



**SYSCAN Technology Holdings Limited**

**矽感科技控股有限公司**

*TravelScan*



*The Best Companion  
for Mobile Office*



*Portable Scanner*



*CIM technology*

INTERIM REPORT **2003**

## Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)

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

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

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*This report, for which the directors of SYSCAN Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to SYSCAN Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



# SYSCAN Technology Holdings Limited

## 矽感科技控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

### **HIGHLIGHTS**

Facing a tough situation where the IT industry was badly hit by the Severe Acute Respiratory Syndrome in the PRC, Taiwan and Hong Kong in the second quarter of year 2003, the Group managed to obtain a growth in turnover to approximately HK\$86.5 million for the first half-year of 2003, representing an increase of 545% over the same period last year. The increment in turnover is mainly contributed by the impressive increase in the sales of optical image capturing devices unit by 299% and the chips & other optoelectronic products (mainly LCD monitors) by 6,847% respectively. The Group recorded a net loss of approximately HK\$14.4 million for the six-month period ended 30 June 2003, representing an increase of 140% over the same period last year.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003.

*\* for identification purposes only*

**FINANCIAL RESULTS**

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30 June 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

**Condensed Consolidated Income Statement**

	Notes	Three months ended 30 June		Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2, 10	54,829	2,982	86,483	13,406
Cost of sales		(46,256)	(2,931)	(70,372)	(10,195)
Gross profit		8,573	51	16,111	3,211
Other Income	3	217	9,554	1,883	10,025
Provision for bad and doubtful receivables		(1,260)	-	(1,260)	-
Selling and marketing expenses		(4,936)	(2,662)	(8,716)	(4,862)
General and administrative expenses		(7,829)	(5,691)	(14,955)	(12,414)
Research and development expenses		(2,667)	(2,490)	(4,884)	(5,247)
Loss from operations		(7,902)	(1,238)	(11,821)	(9,287)
Interest income		109	368	133	2,442
Interest expense		(2,173)	(878)	(4,111)	(1,658)
Gain on disposal of interest in a subsidiary		-	2,508	-	2,508
(Loss)/Profit before taxation	4	(9,966)	760	(15,799)	(5,995)
Taxation	5	-	-	(7)	(7)
(Loss)/Profit after taxation		(9,966)	760	(15,806)	(6,002)
Minority interests		747	-	1,411	-
(Loss)/Profit attributable to shareholders		(9,219)	760	(14,395)	(6,002)
(Loss)/Profit per share – Basic	6	HK(0.9) cents	HK0.07 cents	HK(1.41) cents	HK(0.59) cents
Dividend	11	-	-	-	-

**FINANCIAL RESULTS** (Cont'd)**Condensed Consolidated Statement of Changes in Equity**

	<b>As at 1 January 2002 (Audited) HK\$'000</b>	<b>Movements HK\$'000</b>	<b>As at 30 June 2002 (Unaudited) HK\$'000</b>
Share capital	102,256	8	102,264
Share premium	101,382	(4)	101,378
Capital reserve	198,068	–	198,068
Statutory reserve fund	439	–	439
Cumulative translation adjustments	1,314	469	1,783
Accumulated deficit	<u>(225,868)</u>	<u>(6,002)</u>	<u>(231,870)</u>
	<b><u>177,591</u></b>	<b><u>(5,529)</u></b>	<b><u>172,062</u></b>
	<b>As at 1 January 2003 (Audited) HK\$'000</b>	<b>Movements HK\$'000</b>	<b>As at 30 June 2003 (Unaudited) HK\$'000</b>
Share capital	102,264	100	102,364
Share premium	101,378	(52)	101,326
Capital reserve	198,068	–	198,068
Statutory reserve fund	439	–	439
Cumulative translation adjustments	1,403	204	1,607
Accumulated deficit	<u>(250,471)</u>	<u>(14,395)</u>	<u>(264,866)</u>
	<b><u>153,081</u></b>	<b><u>(14,143)</u></b>	<b><u>138,938</u></b>

**FINANCIAL RESULTS (Cont'd)**  
**Condensed Consolidated Balance Sheet**

	<i>Notes</i>	<b>As at 30 June 2003 (Unaudited) HK\$'000</b>	<b>As at 31 December 2002 (Audited) HK\$'000</b>
<b>Non-current assets</b>			
Intangible assets	7	3,981	4,220
Properties, machinery and equipment		45,709	47,311
Properties under development		120,280	119,720
Long-term investments		16,589	16,589
Total non-current assets		<u>186,559</u>	<u>187,840</u>
<b>Current assets</b>			
Inventories		32,487	28,337
Trade receivables	8	15,312	18,188
Prepayments, deposits and other receivables		17,392	23,545
Pledged bank deposits		39,000	39,000
Cash and bank deposits		31,094	32,586
Total current assets		<u>135,285</u>	<u>141,656</u>
<b>Current liabilities</b>			
Short-term secured bank loans		(166,038)	(158,491)
Trade payables	9	(7,478)	(6,772)
Current portion of interest-bearing borrowings		(127)	(127)
Due to a director		(3)	(3)
Accruals and other payables		(5,284)	(5,571)
Total current liabilities		<u>(178,930)</u>	<u>(170,964)</u>
Net current liabilities		<u>(43,645)</u>	<u>(29,308)</u>
Total assets less current liabilities		142,914	158,532
<b>Non-current liabilities</b>			
Interest-bearing borrowings		(856)	(921)
		142,058	157,611
Minority interests		(3,120)	(4,530)
Net assets		<u>138,938</u>	<u>153,081</u>
<b>Capital and reserves</b>			
Share capital		102,364	102,264
Reserves		301,440	301,288
Accumulated deficit		(264,866)	(250,471)
Shareholders' equity		<u>138,938</u>	<u>153,081</u>

**FINANCIAL RESULTS (Cont'd)**  
**Condensed Consolidated Cash Flow Statement**

	<b>For the six months ended 30 June</b>	
	<b>2003 (Unaudited) HK\$'000</b>	<b>2002 (Unaudited) HK\$'000</b>
Net cash outflow from operating activities	<b>(7,514)</b>	(23,120)
Net cash outflow from investing activities	<b>(1,508)</b>	(11,642)
Net cash outflow before financing activities	<b>(9,022)</b>	(34,762)
Net cash inflow from financing activities	<b>7,530</b>	46,169
Increase in cash and bank deposits	<b>(1,492)</b>	11,407
Cash and bank deposits, beginning of the six-month period	<b>71,586</b>	62,504
Cash and bank deposits, end of the six-month period	<b>70,094</b>	73,911

Notes:

**1. Basis of presentation**

*The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 December 2002.*

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

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

**3. Other income**

	<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2003 (Unaudited) HK\$'000</b>	<b>2002 (Unaudited) HK\$'000</b>	<b>2003 (Unaudited) HK\$'000</b>	<b>2002 (Unaudited) HK\$'000</b>
Written back of other receivables	-	5,772	<b>853</b>	5,772
Compensation income	-	3,774	-	3,774
Sundries	<b>217</b>	8	<b>1,030</b>	479
	<b>217</b>	9,554	<b>1,883</b>	10,025

**FINANCIAL RESULTS** (Cont'd)**4. (Loss)/Profit before taxation**

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

	<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>(109)</b>	(368)	<b>(133)</b>	(2,442)
Interest expense	<b>2,173</b>	878	<b>4,111</b>	1,658
Depreciation	<b>840</b>	1,593	<b>3,232</b>	3,077
Amortisation	<b>123</b>	24	<b>239</b>	31
	<b><u>123</u></b>	<b><u>24</u></b>	<b><u>239</u></b>	<b><u>31</u></b>

**5. Taxation**

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period and the six-month period ended 30 June 2003 (2002: Nil).

The United States subsidiary had no assessable profit subject to United States federal income tax and California State income tax and, consequently, was liable to California State income tax of approximately HK\$7,000 (2002: HK\$7,000), being the minimum amount for a company in a tax loss position.

No provision for Mainland China enterprise income tax was made as the Mainland China subsidiaries (except for one subsidiary in Shanghai which was liable to an income tax of approximately HK\$42 (2002: Nil) and HK\$192 (2002: Nil) during the three-month period and the six-month period ended 30 June 2003 respectively) had no assessable profit during the three-month period and the six-month period ended 30 June 2003 (2002: Nil).

No provision for Taiwan income tax was made as the Group had no assessable profit in Taiwan during the three-month period and the six-month period ended 30 June 2003 (2002: Nil).

There was no significant unprovided deferred taxation for the three-month period and the six-month period ended 30 June 2003 (2002: Nil).

**6. (Loss)/Profit per share**

The calculation of the basic (loss)/profit per share for the three-month period and the six-month period ended 30 June 2003 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$9,219,000 (2002: profit of HK\$760,000) for the three-month period ended 30 June 2003 and the unaudited loss attributable to shareholders of approximately HK\$14,395,000 (2002: loss of HK\$6,002,000) for the six-month period ended 30 June 2003 and on the weighted average number of approximately 1,023,643,000 shares (2002: 1,022,643,000 shares) in issue during the three-month period ended 30 June 2003 and approximately 1,023,599,000 shares (2002: 1,022,637,000 shares) in issue during the six-month period ended 30 June 2003.

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

**7. Intangible assets**

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



**FINANCIAL RESULTS** (Cont'd)**8. Trade receivables**

	<b>As at 30 June 2003 (Unaudited) HK\$'000</b>	<b>As at 31 December 2002 (Audited) HK\$'000</b>
Trade receivables (net of provision)	<u><b>15,312</b></u>	<u><b>18,188</b></u>

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

Aging analysis of trade receivables is as follows:

	<b>As at 30 June 2003 (Unaudited) HK\$'000</b>	<b>As at 31 December 2002 (Audited) HK\$'000</b>
Current to 90 days	<b>11,240</b>	16,662
91 to 180 days	<b>2,790</b>	520
Over 180 days	<b>1,282</b>	1,006
	<u><b>15,312</b></u>	<u><b>18,188</b></u>

**9. Trade payables**

	<b>As at 30 June 2003 (Unaudited) HK\$'000</b>	<b>As at 31 December 2002 (Audited) HK\$'000</b>
Trade creditors	<u><b>7,478</b></u>	<u><b>6,772</b></u>

Aging analysis of trade payables is as follows:

	<b>As at 30 June 2003 (Unaudited) HK\$'000</b>	<b>As at 31 December 2002 (Audited) HK\$'000</b>
Current to 90 days	<b>5,093</b>	5,783
91 to 180 days	<b>1,800</b>	258
Over 180 days	<b>585</b>	731
	<u><b>7,478</b></u>	<u><b>6,772</b></u>

**FINANCIAL RESULTS** (Cont'd)**10. Turnover and segment information**

The Group's turnover and contribution to (loss)/profit before taxation for the six-month period from 1 January to 30 June 2003, analyzed by principal activity and geographical location, are as follows:

	<b>Turnover</b>		<b>Contribution to (loss)/profit before taxation</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>From</b>	From	<b>From</b>	From
	<b>1 January to</b>	1 January to	<b>1 January to</b>	1 January to
	<b>30 June 2003</b>	30 June 2002	<b>30 June 2003</b>	30 June 2002
	<b>(unaudited)</b>	(unaudited)	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
a. <i>By principal activity:</i>				
– optical image capturing devices unit	<b>21,183</b>	5,306	<b>3,946</b>	1,271
– modules unit	<b>2,711</b>	7,199	<b>505</b>	1,724
– chips and other optoelectronic products unit	<b>62,589</b>	901	<b>11,660</b>	216
	<b><u>86,483</u></b>	<u>13,406</u>	<b><u>16,111</u></b>	<u>3,211</u>
Other income			<b>1,883</b>	10,025
Gain on disposal of interest in a subsidiary			–	2,508
Interest income			<b>133</b>	2,442
Finance costs			<b>(4,111)</b>	(1,658)
Selling and marketing expenses			<b>(8,716)</b>	(4,862)
Provision for bad and doubtful receivables			<b>(1,260)</b>	–
General and administrative expenses			<b>(14,955)</b>	(12,414)
Research and development expenses			<b>(4,884)</b>	(5,247)
Taxation			<b>(7)</b>	(7)
Minority interests			<b>1,411</b>	–
			<b><u>(14,395)</u></b>	<u>(6,002)</u>

**FINANCIAL RESULTS** (Cont'd)**10. Turnover and segment information** (Cont'd)

	<b>Turnover</b>		<b>Contribution to (loss)/profit before taxation</b>	
	<b>From 1 January to 30 June 2003 (unaudited) HK\$'000</b>	<b>From 1 January to 30 June 2002 (unaudited) HK\$'000</b>	<b>From 1 January to 30 June 2003 (unaudited) HK\$'000</b>	<b>From 1 January to 30 June 2002 (unaudited) HK\$'000</b>
b. By geographical location:				
– Australia	940	364	175	87
– Canada	1,074	–	200	–
– Fiji	–	194	–	47
– Korea	239	920	45	220
– Singapore	279	414	52	99
– Taiwan	49,324	957	9,189	229
– Hong Kong	2,835	1,423	528	341
– Mainland China	13,076	5,398	2,436	1,293
– Japan	168	947	31	227
– The United States of America	17,556	2,585	3,270	619
– The United Kingdom	979	29	182	7
– Others	13	175	3	42
	<b>86,483</b>	<b>13,406</b>	<b>16,111</b>	<b>3,211</b>
Other income			1,883	10,025
Gain on disposal of interest in a subsidiary			–	2,508
Interest income			133	2,442
Finance costs			(4,111)	(1,658)
Selling and marketing expenses			(8,716)	(4,862)
Provision for bad and doubtful receivables			(1,260)	–
General and administrative expenses			(14,955)	(12,414)
Research and development expenses			(4,884)	(5,247)
Taxation			(7)	(7)
Minority interests			1,411	–
			<b>(14,395)</b>	<b>(6,002)</b>

**11. Interim dividend**

The Board does not recommend the payment of an interim dividend for the three-month period and the six-month period ended 30 June 2003 (2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overview**

Facing a tough situation where the IT industry was badly hit by the Severe Acute Respiratory Syndrome (the "SARS") in the PRC, Taiwan and Hong Kong in the second quarter of year 2003, the Group managed to obtain a growth in turnover to approximately HK\$86.5 million for the first half-year of 2003, representing an increase of 545% over the same period last year. The increment in turnover is mainly contributed by the impressive increase in the sales of optical image capturing devices unit by 299% and the chips & other optoelectronic products (mainly LCD monitors) by 6,847% respectively. The Group recorded a net loss of approximately HK\$14.4 million for the six-month period ended 30 June 2003, representing an increase of 140% over the same period last year.

For the three months ended 30 June 2003, the Group achieved sales of approximately HK\$54.8 million, representing an increase of 1,739% over the same period last year. In addition, the Group's gross margin has improved from 1.7% to 15.6% resulting from (1) the economies of scale of production; (2) better control of production costs, and (3) the contribution of the sales of LCD monitors.

As at 30 June 2003, the Group had a total cash of approximately HK\$70.1 million and total bank loans of approximately HK\$167 million. The Group's current ratio was at 0.76 times.

### **Research and development**

For the three-month period ended 30 June 2003, the Group has completed the development of a variety of modules and systems products while successfully keeping the increment in its research and development expenses by only 7.1% as compared to the corresponding period last year.

The Group continues to enhance its 2D barcode technology. The prototype of 2D barcode scanner, which can be applied to different industries or government departments such as banks, custom departments, tax departments and immigration departments, is expected to be launched in the third quarter of year 2003.

The development of e-驗通, an A5 flat-bed ID card scanner with OCR function, has been completed. In view of the fact that e-驗通 has been well-received by the PRC market, the Group is negotiating with OEM customers and government departments outside the PRC. The Group believes that e-驗通 will bring in promising sales turnover to the Group as a whole.

The Group has completed the development and pilot-run of 200 dpi infrared CIS modules for scanning bank notes as well as 400 dpi A4 and A6 CIS modules for scanning lottery tickets and bank notes.

**MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)****Production**

The Directors are of the opinion that the current production capacity of three production lines for LCD monitors assembling and six production lines for scanners production are capable to fulfill the production needs in the coming year. The Group is still negotiating with various investors and business partners to develop Phase II and Phase III of its SYSCAN Hi-Tech Park.

**Sales and Marketing**

In consideration of the adverse effect of SARS on markets in the PRC, Taiwan and Hong Kong in the second quarter of year 2003, the Group temporarily suspended the majority of its planned marketing activities in these areas but still maintained product exposure by launching advertisements in different newspapers and magazines.

The Group has signed sales contracts for LCD monitors with three Taiwanese companies, namely Gvision Incorporated (致恩科技控股有限公司), Chuntex Electronic Co., Ltd. (中強電子股份有限公司) and Web-Com Allied Technologies, Inc. (華科聯合科技控股有限公司), which the Directors believe, would contribute substantial profit to the Group in the coming year.

**Investment/Divestment and Acquisition**

During the six-month period ended 30 June 2003, the Group did not make any new investment. However, the Group will evaluate new investment opportunities in order to bring in revenue to the Group.

**Financial Resources and Liquidity**

As at 30 June 2003, the Group had a cash balance of approximately HK\$70,094,000 and a pledged bank deposit of HK\$39,000,000. The RMB-denominated total bank borrowing of HK\$167,021,000 was secured by the Group's land use right, pledged deposits and the Group's office premises and motor vehicle in Shenzhen. These RMB-denominated bank borrowing comprised: (1) a one-year term loan of RMB116,000,000 which will mature in April 2004, (2) two bank loans of RMB40,000,000 and RMB20,000,000 which will respectively mature in August 2003 and April 2004, and (3) two mortgaged loans of RMB710,000 and RMB417,000 which will respectively mature in October 2012 and November 2007. The interest rates for the aforesaid bank loans range from 4.5% p.a. to 5.3% p.a.

As at 30 June 2003, the total current assets over the total current liabilities was 0.76 times. The ratio of all liabilities to total assets was about 56.8%.

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

As at 30 June 2003, the Group has no contingent liability as the Directors are aware.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)**

### **Intellectual Property**

The Directors believe that intellectual property is an important asset of the Group as our revenue is based on the fruits of years of vigorous research and development as well as marketing efforts. As of 30 June 2003, the Group had 13 trademarks, product names and logos applications filed under processing and had 10 trademarks approved and granted in different countries and regions. In addition, the Group had been granted 45 patents and 65 patents filed in different countries and regions under processing as of 30 June 2003.

### **Employees**

As at 30 June 2003, the Group has approximately 605 employees. The Directors believe that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include share options and performance bonus.

### **Future Prospects**

Despite the setback posed by SARS, the Group believes that the IT market is now picking up and plans to launch a few more new products in the next half year. The Group will step up its efforts in improving production efficiency and adopting more cost-effective marketing schemes with the aim of strengthening the Group's competitiveness and overall financial performance.

### **Retirement of Directors**

Pursuant to the service contract between Mr Joseph Liu (the non-executive director) and the Company, Mr Liu's terms of office expired on 31 March 2003. Both the Company and Mr Liu have agreed not to renew the service contract. Accordingly, Mr Liu ceased to be the non-executive director of the Company effective from 1 April 2003.

In accordance with Bye-law 99 of the Company's Bye-laws, Mr Zhang Hongru (the executive director) retired from office by rotation at the Company's annual general meeting ("AGM") held on 23 April 2003 and, being eligible, did not offer himself for re-election as director of the Company. As such, Mr Zhang ceased to be the executive director of the Company effective from the conclusion of the AGM.

The Board would like to express on behalf of the Company its appreciation and gratitude towards Mr Joseph Liu and Mr Zhang Hongru for their past contribution to the Group.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

### Long Positions in shares of the Company

Name	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr Cheung Wai	7,200,000		– 103,100,000 (Note 2)		– 110,300,000	10.78%
Mr Darwin Hu	38,400,000	16,156,000 (Note 1)		–	– 54,556,000	5.33%

Notes:

1. These shares were held by Mrs Sonya Hsiu-Yu Hu, the spouse of Mr Darwin Hu.
2. 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).

### Long positions in underlying shares of the Company

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

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

Since its adoption and up to 30 June 2003, no options have been granted to the Directors of the Company under both Share Option Scheme A and Scheme C.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (Cont'd)**  
**Long positions in underlying shares of the Company (Cont'd)**

Details of the options granted to the Directors of the Company under Share Option Scheme B since its adoption and up to 30 June 2003 were as follows:

<b>Name</b>	<b>Date of grant (dd/mm/yy)</b>	<b>Exercise period (dd/mm/yy)</b>	<b>Subscription price per share</b>	<b>No. of underlying shares comprising the options granted</b>	<b>No. of underlying shares comprising the options exercised</b>	<b>No. of underlying shares comprising the options lapsed</b>	<b>No. of underlying shares comprising the options outstanding</b>
Mr Cheung Wai	19/6/2000	19/6/2001 to 18/6/2010	HK\$0.33	5,000,000	-	-	5,000,000
Mr Darwin Hu	19/6/2000	19/6/2001 to 18/6/2010	HK\$0.33	5,000,000	-	-	5,000,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$0.206	18,000,000	-	-	18,000,000
				<u>28,000,000</u>	<u>-</u>	<u>-</u>	<u>28,000,000</u>

Save as disclosed above, as at 30 June 2003, none of the directors had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules.



**INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, as at 30 June 2003, there was no other person (other than a director or chief executive of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

**Long positions in shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Nature of interest</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Mr Cheung Wai (Note 1)	Beneficial owner	Personal & Corporate	110,300,000	10.78%
Mr Darwin Hu (Note 1)	Beneficial owner	Personal & Family	54,556,000	5.33%
Mr Joseph Liu (Note 2)	Beneficial owner	Personal & Family	72,000,000	7.03%

Notes:

1. *Details of the interests of Mr Cheung Wai and Mr Darwin Hu are duplicated in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS" disclosed above.*
2. *In addition to 19,200,000 shares held by Mr Joseph Liu, 52,800,000 shares are held by Messrs Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr Joseph Liu.*

**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”). As at 30 June 2003, details of all the share options (including the options granted to the directors of the Company disclosed above in the sub-section “Long positions in underlying shares of the Company” under the section “DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS”) under the Schemes were as follows:

**Scheme A**

Class of optionees	Date of grant	Exercise period	Subscription price per share	Number of underlying shares				Balance as at 30 June 2003
				Beginning of year	Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
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	22,240,000	-	-	(1,000,000)	21,240,000 (Note 1)
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
				34,160,000	-	-	(1,000,000)	33,160,000

Note:

- The weighted average closing price immediately before the date of exercise of options was HK\$0.093.

**EMPLOYEE SHARE OPTIONS (Cont'd)**  
**Scheme B**

Class of optionees	Date of grant	Exercise period	Subscription price per share	Number of underlying shares				Balance as at 30 June 2003
				Beginning of year	Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
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
	17 January 2001	17 January 2002 to 16 January 2011	HK\$0.206	18,000,000	-	-	-	18,000,000
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	4,670,000	-	(500,000)	-	4,170,000
	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	15,800,000	-	-	-	15,800,000
	13 August 2001	13 August 2002 to 12 August 2011	HK\$0.275	6,900,000	-	-	-	6,900,000
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	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
				<u>66,070,000</u>	<u>-</u>	<u>(500,000)</u>	<u>-</u>	<u>65,570,000</u>

**EMPLOYEE SHARE OPTIONS (Cont'd)**

**Scheme C**

Class of optionees	Date of grant	Exercise period	Subscription price per share	Number of underlying shares				Balance as at 30 June 2003
				Beginning of year	Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
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	32,560,000	-	(2,300,000)	-	30,260,000
	14 August 2002	14 August 2003 to 13 August 2012	HK\$0.10	11,350,000	-	-	-	11,350,000
	12 November 2002	12 November 2003 to 11 November 2012	HK\$0.10	2,500,000	-	-	-	2,500,000
	26 March 2003	26 March 2004 to 25 March 2013	HK\$0.10	-	24,070,000 (Note 1)	(600,000)	-	23,470,000
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
	14 August 2002	14 August 2003 to 13 August 2012	HK\$0.10	7,000,000	-	-	-	7,000,000
	12 November 2002	12 November 2003 to 11 November 2012	HK\$0.10	1,000,000	-	-	-	1,000,000
				<u>56,710,000</u>	<u>24,070,000</u>	<u>(2,900,000)</u>	<u>-</u>	<u>77,880,000</u>

*Note:*

1. The closing price immediately before the date of grant was HK\$0.074.

### **EMPLOYEE SHARE OPTIONS (Cont'd)**

The Directors consider it inappropriate to value all the options that can be granted during the six-month period ended 30 June 2003 under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would be meaningless and misleading to the shareholders.

Save as disclosed above, during the six-month period ended 30 June 2003, none of the Directors, employees and eligible optionees of the Company or its subsidiaries were granted share options to subscribe for shares in the Company.

### **COMPETING INTERESTS**

The Directors are not aware of, as at 30 June 2003, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

During the six-month period ended 30 June 2003, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

### **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied throughout the six-month period ended 30 June 2003 the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rule 5.28 to 5.39 of the GEM Listing Rules.

### **AUDIT COMMITTEE**

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

**AUDIT COMMITTEE** (Cont'd)

The Committee (who were of the opinion that the preparation of the unaudited results for the six-month period ended 30 June 2003 has complied with applicable accounting standards, the Stock Exchange's and legal requirements and that adequate disclosures had been made) has reviewed the Company's unaudited results for the six-month period ended 30 June 2003 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board

**SYSCAN Technology Holdings Limited**

**Cheung Wai**

*Chairman*

Hong Kong, 12 August 2003