all small to medium size information technology companies. The financial results of the Group for year 2001 are mixed. Although an increase in loss is an unpleasant result, an increase in sales and gross profit margin is a pleasing trend. So I would like to express my thanks to the Group's management team, staff, audit committee and shareholders for their strong support and hard working during last year.

**Cheung Wai**

*Chairman*

Hong Kong, 22nd March, 2002



## Management Discussion and Analysis

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### Research and Development

The Group's effort in developing high-end CIM sensor was seriously delayed again by several modifications in design. In order to reduce the risk of developing high-end 1200 dpi CIM sensor, a revised design for a low cost CIM sensor was completed before the end of year 2001.

During the year ended 31st December, 2001, the Group has successfully completed the design and pilot run of the following CIS modules: SV664D5C color A5 CIS module, SV250A6 high-speed CIS module, SV652A8-10 CIS module, SV654A6C-00 color CIS module, SV651A4C color CIS module and low-profile A8 CIS module.

Based on the above module development, the Group completed the engineering work and put A8, A6 and A4-size 600 dpi *TravelScan* into mass production. In addition, the Group has successfully developed WIN CE 3.0 – based P-scan software so that the Group's *TravelScan-Pocket 830/430* can be successfully working with pocket PC with PCMCIA interface. The Group also completed the prototype design of high-speed infra-red and color A5 passport scanner purportedly applicable to passport and ID documents checking. The Group launched ODA (圖文通) – an office document management tool specifically designed for Mainland China market based on the Group's existing image-capturing system products.

### Production

The production of the Group has been running smoothly. The Group has acquired two die mounting systems and two wire bonding systems in the fourth quarter of 2001 in order to meet the production need for high-end module and system products in future.

Palm-related Internet image input product was not put into mass production pending a review of market demand.

Due to a slower-than-expected movement in inventory, the expansion of production capacity was halted.

### Sales and Marketing

In comparison with year 2000, the Group's module business increased by approximately 141% due to the Group's sales efforts by leveraging the Group's technology advantage in CIS module. However, sales in system products dropped by approximately 30% due to a sluggish market demand in year 2001.

The Group has increased its effort in sales and marketing. A European office was set up in Netherlands in order to better serve clients in Europe. The setting up of sales offices in Canada and Japan did not go ahead as the Group uses existing offices in Silicon Valley and Taipei to cover the Canadian and Japanese markets respectively.

At the same time, the Group has started to revise its China sales strategy, and to expand its sales and distribution channels in Mainland China.

Due to the delay in the development of CIM sensor and module, hiring more sales engineers for serving OEM/ODM flatbed scanner manufacturers was postponed.

**Investment**

The Group has received a dividend of about RMB257,000 from its investment in Grandview Investments Group Limited. The Group has signed an agreement to dispose of such investment for a consideration of HK\$19,228,000, of which a deposit of HK\$1,672,000 was received. The disposal is expected to be completed by April 2002.

The Group has successfully divested its investment in and pre-payment to Han's Laser Science & Technology Co., Ltd., achieving a net gain of RMB4.3 million (equivalent to approximately HK\$4.02 million).

In order to be better-positioned in the optoelectronic field in Mainland China, the Group invested RMB5 million (equivalent to approximately HK\$4.7 million) in a high-tech investment company in China, Shenzhen Guocheng Venture Capital Co., Ltd., for a 7.3% equity interest in such company.

The Group also made an investment of US\$600,000 (equivalent to approximately HK\$4.66 million) in CMOS Sensor Inc., a California-based CMOS sensor design company, for about 9.68% equity interest in that company. Such investment shall further strengthen the Group's research and development edge in linear image CIS modules.

**New Manufacturing Base – SYSCAN Hi-Tech Park**

The Phase I construction of the Group's new manufacturing base – SYSCAN Hi-Tech Park – has been progressing smoothly initially. However, due to some engineering delay in later part of 2001 caused by various reasons, it is expected that by the end of June 2002, Phase I of SYSCAN Hi-Tech Park would be completed. So far, the Group has incurred approximately HK\$81.1 million on land and Phase I construction. The Group has obtained a formal land use right certificate issued by the Shenzhen Government.

This new manufacturing base of the Group has been named as “矽感光電產業園” (SYSCAN Optical-electronics Industrial Park), and has been designated as “深圳市國家科技成果推廣示範基地” (Shenzhen Promotion and Exhibition Base for National Scientific and Technology Achievements) by Shenzhen Municipal Government and Ministry of Science and Technology of China. All enterprises operating in the Park will be entitled to various preferential municipal or national policies in respect of hi-tech companies. The Group has been accredited as hi-tech company in Shenzhen.

**Financial Resources and Liquidity**

As of 31st December, 2001, the Group has a cash balance of approximately HK\$62,504,000 and a pledged bank deposit of HK\$38,850,000. The RMB-denominated total bank borrowing was HK\$93,458,000, secured by the Group's land use right, pledged deposits and the Group's office premises in Shenzhen. Three one-year term loans of RMB20,000,000 each will mature in June, August and October 2002 respectively. According to an agreement with Bank of China, Shenzhen Branch, it will provide a credit line of RMB100 million, subject to entering a loan agreement for each drawdown. The interest rates are from 4.9% p.a. to 5.9% p.a..

As at 31st December, 2001, the total current assets over the total current liabilities was 1.3 times. The ratio of all debts to total assets was about 36%.



## Management Discussion and Analysis

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### **Financial Resources and Liquidity** *(Cont'd)*

As most sales are made in US dollar, no hedging arrangement is made to offset the exposures to fluctuations in exchange rates.

As at 31st December, 2001, the Group has no contingent liability as the Directors are aware.

### **Employees**

As at 31st December, 2001, the Group has 214 employees. The Directors believe that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include share options and performance bonus.

### **Future Prospects**

The Group will continue to conduct the research and development of digital imaging technologies and optical-electronic products including the development of the low-cost low-risk CIM sensor and module.

The Group will continue to aggressively strengthening its sales and marketing team and distribution network for promoting SYSCAN brand-name and products in China market while developing aggressively new distribution channels and OEM business in overseas markets. The Group shall become a sales and market demand-driven group in optical-electronic field supported by the Group's research and development efforts.

Phase I of SYSCAN Hi-Tech Park is expected to be completed by June 2002. The Group intends to complete Phase II and Phase III construction in co-operation with other business partners. The Group reasonably believes that SYSCAN Hi-Tech Park, with full support from the Shenzhen Government and hi-tech promoting government bodies in China, will bring in more business and sales synergies to the Group.

In order for the Group to have enough working capital, the Group may explore various sources of financing.

Looking ahead, the Group is cautiously optimistic about its business in years to come. The Group will focus on increasing sales revenue with all measures by leveraging its comparative leading advantage in image module and mobile image-capturing technology so that the Group shall break-even in near foreseeable future.

## Comparison of Business Objectives with Actual Business Progress



The following is a summary of the business objectives with the actual business progress for the year ended 31st December, 2001 as stated in the prospectus dated 10th April, 2000 (the "Prospectus").

### **Business objectives as stated in the Prospectus**

### **Actual business progress/change in business objectives**

#### ***Research & Development***

#### **For the period ended 30th June, 2001**

Launch Palmtop related Internet image input appliances.

Development of Palmtop related Internet image input appliances was delayed and is subject to further review due to the lack of immediate market demand following the global adjustment of Internet markets.

Launch business card reader with USB interface for mobile application.

The Group has successfully launched in mass markets business card reader with USB interface for mobile applications and A8 business card reader was displayed in The 17th International Computer Expo in May 2001.

Launch new imaging system products.

Prototype of A4, A6 and A8 600 dpi color CIS mobile scanners were completed. In the fourth quarter of 2001, the Group has put A6 and A4 size 600 dpi *TravelScan* into mass production.

Develop the low cost CIM sensor chip.

Development of low cost CIM sensor chip is ongoing as further design modifications are needed, even though encouraging results were achieved.

Continue the development of further imaging system products and CIS sensor chip.

Development of further imaging system products and CIS sensor chip is in progress as scheduled. The Group has completed the design and pilot run of the following CIS modules: SV664D5C color CIS module, SV250A6 high speed CIS module, SV652A8-10 CIS module, SV654A6C-00 color CIS module and SV651A4C color CIS module.



## Comparison of Business Objectives with Actual Business Progress

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### **Research & Development (Cont'd)**

#### **For the period from July 2001 to December 2001**

Launch further imaging system products.

A4 and A6 size 600 dpi *TravelScan* were put into mass production in the fourth quarter of 2001. ODA (圖文通) – an office document management product specifically designed for the China market were launched with success. A new A8 business card scanner for a major US client was developed and put into mass production. In addition, *TravelScan-Pocket 430/830* were launched for connecting such mobile scanning device to Pocket PC and PDA with PCMCIA interface. WINCE 3.0 – based software (P-Scan) was developed for *TravelScan-Pocket 430 and 830*.

Continue the development of the low cost CIM sensor chip and CIS sensor chip.

The development of 1200 dpi color CIM sensor chip was seriously delayed again in the fourth quarter due to several modifications in design. However, a revised design for a low cost CIM sensor was completed before the end of year 2001 as an alternative test. In area of CIS sensor and modules, the design of high-speed 200 dpi A4 CIS module for scanning lottery ticket was completed. In addition, the Group has completed the design and prototype of low profile A8 module and, released new versions of A8 600 dpi CIS modules, A5 600 dpi color and infra-red CIS module, and A6 high-speed CIS module for a Japanese client.

Develop further imaging system products.

Prototype of low-cost fax machine was completed. Development of other imaging system products are undergoing as scheduled.

Approximately HK\$15.8 million as against the intended amount of HK\$22 million stated in the Prospectus (funded out of the proceeds of the placing) has been incurred for research and development activities for the year ended 31st December, 2001. The remaining balance will be applied to continuing the development of CIM modules and low-cost CIM sensor. The Board presently believes that the Group shall have sufficient sources of funding for the completion of the above plans. As of 31st December, 2001, the Group has filed 70 patents in different countries, within which 17 patents have been granted or allowed.



**Production**

**For the period ended 30th June, 2001**

Start to manufacture Palmtop related Internet image input product.	Due to the postponement of the development of Palmtop related Internet image input products, the manufacturing of the same has not commenced.
Start to manufacture business card reader with USB interface.	Mass production of A8 business card reader started in April 2001.
Install two additional automated production lines with die mounting and wiring systems.	In preparation for a global recovery in the demand for IT products in future, the Group was considering to increase its production capacity to achieve economies of scale in order to achieve further unit cost reduction.
Expand the production capacity to 260,000 units of modules per month.	Production capacity remains at 130,000 units due to the delay in the development of CIM project.

**For the period from July 2001 to December 2001**

Expand its assembly lines for system products.	Two sets of die mounting system for 600 dpi modules and two sets of wire bounding system were purchased. Corresponding assembly lines for system products remained the same since the existing lines met the demand.
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Approximately HK\$2.9 million as against the planned amount of HK\$9 million stated in the Prospectus (funded out of the proceeds of the placing) has been incurred for the above activities. The Board will apply the remaining balance to continue improving and expanding production facilities including the construction of new self-owned factory in Shenzhen. The production equipment purchase contract signed with a Taiwanese vendor was cancelled due to certain conditions not met. The Group has resorted to legal actions against the vendor for refunding of US\$96,000 deposit paid by the Group.



## **Comparison of Business Objectives with Actual Business Progress**

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### ***Sales and marketing***

#### **For the period ended 30th June, 2001**

Increase sales to facsimile equipment, scanner and copier manufacturers.

The sales of CIS modules to facsimile producers have increased, mainly in Mainland China. However, sales to manufacturers of large-volume flat-bed scanner and copier have not materialized due to the delay in the development of CIM chip and CIM scan carriage module.

Establish two additional sales offices in Japan and Canada to focus on sales in Northern Asia and North America.

A sales office in Canada was not set up as the region was covered by the Group's sales force in USA. The sales office in Japan was not set up as it can be covered by our Taipei and Hong Kong sales offices.

Increase the total staff in sales team to 20.

The total sales staff reached 14, less than the target of 20 sales staff because the sales offices in Canada and Japan had not been set up as planned.

#### **For the period from July 2001 to December 2001**

Strengthen its network of channel distributors for system products.

The Group has set up a European office in Netherlands in order to better and promptly serve clients in Europe. The Group has consolidated its relationship with distributors in Mainland China. At the same time, the Group has kept good sales relationship with existing OEM clients such as Omron, Compaq, Corex, Olivision, Pen-Power, Hanwang, etc.

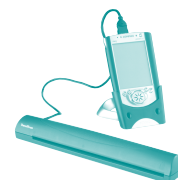
Use of promotion channel, such as e-commerce and media advertisements.

The burst of internet bubble stopped the Group's plan to promote products through e-commerce platform. But the Group has increased its promotional efforts through advertisements on media that have exposure to the targeted user group of the Group's products.

Increase the marketing staff and application engineers to 50 for marketing CIM module to OEM/ODM flatbed scanner manufacturers.

Due to the serious set-back and delay in CIM module development, the expansion of sales engineer team was halted. The Group has increased its sales team in Mainland China, Europe and USA.





**Sales and marketing** (Cont'd)

**For the period from July 2001 to December 2001** (Cont'd)

Approximately HK\$5.9 million compared to the intended amount of HK\$11 million stated in the Prospectus (funded out of the proceeds of the placing) has been incurred for the above activities. The Group will allocate more resources in sales and marketing. The Board believes that the Group shall have sufficient sources and ways of funding including bank credit line for the completion of the respective plan.

**Investments**

During the year ended 31st December, 2001, the Group has divested its investments in and pre-payment to Han's Laser Science & Technology Co., Ltd. As a result, the Group has recognised a gain of RMB4.3 million (equivalent to approximately HK\$4.02 million) from such divestment.

During the year, the Group has invested US\$600,000 (equivalent to approximately HK\$4.66 million) in CMOS Sensor, Inc., a California-based CMOS sensor design company, for about 9.68% equity interest in that company. The Directors believe that such investment shall further strengthen the Group's research and development edge in linear image modules.

During the year ended 31 December, 2001, the Group has signed an agreement to divest its investment in Grandview Investments Group Limited for a total consideration of HK\$19,228,000 as compared to the initial investment of HK\$16,720,000. The deal is expected to be completed in April 2002.

The Group has also invested RMB5 million (equivalent to approximately HK\$4.7 million) in Shenzhen Guocheng Venture Capital Co., Ltd. for a 7.3% equity interest in such company, which is principally engaged in the investment in enterprises in the optoelectronics industry.

The total investments made as of 31st December, 2001 was approximately HK\$28,562,000 as compared to the planned amount of HK\$39,000,000 as stated in the Prospectus.



## Profiles of Directors and Senior Management

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### EXECUTIVE DIRECTORS

Mr. Cheung Wai, aged 51, is the Chairman of the Group. Mr. Cheung is responsible for the overall strategic planning for the Group's development and for the Group's China business. He has over 25 years of extensive business and management experiences in the field of electronic and computer industry in the PRC and overseas. He joined the Group in 1998. He holds a bachelor's degree in Electronics Engineering from China Central Institute of Technology, Mainland China.

Mr. Darwin Hu, aged 49, is the Chief Executive Officer of the Group. Mr. Hu is responsible for sales and marketing, research and development and daily overall management, and for the Group's overseas business. He has over 19 years of experience in research and development management, imaging product development, manufacturing and sales and marketing. Before joining the Group in April 1998, Mr. Hu held senior management positions in Microtek, Xerox, OKI, AVR, DEST, Olivetti and Grundig. Mr. Hu holds a bachelor's degree in Engineering Science from National Cheng-Kung University, Taiwan, and a master's degree in Computer Science and Engineering from California State University, USA.

Mr. Zhang Hongru, aged 39, is the Chief Financial Officer and compliance officer of the Group. Mr. Zhang is responsible for the Group's corporate planning, financial control and investor's relationship of the Group. He has over 11 years' experience in the field of banking, finance and corporate development. He held various management positions in ArcSoft Hong Kong, DBS Asia Capital, Grand Generale Asia, Crosby Securities and HSBC. Mr. Zhang joined the Group on 1st December, 2000 and was appointed as executive director and compliance officer of the Group in February 2001. Mr. Zhang holds a master's degree in geography from the Chinese Academy of Science and a master's degree in natural resources economics from University of Alaska, USA.

### NON-EXECUTIVE DIRECTORS

Mr. Joseph Liu, aged 50, is the non-executive director and ex-chairman of SYSCAN, Inc. Mr. Liu is the General Partner of TechLink Technology Partners, a high-tech venture investment company based in Silicon Valley and holds directorships in several companies in the US and Taiwan. He is currently the Chairman of Oplink Communications, Inc., a company listed on NASDAQ. He has over 22 years of corporate experience in high technology, direct investment and venture capital.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wai Ming, aged 50, is the founder and managing director of Greater China Asset Management Limited. Mr. Lo has over 25 years' extensive experience in investment, consumer marketing, business development and corporate finance including positions of managing director of Citifood Company International Limited, Director of Cosmos Machinery Enterprises Limited and Managing Director of Ocean Grand Holdings Limited. He holds a master's degree in Business Administration from the Chinese University of Hong Kong. He is also a member of the Chartered Institute of Marketing and British Institute of Management. He was appointed as an independent non-executive director in 2000.



Mr. Lo Hang Fong, aged 38, is a solicitor practicing in Hong Kong. He holds a bachelor degree in laws from the University of Bristol in England and a diploma in Chinese laws from the Chinese Law Society. Mr. Lo is currently a partner with Messrs. Stevenson, Wong & Co., Solicitors & Notaries in Hong Kong. He has acquired over 11 years of experience in corporate advisory on mergers and acquisitions, initial public offerings and loan syndication. He was appointed as an independent non-executive director in 2001.

### SENIOR MANAGEMENT

Mr. William Hawkins, aged 46, is the President of the Group's subsidiary in Silicon Valley SYSCAN Inc. ("SI") and Chief Operating Officer of the European office ("SIE"), and is responsible for all the business operation and performance of SI and SIE, and to coordinate and supervise the Northeast Asia marketing and sales activities. Mr. Hawkins has over 18 years' marketing and sales experience in the field of electronic industry related to computer peripheral and imaging system including General Electric (UK), Karma Aerospace, British Aerospace, Gaertner research and Per Scholas. He holds a bachelor's degree in Physics from University of Maryland, USA, and a master's degree in Technology Management from Johns Hopkins University, USA. Mr. Hawkins joined the Group in 1998.

Mr. Alpha Hou, aged 47, is the Chief Technology Officer of the Group, and is responsible for strategic product development, and guiding all the engineering activities of the Group. Mr. Hou has over 17 years' experiences in imaging system product development and engineering management in design and scanning and display industry including Microtek, Trident, Genoa, Alpha Vision, Grundig and RCA. He holds a bachelor's degree in Engineering from Northwestern Polytechnic University, USA. Mr. Hou joined the Group in 1998.

Mr. Wong Chung, John, aged 32, is the President and Executive Vice-President of the Group's subsidiaries, SYSCAN InterVision Limited and SYSCAN Technology (Shenzhen) Co., Ltd. respectively, and is responsible for all the business operations and sales and marketing performance in Asia market. Before joining the Group in May 2001, Mr. Wong was the Deputy Managing Director in Hong Kong Student Travel Limited in charge of marketing, capital raising, cost saving and the development of new product and new market. Before that, he was stationed in Moscow for one year in charge of international trading. He holds a bachelor's degree in international business management from University of International Business and Economy, Beijing, China, and a master's degree in business management from Hong Kong Baptist University.

Mr. Huang Jungchih, aged 40, is the Vice-President of SYSCAN Technology (Shenzhen) Co., Ltd., a wholly owned subsidiary of the Company in Shenzhen, and is responsible for system product engineering especially in software development, sales and manufacturing support and for existing product improvement. He has over 16 years of experience in system engineering especially in software development. Before joining the Group in July 1999, Mr. Huang held various senior positions in ACC Microelectronics Corporation, Artis Corp (Microtek Graphic Arts Business Division) and O<sub>2</sub> Micro, Inc. He holds a bachelor's degree in electrical engineering from Northwestern Polytechnic University, CA, USA.



## Profiles of Directors and Senior Management

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Mr. Joseph Kung, aged 50, is the Vice-President of SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., a wholly owned subsidiary of the Company in Shenzhen, and is responsible for CIS module development and engineering, the sales and manufacturing support, and for existing product development. He has over 20 years of experience in the field of electronic engineering. Before joining the Group in 1998, Mr. Kung held senior positions in Grundig and Holtek, and was the College Assistant Professor in the Department of Engineering Technology, New Mexico State University, New Mexico, USA and Member of Technical Staff in Bell Laboratories, New Jersey, USA. He holds a bachelor's degree in electronic engineering from Feng Chia University, Taiwan, and a master's degree in electronic engineering from New Mexico State University, New Mexico, USA.

Mr. Chan Man Ching, aged 33, is the Qualified Accountant of the Group. He graduated from the University of South Australia with a bachelor's degree in Accountancy. He is also an Associate of Hong Kong Society of Accountants and a member of CPA Australia. He has over 9 years' experience in accounting and auditing. Mr. Chan joined the Group in 2000.

Ms. Chow Suk Han, Caroline, aged 32, is the company secretary of the Group and responsible for regulatory compliance and corporate affairs of the Group. She graduated from the City University of Hong Kong with a bachelor's degree in accountancy. She is also an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. She has over 9 years' experience in company secretarial and corporate affairs in professional firms and listed companies. Ms. Chow joined the Group in 2000.



The Directors are pleased to present their report together with the audited financial statements of SYSCAN Technology Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st December, 2001.

## GROUP REORGANISATION

The Company was incorporated in Bermuda on 17th August, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") since 14th April, 2000.

Details of the group reorganisation scheme and the basis of presentation of the financial statements are set out in Note 28 to the accompanying financial statements.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, research, development, manufacture and distribution of optical image capturing devices and related components. Its subsidiaries also have minority interests in certain companies. Details of the investments of the Group are set out in Note 13 to the accompanying financial statements.

An analysis of the Group's turnover and loss attributable to shareholders by product category and geographical location for the year ended 31st December, 2001, are as follows:

	<b>Turnover</b> HK\$'000	<b>Loss</b> <b>attributable to</b> <b>shareholders</b> HK\$'000
<b>a. By product category</b>		
– optical image capturing devices	17,878	(31,558)
– modules of optical image capturing devices	14,596	(25,764)
– chips and other optoelectronic products	1,696	(2,994)
	<u>34,170</u>	<u>(60,316)</u>
<b>b. By geographical location*</b>		
– Malaysia	7,997	(14,116)
– Taiwan	6,794	(11,993)
– Hong Kong	5,679	(10,024)
– Mainland China	4,673	(8,249)
– Japan	4,241	(7,486)
– The United States of America	2,583	(4,559)
– Belgium	721	(1,273)
– Others	1,482	(2,616)
	<u>34,170</u>	<u>(60,316)</u>

\* Turnover by geographical location is determined mainly on the basis of the destination of delivery of merchandise.



## Report of the Directors

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### **CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2001, the five largest customers accounted for approximately 81% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 42% of the Group's total purchases. The largest customer accounted for approximately 26.3% of the Group's total turnover while the largest supplier accounted for approximately 10.9% of the Group's total purchases.

As far as the Directors are aware, none of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the five largest customers and suppliers of the Group.

### **RESULTS AND APPROPRIATIONS**

Details of the Group's results for the year ended 31st December, 2001 are set out in the consolidated income statement on page 37 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately HK\$225,868,000 as at 31st December, 2001 be carried forward.

### **SHARE CAPITAL**

Details of share capital of the Company are set out in Note 20 to the accompanying financial statements.

### **RESERVES AND ACCUMULATED DEFICIT**

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the accompanying financial statements. Movements in accumulated deficit of the Group during the year are set out in the consolidated income statement on page 37 of this annual report.

As at 31st December, 2001, the Company has no reserves available for distribution to its shareholders.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda in relation to the issue of new shares by the Company.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in Note 12 to the accompanying financial statements.

**PROPERTIES, MACHINERY AND EQUIPMENT AND PROPERTIES UNDER DEVELOPMENT**

Details of movements in properties, machinery and equipment and properties under development during the year are set out in Notes 10 and 11, respectively to the accompanying financial statements.

**BANK BORROWINGS**

Particulars of bank borrowings as at 31st December, 2001 are set out in Note 18 to the accompanying financial statements.

**EMPLOYEE RETIREMENT BENEFITS**

Details of the Group's pension schemes are set out in Note 24 to the accompanying financial statements.

**CONNECTED TRANSACTIONS**

Details of connected transactions are set out in Note 3 to the accompanying financial statements.

During the year ended 31st December, 2001, a tenancy agreement was entered into between Mr. Cheung Wai, a Director of the Company, as the landlord and SYSCAN InterVision Limited (a wholly owned subsidiary of the Company) as the tenant on 8th January, 2000 whereby Mr. Cheung Wai agreed to lease the office premise located in Office 8 on 8th Floor of K. Wah Centre, 191 Java Road, North Point, Hong Kong at a monthly rental of HK\$16,500 for a term of two years, exclusive of rates and management fees.

**DIRECTORS**

The Directors who held office during the year and up to the date of this report were:

**Executive directors**

Mr. Cheung Wai, Chairman

Mr. Darwin Hu

Mr. Zhang Hongru (Appointed on 2nd February, 2001)

**Non-executive director**

Mr. Joseph Liu

**Independent non-executive directors**

Mr. Lo Wai Ming

Mr. Cheung Yuk Ming (Retired on 28th April, 2001)

Mr. Lo Hang Fong (Approved by shareholders at the annual general meeting on 28th April, 2001 and then appointed on 25th May, 2001)

In accordance with bye-law 99 of the Bye-Laws of the Company, Mr. Darwin Hu and Mr. Joseph Liu, retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.



## Report of the Directors

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of four years commencing from, in the cases of Mr. Cheung Wai and Mr. Darwin Hu, 1st April, 2000 and in the case of Mr. Zhang Hongru, 2nd February, 2001.

Mr. Joseph Liu, the non-executive director has entered into a service agreement with the Company for a term of three years commencing from 1st April, 2000.

Mr. Lo Wai Ming and Mr. Lo Hang Fong, the independent non-executive directors, have entered into service agreements with the Company for a term of three years commencing from, in the cases of Mr. Lo Wai Ming, 1st April, 2000 and, in the cases of Mr Lo Hang Fong, 25th May, 2001.

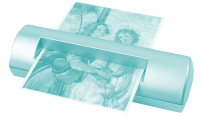
Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTEREST IN SHARES

As at 31st December, 2001, the following Directors of the Company had or were deemed to have interests in the equity securities of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"):

Name	Number of ordinary shares held				Total	Percentage of interest
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Cheung Wai	7,200,000	–	103,100,000 (Note 3)	–	110,300,000	10.79%
Mr. Darwin Hu	38,400,000	16,156,000 (Note 1)	–	–	54,556,000	5.34%
Mr. Joseph Liu	19,200,000	52,800,000 (Note 2)	–	–	72,000,000	7.04%
Mr. Zhang Hongru	–	–	4,176,000 (Note 4)	–	4,176,000	0.41%





### DIRECTORS' INTEREST IN SHARES (Cont'd)

Notes:

1. These shares were held by Mrs. Sonya Hsiu-Yu Hu, the spouse of Mr. Darwin Hu.
2. These shares comprised the shares held by Messrs. Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr. Joseph Liu.
3. 48,000,000 shares and 55,100,000 shares were held by Haing Assets Limited and Simrita Investments Limited respectively (both companies are incorporated in the British Virgin Islands and are beneficially owned by Mr. Cheung Wai).
4. These shares were held by Osbeck Investments Limited, a company incorporated in the British Virgin Islands and is beneficially owned by Mr. Zhang Hongru.

Save as disclosed above, none of the Directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Prior to the listing of the Company's shares on the GEM on 14th April, 2000, the Company's Directors were granted options to subscribe for shares in SYSCAN Inc., a wholly-owned subsidiary of the Company. Such options were fully exercised to subscribe for shares in SYSCAN Inc. on 18th February, 2000 and 26th February, 2000 respectively. Pursuant to a group reorganisation scheme, such shares in SYSCAN Inc. were converted into shares of the Company on 27th March, 2000.

On 2nd March, 2000, the Company adopted Share Option Scheme A and Scheme B (the "Schemes") under which share options to subscribe for shares of the Company may be granted under the terms and conditions stipulated in the Schemes.

Share Option Scheme A ceased to be effective (save for the options already granted but unexercised) upon the listing of the Company on 14th April, 2000. Since the date of its adoption, no options have ever been granted to the Company's Directors under Share Option Scheme A.



## Report of the Directors

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

Details of the movement of options of the Directors of the Company under Share Option Scheme B during the year ended 31st December, 2001 were as follows:

Name	Date of grant	Exercise period	Subscription Price per share	Beginning of year	Number of shares			End of year
					Granted during the year	Lapsed during the year	Exercised during the year	
Mr. Cheung Wai	19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	5,000,000	-	-	-	5,000,000
Mr. Darwin Hu	19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	5,000,000	-	-	-	5,000,000
	17th January, 2001	17th January, 2002 to 16th January, 2011	HK\$0.206	-	18,000,000	-	-	18,000,000
Mr. Zhang Hongru	4th December, 2000	4th December, 2001 to 3rd December, 2010	HK\$0.1016	5,000,000	-	-	-	5,000,000
	17th January, 2001	17th January, 2002 to 16th January, 2011	HK\$0.206	-	4,000,000	-	-	4,000,000
				15,000,000	22,000,000	-	-	37,000,000

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any of the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

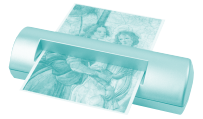
Save as disclosed above, none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

### DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

Save for the interests disclosed above in respect of Mr. Cheung Wai in the section "DIRECTORS' INTEREST IN SHARES", as at 31st December, 2001, no other person was recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.



## EMPLOYEE SHARE OPTIONS

The Company has two employee share option schemes, namely Share Option Scheme A and Share Option Scheme B.

### Share Option Scheme A (“Scheme A”)

(I) Summary of the terms of Scheme A

The purpose of Scheme A is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees and consultants of the Company and its subsidiaries and to promote the success of the Company’s business.

The Company adopted Scheme A on 2nd March, 2000 and granted a maximum of 52,784,000 options to subscribe for 52,784,000 shares at exercise prices ranging from HK\$0.02422 to HK\$0.04844 under Scheme A, which was resulted from the conversion of outstanding options under the stock option plan adopted and approved by SYSCAN, Inc., a wholly owned subsidiary of the Company, by virtue of a group reorganization scheme in preparation for the listing of the Company’s shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Save as aforesaid, no further shares may be granted under Scheme A and Scheme A ceased to be effective (save for the options already granted but unexercised) upon the listing of the Company on the GEM on 14th April, 2000.

Participants include any employee and consultant of the Company or any subsidiary, including any executive director of the Company or any subsidiary.

No participant shall be granted an option which, if exercised in full, would result in such participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised and issuable under all the Options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.



## Report of the Directors

### EMPLOYEE SHARE OPTIONS (Cont'd)

#### Share Option Scheme A ("Scheme A") (Cont'd)

(II) Details of the movement of options under Scheme A during the year ended 31st December, 2001 were as follows:

Class of Optionees	Date of grant	Exercise period	Subscription Price per share	Beginning of year	Number of shares			End of year
					Granted during the year	Lapsed during the year	Exercised during the year	
Directors, chief executive, management shareholder, substantial shareholder (Note 1)	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	2nd March, 2000	2nd March, 2000 to 1st March, 2010	HK\$0.04844	32,632,000	-	(8,060,667)	(1,691,333)	22,880,000 (Note 2)
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other Optionees	2nd March, 2000	2nd March, 2000 to 1st March, 2010	HK\$0.04844	11,760,000	-	-	-	11,760,000
	2nd March, 2000	2nd March, 2000 to 1st March, 2010	HK\$0.02422	160,000	-	-	-	160,000
				<u>44,552,000</u>	<u>-</u>	<u>(8,060,667)</u>	<u>(1,691,333)</u>	<u>34,800,000</u>

#### Notes:

- Please refer to the sections "DIRECTORS' INTEREST IN SHARES" and "SUBSTANTIAL SHAREHOLDERS" respectively for details in respect of the Directors and substantial shareholder.
- The weighted average closing prices immediately before the date of exercise of options were HK\$0.267 (280,000 options), HK\$0.284 (111,333 options), HK\$0.286 (380,000 options), HK\$0.286 (800,000 options), HK\$0.286 (20,000 options) and HK\$0.286 (100,000 options) respectively.



## EMPLOYEE SHARE OPTIONS (Cont'd)

### Share Option Scheme B ("Scheme B")

(i) Summary of the terms of Scheme B

The purpose of Scheme B is to advance the interests of the Company and its shareholders by providing to the executive directors and full-time employees of the Company and its subsidiaries a performance incentive for continued and improved service with the Company and its subsidiaries and by enhancing such persons' contribution to increase profits by encouraging capital accumulation and share ownership.

Scheme B was adopted by the Company on 2nd March, 2000 pursuant to which options may be granted to the employees of the Group to subscribe for ordinary shares of \$0.1 each, subject to, when aggregated with any shares subject to any other scheme of the Company, a maximum of 30% of the nominal value of the issued share capital of the Company from time to time. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the nominal value of the ordinary shares, (ii) the average of the closing price of the ordinary shares quoted on the GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on the GEM on the date of grant, which must be a business day. An offer of an option shall be deemed to have been granted and accepted when a duplicate letter comprising acceptance of the option duly signed by the participant, together with a remittance of HK\$1 by way of consideration for the grant thereof, is received by the Company within a period of 21 days from the date of offer.

Participants include any full-time employee of the Company or any subsidiary, including any executive director of the Company or any subsidiary.

No participant shall be granted an option which, if exercised in full, would result in such participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised and issuable under all the Options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The total number of shares available for issue under Scheme B is 39,756,528 (representing approximately 3.89% of the issued share capital of the Company as at the date of this annual report).

Scheme B shall remain valid and effective for a period of 10 years commencing on 2nd March, 2000, after which no further options will be issued but the provisions of Scheme B shall remain in full force and effect in all other respects.



## Report of the Directors

### EMPLOYEE SHARE OPTIONS (Cont'd)

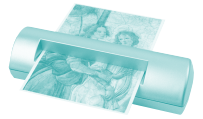
#### Share Option Scheme B ("Scheme B") (Cont'd)

(II) Details of the movement of options under Scheme B during the year ended 31st December, 2001 were as follows:

Class of Optionees	Date of grant	Exercise period	Exercise Price per share	Beginning of year	Number of shares			End of year
					Granted during the year	Lapsed during the year	Exercised during the year	
Directors, chief executive, management shareholder, substantial shareholder (Note 1)	19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	10,000,000	-	-	-	10,000,000
	4th December, 2000	4th December, 2001 to 3rd December, 2010	HK\$0.1016	5,000,000	-	-	-	5,000,000
	17th January, 2001	17th January, 2002 to 16th January, 2011	HK\$0.206	-	22,000,000 (Note 2)	-	-	22,000,000
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	12th July, 2000	12th July, 2001 to 11th July, 2010	HK\$0.246	5,760,000	-	(280,000)	-	5,480,000
	4th December, 2000	4th December, 2001 to 3rd December, 2010	HK\$0.1016	1,700,000	-	-	-	1,700,000
	17th January, 2001	17th January, 2002 to 16th January, 2011	HK\$0.206	-	19,000,000 (Note 2)	(1,350,000)	-	17,650,000
	13th August, 2001	13th August, 2002 to 12th August, 2011	HK\$0.275	-	9,580,000 (Note 2)	-	-	9,580,000
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	-	-	-	-	-	-	-	-
				22,460,000	50,580,000	(1,630,000)	-	71,410,000

#### Notes:

- Please refer to the sections "DIRECTORS' INTEREST IN SHARES" and "SUBSTANTIAL SHAREHOLDERS" respectively for details in respect of the Directors and substantial shareholder.
- The closing prices immediately before the date of grant were HK\$0.17 (41,000,000 shares) and HK\$0.25 (9,580,000 shares) respectively.



## EMPLOYEE SHARE OPTIONS (Cont'd)

### Share Option Scheme B ("Scheme B") (Cont'd)

The Directors consider it inappropriate to value all the options that can be granted during the year ended 31st December, 2001 under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

### New Share Option Scheme

On 26th September, 2001, the Stock Exchange announced amendments to the GEM Listing Rules, which came into effect on 1st October, 2001. In compliance with the amendments to Chapter 23 of the GEM Listing Rules, the Board considers that it is in the interest of the Company to adopt a new Share Option Scheme C (the "New Scheme") and to terminate the existing Share Option Scheme B (the "Existing Scheme").

At the forthcoming annual general meeting, an ordinary resolution will be proposed for the Company to approve the adoption of the New Scheme pursuant to which the participants of the New Scheme may be granted options to subscribe for shares of the Company upon and subject to the terms and conditions of the rules of the New Scheme.

A summary of the principal terms of the rules of the New Scheme is set out in the Appendix I to a circular dated 28th March, 2002 (the "Circular") dispatched together with this annual report. A copy of the rules of the New Share Option Scheme is available for inspection at the Head Office of the Company at Unit 808, 8th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong during normal business hours from the date hereof up to and including 25th April, 2002 and at the annual general meeting.

The Existing Scheme will be terminated on the New Scheme coming into effect upon the fulfillment of the conditions set out in the Circular. Upon termination of the Existing Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Existing Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

## SPONSOR'S INTERESTS

As at 31st December, 2001, an employee of BNP Paribas Peregrine Capital Limited ("the Sponsor") held 120,000 shares in the Company.

Pursuant to the arrangement entered into between the Sponsor and the Company, the Sponsor receives a fee for acting as the Company's retained sponsor for the period from 14th April, 2000 to 31st December, 2002.

Save as disclosed above, neither the Sponsor, its directors, employees nor associates had any interests in the securities of the Company, including options or rights to subscribe for such securities.



## Report of the Directors

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### MANAGEMENT CONTRACTS

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

### CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange throughout the year ended 31st December, 2001.

### FINANCIAL SUMMARY

A summary of the income statements and balance sheets of the Group is set out on pages 3 and 4 of this annual report.

### AUDIT COMMITTEE

The Company established an audit committee on 2nd May, 2000 with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The audit committee comprises two independent non-executive directors, namely Mr. Lo Wai Ming and Mr. Lo Hang Fong (who has been appointed, as a committee member on 25th May, 2001 following the retirement of Mr. Cheung Yuk Ming). The Committee has met 5 times since 1st January, 2001 with the management to discuss and review the Group's various internal control and audit issues with a view to further improve the Group's corporate governance.

### AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**CHEUNG WAI**

*Chairman*

**Darwin Hu**

*Director and Chief Executive Officer*

Hong Kong, 22nd March, 2002.



## Notice of Annual General Meeting

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**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of the members of SYSCAN Technology Holdings Limited (the "Company") will be held at Banquet Room No. 7, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Friday, 26th April, 2002 at 10:00 a.m., for the following purposes:

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and of the Auditors for the year ended 31st December, 2001;
2. To elect Directors and to authorise the Board of Directors to fix remuneration of the Directors;
3. To re-appoint Messrs. Arthur Andersen & Co as the Company's auditors and to authorise the Board of Directors to fix their remuneration;
4. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**"THAT** subject to and conditional upon The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting approval of the listing of, and permission to deal in, the ordinary shares of HK\$0.10 each in the capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation or reduction of the share capital of the Company from time to time) ("Shares") or any part thereof to be issued pursuant to the exercise of any such options to be granted under the share option scheme C of the Company (the "New Share Option Scheme", the rules of which are contained in the document marked "A" produced to the meeting and for the purpose of identification signed by the Chairman hereof), the New Share Option Scheme be approved and adopted and that the Directors of the Company be authorised to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the New Share Option Scheme including without limitation to:—

- (a) administering the New Share Option Scheme under which options will be granted to participants eligible under the New Share Option Scheme to subscribe for Shares;
- (b) modifying and/or amending the New Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the New Share Option Scheme relating to modification and/or amendment and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange;

## Notice of Annual General Meeting

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- (c) issuing and allotting from time to time such number of Shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options granted under the New Share Option Scheme provided that the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other outstanding share option schemes of the Company (other than the Shares subject to the options granted under the Share Option Scheme A and the Existing Share Option Scheme (both as defined in the circular of the Company dated 28th March, 2002) shall not exceed ten (10) per cent. of the issued share capital of the Company as at the date of passing this resolution (“General Scheme Limit”), with the acknowledgement that the Company may seek a fresh approval of its shareholders in general meeting to renew the General Scheme Limit from time to time but provided always that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company (including the Share Option Scheme A and the Existing Share Option Scheme) shall not in aggregate exceed thirty (30) per cent. of the issued share capital of the Company (or such higher percentage as may be allowed by the Stock Exchange) from time to time; and
  - (d) making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the New Share Option Scheme.”;
5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:
- “**THAT** conditional on the passing of Ordinary Resolution numbered 4 set out in the notice convening this meeting of which this resolution forms part, the existing employee share option scheme B adopted by the Company on 2nd March, 2000 (“Existing Share Option Scheme”) be and is hereby terminated with immediate effect and thereafter no further options may be offered but the options which have been granted during the life of the Existing Share Option Scheme shall continue to be exercisable in accordance with their terms of issue and in all other respects the provisions of the Existing Share Option Scheme shall remain in full force and effect.”;
6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:
- “**THAT**
- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase its shares, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;

- (b) the total nominal amount of shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed ten (10) per cent. of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution, and the said approval shall be limited accordingly; and
  - (c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
    - (i) the conclusion of the next annual general meeting of the Company;
    - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and
    - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held.";
7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**"THAT**

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to issue, allot and deal with additional shares of the Company and to make or grant offers, agreements and options which would or might require shares to be allotted, issued or dealt with during or after the end of the Relevant Period be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible grantee pursuant to the scheme of shares or rights to acquire shares of the Company, or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, the total nominal amount of additional shares to be issued, allotted, dealt with or agreed conditionally or unconditionally to be issued, allotted or dealt with shall not in total exceed twenty (20) per cent. of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

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- (b) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held."; and
8. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** the general mandate granted to the Directors of the Company pursuant to Ordinary Resolution numbered 7 above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares since the granting of such general mandate referred to in the above Ordinary Resolution numbered 6, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution."

By order of the Board  
**Cheung Wai**  
*Chairman*

Hong Kong, 22nd March, 2002

*Notes:*

1. The Register of Members of the Company will be closed from Monday, 22nd April, 2002 to Friday, 26th April, 2002, both days inclusive, during which period no transfer of shares can be registered.
2. A member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and, in the event of a poll, vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company, but must attend the meeting in person to represent you.
3. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Head Office of the Company in Hong Kong at Unit 808, 8th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
4. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.



**ANDERSEN**

**Arthur Andersen & Co**

21st Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**Auditors' Report to the Shareholders of  
SYSCAN TECHNOLOGY HOLDINGS LIMITED**  
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 37 to 74 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 statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes 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 circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December, 2001 and of the loss and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ARTHUR ANDERSEN & CO**  
*Certified Public Accountants*

Hong Kong, 22nd March, 2002.

## Consolidated Income Statement

For the year ended 31st December, 2001  
(Expressed in Hong Kong dollars)

	Note	2001 \$'000	2000 \$'000
Turnover	4	<b>34,170</b>	32,200
Cost of sales		<b>(25,191)</b>	(24,746)
Gross profit before provision against inventories		<b>8,979</b>	7,454
Other revenue	4	<b>7,237</b>	–
Provision against inventories and receivables		<b>(26,990)</b>	(6,731)
Research and development expenses		<b>(15,813)</b>	(19,389)
Selling and distribution expenses		<b>(5,958)</b>	(7,054)
General and administrative expenses		<b>(27,074)</b>	(21,616)
Loss from operations		<b>(59,619)</b>	(47,336)
Interest income		<b>1,558</b>	7,415
Interest expense		<b>(2,248)</b>	–
Loss before taxation	5	<b>(60,309)</b>	(39,921)
Taxation	7	<b>(7)</b>	(7)
Loss attributable to shareholders	8	<b>(60,316)</b>	(39,928)
Accumulated deficit, beginning of year		<b>(165,113)</b>	(125,185)
Transfer to reserves	22	<b>(439)</b>	–
Accumulated deficit, end of year		<b>(225,868)</b>	(165,113)
Loss per share – Basic	9	<b>(6.1) cents</b>	(4.8) cents

## Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December, 2001  
(Expressed in Hong Kong dollars)

	Note	2001 \$'000	2000 \$'000
Net gain not recognised in the consolidated income statement			
– Translation adjustments	22	494	518
Loss attributable to shareholders		<b>(60,316)</b>	(39,928)
Net recognised losses		<b><u>(59,822)</u></b>	<u>(39,410)</u>



## Balance Sheets

As at 31st December, 2001  
(Expressed in Hong Kong dollars)

	Note	Consolidated		Company	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<b>Non-current assets</b>					
Properties, machinery and equipment	10	19,968	17,212	–	–
Properties under development	11	102,303	42,903	–	–
Investment in subsidiaries	12	–	–	170,103	168,287
Long-term investments	13	28,562	32,775	–	3,824
Total non-current assets		150,833	92,890	170,103	172,111
<b>Current assets</b>					
Inventories	14	16,169	25,672	–	–
Trade receivables	15	4,688	9,908	–	–
Prepayments, deposits and other receivables		3,586	5,026	380	223
Due from a director	16	–	1	–	–
Pledged bank deposits		38,850	–	–	–
Cash and bank deposits	17	62,504	100,695	8,325	50,252
Total current assets		125,797	141,302	8,705	50,475
<b>Current liabilities</b>					
Short-term bank loans	18	(93,458)	–	–	–
Trade payables	19	(1,689)	(3,153)	–	–
Due to directors	3	(125)	(245)	(120)	(240)
Accruals and other payables		(3,767)	(9,428)	(1,097)	(980)
Total current liabilities		(99,039)	(12,826)	(1,217)	(1,220)
Net currents assets		26,758	128,476	7,488	49,255
Net assets		177,591	221,366	177,591	221,366
<b>Capital and reserves</b>					
Share capital	20	102,256	88,887	102,256	88,887
Reserves	22	301,203	297,592	171,503	168,825
Accumulated deficit		(225,868)	(165,113)	(96,168)	(36,346)
Shareholders' equity		177,591	221,366	177,591	221,366

Approved by the Board of Directors on 22nd March, 2002:

**CHEUNG WAI**  
Chairman

**DARWIN HU**  
Director and Chief Executive Officer

## Consolidated Cash Flow Statement

For the year ended 31st December, 2001  
(Expressed in Hong Kong dollars)

	Note	2001 \$'000	2000 \$'000
<b>Net cash outflow from operating activities</b>	23.a	<b>(52,075)</b>	(60,949)
<b>Returns on investments and servicing of finance</b>			
Dividend received		242	–
Interest received		1,558	7,415
Interest paid		(2,248)	–
		<b>(448)</b>	7,415
<b>Taxation</b>			
Overseas tax paid		(7)	(7)
<b>Investing activities</b>			
Additions to properties, machinery and equipment		<b>(10,696)</b>	(8,496)
Proceeds from disposal of properties, machinery and equipment		4,857	751
Additions to properties under development		<b>(59,400)</b>	(42,903)
Payments relating to acquisitions of long-term investments		<b>(15,877)</b>	(32,775)
Refund of deposits and compensation received relating to cancellation of investments		23,692	–
Proceeds from disposal of long-term investments		378	–
Increase in loans receivable		<b>(29,673)</b>	–
Repayment of loans receivable		29,673	–
Payment for subscription/acquisition of marketable securities		<b>(122,796)</b>	–
Refund of amount paid for subscription of/proceeds from disposal of marketable securities		123,032	–
Increase in pledged bank deposits		<b>(38,850)</b>	–
Translation adjustments		494	518
		<b>(95,166)</b>	(82,905)
Net cash outflow before financing activities		<b>(147,696)</b>	(136,446)
<b>Financing activities</b>	23.b		
Proceeds from issuance of shares by a subsidiary prior to the Reorganisation (Note 28)		–	3,402
Proceeds from issuance of shares		16,104	202,160
Share issuance expenses		(139)	(19,197)
Proceeds from issuance of shares upon exercise of employee share options		82	51
New short-term bank loans		93,458	–
		<b>109,505</b>	186,416
(Decrease) Increase in cash and bank deposits		<b>(38,191)</b>	49,970
Cash and bank deposits, beginning of year		100,695	50,725
Cash and bank deposits, end of year		<b>62,504</b>	100,695

# Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION AND OPERATIONS

SYSCAN Technology Holdings Limited ("the Company") was incorporated in Bermuda on 17th August, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") since 14th April, 2000.

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, research, development, manufacture and distribution of optical image capturing devices and related components. Its subsidiaries also have minority interests in certain companies (see Note 13).

The business of the Company and its subsidiaries (together "the Group") is characterised by constant technological change and new product and service development. Inherent in the Group's business are various risks and uncertainties, including risks associated with the technology industry, history of losses, uncertain profitability and the ability to raise additional capital.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

### a. Basis of presentation

The financial statements have been prepared on the going concern basis.

For the year ended 31st December, 2001, the Group reported a loss attributable to shareholders of approximately \$60 million and a net cash outflow from operating activities of approximately \$52 million. Furthermore, up to 31st December, 2001, the Group has invested approximately \$81 million in a new factory, with an additional amount of approximately \$24 million required to complete Phase One of these facilities and make them operational. The Group's ability to complete construction of these facilities and realise their carrying value in the future as well as that of the properties, machinery and equipment with a net book value of approximately HK\$41 million as at 31st December, 2001 is dependent on the success of its future operations and on the ongoing support of its bankers. Should future operations not be successful and/or should the Group's bankers not continue to provide their support, the Group may be unable to continue as a going concern, realise the carrying value of its assets in the ordinary course of business and repay its liabilities as they fall due. The Company's Directors and the Group's management are confident that the Group's future operations will be successful and the Group will be able to rollover or replace the majority of the short-term bank loans with new sources of financing when they fall due. Accordingly, the financial statements have been prepared on the going concern basis, and do not reflect any adjustments which may be required should the Group be unable to continue as a going concern.

## Notes to the Financial Statements

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### b. Adoption of new/revised statements of standard accounting practice

Effective 1st January, 2001, the following Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants have been adopted:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The Group has disclosed segment information in Note 25 to the financial statements, as required under SSAP 26. Except for the disclosure of segment information, the adoption of the above statements had no material effect on the amounts reported in the prior year.

#### c. Basis of measurement

The financial statements have been prepared on the historical cost basis.

#### d. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

#### e. Subsidiaries

A subsidiary is a company in which the Group controls, which is normally evidenced when the Group has the power to govern the financial and operating policies of that company so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

**2. PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)***f. Turnover and revenue recognition**

Turnover comprises (i) net invoiced value of merchandise sold after allowances for returns and discounts and exclusion of value-added tax, and (ii) design fees.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Design fees are recognised when the services are rendered. Dividend income is recognised when the right to receive payment is established. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

**g. Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

**h. Research and development expenditures**

Research expenditures are written off as incurred. Development expenditures are also written off as incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the development of the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.

All research and development costs for the years ended 31st December, 2000 and 2001 have been expensed as no expenditure met the criteria for deferral.

## Notes to the Financial Statements

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### i. Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

#### j. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

#### k. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of that asset at rates based on the cost of the specific borrowings. All other borrowing costs are recognised as an expense as incurred. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use.

#### l. Properties, machinery and equipment and depreciation

Properties, machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of properties, machinery and equipment which will result in future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	20 to 50% (lease-term)
Furniture and office equipment	20 to 33%
Machinery and equipment	10 to 20%
Motor vehicles	20%

Gains and losses on disposal of properties, machinery and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

**2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)****m. Properties under development**

Properties under development are stated at cost, which includes land costs and construction costs incurred and other costs attributable to the construction of the related assets, less provision for any impairment in value. No depreciation is provided in respect of properties under development until the construction work is completed.

**n. Long-term investments**

Long-term investments are carried at cost less provision for any impairment in value. Income from long-term investments is accounted for to the extent of dividends received or receivable.

Upon disposal of investments, any profit and loss thereon is accounted for in the income statement.

**o. Marketable securities**

Marketable securities, which are held for the purpose of generating a profit from short-term fluctuations in price, are included in the balance sheet at their fair values. All changes in the fair values of marketable securities and gains and losses on disposal of marketable securities are recognised in the income statement when they arise.

**p. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of raw materials determined using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised 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 realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## Notes to the Financial Statements

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### q. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of the asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

#### r. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

#### s. Subsequent events

Post-year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate, are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.



**2. PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)***t. Operating leases**

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

**u. Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date and income and expense items are translated into Hong Kong dollars at the average applicable rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

**v. Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Particulars of significant transactions between the Group and related parties are as follows:

	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
深圳榮寶齋有限公司 (i)		
– Purchase of furniture (artistic decorations)	–	1,869
Shanghai Shinny Electronic Technology Corp. (ii)		
– Processing fee paid	–	732
Mr. Cheung Wai		
– Rental payment for office premise	<b>198</b>	198

Notes –

- (i) Mr. Cheung Wai, a director of the Company, is a director of and has a minority interest in 深圳榮寶齋有限公司.
- (ii) Shanghai Shinny Electronic Technology Corp. is beneficially owned by a minority shareholder of the Company.

The amounts due to directors are unsecured, non-interest bearing and repayable on demand.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
Sales of merchandise		
– Optical image capturing devices	<b>17,878</b>	25,454
– Modules of optical image capturing devices	<b>14,596</b>	6,050
– Chips and other optoelectronic products	<b>842</b>	696
	<b>33,316</b>	32,200
Design fees – High speed module	<b>854</b>	–
Total turnover	<b>34,170</b>	32,200
Interest income	<b>1,558</b>	7,415
Dividend income	<b>242</b>	–
Compensation income (Note 13.iv)	<b>3,980</b>	–
Gain on disposal of marketable securities	<b>236</b>	–
Gain on disposal of properties, machinery and equipment	<b>2,779</b>	–
Total revenue	<b>42,965</b>	39,615

Approximately 81% of the Group's turnover for the year ended 31st December, 2001 (2000 – 72%) was made to the Group's top five customers.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. LOSS BEFORE TAXATION

Loss before taxation was determined after charging and crediting the following items:

	2001 \$'000	2000 \$'000
<b>After charging –</b>		
Interest on short-term bank loans	2,892	–
Less: amounts capitalised in properties under development (i)	(644)	–
	<b>2,248</b>	–
Cost of inventories sold	25,191	24,746
Employment costs (including directors' emoluments)	21,756	21,523
Operating lease rentals of premises	3,536	2,848
Advertising and promotion costs	1,890	1,573
Provision for obsolete and slow-moving inventories	15,129	4,878
Provision for bad and doubtful receivables	11,861	1,853
Depreciation of properties, machinery and equipment	5,862	7,321
Net exchange loss	94	253
Auditors' remuneration	<u>830</u>	<u>900</u>
<b>After crediting –</b>		
Dividend income	242	–
Compensation income (Note 13.iv)	3,980	–
Gain on disposal of properties, machinery and equipment	2,779	–
Gain on disposal of marketable securities	236	–
Interest income from		
– bank deposits	1,427	7,415
– loans receivable	<u>131</u>	<u>–</u>

Note –

- (i) During the year, interest of approximately \$644,000 was capitalised as construction expenditures at the rate on the related loan of approximately 4.9% per annum.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- a. Details of emoluments paid/payable to directors of the Company are:

	2001 \$'000	2000 \$'000
Fees for executive directors	–	–
Fees for non-executive directors	222	240
Other emoluments for executive directors		
– Basic salaries and allowances	4,002	3,381
– Retirement contribution	24	1
	<u>4,248</u>	<u>3,622</u>

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

The number of directors whose remuneration falls within the following bands is as follows:

	2001	2000
Executive directors		
– Nil to \$1,000,000	–	1
– \$1,000,001 to \$1,500,000	2	1
– \$1,500,001 to \$2,000,000	1	1
Non-executive directors		
– Nil to \$1,000,000	4	3
	<u>7</u>	<u>6</u>

During the year ended 31st December, 2001, the three executive directors received individual emoluments of approximately \$1,554,000 (2000 – \$1,554,000), \$1,368,000 (2000 – \$1,157,000) and \$1,104,000 (2000 – Nil), respectively. The four non-executive directors received individual fees of approximately \$120,000 (2000 – \$120,000), \$72,000 (2000 – Nil), \$30,000 (2000 – \$120,000) and Nil (2000: Nil), respectively.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

- b. Details of emoluments paid/payable to the five highest paid individuals (including directors and other employees) are:

	2001	2000
	\$'000	\$'000
Basic salaries and allowances	6,294	5,741
Retirement contribution	24	1
	<u>6,318</u>	<u>5,742</u>
	2001	2000
Number of directors	3	2
Number of employees	2	3
	<u>5</u>	<u>5</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The number of the five highest paid individuals (including directors and other employees) whose remuneration falls within the following bands is as follows:

	2001	2000
Nil to \$1,000,000	–	1
\$1,000,001 to \$1,500,000	4	3
\$1,500,001 to \$2,000,000	1	1
	<u>5</u>	<u>5</u>

**7. TAXATION****a. Bermuda income tax**

The Company is exempted from tax in Bermuda on its profit or capital gains until March 2016.

**b. Hong Kong profits tax**

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong.

**c. United States federal income tax**

SYSCAN Inc. had no assessable profit subject to United States federal income tax and California State income tax and, consequently, was liable to California State income tax of approximately \$7,000 (2000 – \$7,000), being the minimum amount for a company in a tax loss position.

**d. Mainland China taxes**

SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., SYSCAN Technology (Shenzhen) Co., Ltd. and Shenzhen SYSCAN Smart Imaging System Co., Ltd., wholly foreign owned enterprises established and operated in Shenzhen, a special economic region in Mainland China, are subject to Mainland China enterprise income tax at a rate of 15% (2000 – 15%). However, they are exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next three years. No provision for Mainland China enterprise income tax has been recorded as SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., SYSCAN Technology (Shenzhen) Co., Ltd. and Shenzhen SYSCAN Smart Imaging System Co., Ltd. have incurred losses since their incorporation.

The Group's sales made in Mainland China are subject to Mainland China value-added tax at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on its purchases ("input VAT").

The Group's service fees generated in Mainland China are subject to Mainland China business tax at a rate of 5%.

## Notes to the Financial Statements

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION (Cont'd)

#### e. Taiwan income tax

No Taiwan income tax is payable by the Taiwanese branch of SYSCAN InterVision Limited as the branch had no assessable profit in Taiwan.

There was no significant unprovided deferred taxation for the year ended 31st December, 2001.

### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31st December, 2001, the consolidated loss attributable to shareholders includes a loss of approximately \$59,822,000 (2000 – \$36,346,000) dealt with in the financial statements of the Company.

### 9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2001 is based on the loss attributable to shareholders of approximately \$60,316,000 (2000 – \$39,928,000) and the weighted average number of approximately 984,349,000 (2000 – 835,721,000) ordinary shares in issue during the year.

No diluted loss per share is presented as the outstanding employee share options were anti-dilutive.



## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 10. PROPERTIES, MACHINERY AND EQUIPMENT

Movements of properties, machinery and equipment (consolidated) were:

	2001				2000	
	Leasehold improvements \$'000	Furniture and office equipment \$'000	Machinery and equipment \$'000	Motor vehicles \$'000	Total \$'000	Total \$'000
<b>Cost</b>						
Beginning of year	3,521	10,002	24,349	1,224	39,096	32,965
Additions	–	919	8,035	1,742	10,696	8,496
Disposals	(366)	(1,318)	(2,983)	–	(4,667)	(2,365)
End of year	3,155	9,603	29,401	2,966	45,125	39,096
<b>Accumulated depreciation</b>						
Beginning of year	2,765	3,716	15,064	339	21,884	16,177
Provision for the year	210	1,858	3,432	362	5,862	7,321
Disposals	(366)	(1,203)	(1,020)	–	(2,589)	(1,614)
End of year	2,609	4,371	17,476	701	25,157	21,884
<b>Net book value</b>						
End of year	546	5,232	11,925	2,265	19,968	17,212
Beginning of year	756	6,286	9,285	885	17,212	16,788

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 11. PROPERTIES UNDER DEVELOPMENT

Movements of properties under development (consolidated) were:

	2001			2000	
	Construction-in-progress Land (i) \$'000	Construction expenditures \$'000	Amount paid to purchase office premises (ii) \$'000	Total \$'000	Total \$'000
Beginning of year	11,377	13,208	18,318	42,903	–
Additions	24,651	31,884	2,865	59,400	42,903
End of year	<u>36,028</u>	<u>45,092</u>	<u>21,183</u>	<u>102,303</u>	<u>42,903</u>

Notes –

- (i) The leasehold land is located in Shenzhen, Guangdong Province, Mainland China, held under a land use right for a period of 50 years up to July 2051 and mortgaged as collateral for the Group's banking facilities (see Note 27).
- (ii) The office premises are located in Shenzhen, Mainland China, and will be used as a research and development centre of the Group. The Group has taken physical occupancy of these premises subsequent to 31st December, 2001. These office premises are mortgaged as collateral for the Group's banking facilities (see Note 27).

### 12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consists of:

	2001 \$'000	2000 \$'000
Unlisted shares	74,775	74,698
Due from subsidiaries	192,510	133,387
Due to subsidiaries	(3,682)	–
	<u>263,603</u>	<u>208,085</u>
Less: Provision for impairment in value	(93,500)	(39,798)
	<u>170,103</u>	<u>168,287</u>

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. INVESTMENT IN SUBSIDIARIES (Cont'd)

The amounts due from/to subsidiaries are unsecured and non-interest bearing. The Company has agreed not to demand repayment of the amounts due from the subsidiaries until the subsidiaries are financially capable to do so. The amounts due to subsidiaries are not repayable before 1st January, 2003.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than their carrying value as at 31st December, 2001.

Details of the subsidiaries as at 31st December, 2001 are:

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Netboss Management Limited	British Virgin Islands	US\$1	100%	Investment holding
Shenzhen SYSCAN Smart Imaging System Co., Ltd. (ii)	Mainland China	US\$1,000,000	100%	Manufacture and sale of imaging products
SYSCAN Holdings Limited	British Virgin Islands	US\$3	100%	Investment holding
SYSCAN Image Communication Holdings Limited	British Virgin Islands	US\$24,500	100%	Investment holding
SYSCAN Imaging Limited	British Virgin Islands	US\$1	100%	Investment holding
SYSCAN Inc.	California, United States of America	–	100%	Design, development and marketing of image sensor modules
SYSCAN InterVision Limited	Hong Kong	\$15,000,000	100%	Trading of imaging products
SYSCAN Lab., Limited	Hong Kong	\$10,000	100%	Design and development of image sensor modules
SYSCAN Laser Technology Limited	British Virgin Islands	US\$1	100%	Investment holding
SYSCAN Manufacturing Limited	British Virgin Islands	US\$1	100%	Investment holding

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group (i)	Principal activities
SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. (iii)	Mainland China	US\$6,000,000	100%	Manufacture and sale of image sensor modules
SYSCAN Research Limited	British Virgin Islands	US\$10,000	100%	Investment holding
SYSCAN Technology (Shenzhen) Co., Ltd. (iv)	Mainland China	US\$10,000,000	100%	Design, development, manufacture and sale of optoelectronic products
SYSCAN Venture Capital Limited	British Virgin Islands	US\$1	100%	Investment holding

Notes –

- (i) SYSCAN Holdings Limited, SYSCAN Imaging Limited and SYSCAN Research Limited are held by the Company directly. All other subsidiaries are held by the Company indirectly.
- (ii) Shenzhen SYSCAN Smart Imaging System Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 30 years up to 2031.
- (iii) SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 15 years up to 2009.
- (iv) SYSCAN Technology (Shenzhen) Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 20 years up to 2021.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2001.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. LONG-TERM INVESTMENTS

Long-term investments (consolidated) consist of:

	2001 \$'000	2000 \$'000
Grandview Investments Group Limited (i)	16,720	16,720
CMOS Sensor Inc. (ii)	4,662	–
Shenzhen Guocheng Venture Capital Co., Ltd. (iii)	4,673	–
Han's Laser Science & Technology Co., Ltd. (iv)	–	9,346
SYSCAN Image Communication Holdings Limited (formerly known as Wealthy Circle Limited) (v)	–	3,824
Chinese collectibles (vi)	2,507	2,885
	<u>28,562</u>	<u>32,775</u>

Notes –

- (i) In October 2000, the Group acquired a 22% equity interest in Grandview Investments Group Limited, an investment holding company incorporated in the British Virgin Islands. Grandview Investments Group Limited has an effective equity interest of approximately 30.6%, through several intermediate holding companies, in a cooperative joint venture incorporated in Hubei Province, Mainland China, which is principally engaged in the operation and management of two toll roads in that Province. In December 2001, the Group entered into an agreement to sell its entire 22% equity interest in Grandview Investments Group Limited at a consideration of \$19,228,000. Approximately \$1,672,000 of the sales consideration was received in January 2002, and the sale will be completed by April 2002.
- (ii) In August 2001, the Group acquired a 9.7% equity interest in CMOS Sensor Inc., a company incorporated in California, the United States of America, which is principally engaged in the research and development of infra-red sensors and CMOS sensors.
- (iii) In November 2001, the Group acquired a 7.3% equity interest in Shenzhen Guocheng Venture Capital Co., Ltd., a company incorporated in Shenzhen, Mainland China, which is principally engaged in investment in enterprises in the optoelectronics industry.
- (iv) In October 2000, the Group paid a deposit of approximately \$9,346,000 to acquire a 49% equity interest in Han's Laser Science & Technology Co., Ltd., a company established in Shenzhen, Mainland China, which is principally engaged in the manufacturing of laser marking systems. During the year, the Group paid an additional deposit of approximately \$6,542,000 in respect of the acquisition and advanced a total of approximately \$25,000,000 to Han's Laser Science & Technology Co., Ltd. and its shareholders.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. LONG-TERM INVESTMENTS (Cont'd)

In June 2001, the Group entered into an agreement with Han's Laser Science & Technology Co., Ltd. and its shareholders to terminate the acquisition. Consequently, the Group received refunds of the deposits and loans, plus compensation of approximately \$3,980,000.

- (v) In December 2000, the Group entered into an agreement with Tri Gear Technology Development Co., Ltd. and Global Expert Holdings Co., Ltd. whereby the Group agreed to establish a joint venture with Tri Gear Technology Development Co., Ltd. and Global Expert Holdings Co., Ltd. through the subscription for 25,500 ordinary shares of \$1 each in SYSCAN Image Communication Holdings Limited ("SICH"; formerly known as Wealthy Circle Limited), a company incorporated in the British Virgin Islands which is principally engaged in the manufacturing of optoelectronic products. The 25,500 ordinary shares represented approximately 51% of the enlarged share capital of SICH and a deposit of approximately \$3,824,000 was paid by the Group in December 2000 in respect of the subscription for the 25,500 ordinary shares in SICH.

During the year, the Group entered into another agreement with Tri Gear Development Co., Ltd. and Global Expert Holdings Co., Ltd. to terminate the joint venture and to acquire the 24,500 shares in SICH then owned by them at no consideration. Thereafter, SICH became a wholly owned subsidiary of the Group.

- (vi) The Group has invested in certain Chinese collectibles.

The Company's Directors are of the opinion that the underlying value of the long-term investments is not less than their carrying value as at 31st December, 2001.

### 14. INVENTORIES

Inventories (consolidated) consist of:

	2001 \$'000	2000 \$'000
Raw materials	9,919	14,335
Work-in-progress	7,774	1,164
Finished goods	19,675	16,243
	<b>37,368</b>	31,742
Less: Provision for obsolete and slow-moving inventories	<b>(21,199)</b>	(6,070)
	<b>16,169</b>	25,672

As at 31st December, 2001, inventories of approximately \$12,005,000 (2000 – Nil) were stated at net realisable value.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. TRADE RECEIVABLES

The Group normally grants to its customers credit periods ranging from one to three months. Aging analysis of trade receivables (consolidated) is as follows:

	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
0 to 1 month	<b>3,766</b>	3,418
1 to 2 months	<b>89</b>	24
2 to 3 months	<b>756</b>	2,195
3 to 6 months	<b>16</b>	736
6 to 12 months	<b>50</b>	5,583
12 to 18 months	<b>354</b>	–
18 to 24 months	<b>1,566</b>	–
	<b>6,597</b>	11,956
Less: Provision for bad and doubtful trade receivables	<b>(1,909)</b>	(2,048)
	<b>4,688</b>	9,908

### 16. DUE FROM A DIRECTOR

Details of the amount due from a director (consolidated) are:

Name	<b>2001</b>	2000	Maximum amount outstanding during the year
	<b>\$'000</b>	\$'000	\$'000
Mr. Darwin Hu	–	1	1

### 17. CASH AND BANK DEPOSITS

As at 31st December, 2001, approximately \$38,571,000 (2000 – \$9,995,000) of the Group's cash and bank deposits (including pledged bank deposits) were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 18. SHORT-TERM BANK LOANS

All of the Group's short-term bank loans were denominated in Chinese Renminbi. As at 31st December, 2001, the short-term bank loans bore interest at rates ranging from 4.9% to 5.9% per annum. Refer to Note 27 for the Group's banking facilities.

### 19. TRADE PAYABLES

Aging analysis of trade payables (consolidated) is as follows:

	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
0 to 1 months	<b>1,396</b>	1,487
1 to 2 months	<b>64</b>	504
2 to 3 months	<b>210</b>	230
3 to 6 months	<b>19</b>	26
6 to 12 months	–	906
	<b>1,689</b>	3,153



## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. SHARE CAPITAL

Movements of share capital were:

	2001		2000	
	Number of shares '000	Amount \$'000	Number of shares '000	Amount \$'000
<b>Authorised</b>				
(i) Ordinary shares				
Beginning of year	<b>2,000,000</b>	<b>200,000</b>	–	–
Upon incorporation of the Company	–	–	1,200	93
Increase in authorised share capital	–	–	98,800	7,657
Redenomination from US\$0.01 each to \$0.1 each	–	–	(22,500)	–
Increase in authorised share capital	–	–	1,282,180	128,218
Conversion from preferred shares	–	–	640,320	64,032
End of year	<b>2,000,000</b>	<b>200,000</b>	<b>2,000,000</b>	<b>200,000</b>
(ii) Preferred shares				
Beginning of year	–	–	–	–
Increase in authorised share capital	–	–	65,000	5,038
Redenomination from US\$0.01 each to \$0.1 each	–	–	(14,625)	–
Increase in authorised share capital	–	–	589,945	58,994
Conversion to ordinary shares	–	–	(640,320)	(64,032)
End of year	–	–	–	–

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. SHARE CAPITAL (Cont'd)

	2001		2000	
	Number of shares '000	Amount \$'000	Number of shares '000	Amount \$'000
<b>Issued and fully paid</b>				
(i) Ordinary shares				
Beginning of year	<b>888,865</b>	<b>88,887</b>	–	–
Issue of shares	–	–	1,200	–
Redenomination from US\$0.01 each to \$0.1 each	–	–	(270)	–
Shares issued upon the Reorganisation (Note 28)	–	–	5,948	595
Repurchase of shares	–	–	(930)	–
Conversion from preferred shares	–	–	39,822	3,982
Issue of shares through placing (i)	<b>132,000</b>	<b>13,200</b>	152,000	15,200
Capitalisation of share premium	–	–	690,039	69,004
Issue of shares through exercise of employee share options (ii and Note 21)	<b>1,691</b>	<b>169</b>	1,056	106
End of year	<b>1,022,556</b>	<b>102,256</b>	888,865	88,887
(ii) Preferred shares				
Beginning of year	–	–	–	–
Shares issued upon the Reorganisation (Note 28)	–	–	39,822	3,982
Conversion to ordinary shares	–	–	(39,822)	(3,982)
End of year	–	–	–	–

Notes –

- (i) During the year, 132,000,000 (2000 – 152,000,000) ordinary shares of \$0.1 each were issued at \$0.122 (2000 – \$1.33) each through a placement for total consideration of \$16,104,000 (2000 – \$202,160,000), and the related share issuance expenses amounted to approximately \$139,000 (2000 – \$19,197,000).
- (ii) During the year, 1,691,333 (2000 – 1,056,000) ordinary shares of \$0.1 each were issued pursuant to the Share Option Scheme A of the Company (see Note 21).

## 21. EMPLOYEE SHARE OPTIONS

The Company has two employee share option schemes, namely Share Option Scheme A and Share Option Scheme B.

Under Share Option Scheme A, the Company may grant options to employees of the Group (including directors of the Company) and consultants of the Group to subscribe for a maximum of 52,784,000 ordinary shares of \$0.1 each, at exercise prices ranging from \$0.02422 to \$0.04844 per ordinary share. Movements of the options under Share Option Scheme A during the year ended 31st December, 2001 were:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Number of shares			End of year
				Granted during the year	Lapsed during the year	Exercised during the year	
2nd March, 2000	2nd March, 2000 to 1st March, 2010	\$0.04844	44,392,000	-	(8,060,667)	(1,691,333)	34,640,000
2nd March, 2000	2nd March, 2000 to 1st March, 2010	\$0.02422	160,000	-	-	-	160,000
			<u>44,552,000</u>	<u>-</u>	<u>(8,060,667)</u>	<u>(1,691,333)</u>	<u>34,800,000</u>

Under Share Option Scheme B, the Company may grant options to employees of the Group (including directors of the Company) to subscribe for ordinary shares of \$0.1 each, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the nominal value of the ordinary shares, (ii) the average of the closing price of the ordinary shares quoted on the GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on the GEM on the date of grant, which must be a business day. Movements of the options under Share Option Scheme B during the year ended 31st December, 2001 were:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Number of shares			End of year
				Granted during the year	Lapsed during the year	Exercised during the year	
19th June, 2000	19th June, 2001 to 18th June, 2010	\$0.33	10,000,000	-	-	-	10,000,000
12th July, 2000	12th July, 2001 to 11th July, 2010	\$0.246	5,760,000	-	(280,000)	-	5,480,000
4th December, 2000	4th December, 2001 to 3rd December, 2010	\$0.1016	6,700,000	-	-	-	6,700,000
17th January, 2001	17th January, 2002 to 16th January, 2011	\$0.206	-	41,000,000	(1,350,000)	-	39,650,000
13th August, 2001	13th August, 2002 to 12th August, 2011	\$0.275	-	9,580,000	-	-	9,580,000
			<u>22,460,000</u>	<u>50,580,000</u>	<u>(1,630,000)</u>	<u>-</u>	<u>71,410,000</u>

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES

Movements were:

	Share premium \$'000	Contributed surplus (i) \$'000	Capital reserve (ii) \$'000	Statutory reserve fund (iii) \$'000	Cumulative translation adjustments \$'000	Total \$'000
<b>Consolidated</b>						
Balance as at 31st						
December, 1999	–	–	6,090	–	302	6,392
Effect of the						
Reorganisation (Note 28)	–	–	191,978	–	–	191,978
Premium on issuance						
of shares	186,960	–	–	–	–	186,960
Share issuance expenses	(19,197)	–	–	–	–	(19,197)
Capitalisation of						
share premium	(69,004)	–	–	–	–	(69,004)
Exercise of employee						
share options	(55)	–	–	–	–	(55)
Translation adjustments	–	–	–	–	518	518
Balance as at 31st						
December, 2000	98,704	–	198,068	–	820	297,592
Premium on issuance						
of shares (Note 20)	2,904	–	–	–	–	2,904
Share issuance expenses						
(Note 20)	(139)	–	–	–	–	(139)
Exercise of employee						
share options (Note 21)	(87)	–	–	–	–	(87)
Transfer from						
accumulated deficit	–	–	–	439	–	439
Translation adjustments	–	–	–	–	494	494
Balance as at 31st						
December, 2001	101,382	–	198,068	439	1,314	301,203

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES (Cont'd)

	Share premium \$'000	Contributed surplus (i) \$'000	Capital reserve (ii) \$'000	Statutory reserve fund (iii) \$'000	Cumulative translation adjustments \$'000	Total \$'000
<b>Company</b>						
Balance as at 31st December, 1999	-	-	-	-	-	-
Effect of the Reorganisation (Note 28)	-	70,121	-	-	-	70,121
Premium on issuance of shares	186,960	-	-	-	-	186,960
Share issuance expenses	(19,197)	-	-	-	-	(19,197)
Capitalisation of share premium	(69,004)	-	-	-	-	(69,004)
Exercise of employee share options	(55)	-	-	-	-	(55)
Balance as at 31st December, 2000	98,704	70,121	-	-	-	168,825
Premium on issuance of shares	2,904	-	-	-	-	2,904
Share issuance expenses	(139)	-	-	-	-	(139)
Exercise of employee share options	(87)	-	-	-	-	(87)
Balance as at 31st December, 2001	<u>101,382</u>	<u>70,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,503</u>

#### Notes –

- (i) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to a group reorganisation completed on 27th March, 2000 ("the Reorganisation") (see Note 28).
- (ii) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (see Note 28), and the difference between the consideration paid and the value of the net assets acquired upon the acquisition of a 100% equity interest in SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., a wholly owned subsidiary, by SYSCAN Inc., another wholly owned subsidiary.
- (iii) As stipulated by regulations in Mainland China, SYSCAN Technology (Shenzhen) Co., Ltd. is required to appropriate 10% of its after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50% of its capital and thereafter any further appropriation is optional.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES (Cont'd)

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

The Company has no reserves available for distribution to shareholders as at 31st December, 2001.

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of loss before taxation to net cash outflow from operating activities:

	2001	2000
	\$'000	\$'000
Loss before taxation	<b>(60,309)</b>	(39,921)
Dividend income	<b>(242)</b>	–
Compensation income	<b>(3,980)</b>	–
Gain on disposal of marketable securities	<b>(236)</b>	–
Gain on disposal of properties, machinery and equipment	<b>(2,779)</b>	–
Decrease (Increase) in inventories	<b>9,503</b>	(14,500)
Interest income	<b>(1,558)</b>	(7,415)
Interest expense	<b>2,248</b>	–
Depreciation of properties, machinery and equipment	<b>5,862</b>	7,321
Decrease (Increase) in trade receivables	<b>5,220</b>	(8,389)
Decrease (Increase) in prepayments, deposits and other receivables	<b>1,440</b>	(2,704)
Decrease in amount due from a director	<b>1</b>	77
Decrease in trade payables	<b>(1,464)</b>	(361)
(Decrease) Increase in amount due to directors	<b>(120)</b>	35
(Decrease) Increase in accruals and other payables	<b>(5,661)</b>	4,908
Net cash outflow from operating activities	<b>(52,075)</b>	(60,949)

**23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**

b. Analysis of changes in financing is as follows:

	<b>Share capital and share premium</b>	<b>Short-term bank loans</b>	<b>Total</b>
	\$'000	\$'000	\$'000
Balance as at 31st December, 1999	–	–	–
Shares issued upon the Reorganisation	4,577	–	4,577
Issue of shares through placing	202,160	–	202,160
Share issuance expenses	(19,197)	–	(19,197)
Exercise of employee share options	51	–	51
Balance as at 31st December, 2000	187,591	–	187,591
Issue of shares through placing (Note 20)	16,104	–	16,104
Share issuance expenses (Note 20)	(139)	–	(139)
Exercise of employee share options (Note 21)	82	–	82
New short-term bank loans	–	93,458	93,458
Balance as at 31st December, 2001	<u>203,638</u>	<u>93,458</u>	<u>297,096</u>

**24. EMPLOYEE RETIREMENT BENEFITS**

From 1st December, 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (“the MPF Scheme”), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of \$1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes approximately 9% (2000 – 6% to 19%) of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st December, 2001, the aggregate contributions of the Group to the aforementioned retirement benefit schemes were approximately \$422,000 (2000 – \$318,000). As at 31st December, 2001, there were no forfeitures available to offset the Group’s future contributions (2000 – Nil).

The other group companies did not have retirement benefit schemes for their employees.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. SEGMENT INFORMATION

#### a. Primary segment

The Group's business can be classified into three major segments – (i) the manufacturing and selling of optical image capturing devices (the "optical image capturing devices unit"); (ii) the manufacturing and selling of modules of optical image capturing devices (the "modules unit"); and (iii) the manufacturing and selling of chips and other optoelectronic products (the "chips and other optoelectronic products unit").

Analysis by business segment is as follows:

	2001 \$'000	2000 \$'000
Turnover		
– optical image capturing devices unit	17,878	25,454
– modules unit	14,596	6,050
– chips and other optoelectronic products unit	1,696	696
	<u>34,170</u>	<u>32,200</u>
Loss attributable to shareholders		
– optical image capturing devices unit	(31,558)	(31,563)
– modules unit	(25,764)	(7,502)
– chips and other optoelectronic products unit	(2,994)	(863)
	<u>(60,316)</u>	<u>(39,928)</u>
Depreciation and amortisation		
– optical image capturing devices unit	3,067	5,787
– modules unit	2,504	1,376
– chips and other optoelectronic products unit	291	158
	<u>5,862</u>	<u>7,321</u>
Capital expenditures		
– optical image capturing devices unit	36,674	40,631
– modules unit	29,942	9,657
– chips and other optoelectronic products unit	3,480	1,111
	<u>70,096</u>	<u>51,399</u>



## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. SEGMENT INFORMATION (Cont'd)

#### a. Primary segment (Cont'd)

	2001	2000
	\$'000	\$'000
Assets		
– optical image capturing devices unit	144,735	185,128
– modules unit	118,165	44,002
– chips and other optoelectronic products unit	13,730	5,062
	<u>276,630</u>	<u>234,192</u>
Liabilities		
– optical image capturing devices unit	(51,818)	(10,139)
– modules unit	(42,305)	(2,410)
– chips and other optoelectronic products unit	(4,916)	(277)
	<u>(99,039)</u>	<u>(12,826)</u>

#### b. Secondary segment

An analysis of turnover and loss attributable to shareholders by geographical location is as follows:

	2001	2000
	\$'000	\$'000
Turnover*		
– Malaysia	7,997	1,873
– Taiwan	6,794	145
– Hong Kong	5,679	9,175
– Mainland China	4,673	9,090
– Japan	4,241	105
– The United States of America	2,583	10,774
– Belgium	721	–
– Others	1,482	1,038
	<u>34,170</u>	<u>32,200</u>

\* Turnover by geographical location is determined mainly on the basis of the destination of delivery of merchandise.

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. SEGMENT INFORMATION (Cont'd)

#### b. Secondary segment (Cont'd)

	2001	2000
	\$'000	\$'000
Loss attributable to shareholders		
– Malaysia	<b>(14,116)</b>	(2,323)
– Taiwan	<b>(11,993)</b>	(180)
– Hong Kong	<b>(10,024)</b>	(11,377)
– Mainland China	<b>(8,249)</b>	(11,271)
– Japan	<b>(7,486)</b>	(130)
– The United States of America	<b>(4,559)</b>	(13,360)
– Belgium	<b>(1,273)</b>	–
– Others	<b>(2,616)</b>	(1,287)
	<b><u>(60,316)</u></b>	<b><u>(39,928)</u></b>

No analysis of capital expenditures by geographical location is presented as the majority of the Group's capital assets acquired during the year are located in Mainland China.

An analysis of the Group's assets by geographical location is as follows:

	2001	2000
	\$'000	\$'000
Assets		
– Mainland China	<b>225,460</b>	107,566
– Hong Kong	<b>35,706</b>	95,243
– The United States of America	<b>8,324</b>	19,066
– Taiwan	<b>7,140</b>	12,317
	<b><u>276,630</u></b>	<b><u>234,192</u></b>

## Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 26. COMMITMENTS

#### a. Capital commitments

Capital commitments (consolidated) not provided for in the financial statements are analysed as follows:

	2001 \$'000	2000 \$'000
Authorised and contracted for		
– construction of properties under development	12,182	–
– long-term investments	–	8,146
	12,182	8,146
Authorised but not contracted for		
– construction of properties under development	12,004	–
– purchase of land	–	5,553
	12,004	5,553
	<u>24,186</u>	<u>13,699</u>

#### b. Operating lease commitments

The Group has operating lease commitments in respect of premises under various non-cancellable operating lease agreements. The total commitments payable under these agreements are analysed as follows:

	2001 \$'000	2000 \$'000
Amounts payable		
– within one year	2,130	2,227
– between two and five years	1,875	47
	<u>4,005</u>	<u>2,274</u>

## Notes to the Financial Statements

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 27. BANKING FACILITIES

As at 31st December, 2001, the Group has bank loan facilities, which were fully utilised, of approximately \$93,458,000 (2000 – Nil). These facilities were secured by:

- (i) pledges of the Group's bank deposits of approximately \$38,850,000;
- (ii) pledges of the Group's leasehold land with a net book value of approximately \$36,028,000 (see Note 11); and
- (iii) pledges of the Group's office premises with an aggregate net book value of approximately \$21,183,000 (see Note 11).

### 28. COMPARATIVE FIGURES

On 27th March, 2000, the Company became the holding company of the other companies comprising the Group pursuant to the Reorganisation (see Note 22). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements for the year ended 31st December, 2000 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year, rather than from the date on which the Reorganisation was completed.