



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

Annual Report 2004

**SYSCAN Technology Holdings Limited**



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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

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

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

# Contents

Corporate Information	2
Financial Summary	3
Chairman's Statement	5
Management Discussion and Analysis	7
Profiles of Directors and Senior Management	10
Report of the Directors	12
Notice of Annual General Meeting	27
Auditor's Report	28
Consolidated Income Statement	31
Balance Sheets	32
Consolidated Statement of Changes in Equity	34
Consolidated Cash Flow Statement	35
Notes to the Financial Statements	37

### Executive Directors

Cheung Wai, *Chairman and Chief Executive Officer*  
Chan Man Ching  
Zhang Fu

### Independent Non-executive Directors

Lo Wai Ming  
Fong Chi Wah  
Jin Qingjun

### Company Secretary

Chan Man Ching

### Qualified Accountant And Chief Financial Officer

Chan Man Ching

### Compliance Officer

Cheung Wai

### Authorised Representatives

Cheung Wai  
Chan Man Ching

### Audit Committee

Lo Wai Ming  
Fong Chi Wah  
Jin Qingjun

### Auditors

CCIF 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 1712-1716, 17th 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)

### Consolidated Income Statements

	Years ended 31 December				
	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Turnover	192,339	264,213	41,752	34,170	32,200
Cost of sales	(162,679)	(216,834)	(34,498)	(25,191)	(24,746)
Gross profit	29,660	47,379	7,254	8,979	7,454
Other revenue	36,153	10,672	18,756	8,795	7,415
Selling and distribution expenses	(17,024)	(18,482)	(13,338)	(5,958)	(7,054)
General and administrative expenses	(29,193)	(33,673)	(25,441)	(27,074)	(21,616)
Research and development expenses	(17,605)	(13,273)	(10,400)	(15,813)	(19,389)
Provision for obsolete and slow-moving inventories	–	–	–	(15,129)	(4,878)
Provision for bad and doubtful receivables	(14,977)	(3,128)	(1,151)	(11,861)	(1,853)
Loss from operations	(12,986)	(10,505)	(24,320)	(58,061)	(39,921)
Finance costs	(5,636)	(6,218)	(3,735)	(2,248)	–
Share of loss of associates	(42)	–	–	–	–
Gain on deemed disposal of a subsidiary	4,228	–	–	–	–
(Loss)/gain on disposal of a subsidiary	(9,440)	–	2,508	–	–
Loss before taxation	(23,876)	(16,723)	(25,547)	(60,309)	(39,921)
Taxation	(7)	(7)	(7)	(7)	(7)
Loss after taxation	(23,883)	(16,730)	(25,554)	(60,316)	(39,928)
Minority Interests	843	2,079	951	–	–
Loss attributable to shareholders	(23,040)	(14,651)	(24,603)	(60,316)	(39,928)
Dividend	–	–	–	–	–

## Financial Summary

[Amounts expressed in Hong Kong dollars]

### Consolidated Balance Sheets

	As at 31 December				
	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Intangible assets	6,272	3,112	4,220	-	-
Properties, machinery and equipment	41,364	46,581	47,311	19,968	17,212
Properties under development	127,807	123,706	119,720	102,303	42,903
Long-term loan receivable	-	189	-	-	-
Interest in associates	17,241	-	-	-	-
Long-term investments	9,342	14,059	16,589	28,562	32,775
Current assets	96,151	148,715	141,656	125,797	141,302
Current liabilities	(176,447)	(195,405)	(170,964)	(99,039)	(12,826)
Non current liabilities	(616)	(772)	(921)	-	-
Minority Interests	(5,807)	(1,518)	(4,530)	-	-
<b>Net assets</b>	<b>115,307</b>	<b>138,667</b>	<b>153,081</b>	<b>177,591</b>	<b>221,366</b>
Capital and reserves:					
Share capital	1,024	1,024	102,264	102,256	88,887
Reserves	199,779	279,206	301,288	301,203	297,592
Accumulated losses	(85,496)	(141,563)	(250,471)	(225,868)	(165,113)
<b>Shareholders' equity</b>	<b>115,307</b>	<b>138,667</b>	<b>153,081</b>	<b>177,591</b>	<b>221,366</b>

Note:

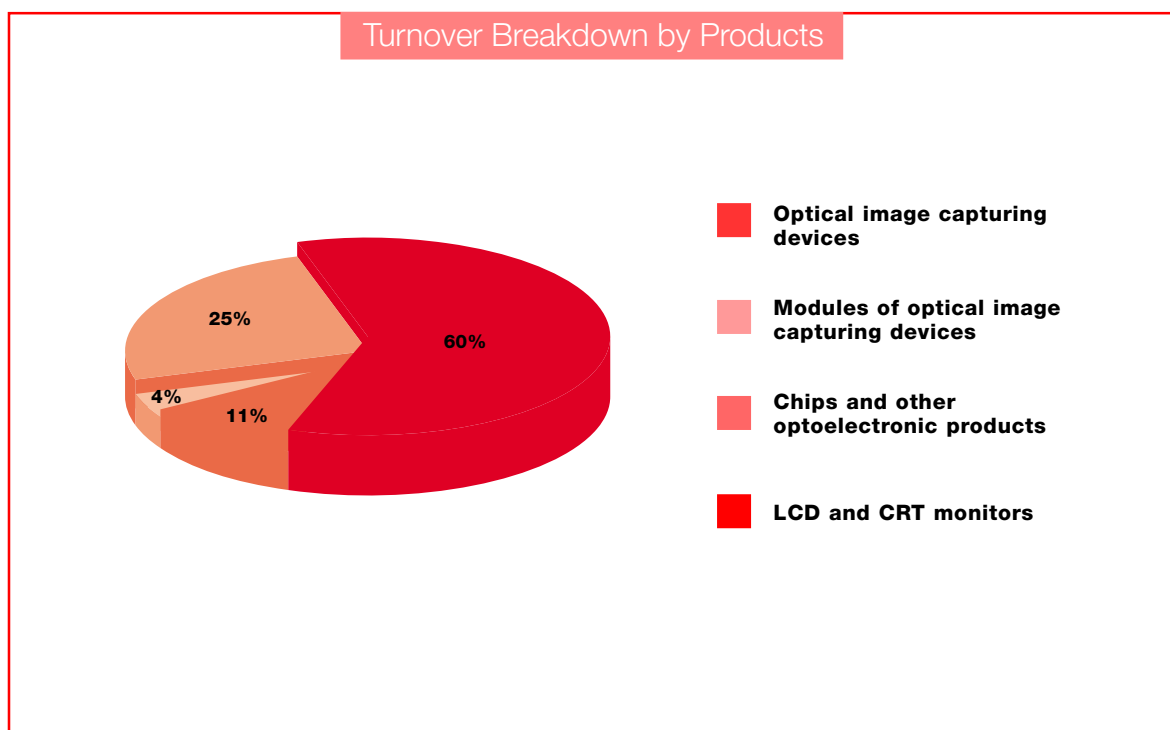
- Pursuant to a group reorganization scheme ("the Reorganization") in preparation for the listing of the Company's shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 27 March 2000. The summary of consolidated balance 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.

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 2004.

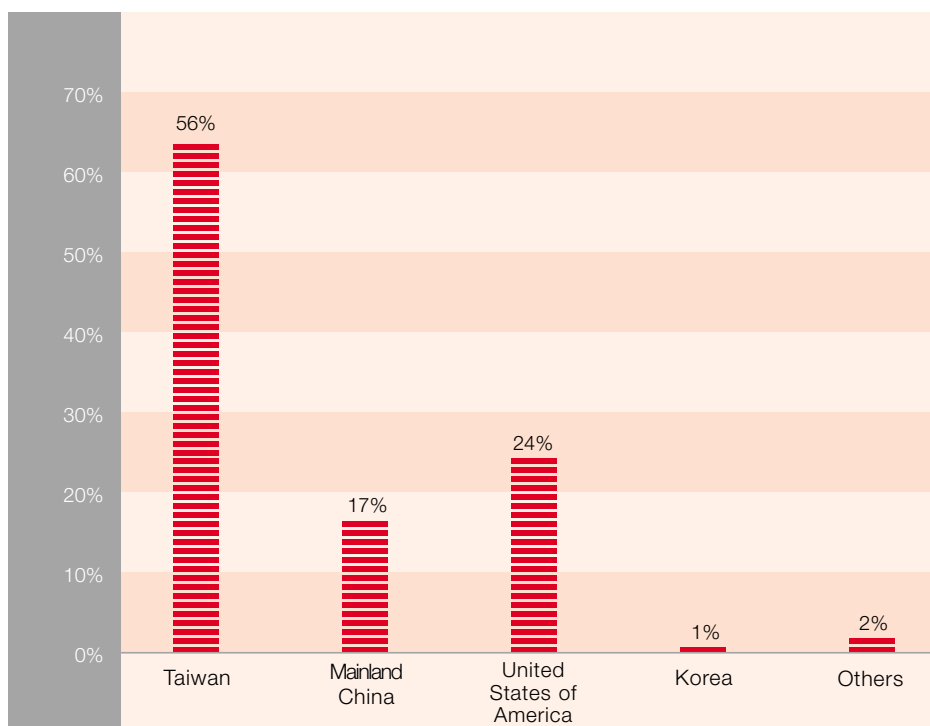
### Turnover and Performance

For the year ended 31 December 2004, the Group recorded a turnover of approximately HK\$192,339,000 (2003: HK\$264,213,000), representing an decrease of approximately 27.2%. The audited loss attributable to shareholders was approximately HK\$23,040,000 (2003: HK\$14,651,000).

For the year ended 31 December 2004, the Group made other income of approximately HK\$36,153,000 (2003: HK\$10,672,000), representing an increase of approximately 238.8%. The total revenue and income for the year ended 31 December 2004 reached approximately HK\$228,492,000 (2003: HK\$274,885,000), representing an decrease of approximately 16.9% comparing with year 2003.



### Turnover Breakdown by Geographical Location



### Prospects and Appreciation

The year of 2004 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 establish different stable income sources while maintaining stringent cost control. During the year 2004, the Group has already cut down a lot of overhead expenses and tried to minimize the excess needs. We will make our best efforts 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, 29 March 2005



### 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\$192,339,000 for the year 2004 decreased by approximately 27.2% as compared to the turnover of HK\$264,213,000 last year. The Group's gross profit margin had decreased slightly from the year 2003 from 17.9% to the year 2004 of 15.4%.

The Group recorded loss attributable to shareholders for the year 2004 of approximately HK\$23,040,000 comparing with the loss of HK\$14,651,000 for the year for 2003.

#### Research and Development

The Group had increased its research and development expenses by 32.6% as compared to year 2003 due to there were more new products under development in year 2004.

The Group stated to develop multimedia display controllers that can be used for LCD TV monitors, HDTV (High Definition TV), as well as multimedia display controllers that can enhance the LCD image display.

The Group continues to explore the application of its 2D barcode technology in different fields of business. For instance, the Group successfully finished the prototype of a remote reader for use in the logistics business. The Group has finished the King Study Machine which is now ready to promote to the market.

The Group is also finished the development of a duplex scanning device that can scan both sides of documentation with very high speed and expects this products can be launched in the first quarter of 2005.

The Group has its own proprietary CM and GM coding certified by PRC authorities. With the use of the Group's 2D barcode products, the coding can provide for more superior results than normal 1D coding which can contain more data within the coding. The Group expects the success of the certification will enhance the sale of the Group's 2D barcode products.

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

The Directors believe that the current production capacity can fulfill the forthcoming production needs.

### Business Review (Cont'd)

#### Sales and Marketing

The Group has brought continued opportunity growth for the Group's products in the Western market channels. As the Consumer Electronics Show (CES-Las Vegas) in early January 2004, the Group had an overwhelming response to our new multimedia display controllers, namely ViewTech.

During February, we began mass shipment of our new mobile digital watermark reader, primarily to European Union VAR (Value Added Resellers) and system integrators. During this time, we also completed our first delivery of various prototype imaging sensors to Xerox Office Systems.

In mid March, we held a highly successful exhibition at the CeBIT in Hannover Germany, at which we introduced our next generation of duplex and high-speed mobile scanners. Once again we received a very positive response to our ViewTech multimedia display controller. In late March, we also began initial shipments of TravelScan 662, which directly targets the security document and ID card reader market. The successful launch of TravelScan 662 and the establishment of key market channels, firmly establishes SYSCAN as a leader in security document mobile readers.

The Group has participated in the "Frontline Solutions Exhibition" held in Chicago, U.S.A. in September, where a full collection of the Group's 2D barcode products were displayed. The Group has also attended the Graphical Exhibition in Germany with a pre-launch of two new scanning products and four new flat-panel display products. All of these new products were well received by our key channel partners in both the North American and European markets.

#### Investment/Divestment and Acquisition

During the year 2004, the Group has decreased its equity interest in 深圳市世紀開元實業有限公司 from 85% to 41.65%.

In addition, the Group has decreased its equity interest in SYSCAN Digital Systems Co., Ltd from 100% to 46% during the year 2004 but in 11 March 2005, the Group has increased back the shareholding from 46% to 100%.

During the year 2004, the Group has increased its equity interest of 深圳市華實信達科技發展有限公司 from 70% to 82.28%.

In addition, the Group has invested in three associated companies 深圳市旭感信息工程監理有限公司, 浙江矽感科技有限公司 and 深圳市旭感和誠信息技術有限公司 of which the equity interests are 50%, 40% and 40% respectively.

### Financial Resources and Liquidity

As of 31 December 2004, the Group had a cash balance of approximately HK\$23,162,000. The RMB-denominated short term bank borrowing of approximately HK\$133,097,000, which was secured by the Group's land use right, pledged deposits and the Group's office premises in Shenzhen, will mature during the period from April 2004 to April 2005. The interest rates of these short term loans were 5.58% p.a. The Group also has two RMB-denominated mortgage loans totalling HK\$761,000. 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 2004, the total current assets over the total current liabilities was 0.5 times. The ratio of all debts to total assets was about 47%.

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 2004, the Group has contingent liabilities which are set out in note 32 to the accompanying financial statements.

### Intellectual Property and Legal Action

During the year 2004, the Group had over 21 trademarks, product names and logos registered in different countries and regions, of which 19 trademarks have been approved. As of 31 December 2004, the Group had been granted 86 patents and have 155 patents filed in different countries and regions under processing.

### Employees

As at 31 December 2004, the Group has 369 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 Group is cautious towards its future business plan and will concentrate on the profitable businesses in order to establishing a stable revenue stream and making the Group result to be profitable earlier.

The Group has already simplified its corporate structure and laid off excess staffs in order to maintain stringent cost control.

## Profiles of Directors and Senior Management

### Executive Directors

Mr Cheung Wai, aged 54, is the Chairman and Chief Executive Officer 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 28 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 Chan Man Ching, aged 36, is the Qualified Accountant, Chief Financial Officer and Company Secretary of the Group. He graduated from the University of South Australia with a bachelor's degree in Accountancy. He is also a CPA member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He has over 12 years' experience in accounting, auditing and taxation. Mr Chan joined the Group in 2000.

Dr Zhang Fu, aged 41, is the Chief Operating Officer of the Group's China Business Group. Mr Zhang has over 12 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.

### Independent Non-executive Directors

Mr Lo Wai Ming, aged 53, is the founder and president of Greater China Asset Management Limited. Mr Lo has over 28 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 43, is a Certified Practicing Accountant (Australia), a Chartered Financial Analyst and a member of the Hong Kong Institute of Directors. Mr Fong has over 19 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.

Mr Jin Qingjun, aged 47, is currently a partner of King & Wood, solicitors and attorneys in PRC. He has over 18 years of rich experience in the fields of finance, securities, investment, intellectual property, real estate, corporate, maritime, insolvency and litigation as well as foreign investment related areas. Mr Jin was the founder and Managing Partner of Shu Jin & Co., solicitors and attorneys in PRC. He has previously worked as Attorney for C & C Law Office in PRC, as Foreign Attorney for Clyde & Co., British solicitors, and Johnson Stokes & Master, solicitors in Hong Kong. Presently, Mr. Jin acts as legal consultant for various financial institutions, securities companies, listed companies and overseas corporations such as the World Group International Finance Corporation. He is now also acting as independent director of two companies in Shenzhen, PRC namely 金地集團股份有限公司 and 景順長城基金管理有限公司. Mr. Jin is one of the first lawyers who are granted the license of securities transactions in PRC. He holds a bachelor's degree in English from Anhui University and a master degree of Laws in International Laws from China University of Political Science & Law. He is the Adjunct Professor of China University of Political Science & Law, and Vice-Chairman of International Committee of All China Lawyers Association. Mr Jin is also a member of various law societies and associations namely China Law Society, China International Law Association, China Maritime Law Association, D.C. Bar of the United States of America, WTO Committee of All China Lawyers Association and Inter Pacific Bar Association.

### Senior Management

Mr Darwin Hu, aged 52, is responsible for sales and marketing, research and development, and daily overall management, and for the Group's overseas business. He has over 22 years of experience in research and development management, imaging product development, manufacturing and sales and marketing. Before joining the Group in April 1998, Mr Hu held senior management positions in Microtek, Xerox, OKI, AVR, DEST, Olivetti and Grundig. Mr Hu holds a bachelor's degree in Engineering Science from National Cheng-Kung University, Taiwan, and a master's degree in Computer Science and Engineering from California State University, USA.

Mr William Hawkins, aged 49, is the Chief Operating Officer of the Group's Western Business Group. Mr Hawkins has over 21 years' marketing and sales experience in the field of electronic industry related to computer peripheral and imaging system including General Electric (UK), Karma Aerospace, British Aerospace, Gaertner research and Per Scholas. He holds a bachelor's degree in Physics from University of Maryland, USA, and a master's degree in Technology Management from Johns Hopkins University, USA. Mr Hawkins joined the Group in 1998.

Mr Huang Jungchih, aged 43, is the Vice-President of SYSCAN Inc., and is responsible for system product engineering especially in software development, sales and manufacturing support and for existing product improvement. He has over 19 years of experience in system engineering especially in software development. Before joining the Group in July 1999, Mr Huang held various senior positions in ACC Microelectronics Corporation, Artis Corp (Microtek Graphic Arts Business Division) and O2 Micro, Inc. He holds a bachelor's degree in electrical engineering from Northwestern Polytechnic University, CA, USA.

## 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 2004.

### 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 13 to the accompanying financial statements.

An analysis of the Group’s turnover and loss attributable to shareholders by product category and geographical location for the year ended 31 December 2004, are as follows:

	Turnover	Loss attributable
	HK\$'000	to shareholders
		HK\$'000
<hr/>		
<b>a. By product category</b>		
– optical image capturing devices	47,901	5,738
– modules of optical image capturing devices	6,681	800
– chips and other optoelectronic products	21,779	2,609
– LCD and CRT monitors	115,978	13,893
	<hr/>	
	192,339	<hr/> 23,040

## Principal Activities (Cont'd)

	Turnover HK\$'000	Loss attributable to shareholders HK\$'000
<b>b. By geographical location*</b>		
– The Philippines	414	49
– Taiwan	108,162	12,957
– Hong Kong	645	77
– Mainland China	32,895	3,940
– Japan	565	68
– The United States of America	45,447	5,444
– Korea	1,779	213
– Singapore	1,203	144
– France	453	54
– Germany	341	41
– Italy	63	8
– Others	372	45
	192,339	23,040

\* 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 2004, the five largest customers accounted for approximately 71% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 35% of the Group's total purchases. The largest customer accounted for approximately 49% 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 2004 are set out in the consolidated income statement on page 31 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately HK\$85,496,000 as at 31 December 2004 be carried forward.

### 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 31 of this annual report.

As at 31 December 2004, 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 and Associates

Particulars of the Company's subsidiaries and associates are set out in Note 13 and Note 14 respectively to the accompanying financial statements.

### Properties, Machinery and Equipment and Properties under Development

Details of movements in properties, machinery and equipment and properties under development during the year are set out in Notes 11 and 12 respectively to the accompanying financial statements.

### Bank Borrowings

Particulars of bank borrowings as at 31 December 2004 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.



### 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 (service contract terminated on 19 January 2005)

Mr Chan Man Ching (appointed on 21 August 2004)

Dr Zhang Fu (appointed on 21 August 2004)

Mr Wong Chung (appointed on 21 August 2004 but service contract terminated on 10 November 2004)

#### Independent non-executive directors

Mr Lo Wai Ming

Mr Fong Chi Wah

Mr Jin Qingjun (appointed on 30 September 2004)

Mr Chan Man Ching and Dr Zhang Fu and Mr Wong Chung, the Executive Directors, have entered into a service agreement with the Company for a term of three years commencing from 21 August 2004.

Pursuant to a service contract entered into between Mr Jin Qingjun and the Company, Mr Jin 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 30 September 2004.

Pursuant to the service contracts between Mr Wong Chung (the Executive director), Mr Darwin Hu (the Executive director and Chief Executive Officer) and the Company, both have agreed to terminate the Director's Service Agreement whereby in the case of Mr Wong ceased to be the Executive Director from 10 November 2004 and in the case of Mr Hu ceased to be the Executive Director and Chief Executive Officer from 19 January 2005.

Taking this opportunity, the Board expresses on behalf of the Company great appreciation and gratitude to Mr Darwin Hu and Mr Wong Chung for their past contribution to the Group and welcomes Mr Chan Man Ching, Dr Zhang Fu and Mr Jin Qingjun to join the Board of Directors.

In accordance with Bye-law 102(A) of the Bye-Laws of the Company, Mr Chan Man Ching, Dr Zhang Fu, Mr Jin Qingjun retires and, being eligible, offer himself for re-election at the forthcoming AGM.

In accordance with Bye-law 99 of the Bye-Laws of the Company, Mr Lo Wai Ming 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

Mr Cheung Wai (Chairman) and Mr Darwin Hu have renewed the service agreement with the Company for a term of four years commencing from 1 April 2004. However, Mr Hu and the Company agreed to terminate the Director's Service Agreement whereby Mr Hu ceased to be the Executive director and Chief Executive Officer from 19 January 2005.

Mr Chan Man Ching and Mr Zhang Fu and Mr Wong Chung, the Executive Directors have entered into a service agreement with the Company for an initial term of three years commencing from 21 August 2004. However, Mr Wong Chung and the Company, both have agreed to terminate the Director's Service Agreement whereby Mr Wong ceased to be the Executive Director from 10 November 2004.

Mr Lo Wai Ming, Mr Fong Chi Wah and Mr Jin Qingjun, the independent non-executive directors, have entered into service agreements with the Company for a term of three years commencing from, in the case of Mr Lo Wai Ming, 1 March 2003, in the case of Mr Fong Chi Wah, 19 December 2003 and in the case of Mr Jin Qingjun, 30 September 2004.

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

## Directors' interest in Shares

As at 31 December 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

### Long Positions in shares of the Company

Name	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr Cheung Wai	720,000	–	10,310,000 (Note 2)	–	11,030,000	10.78%
Mr Darwin Hu	3,840,000	1,615,600 (Note 1)	–	–	5,455,600	5.33%
Mr Wong Chung	131,400	–	–	–	131,400	0.13%
Mr Jin Qingjun	50,000	–	–	–	50,000	0.049%

#### 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).

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

#### Long positions in underlying shares of the Company

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

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

Since its adoption and up to 31 December 2004, no options have been granted to the Directors of the Company under Share Option Scheme A.

Details of the options granted to the Directors of the Company under Share Option Scheme B and Share Option Scheme C since its adoption and up to 31 December 2004 were as follows:

#### Scheme B

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	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	19/6/2000	19/6/2001 to 18/6/2010	HK\$3.30	500,000	–	–	500,000
Mr Darwin Hu	19/6/2000	19/6/2001 to 18/6/2010	HK\$3.30	500,000	–	–	500,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$2.06	1,800,000	–	–	1,800,000
Mr Wong Chung	13/8/2001	4/12/2001 to 3/12/2010	HK\$2.75	100,000	–	–	100,000
Mr Chan Man Ching	4/12/2000	13/8/2001 to 12/8/2011	HK\$1.016	50,000	–	–	50,000
				2,950,000	–	–	2,950,000

**Directors' interest in Shares (Cont'd)**

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

**Scheme C**

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Subscription price per share	No. of	No. of	No. of	No. of
				underlying shares comprising the options granted	underlying shares comprising the options exercised	underlying shares comprising the options lapsed	underlying shares comprising the options outstanding
Mr Chan Man Ching	14/5/2002	14/5/2003 to 13/5/2012	HK\$1.412	50,000	–	–	500,000
	12/11/2002	12/11/2003 to 11/11/2012	HK\$1.00	200,000	–	–	200,000
Mr Wong Chung	14/5/2002	14/5/2003 to 13/5/2012	HK\$1.412	300,000	–	(300,000)	–
Dr Zhang Fu	14/8/2002	14/8/2003 to 13/8/2012	HK\$1.00	300,000	–	–	300,000
	26/3/2003	26/3/2004 to 25/3/2013	HK\$1.00	700,000	–	–	700,000
				1,550,000	–	(300,000)	1,250,000

Save as disclosed above, as at 31 December 2004, none of the directors had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules.

### Interests Discloseable under the SFO and Substantial Shareholders

Save as disclosed below, as at 31 December 2004, 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 ( <i>Note 1</i> )	Beneficial owner	Personal & Corporate	11,030,000	10.78%
Mr Darwin Hu ( <i>Note 1</i> )	Beneficial owner	Personal & Family	5,455,600	5.33%
Mr Joseph Liu ( <i>Note 2</i> )	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' AND CHIEF EXECUTIVE'S INTERESTS" 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.*

### Employee Share Options

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

#### Share Option Scheme A ("Scheme A")

(i) *Summary of the terms of Scheme A*

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

The Company adopted Scheme A on 2 March 2000 and granted a maximum of 52,784,000 options to subscribe for 52,784,000 shares at exercise prices ranging from HK\$0.02422 to HK\$0.04844, which was resulted from the conversion of outstanding options under the stock option plan adopted and approved by SYSCAN, Inc., a wholly owned subsidiary of the Company, by virtue of a group reorganization scheme in preparation for the listing of the Company's shares on the GEM.

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

**Employee Share Options (Cont'd)**

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

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

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.

(ii) Details of the movement of options under Scheme A during the year ended 31 December 2004 were as follows:

Class of Optionees	Date of grant	Exercise period	Subscription price per share	Number of shares				End of year
				Beginning of year	Granted During the year	Lapsed During the year	Exercised During the year	
Directors, chief executive, management shareholder, or substantial shareholders or their respective associates	-	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	2 March 2000	2 March 2000 to 1 March 2010	HK\$0.4844	2,124,000	-	(1,120,000)	-	1,004,000
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	2 March 2000	2 March 2000 to 2 March 2010	HK\$0.4844	1,144,000	-	-	-	1,144,000
				3,268,000	-	(1,120,000)	-	2,148,000

### 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 \$0.01 each, subject to, when aggregated with any shares subject to any other scheme of the Company, a maximum of 30% of the nominal value of the issued share capital of the Company from time to time. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the nominal value of the ordinary shares, (ii) the average of the closing price of the ordinary shares quoted on the GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on the GEM on the date of grant, which must be a business day. An offer of an option shall be deemed to have been granted and accepted when a duplicate letter comprising acceptance of the option duly signed by the participant, together with a remittance of HK\$1 by way of consideration for the grant thereof, is received by the Company with 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 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.



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 2004 were as follows:

Class of Optionees	Date of grant	Exercise period	Subscription price per share	Number of shares				End of year
				Beginning of year	Granted During the year	Lapsed During the year	Exercised during the year	
Directors, chief executive, management shareholder, or substantial shareholders or their respective associates	19 June 2000	19 June 2001 to 18 June 2010	HK\$3.3	1,000,000	-	-	-	1,000,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$2.06	1,800,000	-	-	-	1,800,000
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	12 July 2000	12 July 2001 to 11 July 2010	HK\$2.46	405,000	-	(320,000)	-	85,000
	4 December 2000	4 December 2001 to 3 December 2010	HK\$1.016	170,000	-	-	-	170,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$2.06	1,540,000	-	(600,000)	-	940,000
	13 August 2001	13 August 2002 to 12 August 2011	HK\$2.75	570,000	-	-	-	570,000
Suppliers of goods and services	-	-	-	-	-	-	-	-
All other optionees	4 December 2000	4 December 2001 to 3 December 2010	HK\$1.016	500,000	-	(500,000)	-	-
	17 January 2001	17 January 2002 to 16 January 2011	HK\$2.06	400,000	-	(400,000)	-	-
				<u>6,385,000</u>	<u>-</u>	<u>(1,820,000)</u>	<u>-</u>	<u>4,565,000</u>

### 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 \$0.01 each, subject to, when aggregated under this scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the nominal value of the ordinary shares, (ii) the average of the closing price of the ordinary shares quoted on the GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on the GEM on the date of grant, which must be a business day. An offer of an option shall be deemed to have been granted and accepted when a duplicate letter comprising acceptance of the option duly signed by the participant, together with a remittance of HK\$1 by way of consideration for the grant thereof, is received by the Company within a period of 21 days from the date of offer.

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

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

The total number of shares available for issue under Scheme C is 4,264,432 (representing approximately 4.17% 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.

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 2004 were as follows:

Class of Optionees	Date of grant	Exercise period	Subscription price per share	Number of shares			
				Beginning of year	Lapsed During the year	Exercised during the year	End of year
Directors, chief executive, management shareholder, or substantial shareholders or their respective associates	-	-	-	-	-	-	-
Optionees with options granted in excess of individual limit	-	-	-	-	-	-	-
Employees working under continuous employee contracts	14 May 2002	14 May 2003 to 13 May 2012	HK\$1.412	2,861,000	(1,331,000)	-	1,530,000
	14 August 2002	14 August 2003 to 13 August 2012	HK\$1.00	1,135,000	-	-	1,135,000
	12 November 2002	12 November 2003 to 11 November 2012	HK\$1.00	250,000	-	-	250,000
	26 March 2003	26 March 2004 to 25 March 2013	HK\$1.00	2,087,000	(240,000)	-	1,847,000
	13 August 2003	13 August 2004 to 12 August 2013	HK\$1.00	280,000	-	-	280,000
Suppliers of goods and services	-	-	-	-	-	-	-
All other optionees	14 May 2002	14 May 2003 to 13 May 2012	HK\$1.412	130,000	-	-	130,000
	14 August 2002	14 August 2003 to 13 August 2012	HK\$1.0	700,000	-	-	700,000
	12 November 2002	12 November 2003 to 11 November 2012	HK\$1.0	100,000	-	-	100,000
				<u>7,543,000</u>	<u>(1,571,000)</u>	<u>-</u>	<u>5,972,000</u>

The Directors consider it inappropriate to value all the options that can be granted during the year ended 31 December 2004 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.

### 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 year ended 31 December 2004.

### Financial Summary

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

### 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 three independent non-executive directors, namely Mr Lo Wai Ming, Mr Fong Chi Wah and Mr Jin Qingjun. The Committee has met 4 times since 1 January 2004 with the management to discuss and review the Group's various internal control, audit issues and results of the Group with a view to further improve the Group's corporate governance.

### Auditors

The financial statements were audited by Messrs CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Limited). A resolution for the re-appointment of Messrs CCIF 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 and Chief Executive Officer*

**CHAN MAN CHING**

*Director*

Hong Kong, 29 March 2005

## 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 Wednesday, 4 May 2005 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 2004;
2. To elect Directors and to authorise the Board of Directors to fix the remuneration of the Directors; and
3. To re-appoint Messrs CCIF 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, 29 March 2005

As at the date of the announcement, the Board of Directors comprises Mr Cheung Wai, Mr Chan Man Ching, Dr Zhang Fu, Mr Lo Wai Ming, Mr Fong Chi Wah and Mr Jin Qingjun.

*Notes:*

1. *The Register of Members of the Company will be closed on Friday, 29 April 2005 and Tuesday, 3 May 2005, 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.*



**CCIF CPA Limited**

37/F Hennessy Centre  
500 Hennessy Road  
Causeway Bay Hong Kong

General: +852 2894 6888  
Facsimile: +852 2895 3752  
E-mail: [info@ccifcpa.com.hk](mailto:info@ccifcpa.com.hk)  
[www.ccifcpa.com.hk](http://www.ccifcpa.com.hk)

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SYSCAN TECHNOLOGY HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 31 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 Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

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 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. However, the evidence made available to us was limited to the extent (1) as explained in the following paragraphs and (2) fundamental uncertainty relating to the going concern of the Group.

**BASIS OF OPINION** *(Cont'd)***Qualified opinion arising from the limitation of scope**

- (1) On 29 March 2004, SYSCAN Imaging Limited ("SIL") and SYSCAN Inc., wholly-owned subsidiaries of the Company, entered into a share exchange agreement ("Share Exchange Agreement") with an overseas listed company and its principal shareholder, pursuant to which the principal shareholder of the overseas listed company and SIL agreed to exchange shares between the overseas listed company and SYSCAN Inc.. SIL exchanged 100% equity interest in SYSCAN Inc. for 81.23% equity interest in the overseas listed company so that upon completion of the share exchange arrangement, the Company would indirectly hold 81.23% equity interest in the overseas listed company. In addition, SIL agreed to grant an option to the overseas listed company, pursuant to which the overseas listed company had the right to acquire from SIL the entire issued capital of SYSCAN Manufacturing Limited ("SML") at a consideration of not less than USD16 million (equivalent to approximately HK\$124.8 million) during a period of 2 years commencing from the date of completion of the Share Exchange Agreement.

On 2 April 2004, the overseas listed company announced that it had completed the acquisition of 100% of the issued and outstanding capital stock of Syscan, Inc.. As at 31 December 2004, the register of members of the overseas listed company listed SIL as holding 81.23% of the overseas listed company.

However, on 12 May 2004, the directors of the Company announced in Hong Kong that the Share Exchange Agreement constituted a discloseable transaction for the Company under the GEM Listing Rules and that the Stock Exchange of Hong Kong Limited (the "Stock Exchange") had indicated that the transactions contemplated pursuant to the Share Exchange Agreement to be a proposed spin-off (the "Proposed Spin-off") of Syscan Inc. and SML and "therefore the transactions and the Proposed Spin-off would be conditional on, inter alia, the approval of the GEM Listing Committee and the Shareholders". Syscan Inc. is a major subsidiary of the Company (as defined in the GEM Listing Rules), the transactions constituted a material dilution of the Company's interest in SYSCAN Inc.. The announcement also stated that the Company would apply for the approval of the Stock Exchange to proceed with the Proposed-Spin-off. For further details, please refer to the announcement made by the Company on 12 May 2004.

In November 2004, the Stock Exchange was informed that the shares of Syscan Inc. had not been and will not be transferred to the overseas listed company; unless and until the Proposed Spin-off and the transactions were approved by the GEM Listing Committee and the independent shareholders of the Company.

On 26 January 2005, the directors of the Company wrote to the overseas listed company to terminate the Share Exchange Agreement. On even date, the directors of the Company announced in Hong Kong that the "Share Exchange Agreement was terminated on 26 January 2005 given that to date, almost 10 months after the signing of the Share Exchange Agreement, the Proposed Spin-off has not yet been approved by the GEM Listing Committee".

To date, we are not aware of any reply from the overseas listed company to the Company confirming consent to terminating the Share Exchange Agreement.

Due to the conflicting information as indicated in the preceding paragraphs, inadequate and inconclusive information regarding the shareholder of Syscan Inc. as at 31 December 2004, in the absence of any conclusive and overriding evidence confirming whether the information released by the directors of the Company would legally and conclusively prevail over the information released by the overseas listed

### BASIS OF OPINION (Cont'd)

#### Qualified opinion arising from the limitation of scope (Cont'd)

company and in the absence of any legal opinion on the validity and enforcesability of the Share Exchange Agreement; therefore we are unable to form an opinion as to whether 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 2004 and the loss and cash flows of the Group for the year then ended. There were also no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the consolidation of the financial results of SYSCAN Inc. into the Group. Any adjustments may have a consequential significant effect on the loss for the year and net assets of the Group at 31 December 2004.

#### Fundamental uncertainty relating to the going concern of the Group

- (2) In forming our opinion, we have considered the appropriateness of preparing the financial statements on a going concern basis. Note 2 to the financial statements explains that the directors are satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future provided that the creditor banks continue to extend the bank borrowings and facilities to the Group in the future. As the directors are confident that the Group will be able to continue in operational existence in the foreseeable future, the financial statements have been prepared on a going concern basis. However, there is no sufficient appropriate audit evidence to substantiate the above underlying assumptions adopted by the directors and therefore we have been unable to conclude whether the going concern basis is appropriate for the Group.

If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group at 31 December 2004.

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.

#### QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effects of the limitation in evidence made available to us as referred to in the preceding paragraphs and the fundamental uncertainty relating to the going concern of the Group, we are unable to form an opinion as to whether 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 2004 and the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### CCIF CPA Limited

*Certified Public Accountants*  
Hong Kong, 29 March 2005

#### Chan Wai Dune, Charles

*Practising Certificate Number P00712*



## Consolidated Income Statement

For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	4	192,339	264,213
Cost of sales		(162,679)	(216,834)
Gross profit		29,660	47,379
Other revenue	4	36,153	10,672
Selling and distribution expenses		(17,024)	(18,482)
General and administrative expenses		(29,193)	(33,673)
Research and development expenses		(17,605)	(13,273)
Provision for bad and doubtful receivables		(14,977)	(3,128)
		(78,799)	(68,556)
Loss from operations		(12,986)	(10,505)
Finance costs		(5,636)	(6,218)
Share of loss of associates		(42)	–
Gain on deemed disposal of a subsidiary		4,228	–
Loss on disposal of a subsidiary		(9,440)	–
Loss before taxation	5	(23,876)	(16,723)
Taxation	7	(7)	(7)
Loss after taxation		(23,883)	(16,730)
Minority interests		843	2,079
Loss attributable to shareholders	8	(23,040)	(14,651)
Accumulated losses brought forward		(141,563)	(250,471)
Transfer to reserves	25	79,107	123,559
Accumulated losses carried forward		(85,496)	(141,563)
Loss per share – Basic	9	(22.50) cents	(14.31) cents

The notes on pages 37 to 78 form an integral part of these financial statements.

## Balance Sheets

As at 31 December 2004

	Note	Consolidated		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>					
Intangible assets	10	6,272	3,112	-	-
Properties, machinery and equipment	11	41,364	46,581	-	-
Properties under development	12	127,807	123,706	-	-
Investment in subsidiaries	13	-	-	54,057	59,252
Interest in associates	14	17,241	-	-	-
Long-term loan receivable	15	-	189	-	-
Long-term investments	16	9,342	14,059	-	-
<b>Total non-current assets</b>		<b>202,026</b>	<b>187,647</b>	<b>54,057</b>	<b>59,252</b>
<b>Current assets</b>					
Inventories	17	33,355	60,083	-	-
Trade receivables	18	23,167	48,424	-	-
Prepayments, deposits and other receivables		16,467	15,449	460	460
Cash and bank balances	19	23,162	24,759	11	10
<b>Total current assets</b>		<b>96,151</b>	<b>148,715</b>	<b>471</b>	<b>470</b>
<b>Current liabilities</b>					
Short-term bank loans	20	(140,375)	(128,302)	-	-
Trade payables	21	(27,164)	(59,105)	-	-
Current portion of interest-bearing borrowings	22	(145)	(141)	-	-
Due to a director	29	(3)	(3)	-	-
Accruals and other payables		(8,760)	(7,854)	(789)	(807)
<b>Total current liabilities</b>		<b>(176,447)</b>	<b>(195,405)</b>	<b>(789)</b>	<b>(807)</b>
<b>Net current liabilities</b>		<b>(80,296)</b>	<b>(46,690)</b>	<b>(318)</b>	<b>(337)</b>
<b>Total assets less current liabilities</b>		<b>121,730</b>	<b>140,957</b>	<b>53,739</b>	<b>58,915</b>
<b>Non-current liabilities</b>					
Interest-bearing borrowings	22	(616)	(772)	-	-
<b>Minority interests</b>		<b>(5,807)</b>	<b>(1,518)</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>		<b>115,307</b>	<b>138,667</b>	<b>53,739</b>	<b>58,915</b>

**Balance Sheets** *(Cont'd)*

As at 31 December 2004

	Note	Consolidated		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Capital and reserves</b>					
Share capital	23	1,024	1,024	1,024	1,024
Reserves	25	114,283	137,643	52,715	57,891
Shareholders' equity		<u>115,307</u>	<u>138,667</u>	<u>53,739</u>	<u>58,915</u>

Approved and authorized for issue by the board of directors on 29 March 2005.

On behalf of the board

**CHEUNG WAI**

*Chairman and Chief Executive Officer*

**CHAN MAN CHING**

*Director*

The notes on pages 37 to 78 form an integral part of these financial statements.

## Consolidated Statement of Changes In Equity

For the year ended 31 December 2004

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Statutory reserve fund HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance as at								
1 January 2003	102,264	101,378	-	198,068	439	1,403	(250,471)	153,081
Exercise of employee								
share options (Note 24)	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
Elimination of								
accumulated losses	-	-	(79,107)	-	-	-	79,107	-
Translation adjustments	-	-	-	-	-	(320)	-	(320)
Loss attributable to								
shareholders	-	-	-	-	-	-	(23,040)	(23,040)
Balance as at								
31 December 2004	<u>1,024</u>	<u>-</u>	<u>-</u>	<u>198,068</u>	<u>439</u>	<u>1,272</u>	<u>(85,496)</u>	<u>115,307</u>

The notes on pages 37 to 78 form an integral part of these financial statements.

## Consolidated Cash Flow Statement

As at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(23,876)	(16,723)
Dividend income		-	-
Gain on disposal of properties, machinery and equipment		(595)	-
Gain on deemed disposal of a subsidiary	26a	(4,228)	-
Loss on disposal of a subsidiary	26b	9,440	-
Loss on disposal of long term investments		-	2,530
Interest income		(88)	(573)
Interest expenses		5,636	6,218
Amortisation of patents and intellectual property rights		494	514
Amortisation of negative goodwill		(30)	(8)
Amortisation of positive goodwill		204	414
Depreciation of properties, machinery and equipment		6,245	6,252
<b>Operating loss before working capital changes</b>		<b>(6,798)</b>	<b>(1,376)</b>
Decrease/(increase) in inventories		10,912	(31,746)
Decrease/(increase) in trade receivables		16,407	(30,236)
(Increase)/decrease in prepayments, deposits and other receivables		(5,616)	8,096
Increase in trade payables		10,945	52,333
Increase in accruals and other payables		11,216	2,283
<b>Cash inflow/(outflow) from operations</b>		<b>37,066</b>	<b>(646)</b>
Interest received		88	573
Interest paid		(5,636)	(6,218)
Overseas tax paid		(7)	(7)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>31,511</b>	<b>(6,298)</b>

## Consolidated Cash Flow Statement *(Cont'd)*

As at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of properties, machinery and equipment		(2,991)	(5,832)
Net cash outflow from piecemeal acquisition of subsidiaries		-	(745)
Proceeds from disposal of properties, machinery and equipment		1,006	310
Proceeds from disposal of long term investment		4,717	-
Additions to properties under development		(4,101)	(3,986)
Cash outflow from deemed disposal of a subsidiary	26a	(1,200)	-
Cash outflow from disposal of a subsidiary	26b	(4,048)	-
Increase in loan receivable		-	(189)
Increase in interest in associates		(42,485)	-
Decrease in pledged bank deposits		-	39,000
Translation adjustments		(313)	189
<b>NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES</b>		<b>(49,415)</b>	<b>28,747</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of shares upon Exercise of employee share options		-	48
Inception/(repayment) short-term bank loans		12,073	(30,189)
(Repayment)/inception of interest-bearing borrowings		(152)	(135)
Equity contribution by a minority shareholder of subsidiaries		4,386	-
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>		<b>16,307</b>	<b>(30,276)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,597)</b>	<b>(7,827)</b>
<b>CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR</b>		<b>24,759</b>	<b>32,586</b>
<b>CASH AND CASH EQUIVALENT AT END OF YEAR</b>		<b>23,162</b>	<b>24,759</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		23,162	24,759

The notes on pages 37 to 78 form an integral part of these 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 13).

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

### 2. GOING CONCERN BASIS

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

For the year ended 31 December 2004, the Group reported a loss attributable to shareholders of approximately HK\$23 million (2003: HK\$15 million). Furthermore, the Group recorded net current liabilities of approximately HK\$80 million (2003: HK\$47 million) as at 31 December 2004. 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.

### 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of 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. A summary of the significant accounting policies adopted by the Group is set out below.

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

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

#### (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.

#### (c) Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

#### (d) 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.



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

#### (e) 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.

#### (f) 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 2003 and 2004 have been expensed as no expenditure met the criteria for deferral.

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

**(g) Advertising and promotion costs**

Costs of advertising and promotion are expensed as incurred.

**(h) Employee retirement benefits**

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

**(i) 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 capitalized and amortized 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.

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 realized in accordance with the realization 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 unrealized capital reserve is included in the calculation of the profit or loss on disposal.

**3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)****(j) 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.

**(k) 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.

**(l) 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.

**(m) 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.

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

**(n) 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.

**(o) 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.

**(p) Inventories**

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

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

**(q) Impairment of assets**

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

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

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

**(r) Provisions and contingencies**

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

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

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

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

**(t) 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.

**(u) 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.

**(v) 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.

### 3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

**(w) 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.

**(x) 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.

**(y) Related party transaction**

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

### 4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2004 HK\$'000	2003 HK\$'000
Sales of merchandise		
– Optical image capturing devices	47,901	62,249
– Modules of optical image capturing devices	6,681	8,749
– Chips and other optoelectronic products	21,214	25,065
– LCD and CRT monitors	115,978	167,888
	<b>191,774</b>	263,951
Design fees – High speed module	565	262
Total turnover	<b>192,339</b>	264,213
Interest income	88	573
Income from sales of patents	30,000	–
Recovery of bad debts	–	853
Subsidy income	2,143	2,903
Written back of provision of inventories	2,000	5,960
Gain on disposal of property, plant and equipment	595	–
Rental income	313	–
Exchange gain, net	314	–
Others	700	383
	<b>36,153</b>	10,672
Total revenue	<b>228,492</b>	274,885

## Notes to the Financial Statements

### 5. LOSS BEFORE TAXATION

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

	2004 HK\$'000	2003 HK\$'000
<b>After charging –</b>		
Interest on short-term bank loans	7,665	8,263
Interest on interest-bearing borrowings	45	39
Less: amounts capitalised in properties under development (i)	(2,074)	(2,084)
	<b>5,636</b>	6,218
Cost of inventories sold	162,679	216,834
Employment costs (including directors' emoluments)	29,009	26,512
Retirement costs	894	954
Operating lease rentals of premises	2,081	2,159
Advertising and promotion costs	1,528	2,177
Amortisation of patents and intellectual property rights	494	514
Amortisation of positive goodwill	204	414
Provision for bad and doubtful receivables	14,977	3,128
Depreciation of properties, machinery and equipment	6,245	6,252
Exchange loss, net	–	150
Loss on disposal of a subsidiary	9,440	–
Auditors' remuneration	560	560
<b>After crediting –</b>		
Gain on disposal of properties, machinery and equipment	595	–
Income from sales of patents (ii)	30,000	–
Subsidy income (iii)	2,143	2,903
Rental income	313	–
Exchange gain, net	314	–
Recovery of bad debts	–	853
Amortisation of negative goodwill	30	8
Gain on deemed disposal of a subsidiary	4,228	–
Written back of provision of inventories	2,000	5,960
Bank interest income	88	573



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

Notes :-

- (i) During the year, interest of approximately HK\$2,074,000 (2003: HK\$2,084,000) was capitalised as construction expenditures at the rate on the related loan of approximately 5.58% per annum.
- (ii) During the year, the Group sold its patent for a consideration of approximately HK\$30,000,000 (2003: Nil) to two independent third parties.
- (iii) During the year, the Group received cash subsidies from certain Mainland China government bodies totaling HK\$2,143,000 (2003: HK\$2,903,000). These cash subsidies were for the Group's development of certain products.

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

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

	2004 HK\$'000	2003 HK\$'000
Fees for executive directors	-	-
Fees for non-executive directors	240	240
Other emoluments for executive directors		
– Basic salaries and allowances	3,311	3,443
– Retirement contribution	17	15
	<b>3,568</b>	<b>3,698</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.

### 6. 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:

	2004	2003
Executive directors		
– Nil to \$1,000,000	3	1
– \$1,000,001 to \$1,500,000	1	1
– \$1,500,001 to \$2,000,000	1	1
Non-executive directors		
– Nil to \$1,000,000	3	4
	<b>8</b>	<b>7</b>

During the year ended 31 December 2004, the five executive directors received individual emoluments of approximately HK\$1,560,000 (2003: HK\$1,950,000), HK\$1,368,000 (2003: HK\$1,368,000), HK\$205,000 (2003: Nil), HK\$115,000 (2003: Nil) and HK\$80,000 (2003: Nil), respectively. The three non-executive directors received individual fees of approximately HK\$120,000 (2003: HK\$120,000), HK\$120,000 (2003: Nil), and Nil (2003: Nil) respectively.

During the year ended 31 December 2003, an executive director who received individual emoluments of approximately HK\$140,000 and two non-executive directors who received individual fees of HK\$120,000 and Nil respectively resigned.

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

	2004 HK\$'000	2003 HK\$'000
Basic salaries and allowances	6,270	6,477
Retirement contribution	12	12
	<b>6,282</b>	<b>6,489</b>
	2004	2003
Number of directors	2	2
Number of employees	3	3
	<b>5</b>	<b>5</b>

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

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

	2004	2003
Nil to \$1,000,000	1	2
\$1,000,001 to \$1,500,000	3	2
\$1,500,001 to \$2,000,000	1	1
	5	5

**7. TAXATION**

**(a) Bermuda income tax**

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

**(b) Hong Kong profits tax**

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong (2003: 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 (2003: HK\$7,000), being the minimum amount for a company in a tax loss position.

### 7. 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	
		2004	2003	2004	2003
Shenzhen SYSCAN Optoelectronics Co., Ltd. (i) (Formerly known as SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd.)	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%

(i) Shenzhen SYSCAN Optoelectronics Co., Ltd. (formerly known as 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 profit for the year.

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

**7. TAXATION (Cont'd)**

**(e) Taiwan income tax**

No Taiwan income tax is payable by the Taiwanese branch of SYSCAN InterVision Limited as the branch had no assessable profit in Taiwan (2003: 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 multiplies by the applicable tax rates is as follows:–

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(23,876)</u>	<u>(16,723)</u>
Notional tax loss on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(5,667)	(2,849)
Tax effect of non-taxable revenue	(141)	–
Tax effect of non-deductible expenses	279	194
Tax effect of unused tax losses not recognized	5,549	3,566
Utilization of previously unrecognized tax losses	(13)	(896)
Unrecognized temporary difference	–	(8)
Actual tax expenses	<u>7</u>	<u>7</u>

**(g) Deferred tax assets not recognized**

The Group has tax losses of approximately HK\$321,881,000 (2003: HK\$289,969,000) 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.

**8. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

During the year ended 31 December 2004, the consolidated loss attributable to shareholders includes a loss of approximately HK\$5,176,000 (2003: HK\$91,337,000) dealt with in the financial statements of the Company.

### 9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2004 together with the comparative figures for 2003 are as follows:-

	2004 HK\$'000	2003 HK\$'000
Net loss attributable to shareholders	(23,040)	(14,651)
Weighted average number of ordinary shares for the purpose of basic loss per share	102,364,000	102,362,000

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

### 10. INTANGIBLE ASSETS

Movements of intangible assets (consolidated) were:

	Positive Goodwill(i) HK\$'000	Negative Goodwill(ii) HK\$'000	Patents(iii) HK\$'000	Intellectual property rights(iii) HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1/1/2004	414	(602)	2,745	1,698	4,255
Additions	4,073	-	-	-	4,073
Disposal of a subsidiary	-	-	-	(283)	(283)
<b>At 31/12/2004</b>	<b>4,487</b>	<b>(602)</b>	<b>2,745</b>	<b>1,415</b>	<b>8,045</b>
<b>Amortisation</b>					
At 1/1/2004	414	(8)	490	247	1,143
Released to income	-	(30)	-	-	(30)
Provision for the year	204	-	368	126	698
Disposal of a subsidiary	-	-	-	(38)	(38)
<b>At 31/12/2004</b>	<b>618</b>	<b>(38)</b>	<b>858</b>	<b>335</b>	<b>1,773</b>
<b>Net book value</b>					
<b>At 31/12/2004</b>	<b>3,869</b>	<b>(564)</b>	<b>1,887</b>	<b>1,080</b>	<b>6,272</b>
At 31/12/2003	-	(594)	2,255	1,451	3,112

**10. INTANGIBLE ASSETS (Cont'd)**

Notes:

- (i) The positive goodwill is arising from acquisition of an associate and is amortised on a straight line basis of 20 years.
- (ii) The negative goodwill is released to income on a straight line basis of 20 years.
- (iii) 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.

**11. PROPERTIES, MACHINERY AND EQUIPMENT**

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

	Land and buildings (i)	Leasehold improve- ments	Furniture and office equipment	Machinery and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>						
At 1/1/2004	24,961	2,951	11,872	38,794	4,438	83,016
Additions	–	–	875	1,310	806	2,991
Disposals	–	–	(3,011)	(1,661)	(267)	(4,939)
Disposals of subsidiaries	–	–	(1,365)	–	(588)	(1,953)
<b>At 31/12/2004</b>	<b>24,961</b>	<b>2,951</b>	<b>8,371</b>	<b>38,443</b>	<b>4,389</b>	<b>79,115</b>
<b>Accumulated depreciation</b>						
At 1/1/2004	2,412	2,951	5,144	24,086	1,842	36,435
Provision for the year	1,299	–	898	3,347	701	6,245
Disposals	–	–	(2,708)	(1,642)	(178)	(4,528)
Disposals of subsidiaries	–	–	(397)	–	(4)	(401)
<b>At 31/12/2004</b>	<b>3,711</b>	<b>2,951</b>	<b>2,937</b>	<b>25,791</b>	<b>2,361</b>	<b>37,751</b>
<b>Net book value</b>						
<b>At 31/12/2004</b>	<b>21,250</b>	<b>–</b>	<b>5,434</b>	<b>12,652</b>	<b>2,028</b>	<b>41,364</b>
At 31/12/2003	22,549	–	6,728	14,708	2,596	46,581

### 11. PROPERTIES, MACHINERY AND EQUIPMENT (Cont'd)

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\$318,000 (2003: HK\$403,000) was pledged as collateral for the Group's banking facilities (see Note 31).

### 12. PROPERTIES UNDER DEVELOPMENT

Movements of properties under development (consolidated) were:

	Construction-in-progress		Total HK\$'000
	Land (i) HK\$'000	Construction expenditures HK\$'000	
At 1/1/2004	49,992	73,714	123,706
Additions	–	4,101	4,101
<b>At 31/12/2004</b>	<b>49,992</b>	<b>77,815</b>	<b>127,807</b>

Note: 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).

### 13. INVESTMENT IN SUBSIDIARIES

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

	2004 HK\$'000	2003 HK\$'000
Unlisted shares	74,698	74,698
Due from subsidiaries	95,623	100,594
Due to subsidiaries	(2,764)	(2,540)
Less: Provision for impairment in value	167,557 (113,500)	172,752 (113,500)
	<b>54,057</b>	<b>59,252</b>



### 13. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

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 2006.

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 2004.

Details of the principal subsidiaries as at 31 December 2004 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 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), (ix)	British Virgin Islands	US\$1	100%	Investment holding
SYSCAN Inc. (ix)	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 (ix)	British Virgin Islands	US\$1	100%	Investment holding

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

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Shenzhen SYSCAN Optoelectronics Co., Ltd. (ii) (Formerly known as SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd.)	Mainland China	US\$6,000,000	100%	Manufacture and sale of LCD and CRT monitors and image sensor modules
SYSCAN Viewtech Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Shenzhen SYSCAN Technology Co., Ltd. (iii)	Mainland China	US\$10,000,000	100%	Design, development, manufacture and sale of optoelectronic products
Syscan Optoelectronics Technology (Shenzhen) Co., Ltd.	British Virgin Islands	US\$1	100%	Investment holding
Leadbuilt Technology Limited	British Virgin Islands	US\$1	100%	Investment holding
SYSCAN Trading (Shenzhen) Limited (iv)	Mainland China	HK\$2,000,000	100%	Trading of imaging products
上海矽感光電科技有限公司 (v)	Mainland China	RMB1,000,000	80%	Sales of computer products and scanners
上海矽感數碼科技有限公司 (vi)	Mainland China	RMB2,180,000	54.13%	General trading
深圳市華實信達科技發展有限公司 (vii)	Mainland China	RMB35,000,000	82.28%	Development of optical fabric system
北京渴望科技發展有限責任公司 (viii)	Mainland China	RMB1,000,000	70%	Development of computer products

**13. INVESTMENT IN SUBSIDIARIES (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) Shenzhen SYSCAN Optoelectronics Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 15 years up to 2009.
- (iii) Shenzhen SYSCAN Technology Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 20 years up to 2021.
- (iv) SYSCAN Trading (Shenzhen) Limited is a wholly foreign owned enterprise established in Mainland China to be operated for 30 years up to 2032.
- (v) 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.
- (vi) 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.
- (vii) 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.
- (viii) 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.
- (ix) On 29 March 2004, SYSCAN Imaging Limited ("SIL") and SYSCAN Inc. entered into a share exchange agreement ("Share Exchange Agreement") with an overseas listed company and its principal shareholder, pursuant to which the principal shareholder of the overseas listed company and SIL agreed to exchange shares between the overseas listed company and SYSCAN Inc.. SIL exchanged 100% equity interest in SYSCAN Inc. for 81.23% equity interest in the overseas listed company so that upon completion of the share exchange arrangement, the Company would indirectly hold 81.23% equity interest in the overseas listed company. In addition, SIL agreed to grant an option to the overseas listed company, pursuant to which the overseas listed company had the right to acquire from SIL the entire issued capital of SYSCAN Manufacturing Limited at a consideration of not less than USD16 million (equivalent to approximately HK\$124.8 million) during a period of 2 years commencing from the date of completion of the Share Exchange Agreement. The details of the Share Exchange Agreement were set out in the Company's announcement dated 12 May 2004.

The overseas listed company announced on 2 April 2004 that the above share exchange transaction was completed. However, the directors of the Company announced that the Share Exchange Agreement was terminated on 26 January 2005 because the Company could not obtain approval for the above transaction from the GEM Listing Committee. The termination was announced on the web-site of the Stock Exchange of Hong Kong Limited on 26 January 2005.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2004.

### 14. INTEREST IN ASSOCIATES

	2004 HK\$'000	2003 HK\$'000
Share of net assets	35,967	–
Due from an associate	763	–
Due to associates	(17,136)	–
	19,594	–
Provision for diminution in value	(2,353)	–
	<u>17,241</u>	<u>–</u>

The amounts due are unsecured, interest free and are repayable on demand.

Details of the principal associates as at 31 December 2004 were:

Name	Place of incorporation/ and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
深圳市旭感信息工程監理有限公司 (i)	Mainland China	RMB3,000,000	50%	Development of computer products
深圳市世紀開元實業有限公司 (ii)	Mainland China	RMB2,050,000	41.65%	Development of computer products and Hi Tech technology
浙江矽感科技有限公司 (iii)	Mainland China	RMB50,000,000	40%	Development of computer products
深圳市旭感和誠信息技術有限公司 (iv)	Mainland China	RMB45,000,000	40%	Development of computer products

**14. INTEREST IN ASSOCIATES (Cont'd)**

Notes:

- (i) 深圳市旭感信息工程監理有限公司 is a joint venture company established in Mainland China to be operated for 30 years up to 2034.
- (ii) 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.
- (iii) 浙江矽感科技有限公司 is a joint venture company established in Mainland China to be operated for 20 years up to 2024.
- (iv) 深圳市旭感和誠信息技術有限公司 is a joint venture company established in Mainland China to be operated for 14 years up to 2018.

**15. LONG-TERM LOAN RECEIVABLE**

The amount was unsecured, interest charged at a rate of 6% per annum and receivable in July 2005. The amount was settled upon disposal of a subsidiary.

**16. LONG-TERM INVESTMENTS**

Long-term investments (consolidated) consist of:

	2004 HK\$'000	2003 HK\$'000
CMOS Sensor, Inc. (i)	7,782	7,782
Shenzhen Guocheng Venture Capital Co., Ltd.	–	4,717
GFG Asia Alliance Holdings Co., Ltd. (ii)	1,560	1,560
	<b>9,342</b>	<b>14,059</b>

Notes:

- (i) As at 31 December 2004, 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 2004, 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 2004.

### 17. INVENTORIES

Inventories (consolidated) consist of:

	2004 HK\$'000	2003 HK\$'000
Raw materials	17,395	32,234
Work-in-progress	4,208	12,618
Finished goods	14,491	19,970
	<b>36,094</b>	64,822
Less: Provision for obsolete and slow-moving inventories	<b>(2,739)</b>	(4,739)
	<b>33,355</b>	60,083

As at 31 December 2004, inventories of approximately HK\$77,000 (2003: HK\$1,264,000) 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:

	2004 HK\$'000	2003 HK\$'000
0 to 1 month	8,585	32,484
1 to 2 months	123	6,655
2 to 3 months	9,253	793
3 to 6 months	–	6,137
6 to 12 months	9,975	3,649
12 to 18 months	876	2,119
Over 18 months	560	650
	<b>29,372</b>	52,487
Less: Provision for bad and doubtful trade receivables	<b>(6,205)</b>	(4,063)
	<b>23,167</b>	48,424

**19. CASH AND BANK BALANCES**

As at 31 December 2004, approximately HK\$4,557,000 (2003: HK\$7,594,000) 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 2004, the short-term bank loans bore interest at a rate of 5.58% per annum. (See Note 31).

**21. TRADE PAYABLES**

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

	2004 HK\$'000	2003 HK\$'000
0 to 1 month	18,652	21,064
1 to 2 months	1,985	33,821
2 to 3 months	1,080	538
3 to 6 months	3,391	2,763
6 to 12 months	1,464	577
Over 12 months	592	342
	<b>27,164</b>	<b>59,105</b>

**22. INTEREST-BEARING BORROWINGS**

Borrowings (consolidated) consist of:

	Interest-bearing	
	2004 HK\$'000	2003 HK\$'000
Bank loans		
Secured	<b>761</b>	913
The analysis of the above balances is as follows:		
Bank loans		
Within one year	145	141
After 1 year but within 2 years	145	141
After 2 years but within 5 years	196	273
After 5 years	275	358
	<b>761</b>	913
Current portion of bank loans	<b>(145)</b>	(141)
	<b>616</b>	772

## Notes to the Financial Statements

### 23. SHARE CAPITAL

Movements of share capital were:

	Notes	2004		2003	
		Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each					
<b>Authorised</b>					
Beginning of year		20,000,000	200,000	2,000,000	200,000
Reduced due to capital reduction	(i)	-	-	-	(198,000)
Reduced due to share consolidation	(ii)	-	-	(1,800,000)	-
Increase during the year	(iii)	-	-	19,800,000	198,000
End of year		20,000,000	200,000	20,000,000	200,000
<b>Issued and fully paid</b>					
Beginning of year		102,364	1,024	1,022,643	102,264
Issue of shares through exercise of employee share options		-	-	1,000	100
Reduced due to capital reduction	(i) & (iv)	-	-	-	(101,340)
Reduced due to share consolidation	(ii)	-	-	(921,279)	-
End of year		102,364	1,024	102,364	1,024



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

Notes:

*Capital reduction and Share consolidation for the year ended 31 December 2003*

*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.

### 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.

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.

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

Under Share Option Scheme C, the Company may grant options to employees of the Group (including directors of the Company) or at the absolute discretion of the directors to invite any person who has contributed to the Group's business to take up options to subscribe for ordinary shares of HK\$0.01 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.

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 2004.

Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	End of year
<b>I. Share Option Scheme A</b>							
2 March 2000	2 March 2000 to 1 March 2010	HK\$0.4844	3,268,000	-	(1,120,000)	-	2,148,000
			3,268,000	-	(1,120,000)	-	2,148,000
<b>II. Share Option Scheme B</b>							
19 June 2000	19 June 2001 to 18 June 2010	HK\$3.30	1,000,000	-	-	-	1,000,000
12 July 2000	12 July 2001 to 11 July 2010	HK\$2.46	405,000	-	(320,000)	-	85,000
4 December 2000	4 December 2001 to 3 December 2010	HK\$1.016	670,000	-	(500,000)	-	170,000
17 January 2001	17 January 2002 to 16 January 2011	HK\$2.06	3,740,000	-	(1,000,000)	-	2,740,000
13 August 2001	13 August 2002 to 12 August 2011	HK\$2.75	570,000	-	-	-	570,000
			6,385,000	-	(1,820,000)	-	4,565,000

24. EMPLOYEE SHARE OPTIONS (Cont'd)

III. Share Option Scheme C

Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	End of year
14 May 2002	14 May 2003 to 13 May 2012	HK\$1.412	2,991,000	-	(1,331,000)	-	1,660,000
14 August 2002	14 August 2003 to 13 August 2012	HK\$1.00	1,835,000	-	-	-	1,835,000
12 November 2002	12 November 2003 to 11 November 2012	HK\$1.00	350,000	-	-	-	350,000
26 March 2003	26 March 2004 to 25 March 2013	HK\$1.00	2,087,000	-	(240,000)	-	1,847,000
13 August 2003	13 August 2004 to 12 August 2013	HK\$1.00	280,000	-	-	-	280,000
			7,543,000	-	(1,571,000)	-	5,972,000
			17,196,000	-	(4,511,000)	-	12,685,000

Notes:

The subscription price and the number of options have been adjusted to reflect the share consolidation of the Company for 10 existing shares into 1 consolidated share pursuant to the capital reduction and share consolidation of the Company which took effect on 7 October 2003.

## Notes to the Financial Statements

### 25. RESERVES

	Share premium	Contributed surplus (b)	Capital reserve (c)	Statutory reserve fund (d)	Cumulative translation adjustments	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Consolidated</b>							
Balance as at							
1 January 2003	101,378	–	198,068	439	1,403	(250,471)	50,817
Exercise of employee share options	(52)	–	–	–	–	–	(52)
Share premium cancellation a(i)	(101,378)	101,378	–	–	–	–	–
Transferred from capital reduction (Note 23) a(ii)	–	101,340	–	–	–	–	101,340
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	–	79,107	198,068	439	1,592	(141,563)	137,643
Elimination of accumulated losses	–	(79,107)	–	–	–	79,107	–
Translation adjustments	–	–	–	–	(320)	–	(320)
Loss attributable to shareholders	–	–	–	–	–	(23,040)	(23,040)
Balance as at							
31 December 2004	–	–	198,068	439	1,272	(85,496)	114,283

**25. RESERVES (Cont'd)**

	Share premium HK\$'000	Contributed surplus (b) HK\$'000	Capital reserve (c) HK\$'000	Statutory reserve fund (d) HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>Company</b>							
Balance as at							
1 January 2003	101,378	70,121	-	-	-	(123,559)	47,940
Exercise of employee share options	(52)	-	-	-	-	-	(52)
Share premium cancellation a(i)	(101,378)	101,378	-	-	-	-	-
Transferred from capital reduction (Note 23) a(ii)	-	101,340	-	-	-	-	101,340
Elimination of 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
Elimination of accumulated losses	-	(79,107)	-	-	-	79,107	-
Loss for the year	-	-	-	-	-	(5,176)	(5,176)
<b>Balance as at</b>							
<b>31 December 2004</b>	<b>-</b>	<b>70,121</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,406)</b>	<b>52,715</b>

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 2003.
- (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 2003.

### 25. RESERVES (Cont'd)

Notes (Cont'd)

- (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 Shenzhen SYSCAN Optoelectronics 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 2004.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash outflow from deemed disposal of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Intangible assets	245	–
Properties, machinery and equipment	300	–
Inventories	13,877	–
Trade receivables	556	–
Prepayments, deposits and other receivables	3,094	–
Amount due from group companies	20,639	–
Cash and bank balances	1,200	–
Trade payables	(34,430)	–
Accruals and other payables	(8,896)	–
Amount due to group companies	(1,559)	–
Amount attributable to minority interests	746	–
Net liabilities	(4,228)	–
Gain on deemed disposal of a subsidiary	4,228	–
Consideration	–	–
Satisfied by:		
Consideration receivable	–	–
<b>Analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary</b>		
Cash consideration received	–	–
Less: Cash and bank balances disposed of	(1,200)	–
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	(1,200)	–

## Notes to the Financial Statements

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

#### (b) Net cash outflow from disposal of a subsidiary

Notes	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Properties, machinery and equipment	1,252	-
Long-term investments	3,846	-
Inventories	1,939	-
Trade receivables	8,294	-
Prepayments, deposits and other receivables	1,504	-
Short term loan receivable	189	-
Cash and bank balances	4,048	-
Trade payables	(8,456)	-
Accruals and other payables	(1,414)	-
Amount attributable to minority interests	(1,120)	-
Net assets	10,082	-
Reserves released		
Capital reserve	(635)	-
Exchange reserve	(7)	-
	(642)	-
Loss on disposal of a subsidiary	29(iii) (9,440)	-
Consideration	-	-
Satisfied by:		
Consideration receivable	-	-
<b>Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary</b>		
Cash consideration received	-	-
Less: Cash and bank balances disposed of	(4,048)	-
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(4,048)	-



### 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% (2003: 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 2004, the aggregate contributions of the Group to the aforementioned retirement benefit schemes were approximately HK\$894,000 (2003: HK\$954,000). As at 31 December 2004, there were no forfeitures available to offset the Group’s future contributions (2003: Nil).

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

### 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”).

Analysis by business segment is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
– optical image capturing devices unit	47,901	62,249
– modules unit	6,681	8,749
– chips and other optoelectronic products unit	21,779	25,327
– LCD and CRT monitors	115,978	167,888
	<u>192,339</u>	<u>264,213</u>
Loss attributable to shareholders		
– optical image capturing devices unit	(5,738)	(3,452)
– modules unit	(800)	(485)
– chips and other optoelectronic products unit	(2,609)	(1,404)
– LCD and CRT monitors	(13,893)	(9,310)
	<u>(23,040)</u>	<u>(14,651)</u>
Depreciation and amortization		
– optical image capturing devices unit	1,555	1,473
– modules unit	217	207
– chips and other optoelectronic products unit	707	599
– LCD and CRT monitors	3,766	3,973
	<u>6,245</u>	<u>6,252</u>

28. SEGMENT INFORMATION (Cont'd)

(a) Primary segment (Cont'd)

	2004 HK\$'000	2003 HK\$'000
Capital expenditures		
– optical image capturing devices unit	745	2,313
– modules unit	104	325
– chips and other optoelectronic products unit	339	941
– LCD and CRT monitors	1,803	6,239
	<u>2,991</u>	<u>9,818</u>
Assets		
– optical image capturing devices unit	74,260	79,247
– modules unit	10,358	11,138
– chips and other optoelectronic products unit	33,762	32,243
– LCD and CRT monitors	179,797	213,734
	<u>298,177</u>	<u>336,362</u>
Liabilities		
– optical image capturing devices unit	(44,097)	(46,220)
– modules unit	(6,150)	(6,496)
– chips and other optoelectronic products unit	(20,049)	(18,805)
– LCD and CRT monitors	(106,767)	(124,656)
	<u>(177,063)</u>	<u>(196,177)</u>

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

#### (b) Secondary segment

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

	2004 HK\$'000	2003 HK\$'000
Turnover*		
– The Philippines	414	–
– Taiwan	108,162	166,829
– Hong Kong	645	10,230
– Mainland China	32,895	34,597
– Japan	565	262
– The United States of America	45,447	46,448
– Belgium	–	222
– Korea	1,779	724
– Singapore	1,203	518
– France	453	579
– Germany	341	2,596
– Italy	63	765
– Others	372	443
	<b>192,339</b>	<b>264,213</b>

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

**28. SEGMENT INFORMATION** *(Cont'd)*

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

	2004 HK\$'000	2003 HK\$'000
Loss attributable to shareholders		
– The Philippines	(49)	–
– Taiwan	(12,957)	(9,251)
– Hong Kong	(77)	(567)
– Mainland China	(3,940)	(1,918)
– Japan	(68)	(15)
– The United States of America	(5,444)	(2,576)
– Belgium	–	(12)
– Korea	(213)	(40)
– Singapore	(144)	(29)
– France	(54)	(32)
– Germany	(41)	(144)
– Italy	(8)	(42)
– Others	(45)	(25)
	<b>(23,040)</b>	<b>(14,651)</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:

	2004 HK\$'000	2003 HK\$'000
Assets		
– Mainland China	267,458	299,168
– Hong Kong	3,228	4,414
– The United States of America	27,488	32,680
– Taiwan	3	100
	<b>298,177</b>	<b>336,362</b>

### 29. RELATED PARTY TRANSACTION

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

	2004 HK\$'000	2003 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 2004 to 7 January 2006 at a monthly rent of HK\$18,000.
- (ii) The amount due to a director is unsecured, non-interest bearing and repayable on demand.
- (iii) On 23 December 2004, for a consideration of RMB1, the Group disposed 90% equity interest in SYSCAN Digital Systems Co., Ltd. with its shared net assets value of approximately HK\$9 million to 深圳市旭感和誠信息技術有限公司, a company in which the director of the Company, Mr Cheung Wai, has substantial personal interest indirectly. Detail of the disposal is summarized in note 26(b) of the financial statements.

### 30. COMMITMENTS

#### (a) Capital commitments

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

	2004 HK\$'000	2003 HK\$'000
Authorised and contracted for		
– construction of properties under development	6,880	8,810
– purchase of fixed assets	–	222
	6,880	9,032

**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/receivable under these agreement are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Rental payable		
– Within one year	1,097	1,549
– In the second to fifth years	788	1,848
	1,885	3,397
Rental receivable		
– Within one year	260	–
– In the second to fifth years	435	–
	695	–

**31. BANKING FACILITIES**

**(a)** As at 31 December 2004, the Group had bank loan facilities of HK\$183,720,000 (2003: HK\$136,888,000) in which HK\$141,136,000 (2003: HK\$129,215,000) 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 12);
- (ii) pledge of the Group's motor vehicle with a net book value of HK\$318,000 (see Note 11);  
and
- (iii) pledge of the Group's office premises with an aggregate net book value of HK\$21,250,000 (see Note 11).

### 32. CONTINGENT LIABILITIES

As at 31 December 2004, the Company committed corporate guarantee to banks for banking facilities extended to its subsidiaries amounting to HK\$233,832,000 (2003: Nil).

Up to the date of the approval of the financial statements, the Group has received 23 writs and claims. The total gross amount claimed under all writs and claims is HK\$13,273,000. The writs were related to unpaid goods already sold and delivered and construction projects in the aggregate amount of HK\$12,731,000 and HK\$542,000 respectively. Provision for certain claims has been made and included in the accounts payables and other payables and accruals at balance sheet date.

Apart from the above, the Group and the Company had no other material litigation or contingent liabilities as at 31 December 2004 and up to the date of the approval of the financial statements.

### 33. SUBSEQUENT EVENT

On 11 March 2005, the Group re-purchased 90% equity interest in SYSCAN Digital Systems Co., Ltd. from 深圳市旭感和誠信息技術有限公司 at a consideration of RMB1.