

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

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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.*

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## Corporate Information

### Executive Directors

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

### Independent Non-executive Directors

Lo Wai Ming  
Fong Chi Wah

### Company Secretary

Chow Suk Han, *Caroline*

### Chief Financial Officer and Qualified Accountant

Chan Man Ching

### Compliance Officer

Cheung Wai

### Authorised Representatives

Cheung Wai  
Darwin Hu

### Audit Committee

Lo Wai Ming  
Fong Chi Wah

### 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

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

### Head Office and Principal Place of Business

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

### Stock Code

8083

## Financial Summary

(Amounts expressed in Hong Kong dollars)

A summary of the results and of the assets and liabilities of the Group for the last 5 financial years, as extracted from the audited financial statements, is set out below:-

## Consolidated Income Statements

|   | Years ended 31 December |                |                |                |                |
|---|-------------------------|----------------|----------------|----------------|----------------|
|   | 2003<br>\$'000          | 2002<br>\$'000 | 2001<br>\$'000 | 2000<br>\$'000 | 1999<br>\$'000 |
| Turnover  | 264,213                 | 41,752         | 34,170         | 32,200         | 6,022          |
| Cost of sales   | (216,834)               | (34,498)       | (25,191)       | (24,746)       | (5,733)        |
| Gross profit  | 47,379                  | 7,254          | 8,979          | 7,454          | 289            |
| Other revenue   | 10,672                  | 18,756         | 8,795          | 7,415          | 1,337          |
| Selling and distribution expenses                       | (18,482)                | (13,338)       | (5,958)        | (7,054)        | (4,350)        |
| General and administrative expenses                     | (33,673)                | (25,441)       | (27,074)       | (21,616)       | (16,409)       |
| Research and development expenses                       | (13,273)                | (10,400)       | (15,813)       | (19,389)       | (19,510)       |
| Provision for obsolete and<br>slow-moving inventories   | -                       | -              | (15,129)       | (4,878)        | -              |
| Provision for bad and doubtful trade<br>receivables     | (3,128)                 | (1,151)        | (11,861)       | (1,853)        | (195)          |
| Loss from operations                                    | (10,505)                | (24,320)       | (58,061)       | (39,921)       | (38,838)       |
| Finance costs   | (6,218)                 | (3,735)        | (2,248)        | -              | -              |
| Gain on disposal of interest<br>in a subsidiary company | -                       | 2,508          | -              | -              | -              |
| Loss before taxation                                    | (16,723)                | (25,547)       | (60,309)       | (39,921)       | (38,838)       |
| Taxation  | (7)                     | (7)            | (7)            | (7)            | (7)            |
| Loss after taxation                                     | (16,730)                | (25,554)       | (60,316)       | (39,928)       | (38,845)       |
| Minority interests                                      | 2,079                   | 951            | -              | -              | -              |
| Loss attributable to shareholders                       | (14,651)                | (24,603)       | (60,316)       | (39,928)       | (38,845)       |
| Dividend  | -                       | -              | -              | -              | -              |

## Financial Summary

(Amounts expressed in Hong Kong dollars)

## Consolidated Balance Sheets

|                                     | As at 31 December |                |                |                |                |
|-------------------------------------|-------------------|----------------|----------------|----------------|----------------|
|                                     | 2003<br>\$'000    | 2002<br>\$'000 | 2001<br>\$'000 | 2000<br>\$'000 | 1999<br>\$'000 |
| Intangible assets                   | 3,112             | 4,220          | –              | –              | –              |
| Properties, machinery and equipment | 46,581            | 47,311         | 19,968         | 17,212         | 16,788         |
| Properties under development        | 123,706           | 119,720        | 102,303        | 42,903         | –              |
| Long-term loan receivable           | 189               | –              | –              | –              | –              |
| Long-term investments               | 14,059            | 16,589         | 28,562         | 32,775         | –              |
| Current assets                      | 148,715           | 141,656        | 125,797        | 141,302        | 65,816         |
| Current liabilities                 | (195,405)         | (170,964)      | (99,039)       | (12,826)       | (8,244)        |
| Non-current liabilities             | (772)             | (921)          | –              | –              | –              |
| Minority interests                  | (1,518)           | (4,530)        | –              | –              | –              |
| Net assets                          | <u>138,667</u>    | <u>153,081</u> | <u>177,591</u> | <u>221,366</u> | <u>74,360</u>  |
| Capital and reserves:               |                   |                |                |                |                |
| Share capital                       | 1,024             | 102,264        | 102,256        | 88,887         | 193,153        |
| Reserves                            | 279,206           | 301,288        | 301,203        | 297,592        | 6,392          |
| Accumulated losses                  | (141,563)         | (250,471)      | (225,868)      | (165,113)      | (125,185)      |
| Shareholders' equity                | <u>138,667</u>    | <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 1999 and 2000 were prepared as if the current group structure had been in existence throughout those years.

## Chairman's Statement

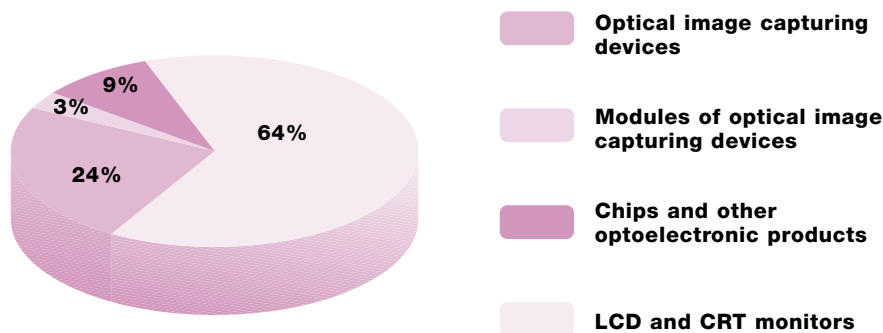
I am pleased to present to the shareholders herewith the annual results of SYSCAN Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2003.

### Turnover and Performance

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK\$264,213,000 (2002: HK\$41,752,000), representing an increase of approximately 532.8%. The audited loss attributable to shareholders was approximately HK\$14,651,000 (2002: HK\$24,603,000).

For the year ended 31 December 2003, the Group made other revenue of approximately HK\$10,672,000 (2002: HK\$18,756,000), representing a decrease of approximately 43.1%. The total revenue and income for the year ended 31 December 2003 reached approximately HK\$274,885,000 (2002: HK\$60,508,000), representing an increase of approximately 354.3% comparing with year 2002.

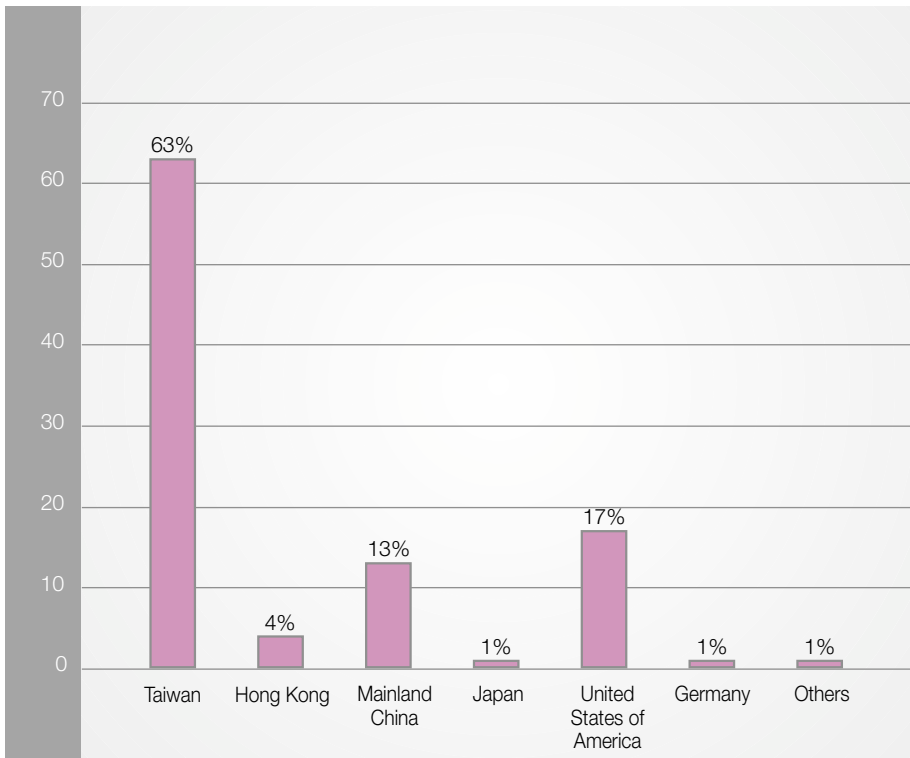
### Turnover Breakdown by Products





## Chairman's Statement

Turnover Breakdown by Geographical Location



### Prospects and Appreciation

The year of 2003 has been a difficult year for the Group and the year ahead will continue to be challenging given the economic uncertainties. The most important task for the Group is to continue to establish a stable revenue stream while maintaining stringent cost control. We will make our best effort in developing our business to produce good economic 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, 8 April 2004



## Management Discussion and Analysis

### Business Review

#### 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 LCD and CRT monitors, optical image capturing devices and related components. The Group's turnover of approximately HK\$264,213,000 for the year 2003 increased by approximately 532.8% as compared to the turnover of HK\$41,752,000 last year. The Group's gross profit margin had improved slightly from 17.4% in year 2002 to 17.9% in year 2003.

Due to the Group's effort in promoting sales and in better controlling production cost, selling and distribution expenses, general and administrative expenses, and research and development expenses, the Group recorded loss attributable to shareholders for the year 2003 of approximately HK\$14,651,000 comparing with a loss of HK\$24,603,000 for the year of 2002.

#### Research and Development

Due to the development of more new products in year 2003, the Group had increased its research and development expenses by 27.6% as compared to year 2002.

For the year under review, the Group continues to refine its 2D barcode technology. The Group is currently developing the application of its 2D barcode technology in credit cards, cigarette barcode reader and 2D barcode encrypt data transfer software. We are also refining the 2D barcode technology for use in banks, custom departments, tax departments and immigration departments.

The development of e-驗通, an A5 flat-bed ID card scanner with OCR function, has been completed. While e-驗通 receiving good response from the PRC market, the Group is also negotiating with other OEM customers and government departments outside the PRC.

#### Production and the Manufacturing Base – SYSCAN Hi-Tech Park

The Directors believe that the current production capacity of three production lines for LCD monitors assembly and six production lines for scanners production can fulfill the forthcoming production needs.

The Group is still negotiating with various investors and business partners in respect of the development of Phase II and Phase III of its SYSCAN Hi-Tech Park, the manufacturing arm of the Group.

In order to increase efficiency, the Group has combined the two factories for the production of LCD and CRT monitors and for the production of scanner products such that management of the combined factory could more efficiently and effectively allocate the Group's resources and minimize duplication. Also, the factory has implemented an ERP system to help increase the efficiency of production and such system has been running smoothly.

## Management Discussion and Analysis

### Business Review (Cont'd)

#### Sales and Marketing

The Group has participated in the "Cebit" held in Germany. A full collection of the Group's scanner products as well as barcode products were displayed in the "Frontline's International Supply Chain Week 2003". The Group has also launched advertisements in different newspapers and magazines.

The Group has signed sales contracts for LCD monitors with Pro Arch Technology Incorporation (光威電腦股份有限公司), 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 profits to the Group in the coming year.

In the western markets, the Group's business continues to flourish in the OEM design and manufacturing markets. Highlighting this growth were the agreements signed with Digimarc Corporation (NASDAQ: DMRC) to provide specialized security scanners that utilize their proprietary digital watermarking technologies. In the European markets, sales to the value-added reseller (VAR) sector have grown by over 200%, reducing the dependency on more traditional retail channels. Additionally, the Group has completed OEM deals with PENTAX, Datacolor and Visioneer, to provide advanced document management systems for delivery throughout the year of 2004.

#### Investment

During the year under review, the Group has increased its investment in 深圳市華實信達科技發展有限公司 from 59.9% to 70%.

In addition, the Group further invested in 深圳市世紀開元實業有限公司 such that the Group's equity interest increased from 70% to 85%.

#### Capital Reorganization

At the special general meeting ("SGM") held on 6 October 2003, shareholders of the Company approved (1) the capital reorganization involving capital reduction, share consolidation and capital increase (collectively "Capital Reorganization"); (2) reduction of Share Premium Account ("Share Premium Reduction"); and (3) placing ("Placing") of new consolidated shares (subject to over-allotment option), details of which have been provided in the circular dated 10 September 2003.

In view of the fact that Company's shares have been traded at prices below their nominal value and to facilitate the Placing and any fund-raising exercise or asset acquisition by way of allotment or placement of shares when the Board considers the circumstances so require in the future, the Board considered the Capital Reorganization, Share Premium Reduction and Placing be in the best interests of the Company and its shareholders as a whole. The Placing, Capital Reorganization and the Share Premium Reduction became effective on 7 October 2003 upon approval from the shareholders at the SGM. The proposed Placing was then terminated by the Placing Agent, with the consent of the Company, due to poor market response.

## Management Discussion and Analysis

### Financial Resources and Liquidity

As of 31 December 2003, the Group had a cash and bank balances of approximately HK\$24,759,000. The RMB-denominated short term bank borrowing of approximately HK\$128,302,000, which was secured by the Group's land use right and the Group's office premises in Shenzhen, will mature during the period from April 2003 to April 2004. The interest rates of these short term loans were 5.31% p.a. The Group also has two RMB-denominated mortgage loans totalling HK\$913,000. 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 2003, the total current assets over the total current liabilities was 0.8 times. The ratio of all debts to total assets was about 38%.

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

As at 31 December 2003, the Group has no contingent liability as the Directors are aware.

### Intellectual Property and Legal Action

During the year 2003, the Group had 21 trademarks, product names and logos registered in different countries and regions, of which 19 trademarks have been approved. As of 31 December 2003, the Group has been granted 57 patents and have 68 patents filed in different countries and regions under processing.

For the year 2003, the Group has aggressively taken action to protect the broad base of intellectual property ("IP") established by the Group. In the western market, these actions have been largely focused at manufacturers and their channel partners that have been in direct infringement of our Lightweight Mobile Scanners patent (6,275,309), and our Lightweight Dual-Mode Mobile Scanner Powered from a Universal Serial Bus Port patent (6,459,506). In the process of making numerous notifications and several legal filings against offending parties, we have achieved several favorable settlements and subsequent licensing agreements including with two global branding companies. The parties that we have successfully established licenses include Plustek LTD (Taiwan and USA) as well as COREX Technologies (USA and Europe). In the PRC market, the Group has been successfully granted Government subsidies for our related expenses spent on IP as the Group is recognized as "hi-tech company" from the Government. Publication of the list of the Group's IP and its policies have been made in the PRC Intellectual Department Website, which the Directors believe, will effectively prevent others to infringe our IP in the PRC market. In addition, the Group has been conducting researches and providing regular training to its related staffs to keep up with latest development in the IP knowledge. In the coming year, the Group will continue to zealously defend the Group's IP, thereby also protecting the rights of our valued OEM and channel customer base.

## Management Discussion and Analysis

### Employees

As at 31 December 2003, the Group had 606 employees. The Directors believe that the quality of the 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

The most important task of the Group is to continue to actively establish stable revenue stream and maintain stringent cost control. In this respect, the Group, at the beginning of 2004, has simplified its corporate structure into seven profits centres, each specialising in its own business functions, and an ERP system was implemented in the Group's factory to better allocate its resources and reducing the production and operation costs.

Looking ahead, the Group is cautious optimism towards its business in years to come. The Group will develop and introduce more new products into its sales channels in order to broaden its revenue base and devote best efforts in defending its patent rights from illegal infringement with the aim of strengthening the Group's competitiveness, thereby propelling the Group to a more promising growth track.

## Profiles of Directors and Senior Management

### Executive Directors

Mr Cheung Wai, aged 53, 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 27 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 51, 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 21 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.

### Independent Non-executive Directors

Mr Lo Wai Ming, aged 52, is the founder and president of Greater China Asset Management Limited. Mr Lo has over 27 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 Group in 2000.

Mr Fong Chi Wah, aged 42, is a Certified Practicing Accountant (Australia), a Chartered Financial Analyst and a member of the Hong Kong Institute of Directors. Mr Fong has over 18 years of extensive experience in various sectors of the financial industry, including direct investment, project and structured finance, and capital markets with focus on the PRC and Hong Kong. Mr Fong was a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. He was appointed as an independent non-executive director of the Group on 19 December 2003.

### Senior Management

Mr William Hawkins, aged 48, is the Chief Operating Officer of the Group's Western Business Group. Mr Hawkins has over 20 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.

## Profiles of Directors and Senior Management

Mr Alpha Hou, aged 50, is the Chief Technological Officer of the Group. Mr Hou has over 19 years' experiences in imaging system product development and engineering management in design and scanning and display industry including Microtek, Trident, Genoa, Alpha Vision, Grundig and RCA. He holds a bachelor's degree in Engineering from Northwestern Polytechnic University, USA.

Dr Zhang Fu, aged 40, is the Chief Operating Officer of the Group's China Business Group. Dr Zhang has over 11 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.

Mr Joseph Kung, aged 51, is the Chief Operating Officer of the Group's manufacturing arm in the SYSCAN Hi-Tech Park. He has over 22 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 42, is the Vice-President of SYSCAN, Inc. (a U.S. subsidiary company), and is responsible for system product engineering especially in software development, sales and manufacturing support and for existing product improvement. He has over 18 years of experience in system engineering especially in software development. Before joining the Group in July 1999, Mr Huang held various senior positions in ACC Microelectronics Corporation, Artis Corp (Microtek Graphic Arts Business Division) and O<sub>2</sub> Micro, Inc. He holds a bachelor's degree in electrical engineering from Northwestern Polytechnic University, CA, USA.

Mr Chan Man Ching, aged 35, is the Qualified Accountant and 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 11 years' experience in accounting and auditing. Mr Chan joined the Group in 2000.

Ms Chow Suk Han, Caroline, aged 34, 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 11 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 2003.

### 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 LCD and CRT monitors, 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 14 to the accompanying financial statements.

An analysis of the Group’s turnover and loss attributable to shareholders by product category and geographical location for the year ended 31 December 2003, are as follows:

|  | <b>Turnover</b> | <b>Loss attributable</b> |
|--|-----------------|--------------------------|
|  | HK\$’000        | to shareholders          |
|  |                 | HK\$’000                 |
| <b>a. By product category</b>                |                 |                          |
| – Optical image capturing devices            | 62,249          | 3,452                    |
| – Modules of optical image capturing devices | 8,749           | 485                      |
| – Chips and other optoelectronic products    | 25,327          | 1,404                    |
| – LCD and CRT monitors                       | 167,888         | 9,310                    |
|  | <u>264,213</u>  | <u>14,651</u>            |

## Report of the Directors

## Principal Activities (Cont'd)

|                                     | Turnover<br>HK\$'000 | Loss attributable<br>to shareholders<br>HK\$'000 |
|-------------------------------------|----------------------|--|
| <b>b. By geographical location*</b> |                      |  |
| – Taiwan                            | 166,829              | 9,251  |
| – Hong Kong                         | 10,230               | 567  |
| – Mainland China                    | 34,597               | 1,918  |
| – Japan                             | 262                  | 15   |
| – The United States of America      | 46,448               | 2,576  |
| – Belgium                           | 222                  | 12   |
| – Korea                             | 724                  | 40   |
| – Singapore                         | 518                  | 29   |
| – France                            | 579                  | 32   |
| – Germany                           | 2,596                | 144  |
| – Italy                             | 765                  | 42   |
| – Others                            | 443                  | 25   |
|                                     | 264,213              | 14,651   |

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

## Customers and Suppliers

For the year ended 31 December 2003, the five largest customers accounted for approximately 82% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 29% of the Group's total purchases. The largest customer accounted for approximately 27% of the Group's total turnover while the largest supplier accounted for approximately 16% 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 2003 are set out in the consolidated income statement on page 33 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately HK\$141,563,000 as at 31 December 2003 be carried forward.



## Report of the Directors

### Share Capital

Details of share capital of the Company are set out in Note 23 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 25 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 33 of this annual report.

As at 31 December 2003, 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 14 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 12 and 13 respectively to the accompanying financial statements.

### Bank Borrowings

Particulars of bank borrowings as at 31 December 2003 are set out in Notes 20 and 22 to the accompanying financial statements.

### Employee Retirement Benefits

Details of the Group's pension schemes are set out in Note 27 to the accompanying financial statements.

### Connected Transactions

Details of connected transactions are set out in Note 29 to the accompanying financial statements.

## Report of the Directors

### 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 (retired on 23 April 2003)

#### Non-executive director

Mr Joseph Liu (ceased to be director on 1 April 2003 upon expiry of service contract)

#### Independent non-executive directors

Mr Lo Wai Ming

Mr Lo Hang Fong (service contract terminated on 31 December 2003)

Mr Fong Chi Wah (appointed on 19 December 2003)

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 2003.

Pursuant to a service contract entered into between Mr Fong Chi Wah and the Company, Mr Fong agreed to act as an independent non-executive director and a member of the audit committee of the Company for a term of three years commencing from 19 December 2003.

Pursuant to the service contract between Mr Lo Hang Fong (the independent non-executive director) and the Company, both parties have agreed to terminate the service contract whereby Mr Lo ceased to be the independent non-executive director and a member of the audit committee effective from 31 December 2003.

Taking this opportunity, the Board expresses on behalf of the Company great appreciation and gratitude to Mr Joseph Liu, Mr Zhang Hongru and Mr Lo Hang Fong for their past contribution to the Group and welcomes Mr Fong Chi Wah to join the Board of Directors.

In accordance with Bye-law 102(A) of the Company's Bye-Laws, Mr Fong Chi Wah retires and, being eligible, offer himself for re-election at the forthcoming AGM.

## Report of the Directors

### Directors (Cont'd)

In accordance with Bye-law 99 of the Company's Bye-Laws, Mr Darwin Hu will retire from office by rotation at the forthcoming AGM, and being eligible, offer himself for re-election at the forthcoming AGM.

### Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company for an initial term of four years commencing from 1 April 2000.

Mr Lo Wai Ming and Mr Fong Chi Wah, the independent non-executive directors, have entered into service contracts 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 Fong Chi Wah, 19 December 2003.

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' Interests in Shares

As at 31 December 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          | Personal interests | Number of ordinary shares held |                        |                 | Total      | Percentage of issued share capital |
|---------------|--------------------|--------------------------------|------------------------|-----------------|------------|------------------------------------|
|               |                    | Family interests               | Corporate interests    | Other interests |            |                                    |
| Mr Cheung Wai | 720,000            | -                              | 10,310,000<br>(Note 2) | -               | 11,030,000 | 10.78%                             |
| Mr Darwin Hu  | 3,840,000          | 1,615,600<br>(Note 1)          | -                      | -               | 5,455,600  | 5.33%                              |

## Report of the Directors

### Directors' Interests in Shares (Cont'd)

#### Long Positions in shares of the Company (Cont'd)

Notes:

1. *These shares were held by Mrs Sonya Hsiu-Yu Hu, the spouse of Mr Darwin Hu.*
2. *4,800,000 shares and 5,510,000 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).*
3. *The number of shares has been adjusted by divided by 10 pursuant to a capital reorganization which took effect on 7 October 2003.*

#### 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 then 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 31 December 2003, no options have been granted to the Directors of the Company under each of Share Option Scheme A and Scheme C.

## Report of the Directors

## Directors' Interests in Shares (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 31 December 2003 were as follows:

| Name          | Date of grant   | Exercise period                          | Subscription price per share | No. of underlying shares comprising the options granted | No. of underlying shares comprising the options exercised | No. of underlying shares comprising the options lapsed | No. of underlying shares comprising the options outstanding |
|---------------|-----------------|--|------------------------------|---|---|--|---|
| Mr Cheung Wai | 19 June 2000    | 19 June 2001<br>to<br>18 June 2010       | HK\$3.30                     | 500,000   | -   | -  | 500,000   |
| Mr Darwin Hu  | 19 June 2000    | 19 June 2001<br>to<br>18 June 2010       | HK\$3.30                     | 500,000   | -   | -  | 500,000   |
|               | 17 January 2001 | 17 January 2002<br>to<br>16 January 2011 | HK\$2.06                     | 1,800,000   | -   | -  | 1,800,000   |
|               |                 |  |                              | 2,800,000   | -   | -  | 2,800,000   |

## Notes:

The number of shares and subscription price per share have been adjusted by divided by 10 and multiplied by 10 respectively pursuant to a capital reorganization which took effect on 7 October 2003.

Save as disclosed above, as at 31 December 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.

## Report of the Directors

### Interests Discloseable under the SFO and Substantial Shareholders

Save as disclosed below, as at 31 December 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

| Name                   | Capacity         | Nature of interest   | Number of shares | Percentage of issued share capital |
|------------------------|------------------|----------------------|------------------|------------------------------------|
| Mr Cheung Wai (Note 1) | Beneficial owner | Personal & Corporate | 11,030,000       | 10.78%                             |
| Mr Darwin Hu (Note 1)  | Beneficial owner | Personal & Family    | 5,455,600        | 5.33%                              |
| Mr Joseph Liu (Note 2) | Beneficial owner | Personal & Family    | 7,200,000        | 7.03%                              |

Notes:

1. Details of the interests of Mr Cheung Wai and Mr Darwin Hu are duplicated in the section "Directors' Interests in Shares" disclosed above.
2. In addition to 1,920,000 shares held by Mr Joseph Liu, 5,280,000 shares are held by Messrs Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr Joseph Liu.
3. The number of shares has been adjusted by divided by 10 pursuant to a capital reorganization which took effect on 7 October 2003.

### 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 GEM.

## Report of the Directors

### Employee Share Options (Cont'd)

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

(f) *Summary of the terms of Scheme A (Cont'd)*

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 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 2003 were as follows:

| Class of Optionees  | Date of grant                | Exercise period              | Subscription price per share | Beginning of year | Number of shares             |                             |                                |  |  | Subscription price adjusted by                           |   | Number of shares             |                             |                                | End of year |
|---|------------------------------|------------------------------|------------------------------|-------------------|------------------------------|-----------------------------|--------------------------------|--|--|--|---|------------------------------|-----------------------------|--------------------------------|-------------|
|   |                              |                              |                              |                   | Granted up to 6 October 2003 | Lapsed up to 6 October 2003 | Exercised up to 6 October 2003 | reorganization effective on 7 October 2003 | reorganization effective on 7 October 2003 | Outstanding balance adjusted by 10 pursuant to a capital | Subscription price per share adjusted by 10 pursuant to a capital | Granted since 8 October 2003 | Lapsed since 8 October 2003 | Exercised since 8 October 2003 |             |
|   |                              |                              |                              |                   |                              |                             |                                |  |  |  |   |                              |                             |                                |             |
| 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 to 1 March 2010 | 2 March 2000 to 1 March 2010 | HK\$0.04844                  | 22,240,000        | -                            | -                           | (1,000,000)<br>(Note 1)        | 2,124,000                                  | HK\$0.4844                                 | -  | -   | -                            | -                           | -                              | 2,124,000   |
| Suppliers of goods and services   | -                            | -                            | -                            | -                 | -                            | -                           | -                              | -  | -  | -  | -   | -                            | -                           | -                              | -           |
| All other optionees   | 2 March 2000 to 1 March 2010 | 2 March 2000 to 1 March 2010 | HK\$0.04844                  | 11,760,000        | -                            | -                           | -                              | 1,176,000                                  | HK\$0.4844                                 | -  | (32,000)  | -                            | -                           | 1,144,000                      |             |
|   | 2 March 2000 to 1 March 2010 | 2 March 2000 to 1 March 2010 | HK\$0.02422                  | 160,000           | -                            | -                           | -                              | 16,000                                     | HK\$0.2422                                 | -  | (16,000)  | -                            | -                           | -                              |             |
|   |                              |                              |                              | 34,160,000        | -                            | -                           | (1,000,000)                    | 3,316,000                                  |  | -  | (48,000)  | -                            | -                           | 3,268,000                      |             |

Note:

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



## 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 the Company, 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 GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on 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 2003 were as follows:

| Class of Optionees  | Date of grant                      | Exercise period                    | Subscription price per share | Beginning of year | Number of shares             |                             |                                |  |  |                              | Subscription price per share adjusted by multiplied by 10 pursuant to a capital reorganization effective on 7 October 2003 | Number of shares            |                                |   | End of year |
|---|------------------------------------|------------------------------------|------------------------------|-------------------|------------------------------|-----------------------------|--------------------------------|--|--|------------------------------|--|-----------------------------|--------------------------------|---|-------------|
|   |                                    |                                    |                              |                   | Granted up to 6 October 2003 | Lapsed up to 6 October 2003 | Exercised up to 6 October 2003 | reorganization effective on 7 October 2003 | reorganization effective on 7 October 2003 | Granted since 8 October 2003 |  | Lapsed since 8 October 2003 | Exercised since 8 October 2003 |   |             |
|   |                                    |                                    |                              |                   |                              |                             |                                |  |  |                              |  |                             |                                | Outstanding balance adjusted by multiplied by 10 pursuant to a capital reorganization effective on 7 October 2003 |             |
| Directors, chief executive, management shareholder, substantial shareholder | 19 June 2000 to 18 June 2010       | 19 June 2001 to 18 June 2010       | HK\$0.33                     | 10,000,000        | -                            | -                           | -                              | 1,000,000                                  | HK\$3.30                                   | -                            | -  | -                           | 1,000,000                      |   |             |
|   | 17 January 2001 to 16 January 2011 | 17 January 2002 to 16 January 2011 | HK\$0.206                    | 18,000,000        | -                            | -                           | -                              | 1,800,000                                  | HK\$2.06                                   | -                            | -  | -                           | 1,800,000                      |   |             |
| Optionees with options granted in excess of individual limit                | -                                  | -                                  | -                            | -                 | -                            | -                           | -                              | -  | -  | -                            | -  | -                           | -                              |   |             |
| Employees working under continuous employee contracts                       | 12 July 2000 to 11 July 2010       | 12 July 2001 to 11 July 2010       | HK\$0.246                    | 4,670,000         | -                            | (620,000)                   | -                              | 405,000                                    | HK\$2.46                                   | -                            | -  | -                           | 405,000                        |   |             |
|   | 4 December 2000 to 3 December 2010 | 4 December 2001 to 3 December 2010 | HK\$0.1016                   | 1,700,000         | -                            | -                           | -                              | 170,000                                    | HK\$1.016                                  | -                            | -  | -                           | 170,000                        |   |             |
|   | 17 January 2001 to 16 January 2011 | 17 January 2002 to 16 January 2011 | HK\$0.206                    | 15,800,000        | -                            | (400,000)                   | -                              | 1,540,000                                  | HK\$2.06                                   | -                            | -  | -                           | 1,540,000                      |   |             |
|   | 13 August 2001 to 12 August 2011   | 13 August 2002 to 12 August 2011   | HK\$0.275                    | 6,900,000         | -                            | (1,200,000)                 | -                              | 570,000                                    | HK\$2.75                                   | -                            | -  | -                           | 570,000                        |   |             |

## 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 2003 were as follows: (Cont'd)

| Class of Optionees              | Date of grant                      | Exercise period                    | Subscription price per share | Beginning of year | Number of shares             |                             |                                |  |  | Subscription price  |  | Number of shares             |                             |                                | End of year |
|---------------------------------|------------------------------------|------------------------------------|------------------------------|-------------------|------------------------------|-----------------------------|--------------------------------|--|--|---|--|------------------------------|-----------------------------|--------------------------------|-------------|
|                                 |                                    |                                    |                              |                   | Granted up to 6 October 2003 | Lapsed up to 6 October 2003 | Exercised up to 6 October 2003 | reorganization effective on 7 October 2003 | reorganization effective on 7 October 2003 | Outstanding balance adjusted by divided by 10 pursuant to a capital | price per share adjusted by multiplied by 10 pursuant to a capital | Granted since 8 October 2003 | Lapsed since 8 October 2003 | Exercised since 8 October 2003 |             |
|                                 |                                    |                                    |                              |                   |                              |                             |                                |  |  |   |  |                              |                             |                                |             |
| Suppliers of goods and services | -                                  | -                                  | -                            | -                 | -                            | -                           | -                              | -  | -  | -   | -  | -                            | -                           | -                              | -           |
| All other optionees             | 4 December 2000 to 3 December 2010 | 4 December 2001 to 3 December 2010 | HK\$0.1016                   | 5,000,000         | -                            | -                           | -                              | 500,000                                    | HK\$1.016                                  | -   | -  | -                            | -                           | 500,000                        |             |
|                                 | 17 January 2001 to 16 January 2011 | 17 January 2002 to 16 January 2011 | HK\$0.206                    | 4,000,000         | -                            | -                           | -                              | 400,000                                    | HK\$2.06                                   | -   | -  | -                            | -                           | 400,000                        |             |
|                                 |                                    |                                    |                              | 66,070,000        | -                            | (2,220,000)                 | -                              | 6,385,000                                  |  | -   | -  | -                            | -                           | 6,385,000                      |             |

## 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 the Company 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 GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on 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% of the total number of shares in issue.

The total number of shares available for issue under Scheme C is 2,683,432 (representing approximately 2.62% 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 2003 were as follows:

| Class of Optionees  | Date of grant                        | Exercise period                      | Subscription price per share | Beginning of year | Number of shares             |                             |                                |   |  | Subscription price per share adjusted by |                             | Number of shares               |              |              | End of year |
|---|--------------------------------------|--------------------------------------|------------------------------|-------------------|------------------------------|-----------------------------|--------------------------------|---|--|--|-----------------------------|--------------------------------|--------------|--------------|-------------|
|   |                                      |                                      |                              |                   | Granted up to 6 October 2003 | Lapsed up to 6 October 2003 | Exercised up to 6 October 2003 | Outstanding balance adjusted by 10 pursuant to a capital reorganization effective on 7 October 2003 | Subscription price per share adjusted by 10 pursuant to a capital reorganization effective on 7 October 2003 | Granted since 8 October 2003             | Lapsed since 8 October 2003 | Exercised since 8 October 2003 |              |              |             |
|   |                                      |                                      |                              |                   |                              |                             |                                |   |  |  |                             |                                | October 2003 | October 2003 |             |
| 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 to 13 May 2012           | 14 May 2003 to 13 May 2012           | HK\$0.1412                   | 32,560,000        | -                            | (3,950,000)                 | -                              | 2,861,000   | HK\$1.412  | -  | -                           | -                              | -            | 2,861,000    |             |
|   | 14 August 2002 to 13 August 2012     | 14 August 2003 to 13 August 2012     | HK\$0.10                     | 11,350,000        | -                            | -                           | -                              | 1,135,000   | HK\$1.00   | -  | -                           | -                              | -            | 1,135,000    |             |
|   | 12 November 2002 to 11 November 2012 | 12 November 2003 to 11 November 2012 | HK\$0.10                     | 2,500,000         | -                            | -                           | -                              | 250,000   | HK\$1.00   | -  | -                           | -                              | -            | 250,000      |             |
|   | 26 March 2003 to 25 March 2013       | 26 March 2004 to 25 March 2013       | HK\$0.10                     | -                 | 24,070,000                   | (1,600,000)                 | -                              | 2,247,000   | HK\$1.00   | -  | (160,000)                   | -                              | -            | 2,087,000    |             |
|   | 13 August 2003 to 12 August 2013     | 13 August 2004 to 12 August 2013     | HK\$0.10                     | -                 | 2,800,000                    | -                           | -                              | 280,000   | HK\$1.00   | -  | -                           | -                              | -            | 280,000      |             |

## 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 2003 were as follows: (Cont'd)

| Class of Optionees              | Date of grant                        | Exercise period                      | Subscription price per share | Beginning of year | Number of shares             |                             |                                |  |  |  | Subscription price per share adjusted by                          |                              | Number of shares            |                                |                              | End of year |
|---------------------------------|--------------------------------------|--------------------------------------|------------------------------|-------------------|------------------------------|-----------------------------|--------------------------------|--|--|--|---|------------------------------|-----------------------------|--------------------------------|------------------------------|-------------|
|                                 |                                      |                                      |                              |                   | Granted up to 6 October 2003 | Lapsed up to 6 October 2003 | Exercised up to 6 October 2003 | reorganization effective on 7 October 2003 | reorganization effective on 7 October 2003 | Outstanding balance adjusted by 10 pursuant to a capital | Subscription price per share adjusted by 10 pursuant to a capital | Granted since 8 October 2003 | Lapsed since 8 October 2003 | Exercised since 8 October 2003 |                              |             |
|                                 |                                      |                                      |                              |                   |                              |                             |                                |  |  |  |   |                              |                             |                                | Granted since 8 October 2003 |             |
| Suppliers of goods and services | -                                    | -                                    | -                            | -                 | -                            | -                           | -                              | -  | -  | -  | -   | -                            | -                           | -                              | -                            | -           |
| All other optionees             | 14 May 2002 to 13 May 2012           | 14 May 2003 to 13 May 2012           | HK\$0.1412                   | 2,300,000         | -                            | -                           | -                              | 230,000                                    | HK\$1.412                                  | -  | (100,000)   | -                            | 130,000                     |                                |                              |             |
|                                 | 14 August 2002 to 13 August 2012     | 14 August 2003 to 13 August 2012     | HK\$0.10                     | 7,000,000         | -                            | -                           | -                              | 700,000                                    | HK\$1.00                                   | -  | -   | -                            | 700,000                     |                                |                              |             |
|                                 | 12 November 2002 to 11 November 2012 | 12 November 2003 to 11 November 2012 | HK\$0.10                     | 1,000,000         | -                            | -                           | -                              | 100,000                                    | HK\$1.00                                   | -  | -   | -                            | 100,000                     |                                |                              |             |
|                                 |                                      |                                      |                              | 56,710,000        | 26,870,000                   | (5,550,000)                 | -                              | 7,803,000                                  |  | -  | (260,000)   | -                            | 7,543,000                   |                                |                              |             |

## Notes:

1. The closing price immediately before the date of grant was HK\$0.074.
2. The closing price immediately before the date of grant was HK\$0.064.

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

## Report of the Directors

### 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 2003.

### Financial Summary

A summary of the consolidated income statements and consolidated balance sheets of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 3 and 4 of this annual report. This summary does not form part of the audited financial statements.

### 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-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The audit committee comprises two independent non-executive directors, namely Mr Lo Wai Ming and Mr Fong Chi Wah. The Committee has met 4 times since 1 January 2003 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 were audited by Messrs Charles Chan, Ip & Fung CPA Limited. A resolution for the re-appointment of Messrs Charles Chan, Ip & Fung CPA Limited as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**CHEUNG WAI**

*Chairman*

**DARWIN HU**

*Director and Chief Executive Officer*

Hong Kong, 8 April 2004

## 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, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Friday, 7 May 2004 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 2003;
2. To elect Directors and to authorise the Board of Directors to fix the remuneration of the Directors; and
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.

By order of the Board  
**SYSCAN Technology Holdings Limited**  
**Cheung Wai**  
Chairman

Hong Kong, 8 April 2004

*Notes:*

1. *The Register of Members of the Company will be closed on Wednesday, 5 May 2004 and Thursday, 6 May 2004, 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.*
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, 8/F, 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 33 to 78 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **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.

## Auditors' Report

### **Fundamental uncertainty**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. Note 2 to the financial statements explains that the directors are confident that the Group will be able to rollover or replace the majority of the short-term bank loans and the Group's future operations will be profitable. The financial statements have been prepared on a going concern basis and our opinion is not qualified in this respect. Accordingly, the financial statements do not reflect any adjustments which may be required should the Group be unable to continue as a going concern.

### **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 2003 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, 8 April 2004

**Chan Wai Dune, Charles**

*Practising Certificate Number P00712*

## Consolidated Income Statement

For the year ended 31 December 2003

|  | Note | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------|------------------|------------------|
| Turnover   | 5    | 264,213          | 41,752           |
| Cost of sales  |      | (216,834)        | (34,498)         |
| Gross profit   |      | 47,379           | 7,254            |
| Other revenue  | 5    | 10,672           | 18,756           |
| Selling and distribution expenses                    |      | (18,482)         | (13,338)         |
| General and administrative expenses                  |      | (33,673)         | (25,441)         |
| Research and development expenses                    |      | (13,273)         | (10,400)         |
| Provision for bad and doubtful trade receivables     |      | (3,128)          | (1,151)          |
|  |      | (68,556)         | (50,330)         |
| Loss from operations                                 |      | (10,505)         | (24,320)         |
| Finance costs  |      | (6,218)          | (3,735)          |
| Gain on disposal of interest in a subsidiary company |      | -                | 2,508            |
| Loss before taxation                                 | 6    | (16,723)         | (25,547)         |
| Taxation   | 8    | (7)              | (7)              |
| Loss after taxation                                  |      | (16,730)         | (25,554)         |
| Minority interests                                   |      | 2,079            | 951              |
| Loss attributable to shareholders                    | 9    | (14,651)         | (24,603)         |
| Accumulated losses brought forward                   |      | (250,471)        | (225,868)        |
| Transfer to reserves                                 | 25   | 123,559          | -                |
| Accumulated losses carried forward                   |      | (141,563)        | (250,471)        |
| Loss per share – Basic                               | 10   | (14.31) cents    | (24.06) cents    |

The notes on pages 39 to 78 form an integral part of these financial statements.

## Balance Sheets

As at 31 December 2003

|  | Note | Consolidated     |                  | Company          |                  |
|--|------|------------------|------------------|------------------|------------------|
|  |      | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| <b>Non-current assets</b>                      |      |                  |                  |                  |                  |
| Intangible assets                              | 11   | 3,112            | 4,220            | -                | -                |
| Properties, machinery and equipment            | 12   | 46,581           | 47,311           | -                | -                |
| Properties under development                   | 13   | 123,706          | 119,720          | -                | -                |
| Investment in subsidiaries                     | 14   | -                | -                | 59,252           | 150,537          |
| Long-term loan receivable                      | 15   | 189              | -                | -                | -                |
| Long-term investments                          | 16   | 14,059           | 16,589           | -                | -                |
| <b>Total non-current assets</b>                |      | <b>187,647</b>   | <b>187,840</b>   | <b>59,252</b>    | <b>150,537</b>   |
| <b>Current assets</b>                          |      |                  |                  |                  |                  |
| Inventories                                    | 17   | 60,083           | 28,337           | -                | -                |
| Trade receivables                              | 18   | 48,424           | 18,188           | -                | -                |
| Prepayments, deposits and other receivables    |      | 15,449           | 23,545           | 460              | 380              |
| Pledged bank deposits                          |      | -                | 39,000           | -                | -                |
| Cash and bank balances                         | 19   | 24,759           | 32,586           | 10               | 8                |
| <b>Total current assets</b>                    |      | <b>148,715</b>   | <b>141,656</b>   | <b>470</b>       | <b>388</b>       |
| <b>Current liabilities</b>                     |      |                  |                  |                  |                  |
| Short-term bank loans                          | 20   | (128,302)        | (158,491)        | -                | -                |
| Trade payables                                 | 21   | (59,105)         | (6,772)          | -                | -                |
| Current portion of interest-bearing borrowings | 22   | (141)            | (127)            | -                | -                |
| Due to a director                              | 29   | (3)              | (3)              | -                | -                |
| Accruals and other payables                    |      | (7,854)          | (5,571)          | (807)            | (721)            |
| <b>Total current liabilities</b>               |      | <b>(195,405)</b> | <b>(170,964)</b> | <b>(807)</b>     | <b>(721)</b>     |
| <b>Net current liabilities</b>                 |      | <b>(46,690)</b>  | <b>(29,308)</b>  | <b>(337)</b>     | <b>(333)</b>     |
| <b>Total assets less current liabilities</b>   |      | <b>140,957</b>   | <b>158,532</b>   | <b>58,915</b>    | <b>150,204</b>   |
| <b>Non-current liabilities</b>                 |      |                  |                  |                  |                  |
| Interest-bearing borrowings                    | 22   | (772)            | (921)            | -                | -                |
|  |      | <b>140,185</b>   | <b>157,611</b>   | <b>58,915</b>    | <b>150,204</b>   |
| <b>Minority interests</b>                      |      | <b>(1,518)</b>   | <b>(4,530)</b>   | <b>-</b>         | <b>-</b>         |
| <b>Net assets</b>                              |      | <b>138,667</b>   | <b>153,081</b>   | <b>58,915</b>    | <b>150,204</b>   |

## Balance Sheets (Cont'd)

As at 31 December 2003

|                             | Note | Consolidated     |                  | Company          |                  |
|-----------------------------|------|------------------|------------------|------------------|------------------|
|                             |      | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| <b>Capital and reserves</b> |      |                  |                  |                  |                  |
| Share capital               | 23   | 1,024            | 102,264          | 1,024            | 102,264          |
| Reserves                    | 25   | 137,643          | 50,817           | 57,891           | 47,940           |
| Shareholders' equity        |      | <u>138,667</u>   | <u>153,081</u>   | <u>58,915</u>    | <u>150,204</u>   |

Approved and authorised for issue by the board of directors on 8 April 2004

On behalf of the Board

**CHEUNG WAI**

*Chairman*

**DARWIN HU**

*Director and Chief Executive Officer*

The notes on pages 39 to 78 form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

|                            | Share<br>capital<br>HK\$'000 | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Statutory<br>reserve<br>fund<br>HK\$'000 | Cumulative<br>translation<br>adjustments<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|------------------------------|------------------------------|------------------------------------|--------------------------------|--|--|-----------------------------------|-------------------|
| Balance as at              |                              |                              |                                    |                                |  |  |                                   |                   |
| 1 January 2002             | 102,256                      | 101,382                      | -                                  | 198,068                        | 439                                      | 1,314  | (225,868)                         | 177,591           |
| Exercise of employee       |                              |                              |                                    |                                |  |  |                                   |                   |
| share options (Note 23)    | 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           |
| Exercise of employee       |                              |                              |                                    |                                |  |  |                                   |                   |
| share options (Note 23)    | 100                          | (52)                         | -                                  | -                              | -  | -  | -                                 | 48                |
| Reduction of share capital |                              |                              |                                    |                                |  |  |                                   |                   |
| and share premium          |                              |                              |                                    |                                |  |  |                                   |                   |
| cancellation               | (101,340)                    | (101,378)                    | 202,718                            | -                              | -  | -  | -                                 | -                 |
| Elimination of             |                              |                              |                                    |                                |  |  |                                   |                   |
| accumulated losses         | -                            | -                            | (123,559)                          | -                              | -  | -  | 123,559                           | -                 |
| Translation adjustments    | -                            | -                            | -                                  | -                              | -  | 189  | -                                 | 189               |
| Transfer                   | -                            | 52                           | (52)                               | -                              | -  | -  | -                                 | -                 |
| Loss attributable          |                              |                              |                                    |                                |  |  |                                   |                   |
| to shareholders            | -                            | -                            | -                                  | -                              | -  | -  | (14,651)                          | (14,651)          |
| Balance as at              |                              |                              |                                    |                                |  |  |                                   |                   |
| 31 December 2003           | 1,024                        | -                            | 79,107                             | 198,068                        | 439                                      | 1,592  | (141,563)                         | 138,667           |

The notes on pages 39 to 78 form an integral part of these financial statements.

## Consolidated Cash Flow Statement

As at 31 December 2003

|  | Note | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------|------------------|------------------|
| <b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>                  |      |                  |                  |
| Loss before taxation   |      | (16,723)         | (25,547)         |
| Dividend income  |      | -                | (10)             |
| Compensation income  |      | -                | (3,773)          |
| Gain on disposal of interest in a subsidiary company               | 26   | -                | (2,508)          |
| Loss on disposal of long term investments                          |      | 2,530            | -                |
| Interest income  |      | (573)            | (2,956)          |
| Interest expenses  |      | 6,218            | 3,735            |
| Amortisation of patents and intellectual property rights           |      | 514              | 223              |
| Amortisation of negative goodwill                                  |      | (8)              | -                |
| Impairment loss on goodwill  |      | 414              | -                |
| Depreciation of properties, machinery and equipment                |      | 6,252            | 6,087            |
| <b>Operating loss before working capital changes</b>               |      | <b>(1,376)</b>   | <b>(24,749)</b>  |
| Increase in inventories  |      | (31,746)         | (12,168)         |
| Increase in trade receivables                                      |      | (30,236)         | (13,500)         |
| Decrease/(increase) in prepayments, deposits and other receivables |      | 8,096            | (19,959)         |
| Increase in trade payables   |      | 52,333           | 5,083            |
| Decrease in amount due to a director                               |      | -                | (122)            |
| Increase in accruals and other payables                            |      | 2,283            | 1,804            |
| <b>Cash outflow from operations</b>                                |      | <b>(646)</b>     | <b>(63,611)</b>  |
| Interest received  |      | 573              | 2,956            |
| Interest paid  |      | (6,218)          | (3,735)          |
| Overseas tax paid  |      | (7)              | (7)              |
| <b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>                  |      | <b>(6,298)</b>   | <b>(64,397)</b>  |

## Consolidated Cash Flow Statement (Cont'd)

As at 31 December 2003

| Note  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                  |                  |
| Purchase of properties, machinery and equipment                             | (5,832)          | (8,761)          |
| Net cash outflow from piecemeal acquisition of subsidiaries                 | (745)            | –                |
| Proceeds from disposal of properties,<br>machinery and equipment            | 310              | 292              |
| Additions to properties under development                                   | (3,986)          | (38,605)         |
| Proceeds from disposal of interest in<br>a subsidiary company               | –                | 19,228           |
| 26  |                  |                  |
| Increase in loans receivable  | (189)            | –                |
| Payment for patents and intellectual property rights                        | –                | (4,443)          |
| Payment for subscription/acquisition of<br>marketable securities            | –                | (4,680)          |
| Decrease in pledged bank deposits   | 39,000           | –                |
| Translation adjustments   | 189              | (128)            |
| Dividend received   | –                | 10               |
| <b>NET CASH INFLOW/(OUTFLOW) FROM<br/>INVESTING ACTIVITIES</b>              | <b>28,747</b>    | <b>(37,087)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                  |                  |
| Proceeds from issuance of shares upon<br>exercise of employee share options | 48               | 4                |
| (Repayment)/inception short-term bank loans                                 | (30,189)         | 65,033           |
| (Repayment)/inception of interest-bearing borrowings                        | (135)            | 1,048            |
| Equity contribution by a minority shareholder<br>of subsidiaries            | –                | 5,481            |
| <b>NET CASH (OUTFLOW)/INFLOW FROM<br/>FINANCING ACTIVITIES</b>              | <b>(30,276)</b>  | <b>71,566</b>    |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                                | <b>(7,827)</b>   | <b>(29,918)</b>  |
| <b>CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR</b>                        | <b>32,586</b>    | <b>62,504</b>    |
| <b>CASH AND CASH EQUIVALENT AT END OF YEAR</b>                              | <b>24,759</b>    | <b>32,586</b>    |
| <b>ANALYSIS OF THE BALANCES OF CASH<br/>AND CASH EQUIVALENTS</b>            |                  |                  |
| Cash and bank balances  | 24,759           | 32,586           |

The notes on pages 39 to 78 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 LCD and CRT monitors, optical image capturing devices and related components. Its subsidiaries also have minority interests in certain companies (see note 14).

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 a going concern basis.

For the year ended 31 December 2003, the Group reported a loss attributable to shareholders of approximately HK\$15 million (2002: HK\$25 million) and a net cash outflow from operating activities of approximately HK\$6 million (2002: HK\$64 million). Furthermore, the Group recorded net current liabilities of approximately HK\$47 million (2002: HK\$29 million) as at 31 December 2003. 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. 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. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The adoption of this revised SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 8 to the financial statements and include a reconciliation between the accounting loss and the tax income for the year.

Further details of these change are included in the accounting policy for deferred tax in notes 4 and 8 to the financial statements.

### 4. 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.

#### (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

## 4. 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is different from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Notes to the Financial Statements

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

**(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 2002 and 2003 have been expensed as no expenditure met the criteria for deferral.

**(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) Goodwill and negative goodwill (capital reserve)**

Goodwill and negative goodwill (capital reserve) arising on consolidation represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities.

Goodwill and capital reserve arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life, which is on average 20 years. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Negative goodwill arising on acquisition of a subsidiary after 1 January 2002 is presented as a deduction from non-current assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Currently, negative goodwill will be released to the income statement over a period of 20 years.

## Notes to the Financial Statements

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

(h) **Goodwill and negative goodwill (capital reserve)** (Cont'd)

Goodwill and capital reserve arising on acquisitions prior to 1 January 2001 continue to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realised in accordance with the realisation of those underlying assets. When it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding the useful economic life. On disposal of a subsidiary, an associate or a jointly controlled entity, any previously unrealised capital reserve is included in the calculation of the profit or loss on disposal.

(i) **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.

(j) **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

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

**(k) 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.

**(l) 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.

**(m) 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.

**(n) Government grants and subsidies**

Grants and subsidies from the government are recognized at their fair values when there is reasonable assurance that the grant/subsidy will be received and all attached conditions are complied with. When the grant or subsidy relates to an expense item, it is recognized as income over the periods necessary to match the grant or subsidy, on a systematic basis, to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted in arriving at the carrying amount of the related asset.

**(o) 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

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

**(p) 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.

**(q) 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.

**(r) Patents and intellectual property rights**

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

**(s) Subsequent events**

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

## Notes to the Financial Statements

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

**(t) Operating leases**

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

**(u) Foreign currency translation**

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

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

**(v) Use of estimates**

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

**(w) 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.

**(x) 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.



## Notes to the Financial Statements

## 5. TURNOVER AND REVENUE

Turnover and revenue consisted of:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Sales of merchandise                         |                  |                  |
| – Optical image capturing devices            | 62,249           | 24,483           |
| – Modules of optical image capturing devices | 8,749            | 3,476            |
| – Chips and other optoelectronic products    | 25,065           | 7,633            |
| – LCD and CRT monitors                       | 167,888          | 5,024            |
|  | <b>263,951</b>   | 40,616           |
| Design fees – High speed module              | 262              | 1,136            |
| Total turnover                               | <b>264,213</b>   | 41,752           |
| Interest income                              | 573              | 2,956            |
| Dividend income                              | –                | 10               |
| Compensation income                          | –                | 3,773            |
| Recovery of bad debts                        | 853              | 5,772            |
| Subsidy income                               | 2,903            | –                |
| Written back of provision of inventories     | 5,960            | 5,345            |
| Exchange gain                                | –                | 119              |
| Others                                       | 383              | 781              |
| Total other revenue                          | <b>10,672</b>    | 18,756           |
| Total revenue                                | <b>274,885</b>   | 60,508           |

## Notes to the Financial Statements

## 6. LOSS BEFORE TAXATION

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

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| <b>After charging –</b>                                       |                  |                  |
| Interest on short-term bank loans                             | 8,263            | 6,829            |
| Interest on interest-bearing borrowings                       | 39               | 7                |
| Less: amounts capitalised in properties under development (i) | (2,084)          | (3,101)          |
|   | <b>6,218</b>     | 3,735            |
| Cost of inventories sold                                      | 216,834          | 34,498           |
| Employment costs (including directors' emoluments)            | 26,512           | 20,133           |
| Retirement costs  | 954              | 680              |
| Operating lease rentals of premises                           | 2,159            | 2,656            |
| Advertising and promotion costs                               | 2,177            | 2,095            |
| Amortisation of patents and intellectual property rights      | 514              | 223              |
| Impairment loss on goodwill                                   | 414              | –                |
| Provision for bad and doubtful trade receivables              | 3,128            | 1,151            |
| Depreciation of properties, machinery and equipment           | 6,252            | 6,087            |
| Exchange loss, net  | 150              | –                |
| Auditors' remuneration  | 560              | 533              |
| <b>After crediting –</b>                                      |                  |                  |
| Dividend income   | –                | 10               |
| Compensation income (ii)                                      | –                | 3,773            |
| Subsidy income (iii)  | 2,903            | –                |
| Exchange gain, net  | –                | 119              |
| Recovery of bad debts   | 853              | 5,772            |
| Amortisation of negative goodwill                             | 8                | –                |
| Gain on disposal of interest in a subsidiary company          | –                | 2,508            |
| Written back of provision of inventories                      | 5,960            | 5,345            |
| Bank interest income  | 573              | 2,956            |

## Notes to the Financial Statements

## 6. LOSS BEFORE TAXATION (Cont'd)

Notes:–

- (i) During the year, interest of approximately HK\$2,084,000 (2002: HK\$3,101,000) was capitalised as construction expenditures at the rate on the related loan of approximately 5.31% per annum.
- (ii) For the year ended 31 December 2002, 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 of completing the office premises.
- (iii) During the year, the Group received cash subsidies from certain Mainland China government bodies totaling HK\$2,903,000. These cash subsidies were for the Group's development of certain products.

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Fees for executive directors             | –                | –                |
| Fees for non-executive directors         | 240              | 180              |
| Other emoluments for executive directors |                  |                  |
| – Basic salaries and allowances          | 3,443            | 3,006            |
| – Retirement contribution                | 15               | 24               |
|  | <b>3,698</b>     | <b>3,210</b>     |

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.

## Notes to the Financial Statements

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

(a) Details of emoluments paid/payable to directors of the Company are: (Cont'd)

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

|                              | 2003     | 2002     |
|------------------------------|----------|----------|
| Executive directors          |          |          |
| – Nil to \$1,000,000         | 1        | 1        |
| – \$1,000,001 to \$1,500,000 | 1        | 2        |
| – \$1,500,001 to \$2,000,000 | 1        | –        |
| Non-executive directors      |          |          |
| – Nil to \$1,000,000         | 4        | 3        |
|                              | <u>7</u> | <u>6</u> |

During the year ended 31 December 2003, the three executive directors received individual emoluments of approximately HK\$1,950,000 (2002: HK\$1,170,000), HK\$1,368,000 (2002: HK\$1,029,000) and HK\$140,000 (2002: HK\$831,000), respectively. The four non-executive directors received individual fees of approximately HK\$120,000 (2002: HK\$90,000), HK\$120,000 (2002: HK\$90,000), Nil (2002: Nil) and Nil (2002: Nil) respectively.

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

|                               | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Basic salaries and allowances | 6,477            | 4,974            |
| Retirement contribution       | 12               | 24               |
|                               | <u>6,489</u>     | <u>4,998</u>     |
|                               |                  |                  |
|                               | 2003             | 2002             |
| Number of directors           | 2                | 3                |
| Number of employees           | 3                | 2                |
|                               | <u>5</u>         | <u>5</u>         |

## Notes to the Financial Statements

## 7. 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: (Cont'd)

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:

|                            | 2003 | 2002 |
|----------------------------|------|------|
| Nil to \$1,000,000         | 2    | 2    |
| \$1,000,001 to \$1,500,000 | 2    | 3    |
| \$1,500,001 to \$2,000,000 | 1    | -    |
|                            | 5    | 5    |

## 8. 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 (2002: 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. However, the Company 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.

## Notes to the Financial Statements

## 8. TAXATION (Cont'd)

## (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 |                  | Value-added tax rate |      |
|--|---|-----------------------------|------------------|----------------------|------|
|  |   | 2003                        | 2002             | 2003                 | 2002 |
|  |   |                             |                  |                      |      |
| SYSCAN Digital Systems 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. (i)(ii)               | Shenzhen  | 15%                         | 15%              | 17%                  | 17%  |
| SYSCAN Trading (Shenzhen) Limited                          | Shenzhen  | 15%                         | 15%              | 4%                   | 4%   |
| 上海矽感光電科技有限公司   | Shanghai  | 33%                         | 33%              | 17%                  | 17%  |
| 上海矽感數碼科技有限公司   | Shanghai  | 0.5% of turnover            | 0.5% of turnover | 17%                  | 17%  |
| 深圳市華實信達科技發展有限公司  | Shenzhen  | 15%                         | 15%              | 17%                  | 4%   |
| 北京渴望科技發展有限責任公司   | Beijing   | 33%                         | 33%              | 4%                   | 4%   |
| 深圳市世紀開元實業有限公司<br>(Formerly known as 深圳市矽谷園<br>科技有限公司)      | Shenzhen  | 15%                         | 15%              | 17%                  | 4%   |

(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 the above entities have no assessable profits for the year or they have accumulated tax losses brought forward which exceed the estimated assessable profits 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%.

## Notes to the Financial Statements

## 8. TAXATION (Cont'd)

## (e) Taiwan income tax

No Taiwan income tax is payable by the Taiwanese branch of SYSCAN InterVision Limited as the branch had no assessable profit in Taiwan (2002: Nil).

## (f) Reconciliation between tax expenses and accounting loss at applicable tax rates:

A numerical reconciliation between tax expenses and the product of accounting loss and the applicable tax rates is as follows:-

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Loss before taxation  | <u>(16,723)</u>  | <u>(25,547)</u>  |
| Notional tax loss on loss before taxation,<br>calculated at the rates applicable to profits<br>in the tax jurisdictions concerned | (2,849)          | (499)            |
| Tax effect of non-taxable revenue   | -                | (484)            |
| Tax effect of non-deductible expenses   | 194              | 342              |
| Tax effect of unused tax losses not recognized  | 3,566            | 1,975            |
| Utilization of previously unrecognized tax losses   | (896)            | (1,315)          |
| Unrecognized temporary difference   | (8)              | (12)             |
| Actual tax expenses   | <u>7</u>         | <u>7</u>         |

*Deferred tax assets not recognized*

The Group has tax losses of approximately HK\$289,969,000 (2002: HK\$269,332,000) which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for a number of years.

SSAP 12 (revised) was adopted during the year, as further explained in note 3 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 December 2002. Accordingly, no prior year adjustment is included in the financial statements.

## Notes to the Financial Statements

**9. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

During the year ended 31 December 2003, the consolidated loss attributable to shareholders includes a loss of approximately HK\$91,337,000 (2002: HK\$27,391,000) dealt with in the financial statements of the Company.

**10. LOSS PER SHARE**

The calculation of basic loss per share for the year ended 31 December 2003 together with the comparative figures for 2002 are as follows:-

|  | <b>2003</b>        | 2002               |
|--|--------------------|--------------------|
|  | <b>HK\$'000</b>    | HK\$'000           |
| Net loss attributable to shareholders  | <u>(14,651)</u>    | <u>(24,603)</u>    |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <u>102,362,000</u> | <u>102,264,000</u> |

The weighted average number of ordinary shares for the year ended 31 December 2002 for the purpose of basic loss per share has been adjusted for share consolidation which took effect on 7 October 2003.

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



## Notes to the Financial Statements

## 11. INTANGIBLE ASSETS

Movements of intangible assets (consolidated) were:

|                            | Positive<br>goodwill<br>HK\$'000 | Negative<br>goodwill(i)<br>HK\$'000 | Patents(ii)<br>HK\$'000 | Intellectual<br>property<br>rights(ii)<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|----------------------------------|-------------------------------------|-------------------------|--|-------------------|
| <b>Cost</b>                |                                  |                                     |                         |  |                   |
| At 1/1/2003                | –                                | –                                   | 2,745                   | 1,698  | 4,443             |
| Additions                  | 414                              | (602)                               | –                       | –  | (188)             |
| <b>At 31/12/2003</b>       | <b>414</b>                       | <b>(602)</b>                        | <b>2,745</b>            | <b>1,698</b>                                       | <b>4,255</b>      |
| <b>Amortisation</b>        |                                  |                                     |                         |  |                   |
| At 1/1/2003                | –                                | –                                   | 122                     | 101  | 223               |
| Released to income         | –                                | (8)                                 | –                       | –  | (8)               |
| Amortisation for the year  | –                                | –                                   | 368                     | 146  | 514               |
| Impairment loss recognised | 414                              | –                                   | –                       | –  | 414               |
| <b>At 31/12/2003</b>       | <b>414</b>                       | <b>(8)</b>                          | <b>490</b>              | <b>247</b>   | <b>1,143</b>      |
| <b>Net book value</b>      |                                  |                                     |                         |  |                   |
| <b>At 31/12/2003</b>       | <b>–</b>                         | <b>(594)</b>                        | <b>2,255</b>            | <b>1,451</b>                                       | <b>3,112</b>      |
| At 31/12/2002              | –                                | –                                   | 2,623                   | 1,597  | 4,220             |

Notes:–

(i) The negative goodwill is released to income on a straight line basis of 20 years.

(ii) 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

## 12. PROPERTIES, MACHINERY AND EQUIPMENT

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

|                                     | Land and<br>buildings (i)<br>HK\$'000 | Leasehold<br>improve-<br>ments<br>HK\$'000 | Furniture<br>and office<br>equipment<br>HK\$'000 | Machinery<br>and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------------|---------------------------------------|--|--|---|-------------------------------|-------------------|
| <b>Cost</b>                         |                                       |  |  |   |                               |                   |
| At 1/1/2003                         | 24,961                                | 2,951                                      | 10,286   | 35,430                                    | 3,912                         | 77,540            |
| Additions                           | –                                     | –  | 1,733  | 3,364                                     | 735                           | 5,832             |
| Disposals                           | –                                     | –  | (147)  | –   | (209)                         | (356)             |
| <b>At 31/12/2003</b>                | <b>24,961</b>                         | <b>2,951</b>                               | <b>11,872</b>                                    | <b>38,794</b>                             | <b>4,438</b>                  | <b>83,016</b>     |
| <b>Accumulated<br/>depreciation</b> |                                       |  |  |   |                               |                   |
| At 1/1/2003                         | 1,146                                 | 2,432                                      | 4,666  | 20,806                                    | 1,179                         | 30,229            |
| Provision for the year              | 1,266                                 | 519  | 511  | 3,280                                     | 676                           | 6,252             |
| Disposals                           | –                                     | –  | (33)   | –   | (13)                          | (46)              |
| <b>At 31/12/2003</b>                | <b>2,412</b>                          | <b>2,951</b>                               | <b>5,144</b>                                     | <b>24,086</b>                             | <b>1,842</b>                  | <b>36,435</b>     |
| <b>Net book value</b>               |                                       |  |  |   |                               |                   |
| <b>At 31/12/2003</b>                | <b>22,549</b>                         | <b>–</b>                                   | <b>6,728</b>                                     | <b>14,708</b>                             | <b>2,596</b>                  | <b>46,581</b>     |
| At 31/12/2002                       | 23,815                                | 519  | 5,620  | 14,624                                    | 2,733                         | 47,311            |

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 were pledged as collateral for the Group's banking facilities (see Note 31).
- (ii) The net book value of motor vehicle with value of approximately HK\$403,000 (2002: HK\$492,000) was pledged as collateral for the Group's banking facilities (see Note 31).

## Notes to the Financial Statements

## 13. PROPERTIES UNDER DEVELOPMENT

Movements of properties under development (consolidated) were:

|                      | Construction-in-progress |  | Total<br>HK\$'000 |
|----------------------|--------------------------|--|-------------------|
|                      | Land (i)<br>HK\$'000     | Construction<br>expenditures<br>HK\$'000 |                   |
| At 1/1/2003          | 49,743                   | 69,977                                   | 119,720           |
| Additions            | 249                      | 3,737                                    | 3,986             |
| <b>At 31/12/2003</b> | <b>49,992</b>            | <b>73,714</b>                            | <b>123,706</b>    |

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 pledged as collateral for the Group's banking facilities (see Note 31).

## 14. INVESTMENT IN SUBSIDIARIES

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

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Unlisted shares                         | 74,698           | 74,775           |
| Due from subsidiaries                   | 100,594          | 191,774          |
| Due to subsidiaries                     | (2,540)          | (2,512)          |
|   | 172,752          | 264,037          |
| Less: Provision for impairment in value | (113,500)        | (113,500)        |
|   | <b>59,252</b>    | <b>150,537</b>   |

The amounts due from/to subsidiaries were unsecured and non-interest bearing. The Company had 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 2005.

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 2003.

## Notes to the Financial Statements

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

Details of the principal subsidiaries as at 31 December 2003 were:

| 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. (ii)                                  | Mainland China                        | RMB15,000,000   | 100%  | Manufacture and sale of imaging products                              |
| SYSCAN Holdings Limited (i)  | British Virgin Islands                | US\$3   | 100%  | Investment holding  |
| SYSCAN Digital Systems Co., Ltd.                                       | British Virgin Islands                | US\$24,500  | 100%  | Investment holding  |
| SYSCAN Imaging Limited (i)   | 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  |
| SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. (iii)           | Mainland China                        | US\$6,000,000   | 100%  | Manufacture and sale of LCD and CRT monitors and image sensor modules |
| SYSCAN Viewtech Limited<br>(Formerly known as SYSCAN Research Limited) | British Virgin Islands                | US\$10,000  | 100%  | Investment holding  |

## Notes to the Financial Statements

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

Details of the principal subsidiaries as at 31 December 2003 were: (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   |
|---|---------------------------------------|---|---|--|
| Shenzhen SYSCAN Technology Co., Ltd. (iv)   | Mainland China                        | US\$10,000,000  | 100%  | Design, development, manufacture and sale of optoelectronic products |
| Syscan Optoelectronics Technology (Shenzhen) Co., Ltd. (Formerly known as 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   | 70%   | 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                                     |
| 深圳市世紀開元實業有限公司 (Formerly known as 深圳市矽谷園科技有限公司) (x)  | Mainland China                        | RMB1,000,000  | 85%   | Development of computer products and Hi Tech technology              |

## Notes to the Financial Statements

**14. INVESTMENT IN SUBSIDIARIES (Cont'd)**

Details of the principal subsidiaries as at 31 December 2003 were: (Cont'd)

Notes:-

- (i) SYSCAN Holdings Limited and SYSCAN Imaging 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) 深圳市世紀開元實業有限公司 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 2003.

**15. LONG-TERM LOAN RECEIVABLE**

The amount is unsecured, interest charged at a rate of 6% per annum and receivable in July 2005.

## Notes to the Financial Statements

## 16. LONG-TERM INVESTMENTS

Long-term investments (consolidated) consist of:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| CMOS Sensor, Inc. (i)                            | 7,782            | 7,782            |
| Shenzhen Guocheng Venture Capital Co., Ltd. (ii) | 4,717            | 4,717            |
| GFG Asia Alliance Holdings Co., Ltd. (iii)       | 1,560            | 1,560            |
| Chinese collectibles                             | -                | 2,530            |
|  | <b>14,059</b>    | <b>16,589</b>    |

Notes:-

- (i) As at 31 December 2003, the Group has 16.1% 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.
- (ii) As at 31 December 2003, 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.
- (iii) As at 31 December 2003, 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.

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 2003.

## Notes to the Financial Statements

## 17. INVENTORIES

Inventories (consolidated) consist of:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Raw materials  | 32,234           | 12,933           |
| Work-in-progress   | 12,618           | 6,483            |
| Finished goods   | 19,970           | 19,810           |
|  | 64,822           | 39,226           |
| Less: Provision for obsolete and slow-moving inventories | (4,739)          | (10,889)         |
|  | <u>60,083</u>    | <u>28,337</u>    |

As at 31 December 2003, inventories of approximately HK\$1,264,000 (2002: HK\$2,761,000) were stated at net realisable value.

## 18. 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:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| 0 to 1 month   | 32,484           | 8,787            |
| 1 to 2 months  | 6,655            | 6,595            |
| 2 to 3 months  | 793              | 1,280            |
| 3 to 6 months  | 6,137            | 520              |
| 6 to 12 months   | 3,649            | 2,024            |
| 12 to 18 months  | 2,119            | -                |
| 18 to 24 months  | -                | -                |
| Over 24 months   | 650              | 650              |
|  | 52,487           | 19,856           |
| Less: Provision for bad and doubtful trade receivables | (4,063)          | (1,668)          |
|  | <u>48,424</u>    | <u>18,188</u>    |



## Notes to the Financial Statements

**19. CASH AND BANK BALANCES**

As at 31 December 2003, approximately HK\$7,594,000 (2002: HK\$22,193,000) of the Group's cash and bank balances were denominated in Renminbi, a currency which is not freely convertible into other currencies.

**20. SHORT-TERM BANK LOANS**

All of the Group's short-term bank loans were denominated in Renminbi. As at 31 December 2003, the short-term bank loans bore interest at a rate of 5.31% per annum. (See Note 31).

**21. TRADE PAYABLES**

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

|                | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000 |
|----------------|--------------------------------|------------------|
| 0 to 1 month   | <b>21,064</b>                  | 5,040            |
| 1 to 2 months  | <b>33,821</b>                  | 50               |
| 2 to 3 months  | <b>538</b>                     | 693              |
| 3 to 6 months  | <b>2,763</b>                   | 258              |
| 6 to 12 months | <b>577</b>                     | 395              |
| Over 12 months | <b>342</b>                     | 336              |
|                | <b>59,105</b>                  | 6,772            |

## Notes to the Financial Statements

## 22. INTEREST-BEARING BORROWINGS

Borrowings (consolidated) consist of:

|   | Interest-bearing           |                  |
|---|----------------------------|------------------|
|   | 2003<br>HK\$'000           | 2002<br>HK\$'000 |
| Bank loans  |                            |                  |
| Secured   | <b>913</b>                 | 1,048            |
| The analysis of the above balances is as follows: |                            |                  |
| Bank loans  |                            |                  |
| Within one year                                   | <b>141</b>                 | 127              |
| After 1 year but within 2 years                   | <b>141</b>                 | 127              |
| After 2 years but within 5 years                  | <b>273</b>                 | 541              |
| After 5 years                                     | <b>358</b>                 | 253              |
| Current portion of bank loans                     | <b>913</b><br><b>(141)</b> | 1,048<br>(127)   |
|   | <b>772</b>                 | 921              |

## Notes to the Financial Statements

## 23. SHARE CAPITAL

Movements of share capital were:

|  | Notes            | 2003                        |                    | 2002                        |                    |
|--|------------------|-----------------------------|--------------------|-----------------------------|--------------------|
|  |                  | Number<br>of shares<br>'000 | Amount<br>HK\$'000 | Number<br>of shares<br>'000 | Amount<br>HK\$'000 |
| Ordinary shares of HK\$0.01<br>each (2002: HK\$0.1 each)         |                  |                             |                    |                             |                    |
| <b>Authorised</b>  |                  |                             |                    |                             |                    |
| Beginning of year  |                  | 2,000,000                   | 200,000            | 2,000,000                   | 200,000            |
| Reduced due to<br>capital reduction                              | (a)(i)           | -                           | (198,000)          | -                           | -                  |
| Reduced due to share<br>consolidation                            | (a)(ii)          | (1,800,000)                 | -                  | -                           | -                  |
| Increase during the year   | (a)(iii)         | 19,800,000                  | 198,000            | -                           | -                  |
| End of year  |                  | 20,000,000                  | 200,000            | 2,000,000                   | 200,000            |
| <b>Issued and fully paid</b>                                     |                  |                             |                    |                             |                    |
| Beginning of year  |                  | 1,022,643                   | 102,264            | 1,022,556                   | 102,256            |
| Issue of shares through<br>exercise of employee<br>share options | (b) & Note 24    | 1,000                       | 100                | 87                          | 8                  |
| Reduced due to<br>capital reduction                              | (a)(i) & (a)(iv) | -                           | (101,340)          | -                           | -                  |
| Reduced due to<br>share consolidation                            | (a)(ii)          | (921,279)                   | -                  | -                           | -                  |
| End of year  |                  | 102,364                     | 1,024              | 1,022,643                   | 102,264            |

## Notes to the Financial Statements

**23. SHARE CAPITAL (Cont'd)**

Notes:–

(a) *Capital reduction and Share consolidation*

*Pursuant to the special resolution passed on 6 October 2003, the Company:*

- (i) reduced the issued share capital by canceling the paid-up capital to the extent of HK\$0.099 on each issued share and reduced the nominal value of issued share capital from HK\$0.1 to HK\$0.001 ("Capital Reduction");*
- (ii) consolidated every 10 reduced shares of HK\$0.001 each into one share of HK\$0.01 each ("Consolidated Share(s)) ("Share Consolidation");*
- (iii) increased the authorized share capital to HK\$200,000,000 by the creation of additional unissued 19,800,000,000 Consolidated Shares; and*
- (iv) transferred the credit amount arising from the Capital Reduction of approximately HK\$101,340,000 to the contributed surplus account.*

*Capital Reduction and Share Consolidation took effect on 7 October 2003.*

- (b) *During the year, 1,000,000 (2002: 86,666) ordinary shares of HK\$0.1 each were issued pursuant to the Share Option Scheme A of the Company (see Note 24).*

**24. 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 5,278,400 ordinary shares of HK\$0.01 each, at exercise prices ranging from HK\$0.2422 to HK\$0.4844 per ordinary share.

## Notes to the Financial Statements

**24. 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\$0.01 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.

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\$0.01 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.

## Notes to the Financial Statements

### 24. EMPLOYEE SHARE OPTIONS (Cont'd)

The following table discloses details of the Company's share options under Share Option Scheme A, Share Option Scheme B and Share Option Scheme C and its movements during the year ended 31 December 2003.

| Date of grant                     | Exercise period                      | Subscription price per share (a) | Beginning of year | Granted before 7 Oct 2003 | Lapsed before 7 Oct 2003 | Exercised before 7 Oct 2003 | Adjusted on 7 Oct 2003 (b) | Lapsed after 7 Oct 2003 | End of year |
|-----------------------------------|--------------------------------------|----------------------------------|-------------------|---------------------------|--------------------------|-----------------------------|----------------------------|-------------------------|-------------|
| <b>I. Share Option Scheme A</b>   |                                      |                                  |                   |                           |                          |                             |                            |                         |             |
| 2 March 2000                      | 2 March 2000 to 1 March 2010         | HK\$0.4844                       | 34,000,000        | -                         | -                        | (1,000,000)                 | (29,700,000)               | (32,000)                | 3,268,000   |
| 2 March 2000                      | 2 March 2000 to 1 March 2010         | HK\$0.2422                       | 160,000           | -                         | -                        | -                           | (144,000)                  | (16,000)                | -           |
|                                   |                                      |                                  | 34,160,000        | -                         | -                        | (1,000,000)                 | (29,844,000)               | (48,000)                | 3,268,000   |
| <b>II. Share Option Scheme B</b>  |                                      |                                  |                   |                           |                          |                             |                            |                         |             |
| 19 June 2000                      | 19 June 2001 to 18 June 2010         | HK\$3.30                         | 10,000,000        | -                         | -                        | -                           | (9,000,000)                | -                       | 1,000,000   |
| 12 July 2000                      | 12 July 2001 to 11 July 2010         | HK\$2.46                         | 4,670,000         | -                         | (620,000)                | -                           | (3,645,000)                | -                       | 405,000     |
| 4 December 2000                   | 4 December 2001 to 3 December 2010   | HK\$1.016                        | 6,700,000         | -                         | -                        | -                           | (6,030,000)                | -                       | 670,000     |
| 17 January 2001                   | 17 January 2002 to 16 January 2011   | HK\$2.06                         | 37,800,000        | -                         | (400,000)                | -                           | (33,660,000)               | -                       | 3,740,000   |
| 13 August 2001                    | 13 August 2002 to 12 August 2011     | HK\$2.75                         | 6,900,000         | -                         | (1,200,000)              | -                           | (5,130,000)                | -                       | 570,000     |
|                                   |                                      |                                  | 66,070,000        | -                         | (2,220,000)              | -                           | (57,465,000)               | -                       | 6,385,000   |
| <b>III. Share Option Scheme C</b> |                                      |                                  |                   |                           |                          |                             |                            |                         |             |
| 14 May 2002                       | 14 May 2003 to 13 May 2012           | HK\$1.412                        | 34,860,000        | -                         | (3,950,000)              | -                           | (27,819,000)               | (100,000)               | 2,991,000   |
| 14 August 2002                    | 14 August 2003 to 13 August 2012     | HK\$1.00                         | 18,350,000        | -                         | -                        | -                           | (16,515,000)               | -                       | 1,835,000   |
| 12 November 2002                  | 12 November 2003 to 11 November 2012 | HK\$1.00                         | 3,500,000         | -                         | -                        | -                           | (3,150,000)                | -                       | 350,000     |
| 26 March 2003                     | 26 March 2004 to 25 March 2013       | HK\$1.00                         | -                 | 24,070,000                | (1,600,000)              | -                           | (20,223,000)               | (160,000)               | 2,087,000   |
| 13 August 2003                    | 13 August 2004 to 12 August 2013     | HK\$1.00                         | -                 | 2,800,000                 | -                        | -                           | (2,520,000)                | -                       | 280,000     |
|                                   |                                      |                                  | 56,710,000        | 26,870,000                | (5,550,000)              | -                           | (70,227,000)               | (260,000)               | 7,543,000   |
|                                   |                                      |                                  | 156,940,000       | 26,870,000                | (7,770,000)              | (1,000,000)                 | (157,536,000)              | (308,000)               | 17,196,000  |

## Notes to the Financial Statements

## 24. EMPLOYEE SHARE OPTIONS (Cont'd)

Notes:

- (a) The subscription price and the number of options which remains outstanding at the close of business on 6 October 2003 are adjusted due to Share Consolidation of the Company for 10 existing shares into 1 Consolidated Share with effect from 7 October 2003. The adjusted subscription price per share is equivalent to the original subscription price per share before the Share Consolidation multiplied by 10. The original subscription prices per share before the Share Consolidation were HK\$0.04844; HK\$0.02422; HK\$0.33; HK\$0.246; HK\$0.1016; HK\$0.206; HK\$0.275; HK\$0.1412; HK\$0.10; HK\$0.10; HK\$0.10 and HK\$0.10 respectively.
- (b) The adjustment for the number of outstanding options is equivalent to 9/10 of the number of the existing outstanding option as at the close of business on 6 October 2003.

## 25. RESERVES

|   | Share<br>premium<br>HK\$'000 | Contributed<br>surplus (b)<br>HK\$'000 | Capital<br>reserve (c)<br>HK\$'000 | Statutory<br>reserve<br>fund (d)<br>HK\$'000 | Cumulative<br>translation<br>adjustments<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|--|------------------------------------|--|--|-----------------------------------|-------------------|
| <b>Consolidated</b>                                     |                              |  |                                    |  |  |                                   |                   |
| Balance as at   |                              |  |                                    |  |  |                                   |                   |
| 1 January 2002  | 101,382                      | -                                      | 198,068                            | 439  | 1,314  | (225,868)                         | 75,335            |
| Exercise of employee<br>share options                   | (4)                          | -                                      | -                                  | -  | -  | -                                 | (4)               |
| Translation adjustments                                 | -                            | -                                      | -                                  | -  | 89   | -                                 | 89                |
| Loss attributable to<br>shareholders                    | -                            | -                                      | -                                  | -  | -  | (24,603)                          | (24,603)          |
| Balance as at   |                              |  |                                    |  |  |                                   |                   |
| 31 December 2002  | 101,378                      | -                                      | 198,068                            | 439  | 1,403  | (250,471)                         | 50,817            |
| Exercise of employee<br>share options                   | (52)                         | -                                      | -                                  | -  | -  | -                                 | (52)              |
| Share premium<br>cancellation a(i)                      | (101,378)                    | 101,378                                | -                                  | -  | -  | -                                 | -                 |
| Transferred from capital<br>reduction (Note 23) & a(ii) | -                            | 101,340                                | -                                  | -  | -  | -                                 | 101,340           |
| Elimination of<br>accumulated losses                    | -                            | (123,559)                              | -                                  | -  | -  | 123,559                           | -                 |
| Translation adjustments                                 | -                            | -                                      | -                                  | -  | 189  | -                                 | 189               |
| Transfer  | 52                           | (52)                                   | -                                  | -  | -  | -                                 | -                 |
| Loss attributable to<br>shareholders                    | -                            | -                                      | -                                  | -  | -  | (14,651)                          | (14,651)          |
| Balance as at   |                              |  |                                    |  |  |                                   |                   |
| 31 December 2003  | -                            | 79,107                                 | 198,068                            | 439  | 1,592  | (141,563)                         | 137,643           |

## Notes to the Financial Statements

## 25. RESERVES (Cont'd)

|   | Share<br>premium | Contributed<br>surplus (b) | Capital<br>reserve (c) | Statutory<br>reserve<br>fund (d) | Cumulative<br>translation<br>adjustments | Accumulated<br>losses | Total    |
|---|------------------|----------------------------|------------------------|----------------------------------|--|-----------------------|----------|
|   | HK\$'000         | HK\$'000                   | HK\$'000               | HK\$'000                         | HK\$'000                                 | HK\$'000              | HK\$'000 |
| <b>Company</b>  |                  |                            |                        |                                  |  |                       |          |
| Balance as at   |                  |                            |                        |                                  |  |                       |          |
| 1 January 2002  | 101,382          | 70,121                     | -                      | -                                | -  | (96,168)              | 75,335   |
| Exercise of employee<br>share options                   | (4)              | -                          | -                      | -                                | -  | -                     | (4)      |
| Loss for the year                                       | -                | -                          | -                      | -                                | -  | (27,391)              | (27,391) |
| Balance as at   |                  |                            |                        |                                  |  |                       |          |
| 31 December 2002  | 101,378          | 70,121                     | -                      | -                                | -  | (123,559)             | 47,940   |
| Exercise of employee<br>share options                   | (52)             | -                          | -                      | -                                | -  | -                     | (52)     |
| Share premium<br>cancellation a(i)                      | (101,378)        | 101,378                    | -                      | -                                | -  | -                     | -        |
| Transferred from capital<br>reduction (Note 23) & a(ii) | -                | 101,340                    | -                      | -                                | -  | -                     | 101,340  |
| Elimination of<br>accumulated losses                    | -                | (123,559)                  | -                      | -                                | -  | 123,559               | -        |
| Transfer  | 52               | (52)                       | -                      | -                                | -  | -                     | -        |
| Loss for the year                                       | -                | -                          | -                      | -                                | -  | (91,337)              | (91,337) |
| Balance as at   |                  |                            |                        |                                  |  |                       |          |
| 31 December 2003  | -                | 149,228                    | -                      | -                                | -  | (91,337)              | 57,891   |



## Notes to the Financial Statements

## 25. RESERVES (Cont'd)

Notes:–

- (a) Pursuant to the special resolution passed on 6 October 2003, the company:–
- (i) Reduced the credit of the share premium account of approximately HK\$101,378,000 and that the credit arising therefrom be applied to eliminate the accumulated losses of the Company as at 31 December 2002.
  - (ii) Transferred the credit amount arising from the capital reduction of approximately HK\$101,340,000 to the contributed surplus account and apply such credit towards the partial elimination of the accumulated losses of the Company as at 31 December 2002.
- (b) 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"). The contributed surplus of the Group arose during the year ended 31 December 2003 represents the net effect of the capital reduction, the share premium cancellation and the partial elimination with the accumulated losses of the Company as at 31 December 2002.
- (c) 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.
- (d) 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.

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 2003.

## Notes to the Financial Statements

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

**Net cash inflow from disposal of a subsidiary**

|   | 2003<br>HK\$'000 | 2002<br>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           |
| <b>Analysis of the net inflow of cash and cash equivalents<br/>in respect of the disposal of a subsidiary</b> |                  |                  |
| Cash consideration received   | -                | 19,228           |
| Less: Cash and cash equivalent disposal of with a subsidiary  | -                | -                |
| Net inflow of cash and cash equivalents in respect of<br>the disposal of a subsidiary                         | -                | 19,228           |

## 27. 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% (2002: 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 2003, the aggregate contributions of the Group to the aforementioned retirement benefit schemes were approximately HK\$954,000 (2002: HK\$680,000). As at 31 December 2003, there were no forfeitures available to offset the Group's future contributions (2002: Nil).

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

## Notes to the Financial Statements

## 28. SEGMENT INFORMATION

## (a) Primary segment

The Group's business can be classified into four 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”); (iii) the manufacturing and selling of chips and other optoelectronic products (the “chips and other optoelectronic products unit”) and (iv) the manufacturing and selling of LCD and CRT monitors (the “LCD and CRT monitors unit”).

Analysis by business segment is as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Turnover                                       |                  |                  |
| – Optical image capturing devices unit         | 62,249           | 24,483           |
| – Modules unit                                 | 8,749            | 3,476            |
| – Chips and other optoelectronic products unit | 25,327           | 8,769            |
| – LCD and CRT monitors unit                    | 167,888          | 5,024            |
|  | <u>264,213</u>   | <u>41,752</u>    |
| Loss attributable to shareholders              |                  |                  |
| – Optical image capturing devices unit         | (3,452)          | (14,427)         |
| – Modules unit                                 | (485)            | (2,048)          |
| – Chips and other optoelectronic products unit | (1,404)          | (5,168)          |
| – LCD and CRT monitors unit                    | (9,310)          | (2,960)          |
|  | <u>(14,651)</u>  | <u>(24,603)</u>  |
| Depreciation and amortisation                  |                  |                  |
| – Optical image capturing devices unit         | 1,473            | 3,569            |
| – Modules unit                                 | 207              | 507              |
| – Chips and other optoelectronic products unit | 599              | 1,279            |
| – LCD and CRT monitors unit                    | 3,973            | 732              |
|  | <u>6,252</u>     | <u>6,087</u>     |

## Notes to the Financial Statements

## 28. SEGMENT INFORMATION (Cont'd)

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

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Capital expenditures                           |                  |                  |
| – Optical image capturing devices unit         | 2,313            | 29,987           |
| – Modules unit                                 | 325              | 4,258            |
| – Chips and other optoelectronic products unit | 941              | 10,740           |
| – LCD and CRT monitors unit                    | 6,239            | 6,154            |
|  | <u>9,818</u>     | <u>51,139</u>    |
| Assets   |                  |                  |
| – Optical image capturing devices unit         | 79,247           | 193,213          |
| – Modules unit                                 | 11,138           | 27,432           |
| – Chips and other optoelectronic products unit | 32,243           | 69,203           |
| – LCD and CRT monitors unit                    | 213,734          | 39,648           |
|  | <u>336,362</u>   | <u>329,496</u>   |
| Liabilities                                    |                  |                  |
| – Optical image capturing devices unit         | (46,577)         | (103,448)        |
| – Modules unit                                 | (6,546)          | (14,687)         |
| – Chips and other optoelectronic products unit | (18,951)         | (37,052)         |
| – LCD and CRT monitors unit                    | (125,621)        | (21,228)         |
|  | <u>(197,695)</u> | <u>(176,415)</u> |

## Notes to the Financial Statements

## 28. SEGMENT INFORMATION (Cont'd)

## (b) Secondary segment

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

|                                | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--------------------------------|------------------|------------------|
| Turnover *                     |                  |                  |
| – Malaysia                     | –                | 1                |
| – Taiwan                       | 166,829          | 1,584            |
| – Hong Kong                    | 10,230           | 4,665            |
| – Mainland China               | 34,597           | 13,531           |
| – Japan                        | 262              | 1,378            |
| – The United States of America | 46,448           | 14,738           |
| – Belgium                      | 222              | –                |
| – Australia                    | –                | 1,308            |
| – Korea                        | 724              | 2,461            |
| – Singapore                    | 518              | 941              |
| – France                       | 579              | –                |
| – Germany                      | 2,596            | –                |
| – Italy                        | 765              | –                |
| – Others                       | 443              | 1,145            |
|                                | <b>264,213</b>   | <b>41,752</b>    |

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

## Notes to the Financial Statements

## 28. SEGMENT INFORMATION (Cont'd)

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

|                                   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Loss attributable to shareholders |                  |                  |
| – Malaysia                        | –                | (1)              |
| – Taiwan                          | (9,251)          | (933)            |
| – Hong Kong                       | (567)            | (2,749)          |
| – Mainland China                  | (1,918)          | (7,973)          |
| – Japan                           | (15)             | (812)            |
| – The United States of America    | (2,576)          | (8,685)          |
| – Belgium                         | (12)             | –                |
| – Australia                       | –                | (771)            |
| – Korea                           | (40)             | (1,450)          |
| – Singapore                       | (29)             | (554)            |
| – France                          | (32)             | –                |
| – Germany                         | (144)            | –                |
| – Italy                           | (42)             | –                |
| – Others                          | (25)             | (675)            |
|                                   | <b>(14,651)</b>  | <b>(24,603)</b>  |

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

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

|                                | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--------------------------------|------------------|------------------|
| Assets                         |                  |                  |
| – Mainland China               | 299,168          | 301,320          |
| – Hong Kong                    | 4,414            | 16,605           |
| – The United States of America | 32,680           | 11,374           |
| – Taiwan                       | 100              | 197              |
|                                | <b>336,362</b>   | <b>329,496</b>   |

## Notes to the Financial Statements

## 29. RELATED PARTY TRANSACTION

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

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Mr. Cheung Wai                          |                  |                  |
| – Rental payment for office premise (i) | 216              | 216              |

Notes:–

- (i) *The Head office of the Group and office of SYSCAN InterVision Limited are located in 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.*

## 30. COMMITMENTS

## (a) Capital commitments

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

|  | 2003<br>\$'000 | 2002<br>\$'000 |
|--|----------------|----------------|
| Authorised and contracted for                  |                |                |
| – construction of properties under development | 8,810          | 3,181          |
| – purchase of fixed assets                     | 222            | 640            |
| – purchase of inventories                      | –              | 3,405          |
|  | 9,032          | 7,226          |

## Notes to the Financial Statements

## 30. COMMITMENTS (Cont'd)

## (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:

|                                | 2003<br>\$'000 | 2002<br>\$'000 |
|--------------------------------|----------------|----------------|
| Payable                        |                |                |
| – Within one year              | 1,549          | 1,457          |
| – In the second to fifth years | 1,848          | 2,574          |
| – Over five years              | –              | 22             |
|                                | <u>3,397</u>   | <u>4,053</u>   |

## 31. BANKING FACILITIES

As at 31 December 2003, the Group had bank loan facilities of HK\$136,888,000 (2002: HK\$170,859,000) in which HK\$129,215,000 (2002: HK\$159,539,000) were utilised. These facilities were secured by:

- (i) pledge of the Group's leasehold land of properties under development with a net book value of HK\$49,992,000 (see Note 13);
- (ii) pledge of the Group's motor vehicle with a net book value of HK\$403,000 (see Note 12); and
- (iii) pledge of the Group's office premises with an aggregate net book value of HK\$22,549,000 (see Note 12).

## 32. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Company committed corporate guarantee to a bank for banking facilities extended to its subsidiary amounting to HK\$23,400,000 (2002: nil)