



SYSCAN Technology Holdings Limited

矽感科技控股有限公司

TravelScanner



*The Best Companion
for Mobile Office*



Portable Scanner



CIM technology

ANNUAL REPORT 2002

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Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Joseph Liu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lo Wai Ming
Lo Hang Fong

COMPANY SECRETARY

Chow Suk Han, *Caroline*

QUALIFIED ACCOUNTANT AND DEPUTY CHIEF FINANCIAL OFFICER

Chan Man Ching

COMPLIANCE OFFICER

Zhang Hongru

AUTHORISED REPRESENTATIVES

Cheung Wai
Darwin Hu

AUDIT COMMITTEE

Lo Wai Ming
Lo Hang Fong

AUDITORS

Charles Chan, Ip & Fung CPA Limited
Certified Public Accountants
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China Limited

SHARE REGISTRARS

Computershare Hong Kong Investor
Services 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 31 December				
	2002	2001	2000	1999	1998
	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	41,752	34,170	32,200	6,022	6,353
Cost of sales	(34,498)	(25,191)	(24,746)	(5,733)	(4,295)
Gross profit	7,254	8,979	7,454	289	2,058
Other revenue	18,756	8,795	7,415	1,337	–
Selling and distribution expenses	(13,338)	(5,958)	(7,054)	(4,350)	(1,446)
General and administrative expenses	(25,441)	(27,074)	(21,616)	(16,409)	(14,838)
Research and development expenses	(10,400)	(15,813)	(19,389)	(19,510)	(13,857)
Provision for obsolete and slow-moving inventories	–	(15,129)	(4,878)	–	(2,406)
Provision for bad and doubtful receivables	(1,151)	(11,861)	(1,853)	(195)	–
Loss from operations	(24,320)	(58,061)	(39,921)	(38,838)	(30,489)
Finance costs	(3,735)	(2,248)	–	–	–
Gain on disposal of interest in a subsidiary company	2,508	–	–	–	–
Loss before taxation	(25,547)	(60,309)	(39,921)	(38,838)	(30,489)
Taxation	(7)	(7)	(7)	(7)	(7)
Loss after taxation	(25,554)	(60,316)	(39,928)	(38,845)	(30,496)
Minority Interests	951	–	–	–	–
Loss attributable to shareholders	(24,603)	(60,316)	(39,928)	(38,845)	(30,496)
Dividend	–	–	–	–	–



Financial Summary*(Amounts expressed in Hong Kong dollars)***CONSOLIDATED BALANCE SHEETS**

	As at 31 December			
	2002	2001	2000	1999
	\$'000	\$'000	\$'000	\$'000
Intangibles assets	4,220	–	–	–
Properties, machinery and equipment	47,311	19,968	17,212	16,788
Properties under development	119,720	102,303	42,903	–
Long-term investments	16,589	28,562	32,775	–
Current assets	141,656	125,797	141,302	65,816
Current liabilities	(170,964)	(99,039)	(12,826)	(8,244)
Non current liabilities	(921)	–	–	–
Minority Interests	(4,530)	–	–	–
Net assets	<u>153,081</u>	<u>177,591</u>	<u>221,366</u>	<u>74,360</u>
Capital and reserves:				
Share capital	102,264	102,256	88,887	193,153
Reserves	301,288	301,203	297,592	6,392
Accumulated deficit	(250,471)	(225,868)	(165,113)	(125,185)
Shareholders' equity	<u>153,081</u>	<u>177,591</u>	<u>221,366</u>	<u>74,360</u>

Note:

- Pursuant to 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 Company became the holding company of the Group on 27 March 2000. The summary of consolidated balance sheet as at 31 December 1999 and the consolidated income statements for the years ended 31 December 1998, 1999 and 2000 were prepared as if the current group structure had been in existence throughout those years.

Chairman's Statement

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 31 December 2002.

TURNOVER AND PERFORMANCE

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$41,752,000 (2001: HK\$34,170,000), representing an increase of approximately 22.2%. The audited loss attributable to shareholders was approximately HK\$24,603,000 (2001: HK\$60,316,000), representing a decrease of approximately 59.2%.

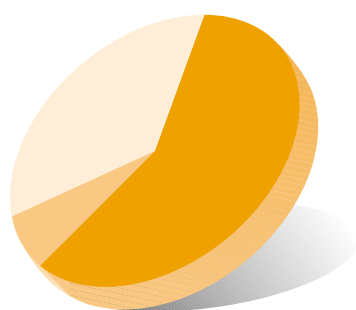
For the year ended 31 December 2002, the Group made other income of approximately HK\$18,756,000 (2001: HK\$8,795,000), representing an increase of approximately 113%. The turnover and revenue for the year ended 31 December 2002 reached approximately HK\$60,508,000 (2001: HK\$42,965,000), representing an increase of approximately 40.8% comparing with year 2001.




PROVISION AGAINST INVENTORIES AND RECEIVABLES

The Group's substantial growth in sales in the fourth quarter of 2002 of approximately HK\$21,267,000 indicated that the Group is getting better and better. The Group had sold out and used up a lot of old inventories during the fourth quarter as well. In view of the improvement in the consumption of old inventories, the Directors had written back HK\$10,000,000 from the overprovision of inventories made last year.

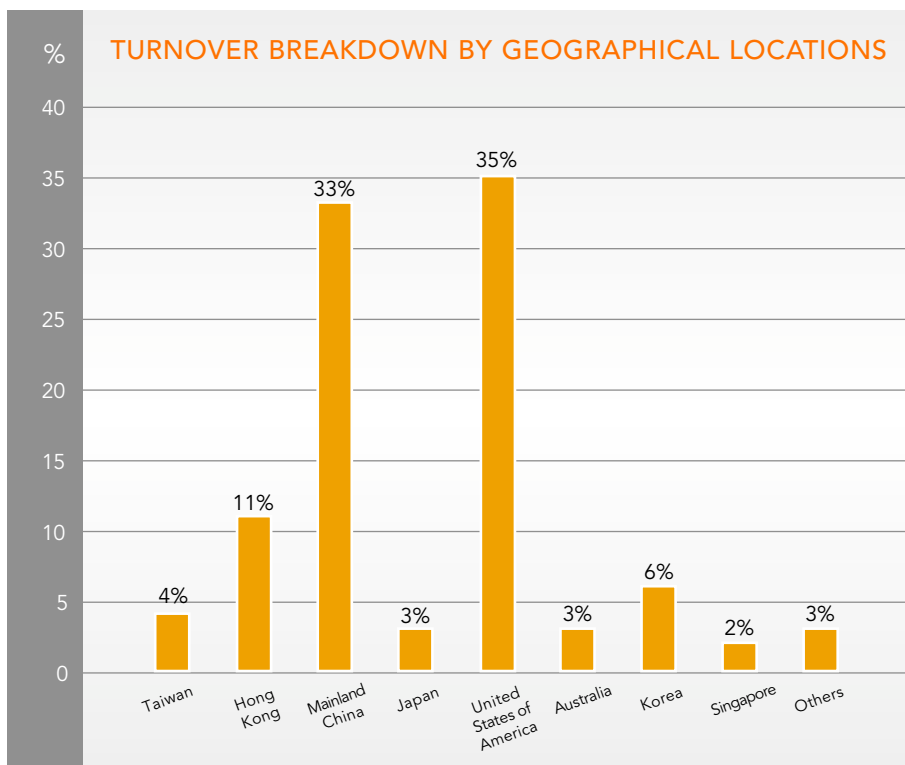


TURNOVER BREAKDOWN BY PRODUCTS



	59%	Optical image capturing devices
	8%	Modules of optical image capturing devices
	33%	Chips and other optoelectronic products

Chairman's Statement



PROSPECTS AND APPRECIATION

The year 2002 was a difficult year for the Group and the year ahead will continue to be challenging given the economic uncertainties. Nevertheless, the decrease in loss by 59.2% over last year was a very large encouragement to the Group. The most important task for the Group is to establish a stable revenue stream while maintaining stringent cost control. We will make our best efforts in developing our business to produce good financial results and better returns for our shareholders.

Finally, on behalf of the Board, I acknowledge with a deep sense of gratitude to my fellow Board members, management team, staff, audit committee and shareholders for their strong support and hard working during last year.

Cheung Wai
Chairman

Hong Kong, 25 March 2003

Management Discussion and Analysis

OVERVIEW

The Group's business is in the field of optical electronic industry, and is principally engaged in the design, research, development, manufacturing and distribution of optical image capturing devices and related components. The Group's turnover of approximately HK\$41,752,000 for the year 2002 increased by approximately 22.2% as compared to the turnover of HK\$34,170,000 last year. A change in the product mix had eroded the gross profit margin for the year 2002 from 26.3% in 2001 to 17.4% in 2002.

Loss attributable to shareholders for the year 2002 amounted to approximately HK\$24,603,000, which represents a decrease of loss of approximately 59.2% over the year of 2001 resulting from the Group's effort in promoting sales and in better controlling production cost, general and administrative expenses, and research and development expenses.

RESEARCH AND DEVELOPMENT

The Group reduced its research and development expenses by 34.2% as compared to year 2001 while maintaining its research and development team and quality during 2002.

For the year under review, the Group completed the development of high speed A4 CIS module for lottery machines, and high speed A6 CIS module for banking machines. Moreover, the development of the educational kit, "Card King" (developed on the basis of the Group's CIS technology and 2-D bar code technology) and the ID card verification machine was completed. The Group will continue to enhance its PDA and mobile phone-related image input devices, and to develop the A3 high speed sensor chips, CIS modules and CIM chips.

The Group has obtained three invention patents in the U.S. in respect to its TravelScan series, Lightweight Mobile Scanner, which will enable the Group to enjoy a competitive edge over its competitors.

PRODUCTION

The Group's production facilities was moved to its new manufacturing base in SYSCAN Hi-Tech Park in July 2002. In the fourth quarter of 2002, the Group finished the establishment of the assembly line for new imaging devices, LCD monitors and started its LCD assembly line production which, the Group believes, would improve the Group's turnover in the forthcoming year. The Group will continue to look for other projects that involve digital imaging technologies so as to maximize our production capacity in the Park.

SALES AND MARKETING

During the year 2002, the Group devoted more effort and resources into sales and marketing activities. It participated in four major IT shows: tradeshow in Italy, Cebit in Germany, Comdex in Beijing, and Computex in Taipei and launched advertisements in different newspapers, tradeshows and magazines in Mainland China and Hong Kong. In addition, the Group hired more IT sales veterans to strengthen its sales team.



Management Discussion and Analysis

SALES AND MARKETING (Cont'd)

The Group commenced the sale of its educational kit, "Card King", and launched the second generation of "Card King" and had already put into mass production. In addition, the Group started selling its newly developed high speed CIS modules for lottery machines in Korea.

The Group signed several OEM contracts with Founder Electronics Co., Ltd., and Visioneer Inc. to develop an extensive range of products based on its patented Lightweight Mobile Scanner technology.

The Group also signed co-development and co-branding marketing contracts with Wuhu PKU High-Tech Software Co., Ltd (武漢北大高科軟件有限公司) and Beijing TH-UNIS Wintone Info Technology (北京清華紫光文通信息技術有限公司), with the aim of selling different ID solutions to various sectors in Mainland China.

As the Group has started its sale of LCD monitors in Mainland China in the fourth quarter of 2002 that brought a positive growth in terms of sales turnover in Mainland China, the Group will continue to establish more sales offices and promotion programs in year 2003 for building up stable revenue stream.

NEW MANUFACTURING BASE – SYSCAN HI-TECH PARK

The Group completed the construction of Phase I development of the Group's new manufacturing base, SYSCAN Hi-Tech Park, by the end of June 2002. It is negotiating with various investors and business partners to develop Phase II and Phase III of the Park.

INVESTMENT/DIVESTMENT AND ACQUISITION

During the year under review, the Group has successfully completed the divestment of its equity interest in Grandview Investments Group Limited for cash totalling 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 further investment 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 equity interest in CMOS Sensor, Inc. has increased from 9.68% to 16.13%.

During the year 2002, the Group invested a total of US\$200,000 (equivalent to approximately HK\$1,560,000) in the preference stocks of GFG Asia Alliance Holdings Co., Ltd.

Moreover, the Group has signed an agreement with Shenzhen Hua Shi Xin Da Technology Development Co, Ltd. (深圳市華實信達科技發展有限公司) ("Hua Shi") to acquire 50% interests in Hua Shi by injecting RMB5,000,000 in Hua Shi. After Shenzhen Industry and Commerce Bureau's approval in the total amount of equity capital of Hua Shi, the Group's equity interest in Hua Shi has been adjusted from 50% to 59.9%.

Management Discussion and Analysis

INVESTMENT/DIVESTMENT AND ACQUISITION (Cont'd)

The Group will continue to look for opportunities with attractive valuations, good growth potential, quality management, and products or services where there is synergy with the Group's activities.

FINANCIAL RESOURCES AND LIQUIDITY

As of 31 December 2002, the Group had a cash balance of approximately HK\$32,586,000 and a pledged bank deposit of HK\$39,000,000. The RMB-denominated short term bank borrowings of approximately HK\$158,491,000, which was secured by the Group's land use right, pledged deposits and the Group's office premises in Shenzhen, will mature during the period from April to November 2003. The interest rates of these short term loans range from 4.5% p.a. to 5.9% p.a. The Group also has two RMB-denominated mortgage loans totalling HK\$1,048,000. These mortgage loans will mature in November 2007 and August 2012 respectively and their respective interest rates are 5.0% p.a. and 6.2% p.a.

As at 31 December 2002, the total current assets over the total current liabilities was 0.8 times. The ratio of all debts to total assets was about 48%.

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

As at 31 December 2002, the Group has no contingent liability as the Directors are aware.

INTELLECTUAL PROPERTY AND LEGAL ACTION

During the year 2002, the Group had over 41 trademarks, product names and logos registered in different countries and regions, of which 9 trademarks have been approved. As of 31 December 2002, the Group had been granted 35 patents and have 77 patents filed in different countries and regions under processing.

The sales of the Group's system products have been damaged by pirated products. Based on the analysis and recommendation of intellectual property legal and litigation experts, the Group has 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 will be taken 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 35% of the Group's sales were generated in 2002.



Management Discussion and Analysis

EMPLOYEES

As at 31 December 2002, the Group has 515 employees. The Directors believe that the quality of 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 PLANS AND PROSPECTS

Facing the difficult economic environment, the most important task for the Group is to explore different markets in order to increase revenue, supported by the Group's efforts in defending its patent rights from illegal infringement, and to take measures in reducing production and operation costs. The Group will strive to strengthening its sales and marketing team and developing new distribution channels as well as co-branding sales arrangement. The Group will actively develop and introduce new product lines into its sales channels in order to broaden its revenue base and improve its profit margin.

In addition, the Group intends to complete Phase II and Phase III construction of SYSCAN Hi-Tech Park in cooperation with various investors and business partners in coming future.

The Group is currently evaluating several ERP systems so that the management of the Group can manage and coordinate various function departments and resources of the Group in a more prompt and efficient manner.

Looking ahead, the Group is cautiously optimistic about its business in years to come. It will devote its best efforts in developing its business and maintaining stringent cost control.



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 is 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 the business plan has been set out for the period from 1 January 2002 to 31 December 2002. As described in the Prospectus, no funds out of the proceeds from Placing have been allocated for completion of the aforesaid business plan.

The following is a summary of the actual business objectives with the actual business progress for the year ended 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 development of high speed CIS sensor progressed as planned. The Group is testing the CIS wafer to investigate ways of improvement. The development of low-cost CIM sensor chip was again delayed.

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. Product refining and improvement 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\$10.40 million (funded out of the remaining balance of proceeds of the Placing of approximately HK\$37.20 million allocated for research and development ("R&D")) has been incurred for R&D activities for the year ended 31 December 2002. The remaining balance will be applied to complete the remaining R&D activities and used as working capital.

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 new manufacturing base in Shenzhen.

For the year ended 31 December 2002, approximately HK\$50.86 million has been incurred for the completion of Phase I development of the new production base. The financing of the above activities was partly funded by the remaining balance of proceeds of the Placing of approximately HK\$17.10 million allocated for production and partly by bank borrowings.



Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the Prospectus (Cont'd)

Actual business progress/change in business objectives (Cont'd)

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. The Group has started its sales on high speed A4 CIS module for lottery machines and high speed A6 CIS module for banking machines.

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 sales of CIS modules to facsimile and MFP manufacturers has already started.

For the year ended 31 December 2002, approximately HK\$13.34 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\$3.10 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.

Investments

During the year ended 31 December 2002, the Group has successfully completed the divestment of its equity interest in Grandview Investments Group Limited for cash totalling 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 further investment 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 equity interest in CMOS Sensor, Inc. has increased from 9.68% to 16.13%.

During the year 2002, the Group also invested a total of US\$200,000 (equivalent to approximately HK\$1,560,000) in the preference stocks of GFG Asia Alliance Holdings Co., Ltd.

Comparison of Business Objectives with Actual Business Progress

Moreover, the Group has signed an agreement with Shenzhen Hua Shi Xin Da Technology Development Co, Ltd. (深圳市華實信達科技發展有限公司) ("Hua Shi") to acquire 50% interests in Hua Shi by injecting RMB5,000,000 in Hua Shi. After Shenzhen Industry and Commerce Bureau's approval in the total amount of equity capital of Hua Shi, the Group's equity interest in Hua Shi has been adjusted from 50% to 59.9%.

The total investments made as of 31 December 2002 was approximately HK\$16,589,000 as compared to the planned amount of HK\$39,000,000 as stated in the Prospectus.



Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Cheung Wai, aged 52, 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 26 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 50, 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 20 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 40, is the compliance officer of the Group. Mr Zhang is responsible for the Group's corporate planning and investor's relationship of the Group. He has over 12 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 1 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 51, 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 23 years of corporate experience in high technology, direct investment and venture capital.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Lo Wai Ming, aged 51, is the founder and president of Greater China Asset Management Limited. Mr Lo has over 26 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 of the Chinese University of Hong Kong. He is also a member of the Chartered Institute of Marketing and Chartered Management Institute of the United Kingdom. Presently, he is also the director and general manager of SW China Strategic Holdings Limited. He was appointed as an independent non-executive director of the Company in 2000.

Profiles of Directors and Senior Management

Mr Lo Hang Fong, aged 39, 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 12 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 of the Company in 2001.

SENIOR MANAGEMENT

Mr William Hawkins, aged 47, 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 19 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 Chiang Kun-Yi, aged 44, is the President of the Group's manufacturing arm in Shenzhen, SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. ("SOT"), and is responsible for all the business operation and performance of SOT. He has over 21 years of extensive experience in product development, business development, factory operation, sales and marketing of color display monitors in the North America and Pacific regions. Before joining the Group in May 2002, Mr Chiang held various senior management positions in Kuo Feng Corporation, AOC International, and Ability (Canon) Enterprise Co., Ltd., where he has established good relationship with NEC, Toshiba and Cannon. Mr Chiang graduated from Electric Engineering Department of Hsin Pu Technology College, Taiwan.

Mr Zhang Fu, aged 39, is the General Manager of the Group's PRC subsidiary, Shenzhen SYSCAN Technology Co., Ltd. ("SST"), and is responsible for all the business operation and performance of SST. Mr Zhang has over 10 years of rich experience in the fields of optical instruments, optoelectronic technology, physical electronics & optoelectronic, fiber optic communication, automatic control, and electronic technology. Before joining the Group in August 2002, he was engaged in advanced research and development work and held senior management position at AFOP, a fiber optic communication company in Silicon Valley, USA, PIC, a semiconductor chip design company in Silicon Valley, USA, G.I. Electronics (Shenzhen) Co., Ltd., and Shanghai Institute of Technical Physics, Chinese Academy of Sciences. He holds a BS degree in Optical Instruments from Huazhong University of Science and Technology, Mainland China, and a MS degree in Optoelectronic Technology and a PhD degree in Physical Electronics & Optoelectronics from Chinese Academy of Sciences.



Profiles of Directors and Senior Management

Mr Wong Chung, John, aged 33, is the Deputy General Manager of SST, and is responsible for the business operations and sales and marketing performance in Asia-Pacific markets. Before joining the Group in May 2001, Mr Wong was the Deputy Managing Director of 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 Joseph Kung, aged 51, is the Vice-President of Engineering of SST, and is responsible for CIS module development and engineering, the sales and manufacturing support, and for existing product development. He has over 21 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 Huang Jungchih, aged 41, is the Vice-President of SI, and is responsible for system product engineering especially in software development, sales and manufacturing support and for existing product improvement. He has over 17 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 O₂ Micro, Inc. He holds a bachelor's degree in electrical engineering from Northwestern Polytechnic University, CA, USA.

Mr Chan Man Ching, aged 34, is the Qualified Accountant and Deputy Chief Financial Officer 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 10 years' experience in accounting and auditing. Mr Chan joined the Group in 2000.

Ms Chow Suk Han, Caroline, aged 33, 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 10 years' experience in company secretarial and corporate affairs in professional firms and listed companies. Ms Chow joined the Group in 2000.

Report of the Directors

The Directors 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 31 December 2002.

THE COMPANY

The Company was incorporated in Bermuda on 17 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 14 April 2000.

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 locations for the year ended 31 December 2002, are as follows:

	Turnover HK\$'000	Loss attributable to shareholders HK\$'000
a. By product category		
– optical image capturing devices	24,483	(14,427)
– modules of optical image capturing devices	3,476	(2,048)
– chips and other optoelectronic products	13,793	(8,128)
	<u>41,752</u>	<u>(24,603)</u>
b. By geographical locations*		
– Malaysia	1	(1)
– Taiwan	1,584	(933)
– Hong Kong	4,665	(2,749)
– Mainland China	13,531	(7,973)
– Japan	1,378	(812)
– The United States of America	14,738	(8,685)
– Australia	1,308	(771)
– Korea	2,461	(1,450)
– Singapore	941	(554)
– Others	1,145	(675)
	<u>41,752</u>	<u>(24,603)</u>

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

Report of the Directors

CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the five largest customers accounted for approximately 41% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 39% of the Group's total purchases. The largest customer accounted for approximately 21% of the Group's total turnover while the largest supplier accounted for approximately 11% 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 31 December 2002 are set out in the consolidated income statement on page 35 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately HK\$250,471,000 as at 31 December 2002 be carried forward.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 21 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 23 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 35 of this annual report.

As at 31 December 2002, the Company had 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 13 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 11 and 12 respectively to the accompanying financial statements.



Report of the Directors

BANK BORROWINGS

Particulars of bank borrowings as at 31 December 2002 are set out in Notes 18 and 20 to the accompanying financial statements.

EMPLOYEE RETIREMENT BENEFITS

Details of the Group's pension schemes are set out in Note 25 to the accompanying financial statements.

CONNECTED TRANSACTIONS

Details of connected transactions are set out in Note 27 to the accompanying financial statements.

During the year ended 31 December 2002, 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 8 January 2002 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\$18,000 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

Non-executive director

Mr Joseph Liu

Independent non-executive directors

Mr Lo Wai Ming
Mr Lo Hang Fong

The service contract with Mr Joseph Liu will expire on 31 March 2003. Both the Company and Mr Liu have agreed not to renew the contract. As such, Mr Liu shall cease to be the non-executive director of the Company effective from 1 April 2003.

In accordance with bye-law 99 of the Bye-Laws of the Company, Mr Zhang Hongru and Mr Lo Wai Ming will retire from office by rotation at the forthcoming annual general meeting ("AGM"). Mr Lo, being eligible, offer himself for re-election at the forthcoming AGM while Mr Zhang, being eligible, does not offer himself for re-election at the forthcoming AGM. Accordingly, Mr Zhang shall cease to be the executive director effective from the conclusion of the forthcoming AGM.

Taking this opportunity, the Board expresses on behalf of the Company great appreciation and gratitude to Mr Zhang Hongru and Mr Joseph Liu for their past contribution to the Group.



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, 1 April 2000 and in the case of Mr Zhang Hongru, 2 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 1 April 2000. His service contract will expire on 31 March 2003. Both the Company and Mr Liu have agreed not to renew the contract. Accordingly, Mr Liu shall cease to be the non-executive director of the Company effective from 1 April 2003.

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 case of Mr Lo Wai Ming, 1 March 2003 and, in the case of Mr Lo Hang Fong, 25 May 2001.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming AGM 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 31 December 2002, 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	10.78%
Mr Darwin Hu	38,400,000	16,156,000 (Note 1)	–	–	54,556,000	5.33%
Mr Joseph Liu	19,200,000	52,800,000 (Note 2)	–	–	72,000,000	7.03%
Mr Zhang Hongru	–	–	4,176,000 (Note 4)	–	4,176,000	0.41%

Report of the Directors

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 14 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 18 February 2000 and 26 February 2000 respectively. Pursuant to a group reorganization scheme, such shares in SYSCAN Inc. were converted into shares of the Company on 27 March 2000.



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

Share Option Scheme A ceased to be effective (save for the options already granted but unexercised) 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 31 December 2002, no options have been granted to the Directors of the Company under both Share Option Scheme A and Share Option Scheme C.

Report of the Directors

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

Details of the options granted to the Directors of the Company under Share Option Scheme B since its adoption and up to 31 December 2002 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	19 June 2000	19 June 2001 to 18 June 2010	HK\$0.33	5,000,000	-	-	-	5,000,000
Mr Darwin Hu	19 June 2000	19 June 2001 to 18 June 2010	HK\$0.33	5,000,000	-	-	-	5,000,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$0.206	18,000,000	-	-	-	18,000,000
Mr Zhang Hongru	4 December 2000	4 December 2001 to 3 December 2010	HK\$0.1016	5,000,000	-	-	-	5,000,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$0.206	4,000,000	-	-	-	4,000,000
				37,000,000	-	-	-	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 27 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

Save for the interests disclosed above in respect of Mr Cheung Wai in the section "DIRECTORS' INTERESTS IN SHARES", as at 31 December 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.

EMPLOYEE SHARE OPTIONS

The Company has three employee share option schemes, namely Share Option Scheme A, Share Option Scheme B and Share Option Scheme C (collectively "the Schemes").

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 2 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, 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 GEM.

Save as aforesaid, no further shares may be granted under Scheme A and Scheme A ceased to be effective upon the listing of the Company on the GEM on 14 April 2000, but the options which have been granted during the life of Scheme A shall continue to be exercisable in accordance with their terms of issue and in all other respects the provisions of Scheme A shall remain in full force and effect.

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 Schemes.



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 31 December 2002 were as follows:

Class of optionees	Date of grant	Exercise period	Subscription Price per share	Number of shares					End of year	
				Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year		
Directors, chief executive, management shareholder, substantial shareholder	-	-	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	2 March 2000	2 March 2000 to 1 March 2010	HK\$0.04844	22,880,000	-	(553,334)	(86,666)	-	-	22,240,000
Suppliers of goods and services	-	-	-	-	-	-	-	-	-	-
All other optionees	2 March 2000	2 March 2000 to 1 March 2010	HK\$0.04844	11,760,000	-	-	-	-	-	11,760,000
	2 March 2000	2 March 2000 to 1 March 2010	HK\$0.02422	160,000	-	-	-	-	-	160,000
				34,800,000	-	(553,334)	(86,666)	-	-	34,160,000

Note:

- The weighted average closing price immediately before the date of exercise of options was HK\$0.1668.

Report of the Directors

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 2 March 2000 pursuant to which options may be granted to the employees of the Group to subscribe for ordinary shares of HK\$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 Schemes.

At the annual general meeting of the Company held on 26 April 2002, shareholders of the Company have approved the termination of Scheme B (save for the options already granted but unexercised). Thereafter, no further shares may be granted under Scheme B and Scheme B ceased to be effective after 26 April 2002, but the options which have been granted during the life of Scheme B shall continue to be exercisable in accordance with their terms of issue and in all other respects the provisions of Scheme B shall remain in full force and effect.



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 31 December 2002 were as follows:

Class of optionees	Date of grant	Exercise period	Subscription Price per share	Number of shares					End of year
				Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year	
Directors, chief executive, management shareholder, substantial shareholder	19 June 2000	19 June 2001 to 18 June 2010	HK\$0.33	10,000,000	-	-	-	-	10,000,000
	4 December 2000	4 December 2001 to 3 December 2010	HK\$0.1016	5,000,000	-	-	-	-	5,000,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$0.206	22,000,000	-	-	-	-	22,000,000
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	12 July 2000	12 July 2001 to 11 July 2010	HK\$0.246	5,480,000	-	(810,000)	-	-	4,670,000
	4 December 2000	4 December 2001 to 3 December 2010	HK\$0.1016	1,700,000	-	-	-	-	1,700,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$0.206	17,650,000	-	(1,850,000)	-	-	15,800,000
	13 August 2001	13 August 2002 to 12 August 2011	HK\$0.275	9,580,000	-	(2,680,000)	-	-	6,900,000
Suppliers of goods and services	-	-	-	-	-	-	-	-	-
All other optionees	-	-	-	-	-	-	-	-	-
				71,410,000	-	(5,340,000)	-	-	66,070,000

Report of the Directors

EMPLOYEE SHARE OPTIONS (Cont'd)

Share Option Scheme C ("Scheme C")

(I) Summary of the terms of Scheme C

The purpose of Scheme C is to provide incentives or rewards to participants hereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest.

Scheme C was adopted by the Company at the annual general meeting held on 26 April 2002 pursuant to which options may be granted to participants to subscribe for ordinary shares of HK\$0.1 each, subject to, when aggregated under this scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue 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.

The Directors may, at their absolute discretion, invite any person who has contributed to, or can contribute to the Group's business value and/or technology from product development, sales & marketing, manufacturing to enhancing efficiency of operation to take up options to subscribe for ordinary shares of the Company.

No participant shall be granted an option which would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such grant representing in aggregate over 1 per cent. of the total number of shares in issue.

The total number of shares available for issue under Scheme C is 45,554,327 (representing approximately 4.45% of the issued share capital of the Company as at the date of this report).

Scheme C shall remain valid and effective for a period of 10 years commencing on 26 April 2002, after which period no further options will be granted but the provisions of this scheme shall remain in full force and effect in all other respects.



Report of the Directors

EMPLOYEE SHARE OPTIONS (Cont'd)

Share Option Scheme C ("Scheme C") (Cont'd)

(II) Details of the movement of options under Scheme C during the year ended 31 December 2002 were as follows:

Class of optionees	Date of grant	Exercise period	Subscription Price per share	Number of shares					End of year
				Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year	
Directors, chief executive, management shareholder, substantial shareholder	-	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	14 May 2002	14 May 2003 to 13 May 2012	HK\$0.1412	- 35,160,000	(2,600,000)	-	-	- 32,560,000	(Note 1)
	14 August 2002	14 August 2003 to 13 August 2012	HK\$0.10	- 24,650,000	(13,300,000)	-	-	- 11,350,000	(Note 2)
	12 November 2002	12 November 2003 to 11 November 2012	HK\$0.10	- 2,500,000	-	-	-	- 2,500,000	(Note 3)
Suppliers of goods and services	-	-	-	-	-	-	-	-	-
All other optionees	14 May 2002	14 May 2003 to 13 May 2012	HK\$0.1412	- 2,300,000	-	-	-	- 2,300,000	(Note 1)
	14 August 2002	14 August 2003 to 13 August 2012	HK\$0.10	- 7,000,000	-	-	-	- 7,000,000	(Note 2)
	12 November 2002	12 November 2003 to 11 November 2012	HK\$0.10	- 1,000,000	-	-	-	- 1,000,000	(Note 3)
				- 72,610,000	(15,900,000)	-	-	- 56,710,000	

Notes:

1. The closing price immediately before the date of grant was HK\$0.14.
2. The closing price immediately before the date of grant was HK\$0.099.
3. The closing price immediately before the date of grant was HK\$0.091.

Report of the Directors

EMPLOYEE SHARE OPTIONS (Cont'd)

Share Option Scheme C ("Scheme C") (Cont'd)

The Directors consider it inappropriate to value all the options that can be granted during the year ended 31 December 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 not be meaningful but would be misleading to the shareholders.

SPONSOR'S INTERESTS

Pursuant to the service contract (the "Service Contract") between the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor") and the Company, the Service Contract expired on 31 December 2002. Both the Company and the Sponsor have agreed not to renew the Service Contract.

As notified by the Company's Sponsor, as at 31 December 2002, neither the Sponsor nor its directors, employees or associates had any interest in the securities of the Company or any member of the Group, including options or rights to subscribe for such securities.

Taking this opportunity, the Board expresses on behalf of the Company the great appreciation and gratitude to the Sponsor for its professional services and advice on the Board.



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 GEM Listing Rules throughout the year ended 31 December 2002.

FINANCIAL SUMMARY

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

Report of the Directors

AUDIT COMMITTEE

The Company established an audit committee on 2 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-yearly 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. The Committee has met 4 times since 1 January 2002 with the management to discuss and review the Group's various internal control, audit issues and results of the Group with a view to further improve the Group's corporate governance.

AUDITORS

The financial statements for the year ended 31 December 2001 were audited by Arthur Andersen & Co. Arthur Andersen & Co resigned as the auditors of the Company during the year. Charles Chan, Ip & Fung CPA Ltd. were then appointed as auditors to fill the casual vacancy. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Charles Chan, Ip & Fung CPA Ltd. as auditors of the Company.

On behalf of the Board

CHEUNG WAI
Chairman

DARWIN HU
Director and Chief Executive Officer

Hong Kong, 25 March 2003



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the members of SYSCAN Technology Holdings Limited (the "Company") will be held at Function Room I, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Wednesday, 23 April 2003 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 31 December 2002;
2. To elect Directors and to authorise the Board of Directors to fix remuneration of the Directors;
3. To re-appoint Messrs Charles Chan, Ip & Fung CPA Limited 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

- (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.";

Notice of Annual General Meeting

5. 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
- (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

Notice of Annual General Meeting

6. 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 resolution no. 5 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 resolution no. 4, 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
SYSCAN Technology Holdings Limited
Cheung Wai
Chairman

Hong Kong, 25 March 2003

Notes:

1. *The Register of Members of the Company will be closed from Tuesday, 15 April 2003 to Tuesday, 22 April 2003, 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 c/o the Company Secretary 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.*

Auditors' Report



Charles Chan, Ip & Fung CPA Ltd.

陳葉馮會計師事務所有限公司

TO THE SHAREHOLDERS OF SYSCAN TECHNOLOGY HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 35 to 76 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 31 December 2002 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.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong, 25 March 2003

Chan Wai Dune, Charles

Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	4	41,752	34,170
Cost of sales		(34,498)	(25,191)
Gross profit		7,254	8,979
Other revenue	4	18,756	8,795
Selling and distribution expenses		(13,338)	(5,958)
General and administrative expenses		(25,441)	(27,074)
Research and development expenses		(10,400)	(15,813)
Provision for obsolete and slow-moving inventories		–	(15,129)
Provision for bad and doubtful receivables		(1,151)	(11,861)
		(50,330)	(75,835)
Loss from operations		(24,320)	(58,061)
Finance costs		(3,735)	(2,248)
Gain on disposal of interest in a subsidiary company		2,508	–
Loss before taxation	5	(25,547)	(60,309)
Taxation	7	(7)	(7)
Loss after taxation		(25,554)	(60,316)
Minority interests		951	–
Loss attributable to shareholders	8	(24,603)	(60,316)
Accumulated losses brought forward		(225,868)	(165,113)
Transfer to reserves	23	–	(439)
Accumulated losses carried forward		(250,471)	(225,868)
Loss per share – Basic	9	(2.4) cents	(6.1) cents

The notes on pages 41 to 76 form an integral part of these financial statements.

Balance Sheets

As at 31 December 2002

	Note	Consolidated		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Non-current assets					
Intangible assets	10	4,220	–	–	–
Properties, machinery and equipment	11	47,311	19,968	–	–
Properties under development	12	119,720	102,303	–	–
Investment in subsidiaries	13	–	–	150,537	170,103
Long-term investments	14	16,589	28,562	–	–
Total non-current assets		187,840	150,833	150,537	170,103
Current assets					
Inventories	15	28,337	16,169	–	–
Trade receivables	16	18,188	4,688	–	–
Prepayments, deposits and other receivables		23,545	3,586	380	380
Pledged bank deposits		39,000	38,850	–	–
Cash and bank balances	17	32,586	62,504	8	8,325
Total current assets		141,656	125,797	388	8,705
Current liabilities					
Short-term bank loans	18	(158,491)	(93,458)	–	–
Trade payables	19	(6,772)	(1,689)	–	–
Current portion of interest-bearing borrowings	20	(127)	–	–	–
Due to a director	27	(3)	(125)	–	(120)
Accruals and other payables		(5,571)	(3,767)	(721)	(1,097)
Total current liabilities		(170,964)	(99,039)	(721)	(1,217)
Net current (liabilities)/assets		(29,308)	26,758	(333)	7,488
Total assets less current liabilities		158,532	177,591	150,204	177,591
Non-current liabilities					
Interest-bearing borrowings	20	(921)	–	–	–
		157,611	177,591	150,204	177,591
Minority interests		(4,530)	–	–	–
Net assets		153,081	177,591	150,204	177,591

Balance Sheets
As at 31 December 2002

	Note	Consolidated		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Capital and reserves					
Share capital	21	102,264	102,256	102,264	102,256
Reserves	23	50,817	75,335	47,940	75,335
Shareholders' equity		<u>153,081</u>	<u>177,591</u>	<u>150,204</u>	<u>177,591</u>

Approved by the board of directors on 25 March 2003.

On behalf of the board

CHEUNG WAI
Chairman

DARWIN HU
Director and Chief Executive Officer

The notes on pages 41 to 76 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Statutory reserve fund HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance as at								
1 January 2001	88,887	98,704	-	198,068	-	820	(165,113)	221,366
Issue of shares through placing (Note 21)	13,200	-	-	-	-	-	-	13,200
Premium on issuance of shares (Note 21)	-	2,904	-	-	-	-	-	2,904
Share issuance expenses (Note 21)	-	(139)	-	-	-	-	-	(139)
Exercise of employee share options	169	(87)	-	-	-	-	-	82
Transfer from accumulated losses	-	-	-	-	439	-	(439)	-
Translation adjustments	-	-	-	-	-	494	-	494
Loss attributable to shareholders	-	-	-	-	-	-	(60,316)	(60,316)
Balance as at								
31 December 2001	102,256	101,382	-	198,068	439	1,314	(225,868)	177,591
Exercise of employee share options (Note 22)	8	(4)	-	-	-	-	-	4
Translation adjustments	-	-	-	-	-	89	-	89
Loss attributable to shareholders	-	-	-	-	-	-	(24,603)	(24,603)
Balance as at								
31 December 2002	102,264	101,378	-	198,068	439	1,403	(250,471)	153,081

The notes on pages 41 to 76 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(25,547)	(60,309)
Dividend income		(10)	(242)
Compensation income		(3,773)	(3,980)
Gain on disposal of marketable securities		–	(236)
Gain on disposal of properties, machinery and equipment		–	(2,779)
Gain on disposal of interest in a subsidiary company	24a	(2,508)	–
Interest income		(2,956)	(1,558)
Interest expenses		3,735	2,248
Amortisation of patents and intellectual property rights		223	–
Depreciation of properties, machinery and equipment		6,087	5,862
Operating loss before working capital changes		(24,749)	(60,994)
(Increase)/decrease in inventories		(12,168)	9,503
(Increase)/decrease in trade receivables		(13,500)	5,220
(Increase)/decrease in prepayments, deposits and other receivables		(19,959)	1,440
Decrease in amount due from a director		–	1
Increase/(decrease) in trade payables		5,083	(1,464)
Decrease in amount due to a director		(122)	(120)
Increase/(decrease) in accruals and other payables		1,804	(5,661)
Cash flow from operations		(63,611)	(52,075)
Interest received		2,956	1,558
Interest paid		(3,735)	(2,248)
Overseas tax paid		(7)	(7)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(64,397)	(52,772)

Consolidated Cash Flow Statement*For the year ended 31 December 2002*

	Note	2002 HK\$'000	2001 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties, machinery and equipment		(8,761)	(10,696)
Proceeds from disposal of properties, machinery and equipment		292	4,857
Additions to properties under development		(38,605)	(59,400)
Payments relating to acquisitions of long-term investments		–	(15,877)
Refund of deposits and compensation received relating to cancellation of investments		–	23,692
Proceeds from disposal of long-term investments		–	378
Proceeds from disposal of interest in a subsidiary company	24a	19,228	–
Increase in loans receivable		–	(29,673)
Repayment of loans receivable		–	29,673
Payment for patents and intellectual property rights		(4,443)	–
Payment for subscription/acquisition of marketable securities		(4,680)	(122,796)
Refund of amount paid for subscription of/proceeds from disposal of marketable securities		–	123,032
Increase in pledged bank deposits		–	(38,850)
Translation adjustments		(128)	494
Dividend received		10	242
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(37,087)	(94,924)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	24b	–	16,104
Share issuance expenses		–	(139)
Proceeds from issuance of shares upon exercise of employee share options		4	82
New short-term bank loans		65,033	93,458
Inception of interest-bearing borrowings		1,048	–
Equity contribution by a minority shareholder of subsidiaries		5,481	–
NET CASH INFLOW FROM FINANCING ACTIVITIES		71,566	109,505
DECREASE IN CASH AND CASH EQUIVALENTS		(29,918)	(38,191)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		62,504	100,695
CASH AND CASH EQUIVALENTS AT END OF YEAR		32,586	62,504
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		32,586	62,504

The notes on pages 41 to 76 form an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

SYSCAN Technology Holdings Limited (the "Company") was incorporated in Bermuda on 17 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 14 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. BASIS OF PREPARATION

The financial statements have been prepared on going concern basis.

For the year ended 31 December 2002, the Group reported a loss attributable to shareholders of approximately HK\$25 million (2001: HK\$60 million) and a net cash outflow from operating activities of approximately HK\$64 million (2001: HK\$52 million). Furthermore, the Group recorded net current liabilities of approximately HK\$29 million (2001: net current assets of HK\$27 million) as at 31 December 2002. The Group's ability to carry on the business on a going concern basis is dependent on the success of its future operations and on the on-going support of its bankers. Should future operations become unprofitable or should the Group's bankers not continue to provide financial support, the Group may not be able to continue as a going concern and may therefore be compelled to realise the carrying value of its assets in the ordinary course of business and repay its liabilities as they fall due.

However, the directors of the Company are confident that the Group will be able to rollover or replace the majority of the short-term bank loans with new sources of financing as and when they fall due and the Group's future operations will be profitable. In addition, the Group is currently negotiating with existing bankers to re-arrange the bank loans into medium-term basis and is in contact with other bankers to obtain new banking facilities. The directors of the Company believe that the negotiations will be successful and the Group will be able to rollover the existing bank loans and secure new sources of funding. Accordingly, the financial statements have been prepared on a 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

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA"), 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. The financial statements are prepared under the historical cost convention. Principal accounting policies are summarised below.

In the current year, the Company adopted the following new or revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The effect of adopting these new or revised standards is set out in the accounting policies below.

a. 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.

b. 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.

Notes to the Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

c. 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.

d. 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.

e. 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 31 December 2001 and 2002 have been expensed as no expenditure met the criteria for deferral.

Notes to the Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

f. Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

g. Employee retirement benefits

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

h. 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.

i. 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 residuals value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land and buildings under medium term leases in Mainland China	5%
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 carrying amount of the assets.

Notes to the Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

j. 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.

k. 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.

l. 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.

m. 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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

n. 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.

o. 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.

p. Patents and intellectual property rights

Patents and intellectual property right is measured initially at cost and amortized on a straight-line basis over its estimated useful life, which is on average 10 years.

Notes to the Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

q. 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.

r. 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.

s. 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.

t. 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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

u. Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

v. Related party transaction

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.

4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2002 HK\$'000	2001 HK\$'000
Sales of merchandise		
– Optical image capturing devices	24,483	17,878
– Modules of optical image capturing devices	3,476	14,596
– Chips and other optoelectronic products	12,657	842
	40,616	33,316
Design fees – High speed module	1,136	854
Total turnover	41,752	34,170
Interest income	2,956	1,558
Dividend income	10	242
Compensation income	3,773	3,980
Recovery of bad debts	5,772	–
Gain on disposal of marketable securities	–	236
Gain on disposal of properties, machinery and equipment	–	2,779
Written back of provision of inventories	5,345	–
Exchange gain, net	119	–
Others	781	–
Total other revenue	18,756	8,795
Total revenue	60,508	42,965

Notes to the Financial Statements

5. LOSS BEFORE TAXATION

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

	2002 HK\$'000	2001 HK\$'000
After charging –		
Interest on short-term bank loans	6,829	2,892
Interest on interest-bearing borrowings	7	–
Less: amounts capitalised in properties under development (i)	(3,101)	(644)
	3,735	2,248
Cost of inventories sold	34,498	25,191
Employment costs (including directors' emoluments)	20,133	21,756
Retirement costs	680	422
Operating lease rentals of premises	2,656	3,536
Advertising and promotion costs	2,095	1,890
Amortisation of patents and intellectual property rights	223	–
Provision for obsolete and slow-moving inventories	–	15,129
Provision for bad and doubtful receivables	1,151	11,861
Depreciation of properties, machinery and equipment	6,087	5,862
Exchange loss, net	–	94
Auditors' remuneration	533	830
After crediting –		
Dividend income	10	242
Compensation income (ii)	3,773	3,980
Gain on disposal of properties, machinery and equipment	–	2,779
Gain on disposal of marketable securities	–	236
Exchange gain, net	119	–
Recovery of bad debts	5,772	–
Gain on disposal of interest in a subsidiary company	2,508	–
Written back of provision of inventories	5,345	–
Interest income from		
– bank deposits	2,956	1,427
– loans receivable	–	131

Notes –

- (i) During the year, interest of approximately \$3,101,000 was capitalised as construction expenditures at the rate on the related loan of approximately 5.3% per annum.
- (ii) During the year, the Group received two units of office premises located in Shenzhen, Mainland China, with value of approximately HK\$3,773,000 as compensation from property developer due to the delay in completing the office premises. For the year ended 31 December 2001, the Group received compensation of approximately HK\$3,980,000 relating to cancellation of the investment in Han's Laser Science & Technology Co., Ltd.

Notes to the Financial Statements

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	2002 HK\$'000	2001 HK\$'000
Fees for executive directors	–	–
Fees for non-executive directors	180	222
Other emoluments for executive directors		
– Basic salaries and allowances	3,006	4,002
– Retirement contribution	24	24
	<u>3,210</u>	<u>4,248</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:

	2002	2001
Executive directors		
– Nil to \$1,000,000	1	–
– \$1,000,001 to \$1,500,000	2	2
– \$1,500,001 to \$2,000,000	–	1
Non-executive directors		
– Nil to \$1,000,000	3	4
	<u>6</u>	<u>7</u>

During the year ended 31 December 2002, the three executive directors received individual emoluments of approximately HK\$1,170,000 (2001: HK\$1,554,000), HK\$1,029,000 (2001: HK\$1,368,000) and HK\$831,000 (2001: HK\$1,104,000), respectively. The three non-executive directors received individual fees of approximately HK\$90,000 (2001: HK\$120,000), HK\$90,000 (2001: HK\$72,000) and Nil (2001: Nil), respectively. During the year ended 31 December 2001, a non-executive director who received individual fees of HK\$30,000 was retired.

Notes to the Financial Statements

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:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries and allowances	4,974	6,294
Retirement contribution	24	24
	<u>4,998</u>	<u>6,318</u>

	2002	2001
Number of directors	3	3
Number of employees	2	2
	<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:

	2002	2001
Nil to \$1,000,000	2	–
\$1,000,001 to \$1,500,000	3	4
\$1,500,001 to \$2,000,000	–	1
	<u>5</u>	<u>5</u>

Notes to the Financial Statements

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 (2001: Nil).

c. United States federal income tax

SYSCAN Inc. had no assessable profit subject to United States federal income tax and California State income tax, but 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.

d. Mainland China taxes

Details of the Mainland China taxes for the Group are:

Name	Place of incorporation and operations in Mainland China	Enterprises income tax rate (ii)		Value-added tax rate	
		2002	2001	2002	2001
SYSCAN Digital Systems Co., Ltd. (Formerly known as Shenzhen SYSCAN Smart Imaging System Co., Ltd.) (i)	Shenzhen	15%	15%	17%	17%
SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. (i)	Shenzhen	15%	15%	17%	17%
Shenzhen SYSCAN Technology Co., Ltd. (Formerly known as SYSCAN Technology (Shenzhen) Co., Ltd.) (i)	Shenzhen	15%	15%	17%	17%

Notes to the Financial Statements

7. TAXATION (Cont'd)

d. Mainland China taxes (Cont'd)

Name	Place of incorporation and operations in Mainland China	Enterprises income tax rate (ii)		Value-added tax rate	
		2002	2001	2002	2001
SYSCAN Trading (Shenzhen) Limited (iv)	Shenzhen	15%	N/A	4%	N/A
上海矽感光電科技有限公司 (iv)	Shanghai	33%	N/A	17%	N/A
上海矽感數碼科技有限公司 (iv)	Shanghai	0.5% of turnover	N/A	17%	N/A
深圳市華實信達科技發展有限公司 (iv)	Shenzhen	15%	N/A	4%	N/A
北京渴望科技發展有限公司 (iv)	Beijing	33%	N/A	4%	N/A
深圳市矽谷園科技有限公司 (iv)	Shenzhen	15%	N/A	4%	N/A

(i) SYSCAN Digital Systems Co., Ltd., SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. and Shenzhen SYSCAN Technology Co., Ltd., are all wholly foreign owned enterprises and 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.

(ii) No provision for Mainland China enterprise income tax has been recorded as all the above entities have no assessable profit for the year.

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

(iv) The entity was incorporated in Mainland China in 2002.

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 (2001: Nil).

There was no significant unprovided deferred taxation for the year ended 31 December 2002.

Notes to the Financial Statements

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31st December 2002, the consolidated loss attributable to shareholders includes a loss of approximately HK\$27,391,000 (2001: HK\$59,822,000) dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2002 is based on the loss attributable to shareholders of approximately HK\$24,603,000 (2001: HK\$60,316,000) and the weighted average number of approximately 1,022,640,000 (2001: 984,349,000) ordinary shares in issue during the year.

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

10. INTANGIBLE ASSETS

Movements of intangible assets (consolidated) were:

	Patents HK\$'000	Intellectual property rights HK\$'000	Total HK\$'000
Cost			
At 1/1/2002	–	–	–
Additions	2,745	1,698	4,443
At 31/12/2002	2,745	1,698	4,443
Amortisation			
At 1/1/2002	–	–	–
Provision for the year	122	101	223
At 31/12/2002	122	101	223
Net book value			
At 31/12/2002	2,623	1,597	4,220
At 31/12/2001	–	–	–

Patents and intellectual property rights are amortised over their estimated useful lives. The foreseeable lives of the patents and intellectual property rights are on average 10 years.

Notes to the Financial Statements

11. PROPERTIES, MACHINERY AND EQUIPMENT

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

	Land and buildings (i) HK\$'000	Leasehold improvements HK\$'000	Furniture and office equipment HK\$'000	Machinery and equipment HK\$'000	Motor vehicles(ii) HK\$'000	Total HK\$'000
Cost						
At 1/1/2002	–	3,155	9,603	29,401	2,966	45,125
Additions	–	753	1,033	6,029	946	8,761
Disposals	–	(957)	(350)	–	–	(1,307)
Transferred from properties under development (Note 12)	24,961	–	–	–	–	24,961
At 31/12/2002	24,961	2,951	10,286	35,430	3,912	77,540
Accumulated depreciation						
At 1/1/2002	–	2,609	4,371	17,476	701	25,157
Provision for the year	1,146	682	451	3,330	478	6,087
Disposals	–	(859)	(156)	–	–	(1,015)
At 31/12/2002	1,146	2,432	4,666	20,806	1,179	30,229
Net book value						
At 31/12/2002	23,815	519	5,620	14,624	2,733	47,311
At 31/12/2001	–	546	5,232	11,925	2,265	19,968

Notes –

- (i) The office premises are located in Shenzhen, Mainland China, and are used as research and development centre of the Group and held under medium lease term. These office premises are mortgaged as collateral for the Group's banking facilities (see Note 29).
- (ii) The net book value of motor vehicle with value of approximately HK\$492,000 (2001: Nil) are mortgaged as collateral for the Group's banking facilities (see Note 29).

Notes to the Financial Statements

12. PROPERTIES UNDER DEVELOPMENT

Movements of properties under development (consolidated) were:

	Construction-in-progress Land (i) HK\$'000	Construction expenditures HK\$'000	Amount paid to purchase office premises HK\$'000	Total HK\$'000
At 1/1/2002	36,028	45,092	21,183	102,303
Additions	13,715	24,885	3,778	42,378
Transferred to properties, machinery and equipment (Note 11)	–	–	(24,961)	(24,961)
At 31/12/2002	49,743	69,977	–	119,720

Note –

- (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 29).*

13. INVESTMENT IN SUBSIDIARIES

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

	2002 HK\$'000	2001 HK\$'000
Unlisted shares	74,775	74,775
Due from subsidiaries	191,774	192,510
Due to subsidiaries	(2,512)	(3,682)
	264,037	263,603
Less: Provision for impairment in value	(113,500)	(93,500)
	150,537	170,103

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 from/to subsidiaries are not repayable before 1 January 2004.

Notes to the Financial Statements

13. INVESTMENT IN SUBSIDIARIES (Cont'd)

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 31 December 2002.

Details of the principal subsidiaries as at 31 December 2002 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
SYSCAN Digital Systems Co., Ltd. (Formerly known as 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 Digital Systems Co., Ltd. (Formerly known as 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	HK\$15,000,000	100%	Trading of imaging products
SYSCAN Lab., Limited	Hong Kong	HK\$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

13. 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
Shenzhen SYSCAN Technology Co., Ltd. (Formerly known as 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
Leadbuilt Technology Limited	British Virgin Islands	US\$1	100%	Investment holding
SYSCAN Trading (Shenzhen) Limited (v)	Mainland China	HK\$2,000,000	100%	Trading of imaging products
上海矽感光電科技有限公司 (vi)	Mainland China	RMB1,000,000	80%	Sales of computer products and scanners
上海矽感數碼科技有限公司 (vii)	Mainland China	RMB2,180,000	54.13%	General trading
深圳市華實信達科技發展有限公司 (viii)	Mainland China	RMB10,000,000	59.9%	Development of optical fabric system
北京渴望科技發展有限公司 (ix)	Mainland China	RMB1,000,000	70%	Development of computer products
深圳市矽谷園科技有限公司(x)	Mainland China	RMB1,000,000	70%	Development of computer products and high technology

Notes to the Financial Statements

13. INVESTMENT IN SUBSIDIARIES (Cont'd)

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) SYSCAN Digital Systems 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) Shenzhen SYSCAN Technology Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 20 years up to 2021.
- (v) SYSCAN Trading (Shenzhen) Limited is a wholly foreign owned enterprise established in Mainland China to be operated for 30 years up to 2032.
- (vi) 上海矽感光電科技有限公司 is a joint venture company established in Mainland China to be operated for 10 years up to 2012.
- (vii) 上海矽感數碼科技有限公司 is a joint venture company established in Mainland China to be operated for 10 years up to 2011.
- (viii) 深圳市華實信達科技發展有限公司 is a joint venture company established in Mainland China to be operated for 10 years up to 2011.
- (ix) 北京渴望科技發展有限責任公司 is a joint venture company established in Mainland China to be operated for 25 years up to 2027.
- (x) 深圳市矽谷園科技有限公司 is a joint venture company established in Mainland China to be operated for 10 years up to 2012.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2002.

14. LONG-TERM INVESTMENTS

Long-term investments (consolidated) consist of:

	2002	2001
	HK\$'000	HK\$'000
Grandview Investments Group Limited (i)	–	16,720
CMOS Sensor, Inc. (ii)	7,782	4,662
Shenzhen Guocheng Venture Capital Co., Ltd. (iii)	4,717	4,673
GFG Asia Alliance Holdings Co., Ltd. (iv)	1,560	–
Chinese collectibles (v)	2,530	2,507
	16,589	28,562

Notes to the Financial Statements

14. LONG-TERM INVESTMENTS (Cont'd)

Notes –

- (i) Grandview Investments Group Limited was an investment holding company incorporated in the British Virgin Islands and had an effective equity interest of approximately 30.6%, through several intermediate holding companies, in a co-operative joint venture incorporated in Hubei Province, Mainland China, which is principally engaged in the operation and management of two toll roads in the Province. In April 2002, the Group sold its entire 22% equity interest in Grandview Investments Group Limited at a consideration of HK\$19,228,000.
- (ii) In June 2002, the Group increased its equity interest in CMOS Sensor, Inc. from 9.7% to 16.1% by acquiring of an additional 6.4% 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) As at 31 December 2002, the Group has 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 June 2002, the Group invested a total of US\$200,000 (equivalent to approximately HK\$1,560,000) in the preference stocks of GFG Asia Alliance Holdings Co., Ltd., a company incorporated in British Virgin Islands, which is principally engaged in investment and fund management.
- (v) 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 31 December 2002.

15. INVENTORIES

Inventories (consolidated) consist of:

	2002 HK\$'000	2001 HK\$'000
Raw materials	12,933	9,919
Work-in-progress	6,483	7,774
Finished goods	19,810	19,675
	39,226	37,368
Less: Provision for obsolete and slow-moving inventories	(10,889)	(21,199)
	<u>28,337</u>	<u>16,169</u>

As at 31 December 2002, inventories of approximately HK\$2,761,000 (2001: HK\$12,005,000) were stated at net realisable value.

Notes to the Financial Statements

16. 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:

	2002 HK\$'000	2001 HK\$'000
0 to 1 month	8,787	3,766
1 to 2 months	6,595	89
2 to 3 months	1,280	756
3 to 6 months	520	16
6 to 12 months	2,024	50
12 to 18 months	–	354
18 to 24 months	–	1,566
Over 24 months	650	–
	19,856	6,597
Less: Provision for bad and doubtful trade receivables	(1,668)	(1,909)
	<u>18,188</u>	<u>4,688</u>

17. CASH AND BANK BALANCES

As at 31 December 2002, approximately HK\$22,193,000 (2001: HK\$38,571,000) of the Group's cash and bank balances (including pledged bank deposits) were denominated in Renminbi, a currency which is not freely convertible into other currencies.

18. SHORT-TERM BANK LOANS

All of the Group's short-term bank loans were denominated in Renminbi. As at 31 December 2002, the short-term bank loans bore interest at rates ranging from 4.5% to 5.9% per annum. Refer to Note 29 for the Group's banking facilities.

Notes to the Financial Statements

19. TRADE PAYABLES

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

	2002 HK\$'000	2001 HK\$'000
0 to 1 month	5,040	1,396
1 to 2 months	50	64
2 to 3 months	693	210
3 to 6 months	258	19
6 to 12 months	395	–
Over 12 months	336	–
	<u>6,772</u>	<u>1,689</u>

20. INTEREST-BEARING BORROWINGS

Interest-bearing borrowings (consolidated) consist of:

	2002 HK\$'000	2001 HK\$'000
Bank loans		
Secured	<u>1,048</u>	<u>–</u>

The analysis of the above balances is as follows:

Bank loans		
Within one year	127	–
In the second year	127	–
In the third to fifth year inclusive	541	–
After the fifth year	253	–
	<u>1,048</u>	<u>–</u>
Current portion of bank loans	(127)	–
	<u>921</u>	<u>–</u>

Notes to the Financial Statements

21. SHARE CAPITAL

Movements of share capital were:

	2002		2001	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000

Authorised

Ordinary shares of HK\$0.1 each	2,000,000	200,000	2,000,000	200,000
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	2002		2001	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000

Issued and fully paid

Ordinary shares

Beginning of year	1,022,556	102,256	888,865	88,887
Issue of shares through placing (ii)	–	–	132,000	13,200
Issue of shares through exercise of employee share options (i and Note 22)	87	8	1,691	169
End of year	1,022,643	102,264	1,022,556	102,256

Notes –

- (i) During the year, 86,666 (2001: 1,691,333) ordinary shares of HK\$0.1 each were issued pursuant to the Share Option Scheme A of the Company (see Note 22).
- (ii) During the year ended 31 December 2001, 132,000,000 ordinary shares of HK\$0.1 each were issued at HK\$0.122 each through a placement for total consideration of HK\$16,104,000, and the related share issuance expenses amounted to approximately HK\$139,000.

Notes to the Financial Statements

22. EMPLOYEE SHARE OPTIONS

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

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 already granted but unexercised) 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 approved the adoption of a new Share Option Scheme C and the termination of Share Option Scheme B (save for the options already granted but unexercised).

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 HK\$0.1 each, at exercise prices ranging from HK\$0.02422 to HK\$0.04844 per ordinary share. Movements of the options under Share Option Scheme A during the year ended 31 December 2002 were:

Date of grant	Exercise period	Subscription Price per share	Number of shares					End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year	
2 March 2000	2 March 2000 to 1 March 2010	HK\$0.04844	34,640,000	-	(553,334)	(86,666)	-	34,000,000
2 March 2000	2 March 2000 to 1 March 2010	HK\$0.02422	160,000	-	-	-	-	160,000
			34,800,000	-	(553,334)	(86,666)	-	34,160,000

Notes to the Financial Statements

22. EMPLOYEE SHARE OPTIONS (Cont'd)

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 HK\$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 31 December 2002 were:

Date of grant	Exercise period	Subscription Price per share	Number of shares					End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year	
19 June 2000	19 June 2001 to 18 June 2010	HK\$0.33	10,000,000	-	-	-	-	10,000,000
12 July 2000	12 July 2001 to 11 July 2010	HK\$0.246	5,480,000	-	(810,000)	-	-	4,670,000
4 December 2000	4 December 2001 to 3 December 2010	HK\$0.1016	6,700,000	-	-	-	-	6,700,000
17 January 2001	17 January 2002 to 16 January 2011	HK\$0.206	39,650,000	-	(1,850,000)	-	-	37,800,000
13 August 2001	13 August 2002 to 12 August 2011	HK\$0.275	9,580,000	-	(2,680,000)	-	-	6,900,000
			71,410,000	-	(5,340,000)	-	-	66,070,000

Notes to the Financial Statements

22. EMPLOYEE SHARE OPTIONS (Cont'd)

Under Share Option Scheme C, the Company may grant options to employees of the Group (including directors of the Company) or at the absolute discretion of the directors to invite any person who has contributed to the Group's business to take up options to subscribe for ordinary shares of HK\$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 C during the year ended 31 December 2002 were:

Date of grant	Exercise period	Subscription Price per share	Number of shares					End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year	
14 May 2002	14 May 2003 to 13 May 2012	HK\$0.1412	-	37,460,000	(2,600,000)	-	-	34,860,000
14 August 2002	14 August 2003 to 13 August 2012	HK\$0.10	-	31,650,000	(13,300,000)	-	-	18,350,000
12 November 2002	12 November 2003 to 11 November 2012	HK\$0.10	-	3,500,000	-	-	-	3,500,000
			-	72,610,000	(15,900,000)	-	-	56,710,000

Notes to the Financial Statements

23. RESERVES

Movements were:

	Share premium HK\$'000	Contributed surplus (i) HK\$'000	Capital reserve (ii) HK\$'000	Statutory reserve fund (iii) HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Consolidated							
Balance as at 1 January 2001	98,704	-	198,068	-	820	(165,113)	132,479
Premium on issuance of shares (Note 21)	2,904	-	-	-	-	-	2,904
Share issuance expenses (Note 21)	(139)	-	-	-	-	-	(139)
Exercise of employee share options	(87)	-	-	-	-	-	(87)
Transfer from accumulated losses	-	-	-	439	-	(439)	-
Translation adjustments	-	-	-	-	494	-	494
Loss attributable to shareholders	-	-	-	-	-	(60,316)	(60,316)
Balance as at 31 December 2001	101,382	-	198,068	439	1,314	(225,868)	75,335
Exercise of employee share options (Note 22)	(4)	-	-	-	-	-	(4)
Translation adjustments	-	-	-	-	89	-	89
Loss attributable to shareholders	-	-	-	-	-	(24,603)	(24,603)
Balance as at 31 December 2002	101,378	-	198,068	439	1,403	(250,471)	50,817

Notes to the Financial Statements

23. RESERVES (Cont'd)

	Share premium HK\$'000	Contributed surplus (i) HK\$'000	Capital reserve (ii) HK\$'000	Statutory reserve fund (iii) HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company							
Balance as at 1 January 2001	98,704	70,121	-	-	-	(36,346)	132,479
Premium on issuance of shares (Note 21)	2,904	-	-	-	-	-	2,904
Share issuance expenses (Note 21)	(139)	-	-	-	-	-	(139)
Exercise of employee share options	(87)	-	-	-	-	-	(87)
Loss for the year	-	-	-	-	-	(59,822)	(59,822)
Balance as at 31 December 2001	101,382	70,121	-	-	-	(96,168)	75,335
Exercise of employee share options (Note 22)	(4)	-	-	-	-	-	(4)
Loss for the year	-	-	-	-	-	(27,391)	(27,391)
Balance as at 31 December 2002	101,378	70,121	-	-	-	(123,559)	47,940

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 27 March 2000 (the "Reorganisation").*
- (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, 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, Shenzhen SYSCAN Technology 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

23. 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, nor 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 31 December 2002.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Net cash inflow from disposal of a subsidiary company

	2002 HK\$'000	2001 HK\$'000
Net assets disposal of:		
Investment in Grandview Investments Group Limited	16,720	–
Net assets	16,720	–
Gain on disposal	2,508	–
	19,228	–
Satisfied by:		
Cash consideration received	19,228	–
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary company		
Cash consideration received	19,228	–
Less: Cash and cash equivalents disposal of with a subsidiary company	–	–
	19,228	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary company	19,228	–

Notes to the Financial Statements

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

b. Analysis of changes in financing is as follows:

	Share capital and share premium HK\$'000	Short-term bank loans HK\$'000	Interest- bearing borrowings HK\$'000	Minority interests HK\$'000	Total HK\$'000
Consolidated					
Balance as at 1 January 2001	187,591	–	–	–	187,591
Issue of shares through placing (Note 21)	16,104	–	–	–	16,104
Share issuance expenses (Note 21)	(139)	–	–	–	(139)
Exercise of employee share options (Note 22)	82	–	–	–	82
New short-term bank loans	–	93,458	–	–	93,458
Balance as at 31 December 2001	203,638	93,458	–	–	297,096
Exercise of employee share options (Note 22)	4	–	–	–	4
New short-term bank loans	–	65,033	–	–	65,033
Inception of interest-bearing borrowings	–	–	1,048	–	1,048
Equity contribution by a minority shareholder of subsidiaries	–	–	–	5,481	5,481
Share of loss for the year	–	–	–	(951)	(951)
Balance as at 31 December 2002	<u>203,642</u>	<u>158,491</u>	<u>1,048</u>	<u>4,530</u>	<u>367,711</u>

Notes to the Financial Statements

25. EMPLOYEE RETIREMENT BENEFITS

From 1 December 2000, the Group had arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contributed 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 HK\$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% (2001: approximately 9%) 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 31 December 2002, the aggregate contributions of the Group to the aforementioned retirement benefit schemes were approximately HK\$680,000 (2001: HK\$422,000). As at 31 December 2002, there were no forfeitures available to offset the Group's future contributions (2001: Nil).

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

26. 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").

Notes to the Financial Statements

26. SEGMENT INFORMATION (Cont'd)

a. Primary segment (Cont'd)

Analysis by business segment is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
– optical image capturing devices unit	24,483	17,878
– modules unit	3,476	14,596
– chips and other optoelectronic products unit	13,793	1,696
	<u>41,752</u>	<u>34,170</u>
Loss attributable to shareholders		
– optical image capturing devices unit	(14,427)	(31,558)
– modules unit	(2,048)	(25,764)
– chips and other optoelectronic products unit	(8,128)	(2,994)
	<u>(24,603)</u>	<u>(60,316)</u>
Depreciation and amortisation		
– optical image capturing devices unit	3,569	3,067
– modules unit	507	2,504
– chips and other optoelectronic products unit	2,011	291
	<u>6,087</u>	<u>5,862</u>
Capital expenditures		
– optical image capturing devices unit	29,987	36,674
– modules unit	4,258	29,942
– chips and other optoelectronic products unit	16,894	3,480
	<u>51,139</u>	<u>70,096</u>
Assets		
– optical image capturing devices unit	193,213	144,735
– modules unit	27,432	118,165
– chips and other optoelectronic products unit	108,851	13,730
	<u>329,496</u>	<u>276,630</u>
Liabilities		
– optical image capturing devices unit	(103,448)	(51,818)
– modules unit	(14,687)	(42,305)
– chips and other optoelectronic products unit	(58,280)	(4,916)
	<u>(176,415)</u>	<u>(99,039)</u>

Notes to the Financial Statements

26. SEGMENT INFORMATION (Cont'd)

b. Secondary segment

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

	2002 HK\$'000	2001 HK\$'000
Turnover *		
– Malaysia	1	7,997
– Taiwan	1,584	6,794
– Hong Kong	4,665	5,679
– Mainland China	13,531	4,673
– Japan	1,378	4,241
– The United States of America	14,738	2,583
– Belgium	–	721
– Australia	1,308	211
– Korea	2,461	24
– Singapore	941	515
– Others	1,145	732
	<u>41,752</u>	<u>34,170</u>

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

	2002 HK\$'000	2001 HK\$'000
Loss attributable to shareholders		
– Malaysia	(1)	(14,116)
– Taiwan	(933)	(11,993)
– Hong Kong	(2,749)	(10,024)
– Mainland China	(7,973)	(8,249)
– Japan	(812)	(7,486)
– The United States of America	(8,685)	(4,559)
– Belgium	–	(1,273)
– Australia	(771)	(373)
– Korea	(1,450)	(42)
– Singapore	(554)	(909)
– Others	(675)	(1,292)
	<u>(24,603)</u>	<u>(60,316)</u>

Notes to the Financial Statements

26. SEGMENT INFORMATION (Cont'd)

b. Secondary segment (Cont'd)

No analysis of capital expenditures by geographical locations 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 locations is as follows:

	2002 HK\$'000	2001 HK\$'000
Assets		
– Mainland China	301,320	225,460
– Hong Kong	16,605	35,706
– The United States of America	11,374	8,324
– Taiwan	197	7,140
	<u>329,496</u>	<u>276,630</u>

27. RELATED PARTY TRANSACTION

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

	2002 HK\$'000	2001 HK\$'000
Mr Cheung Wai		
– Rental payment for office premise (i)	<u>216</u>	<u>198</u>

Notes –

- (i) The Head office of the Group and office of SYSCAN InterVision Limited are located at the premises owned by Mr Cheung Wai. Mr Cheung Wai had entered into a lease agreement with SYSCAN InterVision Limited for the said premises for a term of 2 years commencing from 8 January 2002 to 7 January 2004 at a monthly rent of HK\$18,000.
- (ii) The amount due to a director is unsecured, non-interest bearing and repayable on demand.

Notes to the Financial Statements

28. COMMITMENTS

a. Capital commitments

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

	2002 HK\$'000	2001 HK\$'000
Authorised and contracted for		
– construction of properties under development	3,181	12,182
– purchase of properties, machinery and equipment	640	–
– purchase of inventories	3,405	–
	7,226	12,182
Authorised but not contracted for		
– construction of properties under development	–	12,004
	7,226	24,186

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 agreement are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Payable		
– Within one year	1,457	2,130
– In the second to fifth year inclusive	2,574	1,875
– After the fifth year	22	–
	4,053	4,005

Notes to the Financial Statements

29. BANKING FACILITIES

As at 31 December 2002, the Group had bank loan facilities of HK\$170,859,000 (2001: HK\$93,458,000) in which HK\$159,539,000 (2001: HK\$93,458,000) were utilised. These facilities were secured by:

- (i) pledges of the Group's bank deposits of HK\$39,000,000;
- (ii) pledges of the Group's leasehold land of properties under development with a net book value of HK\$49,743,000 (see Note 12);
- (iii) pledges of the Group's motor vehicle with a net book value of HK\$492,000 (see Note 11); and
- (iv) pledges of the Group's office premises with an aggregate net book value of HK\$23,815,000 (see Note 11).