



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



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

Interim Report

2002

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

This report, for which the directors of 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.



SYSCAN Technology Holdings Limited

矽感科技控股有限公司*

(Incorporated in Bermuda with limited liability)

HIGHLIGHTS

The Group has recorded a turnover of approximately HK\$13.4 million and a net loss of approximately HK\$6 million for the six-month period ended 30 June 2002. The loss reduced by 63.3% when compared to the same period last year.

For the second quarter period ended 30 June 2002, the Group made a profit first time with a quarterly profit of approximately HK\$0.76 million.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

Facing a difficult market condition, the Group will continue to actively market the Group's products and services, supported by the Group's efforts in defending its patent rights from illegal infringement, and will take measures in reducing production and operation costs.

* for identification purposes only

FINANCIAL RESULTS

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30 June 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

Condensed Consolidated Income Statement

	Notes	For the three months ended June 30		For the six months ended June 30	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2, 10	2,982	8,510	13,406	22,927
Cost of sales		(2,931)	(5,289)	(10,195)	(13,509)
Gross profit		51	3,221	3,211	9,418
Other Income	3	9,554	-	10,025	-
Provision for bad and doubtful debts		-	(1,458)	-	(3,859)
Selling and marketing expenses		(2,662)	(1,628)	(4,862)	(3,056)
General and administrative expenses		(5,691)	(7,570)	(12,414)	(12,840)
Research and development expenses		(2,490)	(2,969)	(5,247)	(6,353)
Loss from operations		(1,238)	(10,404)	(9,287)	(16,690)
Interest income		368	417	2,442	1,007
Interest expense		(878)	(533)	(1,658)	(652)
Gain on disposal of a subsidiary		2,508	-	2,508	-
Profit/(Loss) before taxation	4	760	(10,520)	(5,995)	(16,335)
Taxation	5	-	-	(7)	(7)
Profit/(Loss) attributable to shareholders		760	(10,520)	(6,002)	(16,342)
Profit/(Loss) per share – Basic	6	HK0.07 cents	HK(1.06) cents	HK(0.59) cents	HK(1.74) cents
Dividend		-	-	-	-

Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2001 (Audited) <i>HK\$'000</i>	Movements <i>HK\$'000</i>	As at 30 June 2001 (Unaudited) <i>HK\$'000</i>
Share capital	88,887	13,200	102,087
Share premium	98,704	2,767	101,471
Capital reserve	198,068	–	198,068
Cumulative translation adjustments	820	(579)	241
Accumulated deficit	<u>(165,113)</u>	<u>(16,342)</u>	<u>(181,455)</u>
	<u>221,366</u>	<u>(954)</u>	<u>220,412</u>
	As at 1 January 2002 (Audited) <i>HK\$'000</i>	Movements <i>HK\$'000</i>	As at 30 June 2002 (Unaudited) <i>HK\$'000</i>
Share capital	102,256	8	102,264
Share premium	101,382	(4)	101,378
Capital reserve	198,068	–	198,068
Statutory reserve fund	439	–	439
Cumulative translation adjustments	1,314	469	1,783
Accumulated deficit	<u>(225,868)</u>	<u>(6,002)</u>	<u>(231,870)</u>
	<u>177,591</u>	<u>(5,529)</u>	<u>172,062</u>

Condensed Consolidated Balance Sheet

		As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
	Notes		
Non-current assets			
Intangible assets	7	912	–
Properties, machinery and equipment		42,729	19,968
Properties under development		107,447	102,303
Long-term investments		15,029	28,562
		<u>166,117</u>	<u>150,833</u>
Total non-current assets			
Current assets			
Inventories		15,645	16,169
Trade receivables	8	10,869	4,688
Prepayments, deposits and other receivables		10,730	3,586
Pledged bank deposits		38,850	38,850
Cash and bank deposits		73,911	62,504
		<u>150,005</u>	<u>125,797</u>
Total current assets			
Current liabilities			
Short-term secured bank loans		(139,623)	(93,458)
Trade payables	9	(2,131)	(1,689)
Due to directors		(3)	(125)
Accruals and other payables		(2,303)	(3,767)
		<u>(144,060)</u>	<u>(99,039)</u>
Total current liabilities			
Net current assets		<u>5,945</u>	<u>26,758</u>
Net assets		<u>172,062</u>	<u>177,591</u>
Capital and reserves			
Share capital		102,264	102,256
Reserves		301,668	301,203
Accumulated deficit		(231,870)	(225,868)
		<u>172,062</u>	<u>177,591</u>
Shareholders' equity			

Condensed Consolidated Cash Flow Statement

**For the six months
ended 30 June 2002
(Unaudited)
HK\$'000**

Net cash outflow from operating activities	(23,120)
Net cash outflow from investing activities	(11,642)
Net cash outflow before financing activities	(34,762)
Net cash inflow from financing activities	46,169
Increase in cash and bank deposits	11,407
Cash and bank deposits, beginning of the six-month period	62,504
Cash and bank deposits, end of the six-month period	73,911

Notes:

1. Basis of presentation

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" (the "Standard") issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). In this first year of implementation of the Standard, as permitted by the GEM Listing Rules, no comparative figures for the corresponding period of the preceding year have been presented for the condensed consolidated cash flow statement. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 December 2001.

The condensed interim financial statements are unaudited, but have been reviewed by the audit committee.

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

3. Other income

	For the three months ended June 30 (Unaudited)		For the six months ended June 30 (Unaudited)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Written back of other receivables	5,772	-	5,772	-
Compensation income	3,774	-	3,774	-
Sundries	8	-	479	-
	9,554	-	10,025	-

4. Profit/(Loss) before taxation

Profit/(Loss) before taxation was determined after charging (crediting):

	For the three months ended June 30 (Unaudited)		For the six months ended June 30 (Unaudited)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest income	(368)	(417)	(2,442)	(1,007)
Interest expense	878	533	1,658	652
Depreciation	1,593	1,612	3,077	3,060
Amortisation	24	-	31	-

5. Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period and the six-month period ended 30 June 2002 (2001: Nil).

The United States subsidiary 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 HK\$7,000 (2001: HK\$7,000), being the minimum amount for a company in a tax loss position.

No provision for Mainland China enterprise income tax was made as the Mainland China subsidiaries were exempted from 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 (2001: Nil).

No provision for Taiwan income tax was made as the Group had no assessable profit in Taiwan during the three-month period and the six-month period ended 30 June 2002 (2001: Nil).

There was no significant unprovided deferred taxation for the three-month period and the six-month period ended 30 June 2002 (2001: Nil).

6. Profit/(Loss) per share

The calculation of the basic profit/(loss) per share for the three-month period and the six-month period ended 30 June 2002 respectively were based on the unaudited profit attributable to shareholders of approximately HK\$760,000 (2001: loss of HK\$10,520,000) for the three-month period ended 30 June 2002 and the unaudited loss attributable to shareholders of approximately HK\$6,002,000 (2001: loss of HK\$16,342,000) for the six-month period ended 30 June 2002 and on the weighted average number of approximately 1,022,643,000 shares (2001: 993,304,000 shares) in issue during the three-month period ended 30 June 2002 and approximately 1,022,637,000 shares (2001: 941,374,000 shares) in issue during the six-month period ended 30 June 2002.

No diluted profit/(loss) per share is presented as the outstanding employee share options are anti-dilutive.

7. Intangible assets

The amount represents the unamortised portion of software development fee at the end of the six-month period.

8. Trade receivables

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Trade receivables (net of provision)	<u>10,869</u>	<u>4,688</u>

The Group normally grants to its customers credit periods ranging from one to three months.

Aging analysis of trade receivables is as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current to 90 days	1,819	4,611
91 to 180 days	5,994	16
Over 180 days	<u>3,056</u>	<u>61</u>
	<u>10,869</u>	<u>4,688</u>

9. Trade payables

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Trade creditors	<u>2,131</u>	<u>1,689</u>

Aging analysis of trade payables is as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current to 90 days	1,649	1,670
91 to 180 days	37	19
Over 180 days	<u>445</u>	<u>-</u>
	<u>2,131</u>	<u>1,689</u>

10. Turnover and segment information

The Group's turnover and contribution to profit/(loss) before taxation for the six-month period from 1 January to 30 June 2002, analyzed by principal activity and geographical location, were as follows:

	Turnover		Contribution to profit/(loss) before taxation	
	From 1 January to 30 June 2002 (Unaudited) HK\$'000	From 1 January to 30 June 2001 (Unaudited) HK\$'000	From 1 January to 30 June 2002 (Unaudited) HK\$'000	From 1 January to 30 June 2001 (Unaudited) HK\$'000
a. By principal activity:				
- optical image capturing devices unit	5,306	11,103	1,271	4,561
- modules unit	7,199	11,806	1,724	4,850
- chips and other optoelectronic products unit	901	18	216	7
	13,406	22,927	3,211	9,418
Other income			10,025	-
Gain on disposal of a subsidiary			2,508	-
Interest income			2,442	1,007
Finance costs			(1,658)	(652)
Selling and marketing expenses			(4,862)	(3,056)
Provision for bad and doubtful debts			-	(3,859)
General and administrative expenses			(12,414)	(12,840)
Research and development expenses			(5,247)	(6,353)
Taxation			(7)	(7)
			(6,002)	(16,342)
b. By geographical location:				
- Fiji	194	-	47	-
- Korea	920	3	220	1
- Singapore	414	2,688	99	1,104
- Taiwan	957	579	229	238
- Hong Kong	1,423	2,760	341	1,134
- Mainland China	5,398	6,203	1,293	2,548
- Japan	947	504	227	207
- The United States of America	2,585	1,362	619	560
- Malaysia	-	8,071	-	3,315
- Others	568	757	136	311
	13,406	22,927	3,211	9,418
Other income			10,025	-
Gain on disposal of a subsidiary			2,508	-
Interest income			2,442	1,007
Finance costs			(1,658)	(652)
Selling and marketing expenses			(4,862)	(3,056)
Provision for bad and doubtful debts			-	(3,859)
General and administrative expenses			(12,414)	(12,840)
Research and development expenses			(5,247)	(6,353)
Taxation			(7)	(7)
			(6,002)	(16,342)

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three-month period and the six-month period ended 30 June 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Overview**

Facing a further demand slow-down in global IT markets, the Group's sales for the first half-year of 2002 decreased by almost 41.5% over the same period last year. The decrease in sales of optical image capturing devices was about 52% from the same period last year while the sales of modules decreased only about 39% from the same period last year. The Group recorded a turnover of approximately HK\$13.4 million and a net loss of approximately HK\$6 million for the six-month period ended 30 June 2002. The Group realized approximately HK\$12.1 million other revenue in the second quarter, which made the loss for the six-month period ended 30 June, 2002 reduced by 63.3% when compared to the same period last year. For the second quarter period ended 30 June 2002, the Group made a profit for the first time with a quarterly profit of approximately HK\$0.76 million as compared to the loss of approximately HK\$10.5 million in the same period last year.

For the three months ended 30 June 2002, the Group achieved sales of approximately HK\$2.98 million, representing a decrease of 65% from the same period last year. Due to: (1) the diseconomies of scale caused by a small sales volume in the second quarter; and (2) the price reduction of CIS modules, the unit cost of sales for 2nd quarter was sharply increased. As a result, the Group's gross margin was squeezed down to 1.7%. The Directors believe that the gross margin will be improved in the coming months as the sales volume, especially the sales volume of image capturing devices, will be increasing gradually.

For the three-month and the six-month periods ended 30 June 2002, the Group reduced its general and administrative expenses by 24.8% and 3.3% respectively over the same periods last year.

During the second quarter, the Group launched the educational kit, "Card King", in Mainland China on a trial basis based on the Group's CIS technology and the 2-D bar code technology. The trial sale was a success and generated good market demand. The Group will formally launch the product of Card King in the third quarter of 2002.

Financially, the Group's current ratio was at 1.04 times. As at 30 June 2002, the Group had a total cash of approximately HK\$112.7 million, and the total bank loan was HK\$139.6 million.

For the six-month period, the Group completed the divestment of its equity interest in Grandview Investment Group Limited for a cash of HK\$19,228,000 compared with the initial investment of HK\$16,720,000. The Group increased its equity investment in CMOS Sensor, Inc. from 9.68% to 16.13% for a consideration of US\$400,000 (equivalent to approximately HK\$3,120,000).

The Group is negotiating with major IT players on product-marketing alliance or co-branding arrangements by leveraging the Group's technology and patented products. The Board believes such negotiation will bring positive impacts on the Group's sales in the coming years.

Facing a difficult market condition, the Group will continue to actively market the Group's products and services, supported by the Group's efforts in defending its patent rights from illegal infringement, and will take measures in reducing production and operation costs.

Research and development

During the six-month period ended 30 June 2002, the Group made adjustments in the focus of the Group's research and development whereby the Group's research and development is mainly conducted in Shenzhen, China, and coordinated in Hong Kong and supported by Silicon Valley, USA. In addition, development efforts have focused on projects and products that can bring immediate sales and revenues. As a result, the Group's research and development costs for the three-month and the six-month periods ended 30 June 2002 were reduced by 16.1% and 17.4% respectively from the same period last year while maintaining the quality of the Group's research and development.

For the six-month period ended 30 June 2002, the Group completed development of high-speed CIS A4 module for lottery machines, and high-speed A6 CIS module for banking machines. The Group continued its efforts in refining CIS-based educational kits, ID card verification machines, PDA and mobile phone-related image input devices, developing A3 high-speed sensor chips, CIS modules, and CIM chips.

Production

The Group's production process was smooth but the sharp drop in orders has made the Group's production capacity not fully utilized. As a result, the unit cost of sales was increased dramatically which eroded the Group's gross margin. The Group is planning to adjust its production capacity in line with the market conditions in the coming months.

Sales and Marketing

The Group has put more effort and resources into sales and marketing activities. The Group participated in three major IT shows: Cebit in Germany, Comdex in Beijing, and Computex in Taipei. In addition, the Group hired more IT sales veterans to strengthen its sales team. During the second quarter, the Group launched the

educational kit, "Card King", on a trial basis in Mainland China based on the Group's CIS technology and the 2-D bar code technology. The trial sale was a success and generated good market demand. The Group will formally launch the product of Card King in the third quarter of 2002. The Group has started selling its newly developed high-speed CIS modules for lottery machines in Korea.

Although further slow-down in demand for the Group's products has caused the Group's sales to decrease, the Group's effort in negotiating with IT manufacturers and distributors to form product-marketing alliance or co-branding arrangements have been very encouraging. The Group is expecting the results of negotiations to have very positive impacts on the Group's sales in the coming years. The Group will continue to actively leverage its technology advantage as well as its patents over its products.

New Manufacturing Base – SYSCAN Hi-Tech Park

The Group had completed the construction of the Phase I development of the Group's new manufacturing base, namely SYSCAN Hi-Tech Park, by the end of 30 June 2002. All the production facilities in its rented factory have been moved into the new factory in SYSCAN Hi-Tech Park in late July 2002.

Investment/Divestment and Acquisition

For the six-month period ended 30 June 2002, the Group has successfully completed the divestment of its equity interest in Grandview Investment Group Limited for cash totaling HK\$19,228,000 as compared to the initial investment of HK\$16,720,000.

In order to strengthen the Group's competitive edge in linear CIS technology, the Group increased its investment in CMOS Sensor, Inc. by acquiring additional 500,000 preferred shares in CMOS Sensor, Inc. through an intermediate holding company for a consideration of US\$400,000 (equivalent to approximately HK\$3,120,000). After the acquisition, the Group's holding in CMOS Sensor, Inc.'s equity has increased from 9.68% to 16.13%.

Financial Resources and Liquidity

As at 30 June 2002, the Group had a cash balance of approximately HK\$73,911,000 and a pledged bank deposit of HK\$38,850,000. The RMB-denominated total bank borrowing was HK\$139,623,000, secured by the Group's land use right, pledged deposits and the Group's office premises in Shenzhen. Five one-year term loans of RMB20,000,000 each will mature in July, October and November 2002 and April, June 2003 respectively. According to an agreement with Bank of China, Shenzhen Branch, it will provide a credit line of RMB120 million, subject to entering a loan agreement for each drawdown. The interest rates are from 4.5% p.a. to 5.9% p.a.

As at 30 June 2002, the total current assets over the total current liabilities was 1.04 times. The ratio of all liabilities to total assets was about 45.6%.

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

As at 30 June 2002, the Group has no contingent liability as the Directors are aware.

Intellectual Property and Legal Action

The Directors believe that the intellectual property is an important asset of the Group as our revenue is based on the fruits of years of vigorous research and development as well as marketing efforts. As of 30 June 2002, the Group had over 30 trademarks, product names and logos registered in different countries and regions, of which 7 trademarks have been approved. As of 30 June 2002, the Group had been granted 28 patents and 89 patents filed in different countries and regions under processing.

The sales of the Group's system products have been seriously damaged by pirated products. Based on the analysis and recommendation of intellectual property legal and litigation experts, the Group launched legal action in the US against Antec, Inc. ("Antec"), a suspected seller and distributor of the pirated products that infringed the Group's US Patent No. 6,275,309 for Lightweight Mobile Scanners (the "309 Patent"). Similar actions against suspected manufacturers, sellers and distributors that infringe the Group's patents would be carried out in Mainland China and Taiwan.

In the settlement of the lawsuit against Antec, Antec acknowledged that it had infringed upon the Group's 309 Patent. Antec further acknowledges and recognizes that the Group is and has been at all time the owner of 309 Patent, and is possessed of the entire right, title and interest in and to the 309 Patent. In a settlement agreement made on 24 July 2002, Antec agreed to immediately cease from selling, carrying, making, using and marketing Attaché USB Color Scanner or any other portable/mobile scanners that bear the claims of the Group's patent while the Group retains the right to claim for compensation of damages. The success of this lawsuit is very meaningful to the Group that we have successfully defended our patent in the US, a country where intellectual property is highly recognized and where about 31% of the Group's sales were generated in 2001.

The Directors believe that legal actions will help to stop the patent-violators from selling and distributing the pirated products in direct competition with the Group. The Group will have no hesitation in taking appropriate action if we suspect other infringement cases.

Employees

As at 30 June 2002, the Group has approximately 210 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

Facing a difficult market condition, the Group will continue to actively market the Group's products and services, supported by the Group's efforts in defending its patent rights from illegal infringement, and will take measures in reducing production and operation costs.

The Group is currently negotiating with major IT players in product marketing and co-branding sales arrangement as well as other ways of cooperation by leveraging the Group's patents over its products. The Group is expecting the result of negotiations will be very positive to the Group's sales in the coming years.

The Group is also actively developing and introducing new product lines into its sales channels in order to increase the Group's sales and improving its gross margin.

The Group continues to actively reduce its operating cost. Effective from 1 July 2002, the Directors' monthly remuneration was temporarily reduced by 50% and the salary of the Group's senior management was temporarily reduced by 20%. The reduction amount can be paid to the Directors and senior management if and only if the Group become break-even for the whole fiscal year of 2002. The Group is evaluating other measures in reducing its operating overheads.

The Group will continue its efforts in defending its patents for the purpose of increasing the Group's products sales through various legal actions.

The Group is actively negotiating with various investors and business partners on developing Phase II and Phase III of SYSCAN Hi-Tech Park.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As described in the Prospectus dated 10 April 2000 (the "Prospectus"), due to the nature of the information and technology industry in which the Group is engaged in and the rapid evolving nature of technological innovations and trends, the Directors consider it not practical and meaningful to describe the Group's business objectives on a bi-annual basis for the period from 1 January 2002 to 31 December 2002. However, a general description of business plan has been set out for the period from 1 January 2002 to 31 December 2002 in the Prospectus. As also described in the Prospectus, no funds out of the proceeds from Placing have been allocated for completion of the aforesaid business plan for the period from 1 January 2002 to 31 December 2002.

Business objectives as stated in the Prospectus

Actual business progress/change in business objectives

Research & Development

Complete the engineering prototype of the improved CIS sensor chip and low cost CIM sensor chip.

The Group's development of high speed CIS sensor progressed as planned. The CIS wafers are under testing. The development of low-cost CIM sensor chip was again delayed. The Group is testing the wafer to investigate ways of improvement.

Launch further imaging system products

CIS and 2-D bar code technology based imaging system product of educational kit (Card King) was launched in China on a trial basis. Refining and improving development are progressing as planned.

Develop further imaging system products

The development of imaging system products for PDA and mobile phones is in progress as planned.

Approximately HK\$5.25 million (funded out of the balance of proceeds of the Placing of approximately HK\$37.2 million allocated for research and development ("R&D")) has been incurred for R&D activities for the six-month period ended 30 June 2002. The remaining balance will be applied to complete the remaining R&D activities and used as working capital.

Business objectives as stated in the Prospectus**Actual business progress/change in business objectives***Production*

Explore expansion opportunities for the Company's production capacity by licensing production technology to external alliance or strategic partners.

Due to the severe delay in CIM development, the production expansion plan through licensing production technology has not implemented. The Group relocated the relevant fund for completing Phase I of the Group's new manufacturing base in Shenzhen.

For the six-month period ended 30 June 2002, approximately HK\$25.56 million has been incurred for the completion of Phase I development of the Group's new production base. The financing of the above activities was partly funded by the remaining balance of proceeds of the Placing of approximately HK\$17.1 million allocated for production and partly by bank borrowings.

Sales and marketing

Begin product rollout for the improved CIS sensor.

The testing of the high-speed CIS sensor has delayed its sales. The Group plans to sell the sensor through its high-speed CIS modules instead of the sensor itself.

Marketing focus on increasing module sales to facsimile equipment, scanner and MFP manufacturers.

Even though the sales of CIM modules to scanner manufacturers were not realized due to the severe delay in CIM development, the sale of CIS modules to facsimile and MFP manufacturers has already started.

For the six-month period ended 30 June 2002, approximately HK\$4.86 million has been incurred for the sales and marketing activities. The financing of the above activities was partly funded by the remaining balance of proceeds of the Placing of approximately HK\$3.1 million allocated for sales and marketing and partly by bank borrowing. The Board presently believes that the Group has sufficient sources of funding for the completion of the aforesaid plans after taking into account the credit line the Group has with banks.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SECURITIES

Interest in Share Capital

As at 30 June 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 to 5.59 of the GEM Listing Rules, the interests of Directors, chief executive and their associates in shares of the Company were as follows:

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 <i>(Note 3)</i>	-	110,300,000	10.79%
Mr. Darwin Hu	38,400,000	16,156,000 <i>(Note 1)</i>	-	-	54,556,000	5.33%
Mr. Joseph Liu	19,200,000	52,800,000 <i>(Note 2)</i>	-	-	72,000,000	7.04%
Mr. Zhang Hongru	-	-	4,176,000 <i>(Note 4)</i>	-	4,176,000	0.41%

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, as at 30 June 2002, none of the Directors, chief executive or their associates had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

Interest in Share Options

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

Share Option Scheme A ceased to be effective (save for the options granted) upon the listing of the Company on 14 April 2000. At the annual general meeting of the Company held on 26 April 2002, shareholders of the Company have approved the adoption of a new Share Option Scheme C and the termination of Share Option Scheme B.

Since its adoption and up to 30 June 2002, no options have been granted to the Directors of the Company under both Share Option Scheme A and Scheme C.

Details of the options granted to the Directors of the Company under Share Option Scheme B since its adoption and up to 30 June 2002 were as follows:

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price per share	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options lapsed	No. of underlying shares comprising the options outstanding
Mr. Cheung Wai	19/6/2000	19/6/2001 to 18/6/2010	HK\$0.33	5,000,000	-	-	5,000,000
Mr. Darwin Hu	19/6/2000	19/6/2001 to 18/6/2010	HK\$0.33	5,000,000	-	-	5,000,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$0.206	18,000,000	-	-	18,000,000
Mr. Zhang Hongru	4/12/2000	4/12/2001 to 3/12/2010	HK\$0.1016	5,000,000	-	-	5,000,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$0.206	4,000,000	-	-	4,000,000
				37,000,000	-	-	37,000,000

Directors' and Chief Executive's Rights to Acquire Securities

Save for Share Option Scheme A, Scheme B and Scheme C (collectively the "Schemes"), as at 30 June 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate. None of the Directors, chief executive or their spouses or children under the age of 18 has any right to subscribe for the securities of the Company, or has exercised any such right.

SUBSTANTIAL SHAREHOLDERS

Save for the interests disclosed above in respect of Mr. Cheung Wai in the section "**DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SECURITIES**", as at 30 June 2002, 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.

OUTSTANDING SHARE OPTIONS

Other than the interests in share options disclosed above in respect of the Directors, as at 30 June 2002, details of the share options under the Schemes were as follows:

Scheme A

Class of optionees	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price per share	Beginning of year	Number of shares			Balance as at 30 June 2002
					Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
Directors, chief executive, management shareholder, substantial shareholders (Note 1)	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	2/3/2000	2/3/2000 to 1/3/2010	HK\$0.04844	22,880,000	-	(553,334)	(86,666)	22,240,000 (Note 2)
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	2/3/2000	2/3/2000 to 1/3/2010	HK\$0.04844	11,760,000	-	-	-	11,760,000
	2/3/2000	2/3/2000 to 1/3/2010	HK\$0.02422	160,000	-	-	-	160,000
				<u>34,800,000</u>	<u>-</u>	<u>(553,334)</u>	<u>(86,666)</u>	<u>34,160,000</u>

Notes:

1. Please refer to the sections "DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SECURITIES" and "SUBSTANTIAL SHAREHOLDERS" respectively for details in respect of the directors and substantial shareholders.
2. The weighted average closing price immediately before the date of exercise of options was HK\$0.1668.

Scheme B

Class of optionees	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price per share	Beginning of year	Number of shares			Balance as at 30 June 2002
					Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
Directors, chief executive, management shareholders, substantial shareholders (Note 1)	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	12/7/2000	12/7/2001 to 11/7/2010	HK\$0.246	5,480,000	-	(60,000)	-	5,420,000
	4/12/2000	4/12/2001 to 3/12/2010	HK\$0.1016	1,700,000	-	-	-	1,700,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$0.206	17,650,000	-	(850,000)	-	16,800,000
	13/8/2001	13/8/2002 to 12/8/2011	HK\$0.275	9,580,000	-	(680,000)	-	8,900,000
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	-	-	-	-	-	-	-	-
				<u>34,410,000</u>	<u>-</u>	<u>(1,590,000)</u>	<u>-</u>	<u>32,820,000</u>

Note:

- Please refer to the sections "DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SECURITIES" and "SUBSTANTIAL SHAREHOLDERS" respectively for details of the directors and substantial shareholders.

Scheme C

Class of optionees	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price per share	Beginning of year	Number of shares			Balance as at 30 June 2002
					Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
Directors, chief executive, management shareholders, substantial shareholders (Note 1)	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	14/5/2002	14/5/2003 to 13/5/2012	HK\$0.1412	-	35,160,000 (Note 2)	-	-	35,160,000
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	14/5/2002	14/5/2003 to 13/5/2012	HK\$0.1412	-	2,300,000	-	-	2,300,000
					- 37,460,000	-	-	37,460,000

Notes:

1. Please refer to the sections “**DIRECTORS’ AND CHIEF EXECUTIVE’S INTEREST IN SECURITIES**” and “**SUBSTANTIAL SHAREHOLDERS**” respectively for details of the directors and substantial shareholders.
2. The closing price immediately before the date of grant was HK\$0.14.

The Directors consider it inappropriate to value all the options that can be granted during the six-month period ended 30 June 2002 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 be meaningless and misleading to the shareholders.

Save as disclosed above, during the six-month period ended 30 June 2002, none of the Directors, employees and eligible optionees of the Company or its subsidiaries were granted share options to subscribe for shares in the Company.

INTERESTS OF SPONSOR

As at 30 June 2002, an employee of the Sponsor, BNP Paribas Peregrine Capital Limited, held 120,000 shares in the Company. Save as disclosed herein, 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.

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 2002, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six-month period ended 30 June 2002, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied throughout the six-month period the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rule 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 2 May 2000 with written terms of reference in compliance with the GEM Listing Rules. The Committee comprises two independent non-executive directors, namely Mr. Lo Wai Ming and Mr. Lo Hang Fong. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group.

The Committee (who were of the opinion that the preparation of the unaudited results for the six-month period ended 30 June 2002 complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made) has reviewed the Company's unaudited results for the six-month period ended 30 June 2002 and the draft of this announcement, and has provided advice and comments thereon.

By Order of the Board
SYSCAN Technology Holdings Limited
Cheung Wai
Chairman

Hong Kong, 13 August 2002