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

Stock code: 8083

SYSCAN®

05
Annual Report

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.

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

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

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

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 C, 21st Floor
Seabright Plaza
9-23 Shell Street
North Point
Hong Kong

Stock Code
8083

Financial Summary

(Amounts expressed in Hong Kong dollars)

Consolidated Income Statements

	Years ended 31 December				
	2005	2004	2003	2002	2001
	$'000	$'000	$'000	$'000	$'000
Turnover	**66,555**	192,339	264,213	41,752	34,170
Cost of sales	**(42,359)**	(162,679)	(216,834)	(34,498)	(25,191)
Gross profit	**24,196**	29,660	47,379	7,254	8,979
Other revenues and gains	**4,376**	36,153	10,672	18,756	8,795
Selling and distribution expenses	**(10,450)**	(17,024)	(18,482)	(13,338)	(5,958)
General and administrative expenses	**(57,818)**	(29,193)	(33,673)	(25,441)	(42,203)
Research and development expenses	**(39,195)**	(17,605)	(13,273)	(10,400)	(15,813)
Provision for Impairment of trade and other receivables	**(20,191)**	(14,977)	(3,128)	(1,151)	(11,861)
Loss from operations	**(99,082)**	(12,986)	(10,505)	(24,320)	(58,061)
Finance costs	**(4,644)**	(5,636)	(6,218)	(3,735)	(2,248)
Gain on deemed disposal of a subsidiary	**2**	4,228	–	–	–
Impairment loss on goodwill	**(3,869)**	–	–	–	–
(Loss)/gain on disposal of a subsidiary	**(472)**	(9,440)	–	2,508	–
Negative goodwill on acquisition of a subsidiary	**8,911**	–	–	–	–
Share of loss of associates	**(1,660)**	(42)	–	–	–
Write back of impairment loss of an associate	**733**	–	–	–	–
Loss before taxation	**(100,081)**	(23,876)	(16,723)	(25,547)	(60,309)
Taxation	**(7)**	(7)	(7)	(7)	(7)
Loss for the year	**(100,088)**	(23,883)	(16,730)	(25,554)	(60,316)
Minority Interests	**653**	843	2,079	951	–
Loss attributable to shareholders	**(99,435)**	(23,040)	(14,651)	(24,603)	(60,316)
Dividend	**–**	–	–	–	–

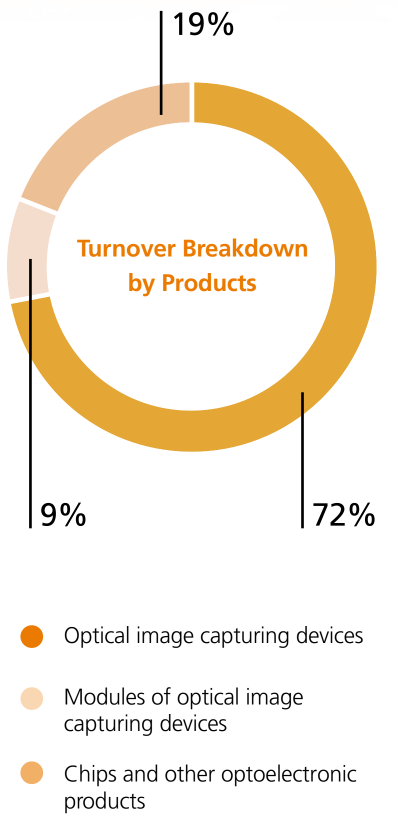
(Amounts expressed in Hong Kong dollars)

Consolidated Balance Sheets

	As at 31 December				
	2005	2004	2003	2002	2001
	$'000	$'000	$'000	$'000	$'000
Intangible assets and goodwill	**2,551**	6,272	3,112	4,220	–
Property, Plant and equipment	**23,154**	41,364	46,581	47,311	19,968
Property under development	**141,134**	127,807	123,706	119,720	102,303
Long-term loan receivable	**–**	–	189	–	–
Interest in associates	**10,875**	17,241	–	–	–
Available-for-sale investment	**9,342**	–	–	–	–
Long-term investments	**–**	9,342	14,059	16,589	28,562
Current assets	**23,966**	96,151	148,715	141,656	125,797
Current liabilities	**(192,075)**	(176,447)	(195,405)	(170,964)	(99,039)
Non-current liabilities	**(446)**	(616)	(772)	(921)	–
Net assets	**18,501**	121,114	140,185	157,611	177,591
Capital and reserves:					
Share capital	**1,024**	1,024	1,024	102,264	102,256
Reserves	**16,027**	114,283	137,643	50,817	75,335
Equity attributable to the equity holders of the Company	**17,051**	115,307	138,667	153,081	177,591
Minority Interests	**1,450**	5,807	1,518	4,530	–
Total equity	**18,501**	121,114	140,185	157,611	177,591

Note:

1. *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.*



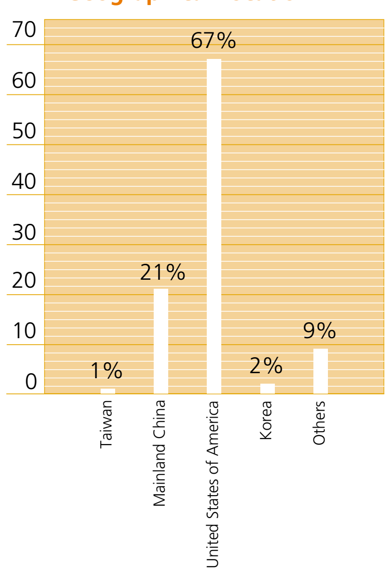
I am pleased to present to the shareholders herewith the annual results of SYSCAN Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2005.

Turnover and Performance

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK$66,555,000 (2004: HK$192,339,000), representing an decrease of approximately 65.4%. The audited loss attributable to shareholders was approximately HK$99,435,000 (2004: HK$23,040,000).

For the year ended 31 December 2005, the Group made other income of approximately HK$4,376,000 (2004: HK$36,153,000), representing an decrease of approximately 87.9%. The total revenue and income for the year ended 31 December 2005 reached approximately HK$70,931,000 (2004: HK$228,492,000), representing an decrease of approximately 69.0% comparing with year 2004.

Turnover Breakdown by Geographical Location



Prospects and Appreciation

The year of 2005 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 2005, 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, 27 March 2006

Management Discussion and Analysis

Business Review

Overview

The Group's business is in the field of optical electronic industry, and is principally engaged in the design, research, development, manufacturing and distribution of optical image capturing devices and related components. The Group's turnover of approximately HK$66,555,000 for the year 2005 decreased by approximately 65.4% as compared to the turnover of HK$192,339,000 last year. The Group's gross profit margin had increased from the year 2004 from 15.4% to the year 2005 of 36.4%.

The Group recorded loss attributable to shareholders for the year 2005 of approximately HK$99,435,000 comparing with the loss of HK$23,040,000 for the year for 2004.

Research and Development

The Group had increased its research and development expenses by 122.6% as compared to year 2004 due to there were more new products under development in year 2005.

The Group is developing 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 research and testing for learning machine and cigarette barcode reader.

The Group is also finished the development of a duplex scanning device that can scan both sides of documentation with very high speed and the products are already launched in 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 continues to refine the 2D barcode technology. Based on the 2D barcode technology, the Group has developed a new credit card reader and 1D card reader using the Group CM code.

Production and the Manufacturing Base – SYSCAN Hi-Tech Park

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

During the year 2005, we have set up a factory in Wu Han to diversify our market in mainland province.

Sales and Marketing

The first quarter of 2005 brought continued opportunity growth for the Group's products in the Western market channels. At the Consumer Electronics Show (CES – Las Vegas) in early January, the Group had an overwhelming response to our Group's products.

In mid-March, we held a highly successful exhibition at the CeBIT in Hannover Germany, at which we also introduced our Group's products. Once again we received a very positive response to our products. We had also shifted our western business emphasis to less seasonal sensitive channels in order to maintain a stable turnover.

The Group has concentrated its efforts on selling its own proprietary optical image capturing devices units, modules units and chips and other optoelectronic products units which have much higher gross profit margins. The Group do not make any sales for LCD and CRT monitors unit due to the very competitive markets and very low profit margins.

Investment/Divestment and Acquisition

During the year 2005, the Group purchased 90% equity interest in Syscan Digital Systems Co., Ltd at a consideration of RMB1.

Financial Resources and Liquidity

As of 31 December 2005, the Group had a cash and bank balances of approximately HK$8,140,000 (2004: HK$23,162,000). The RMB-denominated short term bank borrowing of approximately HK$137,940,000 (2004: HK$140,375,000), which was secured by the Group's leasehold land included in property under development, the Group's leasehold land and buildings in Shenzhen, and the Group's machinery and intangible assets. The interest rates of these short term loans were between 6% and 8% p.a. The Group also has one (2004: two) RMB-denominated mortgage loans totalling HK$505,000 (2004: HK$761,000). The mortgage loan will mature in August 2012 and the interest rates is 6.6% (2004: 6.2%) p.a.

As at 31 December 2005, the total current assets over the total current liabilities was 0.12 times. The ratio of all debts to total assets was about 66%.

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

Contingent Liabilities

Group

As at 31 December 2005, the Group had contingent liabilities relating to the discounted bills of approximately HK$1,243,000 (2004: Nil). The Group had been sued by Bank of China for default on repayment of interest of approximately RMB1.2 million accrued up to 21 December 2005 on a bank loan of RMB120 million. Details of the case referred to page 84 note 38(a).

Company

As at 31 December 2005, the Company had contingent liabilities relating to corporate guarantee given in respect of banking facilities extended to certain subsidiaries of approximately HK$150,225,000 (2004: HK$233,832,000).

Apart from the above the Group and the Company had no other contingent liabilities as at 31 December 2005 and up to the date of the approval of the financial statements.

Intellectual Property and Legal Action

During the year 2005, the Group had over 45 trademarks, product names and logos registered in different countries and regions, of which 20 trademarks have been approved. As of 31 December 2005, the Group had been granted 94 patents and have 155 patents filed in different countries and regions under processing.

Employees

As at 31 December 2005, the Group has 343 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.

During the year, our business experienced different growth. We realized that internal control and corporate governance had become particularly important at this moment. Therefore, we placed considerable efforts on implementing the internal control procedures within the Group. It is our objective to improve the production efficiency and management control.

The board of Directors of Syscan Technology Holdings Limited (the "Company") is committed to good standards of corporate governance in order to protect and enhance the interests of our shareholders. The Directors believe that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The principles of corporate governance adopted by the Group emphasize a quality board, sound internal control, and transparency and accountability to all stakeholders.

The Company has complied with the Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") throughout the year ended 31 December 2005 except that Independent Non-executive Directors had no set term of office but retire on a rotation basis. The Company is in compliance with all code provisions of the new Code on Corporate Governance Practices of the GEM Listing Rules.

Below are the corporate governance practices adopted by the Group.

On 30 June 2005, pursuant to a resolution in writing passed by the Directors, the corporate governance practices adopted by the Group are as follows:

– Code of ethics and securities transactions;
– Corporate governance practice manual;
– Term of reference for audit committee;
– Term of reference for board committee;
– Term of reference for remuneration committee; and
– Term of reference for nomination committee.

Directors' securities transactions

The Code of Ethics and Securities Transactions is adopted by the Company to regulate securities dealings by directors, senior management and certain employees of the Group, and to provide guidelines and procedures on conflict of interests of Directors.

The first part of this Code of Ethics and Securities Transactions is based on the GEM listing rules 5.48 to 5.67 (the "required standard") against which Directors must measure their conduct regarding transactions in securities of their listed issuers, and the Securities Future Ordinance ("SFO").

The second part of this Code of Ethics and Securities Transactions establishes guidelines and procedures regarding conflict of interests of Directors in order to protect the best interests of the Company.

During the year ended 31 December 2005, all Directors have compiled with the Code of Ethics and Securities Transaction.

BOARD OF DIRECTORS

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholder value.

The Board, led by the Chairman, Mr. Cheung Wai, is responsible for the approval and monitoring of Group wide strategies and policies, approval of business plans and the performance of the Company, and oversight of senior management. The senior management is responsible for the day-to-day operations of the Group under the leadership of the CEO, Mr. Cheung Wai.

As at 31 December 2005, the Board comprised two Executive Directors, including Chairman and CEO are currently acting by the Chairman, Mr. Cheung Wai since the resignation of Mr. Darwin Hu, being the ex-CEO, in 19 January 2005 and is currently looking for suitable candidate to fill the vacancy, and three Independent Non-executive Directors. Biographical details of the Directors referred to page 14 of this annual report.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the GEM Listing Rules.

The Company emphasizes the roles of the Chairman and the CEO are segregated and are not exercised by the same individual. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group so that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of CEO and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. The Board, under the Chairman's leadership, have adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The CEO is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of the Group's policies and assuming full accountability to the Board for all business operations. The CEO develops strategic plans and is directly responsible for maintaining the operational performance of the Group. Working with the CFO and the senior management of the Group, the CEO ensures that the Board is fully informed of the requirements of the businesses of the Group and presents business and financial information to the Board for consideration and approval.

The CEO, with the assistance of the CFO, ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results against plans and budgets, taking remedial actions when necessary and advising the Board of significant developments and issues. He maintains an ongoing dialogue with the Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

Directors' Board meeting is held at least 4 times a year and as when required by the CEO. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held four regular meetings in 2005 and a special meeting in respect with the amendment to the bye-laws. All Directors present in all meetings.

	Name of Directors	Attended/Eligible to attend
Chairman	Cheung Wai	100%
CFO	Chan Man Ching	100%
Independent non-executive Directors	Lo Wai Ming	100%
	Fong Chi Wah	100%
	Jin Qingjun	100%

All independent non-executive Directors are engaged on a service contract for a term of three year period. All Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being will retire from office. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire will be determined by lot.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established on 30th June 2005. The Remuneration Committee is chaired by an independent non-executive Director with the responsibility of approving the remuneration policy for all Directors and senior executives. The Remuneration Committee members include a majority of independent non-executive Directors as follows:

Mr. Fong Chi Wah* – *Committee Chairman*
Mr. Lo Wai Ming*
Mr. Jin Qing Jun*
Mr. Cheung Wai
Mr. Chan Man Ching

** Independent non-executive Director*

All Remuneration Committee members met at the end of the year for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Remuneration Committee members also meets as and when required to consider remuneration related matters.

The works carried out by the Remuneration Committee are set out below:

(a) to make recommendations to the Board on the Company's policy and structure of remuneration of Directors and the senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the specific remuneration packages of all executive Directors and the senior management, including benefits in kind, provident/retirement benefits and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of independent non-executive Directors;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive Directors, senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

NOMINATION OF DIRECTORS

The Nomination Committee was established on 30th June 2005. The Nomination Committee chaired by the CEO to make recommendations to the Board on the appointment of Directors and the senior management personnel with reference to certain guidelines as endorsed by the Nomination Committee members. The Nomination Committee members include a majority of independent non-executive directors as follows:

Mr. Cheung Wai – *Committee Chairman*
Mr. Chan Man Ching
Mr. Fong Chi Wah*
Mr. Lo Wah Ming*
Mr. Jin Qingjun*

** Independent non-executive director*

All Nomination Committee members met at the end of the year.

The works carried out by the Nomination Committee members are set out below:

(a) to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;

(b) to assess the suitability and qualification of candidates put forward by the CEO and to become new board members and to report to the Board on their assessment;

(c) to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and

(d) to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairman and the CEO.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The Committee is chaired by Mr. Fong Chi Wah, and the other Audit Committee members are Mr. Lo Wah Ming and Mr. Jin Qingjun.

Under its terms of reference for audit committee passed under a directors' resolution dated 30 June 2005, is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

The Audit Committee members held four meetings in 2005 and one meeting to date in 2006.

Name of member	Attended/Eligible to attend
Mr. Fong Chi Wah	100%
Mr. Lo Wai Ming	100%
Mr. Jin Qingjun	100%

Financial Statements

The Audit Committee met and held discussions with the CEO and CFO of the Group on the interim results, preliminary results announcement and Annual Report. The Audit Committee reviews and discusses the management's reports and representations with a view to ensuring that the Group's consolidated financial statements are prepared in accordance with Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards and compliance with the GEM Listing Rules and other legal requirements.

It also considers reports from the Group's principal external auditors, CCIF CPA LIMITED ("CCIF"), on the scope and outcome of annual audit of the consolidated financial statements.

EXTERNAL AUDITORS AND REMUNERATION

The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors. The Group only engaged CCIF for business advisory and assurance service that includes audit services provided in connection with the audit of the consolidated financial statements with annual auditors' remuneration fee of HK$410,000. No other non-audit related services were performed by CCIF.

By Order of the Board
Cheung Wai
Chairman

Hong Kong, 27 March 2006

Profiles of Directors and Senior Management

Executive Directors

Mr Cheung Wai, aged 55, 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 29 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 37, 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 13 years' experience in accounting, auditing and taxation. Mr Chan joined the Group in 2000.

Independent Non-executive Directors

Mr Lo Wai Ming, aged 54, is the founder and president of Greater China Asset Management Limited. Mr Lo has over 29 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 44, is a Certified Practicing Accountant (Australia), a Chartered Financial Analyst and a member of the Hong Kong Institute of Directors. Mr Fong has over 20 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 48, is currently a partner of King & Wood, solicitors and attorneys in PRC. He has over 19 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 53, is responsible for sales and marketing, research and development, and daily overall management, and for the Group's overseas business. He has over 23 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 50, is the Chief Operating Officer of the Group's Western Business Group. Mr Hawkins has over 22 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 44, 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 20 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.

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 2005.

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, 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 17 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 2005, are as follows:

		Turnover HK$'000	**Loss attributable to equity holders of the Company** HK$'000
a.	**By product category**		
	– optical image capturing devices	48,094	71,853
	– modules of optical image capturing devices	5,745	8,583
	– chips and other optoelectronic products	12,716	18,999
		66,555	99,435

Principal Activities *(Cont'd)*

		Turnover HK$'000	Loss attributable to equity holders of the Company HK$'000
b.	**By geographical location***		
	– Taiwan	348	520
	– Hong Kong	596	891
	– Mainland China	14,054	20,997
	– The United States of America	44,629	66,676
	– Korea	1,305	1,949
	– Singapore	3,136	4,685
	– France	204	304
	– Germany	232	347
	– Italy	332	497
	– Nigeria	153	228
	– Pakistan	588	879
	– Spain	843	1,260
	– Others	135	202
		66,555	99,435

* *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 2005, the five largest customers accounted for approximately 29% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 33% of the Group's total purchases. The largest customer accounted for approximately 17% of the Group's total turnover while the largest supplier accounted for approximately 15% 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 2005 are set out in the consolidated income statement on page 33 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately HK$184,367,000 as at 31 December 2005 be carried forward.

Share Capital

Details of share capital of the Company are set out in Note 27 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 28 to the accompanying financial statements. Movements in accumulated deficit of the Group during the year are set out in the consolidated income statement on page 33 of this annual report.

As at 31 December 2005, 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 17 and Note 18 respectively to the accompanying financial statements.

Property, Plant and Equipment and Property under Development

Details of movements in property, plant and equipment and property under development during the year are set out in Notes 15 and 16 respectively to the accompanying financial statements.

Bank Borrowings

Particulars of bank borrowings as at 31 December 2005 are set out in Notes 24 and 26 to the accompanying financial statements.

Employee Retirement Benefits

Details of the Group's pension schemes are set out in Note 32 to the accompanying financial statements.

Connected Transactions

Details of connected transactions are set out in Note 34 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
Dr Zhang Fu (service contract terminated on 31 March 2005)

Independent non-executive directors

Mr Lo Wai Ming
Mr Fong Chi Wah
Mr Jin Qingjun

Mr Chan Man Ching and Dr Zhang Fu, 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 Dr Zhang Fu (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 wherely in case of Dr. Zhang ceased to be the Executive Director from 31 March 2005 and in 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 Dr Zhang Fu and Mr Darwin Hu for their past contribution to the Group.

In accordance with Bye-law 99 of the Bye-Laws of the Company, Mr Fong Chi Wah and Mr Cheung Wai 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) has renewed the service agreement with the Company for a term of four years commencing from 1 April 2004.

Mr Chan Man Ching and Dr. Zhang Fu, 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, Dr Zhang Fu and the Company, both have agreed to terminate the Director's Service Agreement whereby Dr Zhang ceased to be the Executive Director from 31 March 2005.

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 2005, 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

	Number of ordinary shares held					Percentage
Name	Personal interests	Family interests	Corporate interests	Other interests	Total	of issued share capital
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 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).*

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 2005, 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 2005 were as follows:

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

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

Scheme B

Name	Date of grant	Exercise period	Subscription price per share	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options cancelled/ lapsed	No. of underlying shares comprising the options outstanding
	(dd/mm/yy)	(dd/mm/yy)					
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 Chan Man Ching	4/12/2000	4/12/2001 to 3/12/2010	HK$1.016	50,000	–	–	50,000
				2,850,000	–	–	2,850,000

Scheme C

Name	Date of grant	Exercise period	Subscription price per share	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options cancelled/ lapsed	No. of underlying shares comprising the options outstanding
	(dd/mm/yy)	(dd/mm/yy)					
Mr Chan Man Ching	14/5/2002	14/5/2003 to 13/5/2012	HK$1.412	50,000	–	–	50,000
	12/11/2002	12/11/2003 to 11/11/2012	HK$1.00	200,000	–	–	200,000
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)	–
				1,250,000	–	(1,000,000)	250,000

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

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

Save as disclosed above, as at 31 December 2005, 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 2005, there was no other person (other than a director or chief executive of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares of the Company

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

Notes:

1. *Details of the interests of Mr Cheung Wai and Mr Darwin Hu are duplicated in the section "DIRECTORS' 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 2005 were as follows:

				Number of shares				
Class of Optionees	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted During the year	Cancelled/ 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	2 March 2000	2 March 2000 to 1 March 2010	HK$0.4844	1,004,000	–	–	–	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
				2,148,000	–	–	–	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 2005 were as follows:

Class of Optionees	Date of grant	Exercise period	Subscription price per share	Number of shares: Beginning of year	Granted During the year	Cancelled/ lapsed During the year	Exercised during the year	End of 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	85,000	–	–	–	85,000
	4 December 2000	4 December 2001 to 3 December 2010	HK$1.016	170,000	–	(50,000)	–	120,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$2.06	940,000	–	(10,000)	–	930,000
	13 August 2001	13 August 2002 to 12 August 2011	HK$2.75	570,000	–	(100,000)	–	470,000
Suppliers of goods and services	–	–	–	–	–	–	–	–
All other optionees	4 December 2000	4 December 2001 to 3 December 2010	HK$1.016	–	–	–	–	–
	17 January 2001	17 January 2002 to 16 January 2011	HK$2.06	–	–	–	–	–
				4,565,000	–	(160,000)	–	4,405,000

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 5,264,432 (representing approximately 5.14% 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 2005 were as follows:

				Number of shares			
Class of Optionees	Date of grant	Exercise period	Subscription price per share	Beginning of year	Cancelled/ 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	1,530,000	–	–	1,530,000
	14 August 2002	14 August 2003 to 13 August 2012	HK$1.00	1,135,000	(300,000)	–	835,000
	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	1,847,000	(700,000)	–	1,147,000
	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
				5,972,000	(1,000,000)	–	4,972,000

The Directors consider it inappropriate to value all the options that can be granted during the year ended 31 December 2005 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 2005.

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 2005 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. 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, 27 March 2006

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 Thursday, 18 May 2006 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 2005;

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, 27 March 2006

As at the date of the announcement, the Board of Directors comprises Mr Cheung Wai, Mr Chan Man Ching, 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 Tuesday, 16 May 2006 and Wednesday, 17 May 2006, 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 C, 21/F., Seabright Plaza, 9-23 Shell Street, 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
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
SYSCAN TECHNOLOGY HOLDINGS LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

We have audited the financial statements on pages 33 to 84 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, in accordance with Section 90 of the Bermuda Companies Act 1981 (as amended), 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 Hong Kong Standards on Auditing 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 as explained in the following paragraphs.

1. **Prior year's audit scope limitation affecting opening balances and comparative figures**

   As stated in the prior year's auditors' report, we disclaimed our opinion on the Group's financial statements for the year ended 31 December 2004 because of the significance of the possible effects of the limitation of scope and limitation in evidence made available to us as more fully explained in Note 17 (ii) to the financial statements, any adjustment found to be necessary to the opening net assets of the Group would have a consequential effect on its results for the year ended 31 December 2005 and its financial position as at 31 December 2005. In respect of the limitation of scope in prior year described above, we are unable to express our opinion as to whether the balances brought forward as at 1 January 2005 and the comparative figures were fairly stated in the financial statements.

Basis of Opinion *(Cont'd)*

2. No direct access to the books and records of a major subsidiary

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors of the Company had no direct access to the books and records of Syscan, Inc. ("SI"), an indirectly wholly owned subsidiary of the Company incorporated in the United States of America ("USA") and whose operations principally comprised the design, development and sales of optical image capturing devices and modules, and was controlled by a former director of the Company. Consequently, the directors cannot substantiate or otherwise support transactions undertaken by SI and the directors cannot ensure the nature, timing, completeness, appropriateness of classifications and disclosures in respect of the transactions undertaken by SI and the related balances as included in these financial statements or whether any additional disclosures are required. Therefore, the financial position, results and cash flows of SI have been consolidated into the financial statements of the Group based on its unaudited management accounts for the year ended 31 December 2005. In the opinion of the directors, as SI is a major subsidiary of the Group, its financial position, results and cash flows for the year ended 31 December 2005 would have material impact on the Group's financial statements.

As a result of the foregoing, we have been unable to obtain sufficient audit evidence or perform alterative audit procedures to satisfy ourselves as to the nature, timing, completeness, appropriateness of classifications and disclosures in respect of the transactions undertaken by SI and the related balances as included in the financial statements and as to whether any additional disclosures are required. In addition, we have not been provided with sufficient evidence to satisfy ourselves as to the shareholding of SI held by the Group as at and for the year ended 31 December 2005.

For the reason stated above and as more fully explained in Note 2(a) to the financial statements, we have been unable to obtain sufficient audit evidence to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in the financial statements.

3. Impairment of intangible assets, available-for-sale investment and interest in subsidiaries

In the course of our audit , we were not been provided with sufficient audit evidence to assess the valuation of intangible assets of HK$2,551,000 and available-for-sale investment of HK$9,342,000 as stated in the consolidated balance sheet as at 31 December 2005 and the valuation of interest in subsidiaries of HK$50,640,000 as stated in the Company's balance sheet as at 31 December 2005. There were no other satisfactory alternative audit procedures that we could perform to quantify the extent of the impairment losses made in respect of the amounts of intangible assets, available-for-sale investment and interest in subsidiaries.

4. Interest in associates

Included in the consolidated balance sheet and the consolidated income statement were the Group's interest in associates of HK$10,875,000 and its share of loss of associates of HK$1,660,000 as at and for the year ended 31 December 2005, we were not provided with sufficient evidence to satisfy ourselves as to whether the amounts were fairly stated and free from material misstatement.

5. Trade payables, accruals and other payables

Included in trade payables of HK$25,707,000, accruals and other payables of HK$28,369,000 as stated in the consolidated balance sheet as at 31 December 2005 were trade and other creditors of HK$50,736,000, we were unable to obtain confirmations from these creditors or other supporting evidence to satisfy ourselves as to the nature of the recorded balances due to these creditors and whether the recorded balances were fairly stated.

Basis of Opinion *(Cont'd)*

6. **Provision for impairment of trade and other receivables, write-down of inventories, research and development expenses**

   Included in the consolidated income statement for the year ended 31 December 2005 were provision for impairment of trade and other receivables of HK$20,191,000, write-down of inventories of HK$29,235,000 to net realisable value and research and development expenses of HK$30,285,000, we were not provided with sufficient evidence to satisfy ourselves as to whether the amounts were free from material misstatement.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in the preceding paragraphs 1 to 6 above.

Any adjustments that might have been found to be necessary in respect of the matters set out above would have a consequential effect on the financial position of the Group and the Company as at 31 December 2005 and the loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

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 of our opinion.

Fundamental Uncertainty Relating to the Going Concern Basis

In forming our opinion, we have considered the adequacy of the disclosure made in note 2(b) to the financial statements which describes the liquidity position of the Group. The Group is dependent upon the financial support of its banks and on its ability to renew its credit facility of RMB120 million, which falls due on 22 April 2006, with its major banker. However, as explained in note 38(a) to the financial statements, the Group defaulted in respect of the repayment of the bank loan from its major banker and the related interest totalling HK$116.5 million and such amounts had become repayable on demand. The major banker had applied to the court in Guangdong, mainland China, to freeze the leasehold land included in the property under development of the Group. The Company is currently negotiating with the major banker for the rescheduling or extension of the existing loan currently in default. On the assumption that negotiations would be successful and the major banker would renew its credit facilities and withdraw the writ, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

The financial statements have been prepared on a going concern basis, the validity of which depends upon continuing financial support from its bankers and creditors, the Company's ability to renew its credit facilities from the major banker, the availability of additional external funding and the attainment of profitable and positive cash flow operations to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of the above measures be unsuccessful. We consider that appropriate disclosures have been made. However, in view of the extent of the fundamental uncertainty relating to whether the going concern is appropriate, we have disclaimed our 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 set out in paragraphs 1 to 6 of the section "Basis of Opinion" and the significance of the fundamental uncertainty relating to the going concern basis as set out above, 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 2005 and the loss and cash flows of the Group for the year then ended and as to whether 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, 27 March 2006

Delores Teh
Practising Certificate Number P03207

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	7	**66,555**	192,339
Cost of sales		**(42,359)**	(162,679)
Gross profit		**24,196**	29,660
Other revenues and gains	7	**4,376**	36,153
Selling and distribution expenses		**(10,450)**	(17,024)
General and administrative expenses		**(57,818)**	(29,193)
Research and development expenses		**(39,195)**	(17,605)
Provision for impairment of trade and other receivables		**(20,191)**	(14,977)
		(127,654)	(78,799)
Loss from operations		**(99,082)**	(12,986)
Finance costs		**(4,644)**	(5,636)
Gain on deemed disposal of a subsidiary		**2**	4,228
Impairment loss on goodwill		**(3,869)**	–
Loss on disposal of a subsidiary		**(472)**	(9,440)
Negative goodwill on acquisition of a subsidiary		**8,911**	–
Share of loss of associates		**(1,660)**	(42)
Write back of impairment loss of an associate		**733**	–
Loss before taxation	8	**(100,081)**	(23,876)
Taxation	10	**(7)**	(7)
Loss for the year		**(100,088)**	(23,883)
Attributable to:			
Equity holders of the Company		**(99,435)**	(23,040)
Minority interests		**(653)**	(843)
		(100,088)	(23,883)
Loss per share			
– Basic	12	**(97.1) cents**	(22.5) cents
– Fully diluted	12	**N/A**	N/A

The notes on pages 39 to 84 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Intangible assets	13	**2,551**	2,967
Goodwill	14	**–**	3,305
Property, plant and equipment	15	**23,154**	41,364
Property under development	16	**141,134**	127,807
Interest in associates	18	**10,875**	17,241
Available-for-sale investment	19	**9,342**	–
Investment securities	20	**–**	9,342
		187,056	202,026
Current assets			
Inventories	21	**5,860**	33,355
Trade receivables	22	**8,286**	23,167
Prepayments, deposits and other receivables		**1,680**	16,467
Cash and bank balances	23	**8,140**	23,162
		23,966	96,151
Current liabilities			
Short-term bank loans – pledged	24	**137,940**	140,375
Trade payables	25	**25,707**	27,164
Current portion of interest-bearing borrowings	26	**59**	145
Accruals and other payables		**28,369**	8,763
		192,075	176,447
Net current liabilities		**(168,109)**	(80,296)
Total assets less current liabilities		**18,947**	121,730
Non-current liabilities			
Interest-bearing borrowings	26	**446**	616
Net assets		**18,501**	121,114
Capital and reserves			
Share capital	27	**1,024**	1,024
Reserves	28	**16,027**	114,283
Equity attributable to the equity holders		**17,051**	115,307
Minority interests		**1,450**	5,807
Total equity		**18,501**	121,114

Approved and authorised for issue by the board of directors on 27 March 2006

On behalf of the board

CHEUNG WAI
Director

CHAN MAN CHING
Director

The notes on pages 39 to 84 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Interest in subsidiaries	17	**50,640**	54,057
Current assets			
Prepayments, deposits and other receivables		**460**	460
Cash and bank balances		**9**	11
		469	471
Current liabilities			
Accruals and other payables		**1,980**	789
		1,980	789
Net current liabilities		**(1,511)**	(318)
Net assets		**49,129**	53,739
Capital and reserves			
Share capital	27	**1,024**	1,024
Reserves	28	**48,105**	52,715
		49,129	53,739

Approved and authorised for issue by the board of directors on 27 March 2006

On behalf of the board

CHEUNG WAI
Director

CHAN MAN CHING
Director

The notes on pages 39 to 84 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the Company								
	Share capital HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Statutory reserve fund HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004	1,024	79,107	198,068	439	1,592	(141,563)	138,667	1,518	140,185
Elimination of accumulated losses	–	(79,107)	–	–	–	79,107	–	–	–
Exchange differences	–	–	–	–	(313)	–	(313)	–	(313)
Equity contribution by a minority shareholder	–	–	–	–	–	–	–	4,386	4,386
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	746	746
Disposal of a subsidiary	–	–	–	–	(7)	–	(7)	–	(7)
Loss for the year	–	–	–	–	–	(23,040)	(23,040)	(843)	(23,883)
At 31 December 2004	1,024	–	198,068	439	1,272	(85,496)	115,307	5,807	121,114
At 1 January 2005	1,024	–	198,068	439	1,272	(85,496)	115,307	5,807	121,114
Effect of adoption HKFRS3 on negative goodwill	–	–	–	–	–	564	564	–	564
Exchange differences	–	–	–	–	580	–	580	–	580
Deemed disposal of a subsidiary	–	–	(2)	–	28	–	26	24	50
Disposal of a subsidiary	–	–	–	–	9	–	9	(221)	(212)
Acquisition of subsidiary	–	–	–	–	–	–	–	(3,507)	(3,507)
Loss for the year	–	–	–	–	–	(99,435)	(99,435)	(653)	(100,088)
At 31 December 2005	**1,024**	**–**	**198,066**	**439**	**1,889**	**(184,367)**	**17,051**	**1,450**	**18,501**

The notes on pages 39 to 84 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		**(100,081)**	(23,876)
Adjustments for:			
Amortisation of patents and intellectual property rights		**470**	494
Amortisation of negative goodwill		**–**	(30)
Amortisation of positive goodwill		**–**	204
Depreciation of property, plant and equipment		**6,383**	6,245
Gain on deemed disposal of a subsidiary	30(a)	**(2)**	(4,228)
Impairment loss on positive goodwill		**3,869**	–
Interest expenses		**4,644**	5,636
Interest income		**(73)**	(88)
Loss on disposal of a subsidiary	30(b)	**472**	9,440
Loss/(gain) on disposal of property, plant and equipment		**3,079**	(595)
Provision for impairment of trade and other receivables		**20,191**	14,977
Write-down of inventories		**29,235**	–
Negative goodwill on acquisition of a subsidiary		**(8,911)**	–
Share of loss of associates		**1,660**	42
Write back of impairment loss of an associate		**(733)**	–
Write back of write-down of inventories		**–**	(2,000)
Operating (loss)/profit before working capital changes		**(39,797)**	6,221
(Increase)/decrease in inventories		**(2,779)**	12,912
Decrease in trade receivables		**14,814**	1,430
Decrease/(increase) in prepayments, deposits and other receivables		**3,436**	(5,616)
(Decrease)/increase in trade payables		**(3,551)**	10,945
Increase in accruals and other payables		**15,560**	11,216
Cash (used in)/generated from operations		**(12,317)**	37,108
Interest received		**73**	88
Interest paid		**(7,751)**	(7,710)
Overseas tax paid		**(7)**	(7)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(20,002)**	29,479
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,762)**	(2,991)
Proceeds from disposal of property, plant and equipment		**12,961**	1,006
Proceeds from disposal of long term investment		**–**	4,717
Additions to property under development		**(7,762)**	(2,027)
Cash outflow from deemed disposal of a subsidiary	30(a)	**(8)**	(1,200)
Cash inflow/(outflow) from disposal of a subsidiary	30(b)	**23**	(4,048)
Cash inflow from acquisition of a subsidiary	30(c)	**4,062**	–
Decrease/(increase) in interest in associates		**3,535**	(42,527)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**11,049**	(47,070)

	Note	2005 HK$'000	2004 HK$'000
FINANCING ACTIVITIES			
(Repayment)/inception short-term bank loans		**(2,435)**	12,073
Repayment of interest-bearing borrowings		**(256)**	(152)
Equity contribution by a minority shareholder of a subsidiary		**–**	4,386
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(2,691)**	16,307
DECREASE IN CASH AND CASH EQUIVALENTS		**(11,644)**	(1,284)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		**23,162**	24,759
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**(3,378)**	(313)
CASH AND CASH EQUIVALENT AT END OF YEAR		**8,140**	23,162
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**8,140**	23,162

The notes on pages 39 to 84 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 optical image capturing devices chips and other optoelectronic products.

The business of the Company and its subsidiaries ("the Group") is characterized by constant technological change and new product and service development.

2. Basis of Preparation and Fundamental Uncertainty Relating to the Going Concern Basis

(a) Basis of preparation

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors of the Company had no direct access to the books and records of Syscan, Inc. ("SI"), an indirectly wholly owned subsidiary of the Company incorporated in the United States of America ("USA") and whose operations principally comprised the design, development and sales of optical image capturing devices and modules, and was controlled by a former director of the Company. Consequently, the directors cannot substantiate or otherwise support transactions undertaken by SI and the directors cannot ensure the nature, timing, completeness, appropriateness of classifications and disclosures in respect of the transactions undertaken by SI and the related balances as included in these financial statements or whether any additional disclosures are required. Therefore, the financial position, results and cash flows of SI have been consolidated into the financial statements of the Group based on its unaudited management accounts for the year ended 31 December 2005. In the opinion of the directors, as SI is a major subsidiary of the Group, its financial position, results and cash flows for the year ended 31 December 2005 would have material impact on the Group's financial statements.

As further detailed in note 38(b) to the financial statements, the directors have resolved to dispose of the operations of SI subsequent to the balance sheet date.

The assets, liabilities, revenues and results of SI based on its unaudited management accounts for the year ended 31 December 2005 included in these financial statements are summarised as follows:

	HK$'000
Assets	21,954
Liabilities	11,237
Revenues	51,538
Loss for the year	2,618

In view of the above, no representations as to the accuracy and completeness of the books and records of SI for the year ended 31 December 2005 could be given by the directors. The directors were also unable to represent that all transactions entered into the name of SI had been properly included or disclosed in the financial statements.

2. Basis of Preparation and Fundamental Uncertainty Relating to the Going Concern Basis *(Cont'd)*

(b) Fundamental uncertainty relating to the going concern basis

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK$168 million and the loss attributable to the equity holders of the Company of approximately HK$99 million as at and for the year ended 31 December 2005.

The Group is dependent upon the continued support of its banks and on its ability to renew its credit facility of RMB120 million, which falls due on 22 April 2006, with its major banker. However, as explained in note 38(a) to the financial statements, the Group defaulted in respect of the repayment of the bank loan from its major banker and the related interest totalling HK$116.5 million and such amounts had become repayable on demand. The major banker had applied to the court in Guangdong, mainland China, to freeze the leasehold land included in the property under development of the Group. The Company is currently negotiating with the major banker for the rescheduling or extension of the existing loan currently in default. On the assumption that negotiations would be successful and the major banker would renew its credit facilities and withdraw the writ, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM" Listing Rules). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. In 2005, the Group adopted the following new/revised HKFRSs, which are relevant to its operations in the preparation of these financial statements. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

3. Significant Accounting Policies *(Cont'd)*

(a) Adoption of HKFRSs

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

– HKAS 1 affects certain presentation and disclosure of the financial statements;

– HKASs 8, 27 and 33 affect certain disclosure of the financial statements;

– HKASs 2, 7, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 28, 32, 37, 39, 40, HKFRSs 2, 5, HKAS-Int 12, HKAS-Int 15 and HKAS-Int 21 do not have any significant impact on the Group's accounting policies; and

– the impact on the adoption of other new and revised HKFRS is set out in note 4.

3. Significant Accounting Policies *(Cont'd)*

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

The results of the subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the Company's subsidiaries and are presented separately in the consolidated income statements and within the equity in the consolidated balance sheet from the results/equity attributable to equity holders of the Company.

(c) Subsidiaries

A subsidiary is a company in which the Group or the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

(d) Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associates are included in the consolidated income statement and consolidated reserves respectively. The Group's interest in the associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of fair value of the identifiable assets and liabilities acquired on acquisitions of subsidiaries and associates.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is recognised immediately in the consolidated income statement as it arises.

3. Significant Accounting Policies *(Cont'd)*

(f) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following basis:

(a) Sales revenue is recognised when the merchandise is delivered and title has passed.

(b) Design fees are recognised when the services are rendered.

(c) Interest income on a time proportion basis, taking into account the principal outstanding and at the effective rate applicable.

(g) 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 year have been expensed as no expenditure met the criteria for deferral.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Major expenditures on modifications and betterments of property, plant 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:

Buildings	5%
Leasehold improvements	over the lease term
Furniture and office equipment	20 to 33%
Machinery	10 to 20%
Motor vehicles	20%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected. Gain or loss on derecognition of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

(i) Prepaid land lease payments

Prepaid land lease payments are lump sum upfront payments to acquire long term interest in lessee-occupied properties.

Prepaid land lease payments for land relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement.

3. Significant Accounting Policies *(Cont'd)*

(j) Property under development

Property under development is stated at cost, which includes land costs and construction costs incurred and other costs attributable to the construction of the related assets and other related expenses capitalised during the development period, less any impairment losses. No depreciation is provided in respect of property under development until the construction work is completed.

(k) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expenses in the income statement. The impairment loss is written back to income statement when the circumstances and events that led to the write-down or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(l) Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified into four categories including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"). Where the loss event has an impact on the estimated future cash flows that can be reliably estimated, they are stated at cost less any accumulated impairment losses. If an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit and loss, is transferred from equity to the income statement. If the fair value of an available-for-sale debt investment increases in the subsequent period, and the increase can be objectively related to an event occurring after the loss was recognised in the income statement, the impairment loss should be reversed and recognised in the income statement. However, in case of equity investments, impairment cannot be reversed through the income statement.

3. Significant Accounting Policies *(Cont'd)*

(m) 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.

(n) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

(o) Inventories

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

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

(p) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

ii) Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment losses made against goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

3. Significant Accounting Policies *(Cont'd)*

(q) 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.

(r) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were generally within three months of maturity when acquired. For the purpose of the consolidated cash flow statement, cash equivalents also include bank overdrafts and advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

(s) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with interests in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, and the carryforward of unused tax assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary difference associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. Significant Accounting Policies *(Cont'd)*

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statements. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are not Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries that arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(v) Employee benefits

(i) Retirement benefit scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in independently administrated funds. The Group's employer contributions vest fully with the employees when contributed to the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

3. Significant Accounting Policies *(Cont'd)*

(v) Employee benefits *(Cont'd)*

(ii) Share-based compensation

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group's enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. Significant Accounting Policies *(Cont'd)*

(y) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

4. Changes in Accounting Policies

(a) Amortisation of positive and negative goodwill (HKFRS 3 Business Combinations, HKAS 36 Impairment of Assets and HKAS 38 Intangible Assets)

In prior years:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life of 20 years and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over 20 years, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005 in accordance with HKFRS 3, HKAS 36 and HKAS 38, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the year ended 31 December 2005, the carrying amounts of the negative goodwill (including that remaining in consolidated capital reserve) is derecognised against accumulated losses as at 1 January 2005.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e goodwill which arose before 1 January 2001) will not be recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

(b) Minority interest (HKAS 1 Presentation of Financial Statements and HKAS 27 Consolidated and Separate Financial Statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

4. Changes in Accounting Policies *(Cont'd)*

(b) Minority interest (HKAS 1 Presentation of Financial Statements and HKAS 27 Consolidated and Separate Financial Statements) *(Cont'd)*

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative year has been restated accordingly.

5. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Property, plant and equipment and property under development

The Group assesses annually whether property, plant and equipment and property under development have any indication of impairment. The recoverable amounts of property, plant and equipment and property under development have been determined based on value-in-use calculations. These calculations require the use of judgements and estimates.

(b) Write-downs of inventories

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(c) Provision for trade receivables

In determining whether any of the trade receivables and bills receivable is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

6. Financial Risk Management

The Group's activities are exposed to the following risks:

a) Currency risk

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

6. Financial Risk Management *(Cont'd)*

b) Interest rate risk

The Group's fair value interest rate risk to variable-rate borrowings. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings.

c) Credit risk

The Group's concentration of credit risk by geographical locations is mainly in U.S.A. and mainland China. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

d) Liquidity risk

Bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rate and are in short-term. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

7. Turnover, Other Revenues and Gains

Turnover

	2005 HK$'000	2004 HK$'000
Sales of merchandise		
– Optical image capturing devices	**48,094**	47,901
– Modules of optical image capturing devices	**5,745**	6,681
– Chips and other optoelectronic products	**12,716**	21,214
– LCD and CRT monitors	**–**	115,978
	66,555	191,774
Design fees – High speed module	**–**	565
	66,555	192,339
Other revenues and gains		
Bank interest income	**73**	88
Exchange gain, net	**74**	314
Gain on disposal of property, plant and equipment	**–**	595
Income from sale of patent rights	**–**	30,000
Others	**1,455**	700
Rental income	**928**	313
Subsidy income	**1,390**	2,143
Trade payables written off	**456**	–
Write back of write-down of inventories	**–**	2,000
	4,376	36,153

8. Loss Before Taxation

Loss before taxation is after charging and crediting the following items:

	2005 HK$'000	2004 HK$'000
After charging		
Interest on short-term bank loans	**7,716**	7,665
Interest on interest-bearing borrowings	**35**	45
	7,751	7,710
Less: amounts capitalised in property under development (i)	**(3,107)**	(2,074)
	4,644	5,636
Auditors' remuneration	**410**	560
Amortisation of patents and intellectual property rights	**470**	494
Amortisation of positive goodwill	**–**	204
Cost of inventories sold	**42,359**	162,679
Depreciation	**6,383**	6,245
Impairment loss on positive goodwill	**3,869**	–
Loss on disposal of a subsidiary	**472**	9,440
Loss on disposal of property, plant and equipment	**3,079**	–
Provision for impairment of trade and other receivables	**20,191**	14,977
Write-down of inventories	**29,235**	–
Operating lease rentals of premises	**1,967**	2,081
Retirement costs	**428**	894
Staff costs (including directors' emoluments)	**19,242**	29,009
After crediting		
Amortisation of negative goodwill	**–**	30
Bank interest income	**73**	88
Exchange gain, net	**74**	314
Gain on deemed disposal of a subsidiary	**2**	4,228
Gain on disposal of property, plant and equipment	**–**	595
Income from sales of patent rights (ii)	**–**	30,000
Negative goodwill on acquisition of a subsidiary	**8,911**	–
Rental income	**928**	313
Subsidy income (iii)	**1,390**	2,143
Write back of provision for impairment loss of an associate	**733**	–
Write back of write-down inventories	**–**	2,000

(i) During the year, interest of a short-term bank loan approximately HK$3,107,000 (2004: HK$2,074,000) was capitalised as construction expenditures included in property under development.

(ii) In 2004, the Group sold its patent rights to two independent third parties for a consideration of approximately HK$30,000,000.

(iii) During the year, the Group received cash subsidies from certain mainland China government bodies totaling HK$1,390,000 (2004: HK$2,143,000). These cash subsidies were for the Group's development of certain products.

9. Directors' and Senior Executives' emoluments

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

	2005 **HK$'000**	2004 HK$'000
Fees	**360**	240
Other emoluments:		
– Salaries, allowances and benefits in kind	**2,069**	3,311
– Retirement contributions	**25**	17
	2,454	3,568

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

The remuneration of individual director is set out below:

	For the year ended 31 December 2005			
	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Retirement contributions HK$'000**	**Total HK$'000**
Executive directors				
Chan Man Ching	**–**	**468**	**12**	**480**
Cheung Wai	**–**	**1,374**	**12**	**1,386**
Darwin Hu	**–**	**203**	**–**	**203**
Zhang Fu	**–**	**24**	**1**	**25**
Independent non-executive directors				
Fong Chi Wah	**120**	**–**	**–**	**120**
Lo Wai Ming	**120**	**–**	**–**	**120**
Jin Qingjun	**120**	**–**	**–**	**120**
	360	**2,069**	**25**	**2,454**

9. Directors' and Senior Executives' emoluments *(Cont'd)*

(a) *(Cont'd)*

	For the year ended 31 December 2004			
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement contributions HK$'000	Total HK$'000
Executive directors				
Chan Man Ching	–	200	5	205
Cheung Wai	–	1,356	12	1,368
Darwin Hu	–	1,560	–	1,560
Wong Chung	–	80	–	80
Zhang Fu	–	115	–	115
Independent non-executive directors				
Fong Chi Wah	120	–	–	120
Lo Wai Ming	120	–	–	120
Jin Qingjun	–	–	–	–
	240	3,311	17	3,568

The remuneration of the directors falls within the following bands:

	2005	2004
HK$Nil to HK$1,000,000	**6**	6
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	7	8

(b) The five highest paid employees during the year included two directors (2004: two), details of whose remuneration the remaining three (2004: three) are as follows.

	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**3,354**	3,354
	3,354	3,354

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.

9. Directors' and Senior Executives' emoluments *(Cont'd)*

(b) *(Cont'd)*

The remuneration falls within the following band:

	2005	2004
HK$Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**2**	2
	3	3

10. 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 for the year (2004: Nil).

(c) United States federal income tax

The Group had no assessable profit subject to United States federal income tax. However, the subsidiary SI was liable to California State income tax of approximately HK$7,000 (2004: HK$7,000), being the minimum amount for a company in a tax loss position.

(d) Mainland China taxes

No provision for mainland China enterprise income tax has been made as the Group had no assessable profits for the year (2004: Nil).

(e) Taiwan income taxes

No Taiwan income tax has been made as the Group had no assessable profit in Taiwan (2004: Nil).

10. Taxation (Cont'd)

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

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

	2005 HK$'000	2004 HK$'000
Loss before taxation	**(100,081)**	(23,876)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(16,659)**	(5,667)
Tax effect of non-taxable revenue	**(4)**	(141)
Tax effect of non-deductible expenses	**3,860**	279
Tax effect of unused tax losses not recognized	**12,810**	5,549
Utilisation of previously unrecognised tax losses	**–**	(13)
Actual tax expenses	**7**	7

(g) Deferred tax assets not recognized

At 31 December 2005, the Group had tax losses of approximately HK$395,610,000 (2004: HK$321,881,000) which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for a number of years.

11. Loss Attributable to Equity Holders of the Company

During the year, the loss attributable to equity holders of the Company included the loss of HK$4,610,000 (2004: HK$5,176,000) dealt with in the financial statements of the Company.

12. Loss Per Share

(a) The calculation of basic loss per share for the year ended 31 December 2005 is as follows:–

	2005 HK$'000	2004 HK'000
Net loss attributable to equity holders of the Company	**(99,435)**	(23,040)
Weighted average number of ordinary shares for the purpose of basic loss per share	**102,364,327**	102,364,327
Loss per share – Basic	**(97.1) cents**	(22.5) cents

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

13. Intangible Assets

Group

	Patents HK$'000	Intellectual property rights HK$'000	Total HK$'000
Cost			
At 1/1/2004	2,745	1,698	4,443
Disposal of a subsidiary	–	(283)	(283)
At 31/12/2004	2,745	1,415	4,160
Amortisation			
At 1/1/2004	490	247	737
Amortisation for the year	368	126	494
Disposal of a subsidiary	–	(38)	(38)
At 31/12/2004	858	335	1,193
Net book value			
At 31/12/2004	1,887	1,080	2,967

Group

	Patents HK$'000	Intellectual property rights HK$'000	Total HK$'000
Cost			
At 1/1/2005	2,745	1,415	4,160
Exchange differences	53	27	80
At 31/12/2005	2,798	1,442	4,240
Amortisation			
At 1/1/2005	858	335	1,193
Exchange differences	17	9	26
Amortisation for the year	343	127	470
At 31/12/2005	1,218	471	1,689
Net book value			
At 31/12/2005	1,580	971	2,551

(i) 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 of 10 years.

(ii) The intellectual property rights with net book value of HK$971,000 (2004: Nil) is pledged as collateral for the Group's banking facilities (Note 36).

14. Goodwill

Group

	Positive Goodwill HK$'000	Negative Goodwill HK$'000	Total HK$'000
Cost			
At 1/1/2004	414	(602)	(188)
Additions	4,073	–	4,073
At 31/12/2004	4,487	(602)	3,885
Amortisation			
At 1/1/2004	414	(8)	406
Recognised in income statement	–	(30)	(30)
Amortisation	204	–	204
At 31/12/2004	618	(38)	580
Net book value			
At 31/12/2004	3,869	(564)	3,305
Cost			
At 1/1/2005	4,487	(602)	3,885
Effect of adoption HKFRS 3 on negative goodwill (i)	–	602	602
Acquisition of a subsidiary (Note 30(c))	–	(8,911)	(8,911)
Recognised in income statement	–	8,911	8,911
At 31/12/2005	**4,487**	**–**	**4,487**
Amortisation			
At 1/1/2005	618	(38)	580
Effect of adoption HKFRS 3 on negative goodwill (i)	–	38	38
Impairment loss	3,869	–	3,869
At 31/12/2005	**4,487**	**–**	**4,487**
Net book value			
At 31/12/2005	**–**	**–**	**–**

(i) The transitional provisions of HKFRS 3 have required the Group to eliminate the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against accumulated losses as at 1 January 2005.

15. Property, Plant and Equipment

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and office equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
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)
At 31/12/2004	24,961	2,951	8,371	38,443	4,389	79,115
Accumulated depreciation						
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)
At 31/12/2004	3,711	2,951	2,937	25,791	2,361	37,751
Net book value						
At 31/12/2004	21,250	–	5,434	12,652	2,028	41,364
Cost						
At 1/1/2005	24,961	2,951	8,371	38,443	4,389	79,115
Exchange differences	526	–	140	516	55	1,237
Additions	–	–	353	1,409	–	1,762
Disposals	(17,355)	–	(702)	(364)	(1,951)	(20,372)
Addition of a subsidiary	–	–	1,078	–	490	1,568
Disposal of subsidiaries	–	–	(76)	–	–	(76)
At 31/12/2005	**8,132**	**2,951**	**9,164**	**40,004**	**2,983**	**63,234**
Accumulated depreciation						
At 1/1/2005	3,711	2,951	2,937	25,791	2,361	37,751
Exchange differences	53	–	44	194	15	306
Provision for the year	875	–	1,075	4,043	390	6,383
Disposals	(2,824)	–	(329)	–	(1,179)	(4,332)
Disposal of subsidiaries	–	–	(28)	–	–	(28)
At 31/12/2005	**1,815**	**2,951**	**3,699**	**30,028**	**1,587**	**40,080**
Net book value						
At 31/12/2005	**6,317**	**–**	**5,465**	**9,976**	**1,396**	**23,154**

15. Property, Plant and Equipment *(Cont'd)*

(i) As the prepaid land lease payment cannot be allocated reliably between the land and building elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment in accordance with HKAS 17.

(ii) The leasehold land and buildings are located in Shenzhen, mainland China, and are used as research and development centre of the Group and held under medium lease term. All leasehold land and buildings are pledged as collateral for the Group's banking facilities (Note 36).

(iii) The machinery with net book value of HK$9,976,000 (2004: Nil) and motor vehicle with net book value of Nil (2004: HK$318,000) are pledged as collateral for the Group's banking facilities (Note 36).

16. Property Under Development

Group

	Leasehold land HK$'000	**Construction expenditures** HK$'000	**Total** HK$'000
At 1/1/2004	49,992	73,714	123,706
Additions	–	4,101	4,101
At 31/12/2004	49,992	77,815	127,807
At 1/1/2005	49,992	77,815	127,807
Exchange differences	960	1,498	2,458
Additions	–	10,869	10,869
At 31/12/2005	**50,952**	**90,182**	**141,134**

(a) The leasehold land is located in Shenzhen, mainland China, for a period of 50 years up to July 2051.

(b) The leasehold land is pledged for the short-term bank loan to the Group (Note 36).

17. Interest in Subsidiaries

Company

	2005 **HK$'000**	2004 HK$'000
Unlisted shares, at cost	**74,698**	74,698
Due from subsidiaries	**92,986**	95,623
Due to subsidiaries	**(3,544)**	(2,764)
	164,140	167,557
Less: Impairment losses	**(113,500)**	(113,500)
	50,640	54,057

The amounts due from/to subsidiaries are unsecured and non-interest bearing. The Company has agreed not to demand for repayment of the amounts due from the subsidiaries until the subsidiaries are financially capable to do so.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Details of the principal subsidiaries as at 31 December 2005 are:

Name	**Place of incorporation/ operations**	**Issued share capital/ paid up capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
SYSCAN Holdings Limited (i)	British Virgin Islands / Hong Kong	US$3	100%	Investment holding
SYSCAN Digital Systems Co., Ltd.	British Virgin Islands / Hong Kong	US$24,500	100%	Investment holding
SYSCAN Imaging Limited (i), (ii)	British Virgin Islands / Hong Kong	US$1	100%	Investment holding
SYSCAN, Inc. (ii)	California, United States of America	–	100%	Design, development and sale of optical image capturing devices and modules
SYSCAN InterVision Limited	Hong Kong / Mainland China	HK$15,000,000	100%	Trading of optical image capturing devices and modules
SYSCAN Lab., Limited	Hong Kong / Mainland China	HK$10,000	100%	Design and development of image sensor modules

17. Interest in Subsidiaries *(Cont'd)*

Name	Place of incorporation/ operations	Issued share capital/ paid up capital	Percentage of equity interest attributable to the Group	Principal activities
SYSCAN Laser Technology Limited	British Virgin Islands / Hong Kong	US$1	100%	Investment holding
SYSCAN Manufacturing Limited	British Virgin Islands / Hong Kong	US$1	100%	Investment holding
SYSCAN Viewtech Limited	British Virgin Islands / Hong Kong	US$10,000	100%	Investment holding
SYSCAN Group Limited	British Virgin Islands/ Hong Kong	US$1	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., Limited 深圳矽感光電有限公司 (iv)	Mainland China	US$6,000,000	100%	Property holding
深圳市旭感數碼系統有限公司 (v)	Mainland China	RMB15,000,000	100%	Design, development, manufacture and sale of optoelectronic products

17. Interest 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) On 29 March 2004, SYSCAN Imaging Limited ("SIL"), wholly-owned subsidiary of the Company, and SI 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 SI. SIL exchanged 100% equity interest in SI 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 SI. 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 SI and SML and "therefore the transactions and the Proposed Spin-off would be conditional on, inter alia, the approval of GEM Listing Committee and the Shareholders". SI 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 SI. The announcement also stated that the Company would apply for the approval of the Stock Exchange to proceed with the Proposed-Spin-off, as further detailed in the Company's announcement on 12 May 2004.

In November 2004, the Stock Exchange was informed that the shares of SI 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". The termination was announced on the web-site of the Stock Exchange of Hong Kong Limited on 26 January 2005.

(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) 深圳矽感光電有限公司 is a wholly foreign owned enterprise established in mainland China to be operated for 15 years up to 2009.

(v) 深圳市旭感數碼系統有限公司 is a domestic limited company established in mainland China to be operated for 20 years up to 2021.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2005.

18. Interest in Associates

Group

	2005 HK$'000	2004 HK$'000
Share of net assets	**32,403**	35,967
Due from an associate	**19,131**	763
Due to associates	**(39,040)**	(17,136)
	12,494	19,594
Provision for impairment	**(1,619)**	(2,353)
	10,875	17,241

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

Details of the principal associates as at 31 December 2005 are:

Name	**Place of incorporation/ and operations**	**Paid up capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
浙江矽感科技有限公司 (i)	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 (ii)	Mainland China	RMB45,000,000	40%	Development of computer products

Notes:

(i) *浙江矽感科技有限公司 is a domestic limited company established in mainland China to be operated for 20 years up to 2024.*

(ii) *深圳市旭感和誠信息技術有限公司 is a domestic limited company established in mainland China to be operated for 14 years up to 2018.*

19. Available-for-sale Investment

Group

	2005 HK$'000	2004 HK$'000
CMOS Sensor, Inc. (i)	**7,782**	–
GFG Asia Alliance Holdings Co., Ltd. (ii)	**1,560**	–
	9,342	–

(i) As at 31 December 2005, the Group held 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 2005, 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.

20. Investment Securities

Group

	2005 HK$'000	2004 HK$'000
CMOS Sensor, Inc. (i)	**–**	7,782
GFG Asia Alliance Holdings Co., Ltd. (ii)	**–**	1,560
	–	9,342

(i) As at 31 December 2004, the Group held 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.

21. Inventories

Group

	2005 HK$'000	2004 HK$'000
Raw materials	**21,767**	17,395
Work-in-progress	**2,600**	4,208
Finished goods	**13,467**	14,491
	37,834	36,094
Less: Write-down of inventories	**(31,974)**	(2,739)
	5,860	33,355

As at 31 December 2005, inventories of approximately Nil (2004: HK$77,000) were stated at net realisable value.

22. Trade Receivables

The Group normally grants to its customers credit periods ranging from one to three months. Aging analysis of the Group's trade receivables is as follows:

	2005 **HK$'000**	2004 HK$'000
0 to 1 month	**8,444**	8,585
1 to 2 months	**887**	123
2 to 3 months	**40**	9,253
3 to 6 months	**111**	–
6 to 12 months	**884**	9,975
12 to 18 months	**1,349**	876
Over 18 months	**7,917**	560
	19,632	29,372
Less: Provision for impairment	**(11,346)**	(6,205)
	8,286	23,167

23. Cash and Bank Balances

As at 31 December 2005, the Group's cash and bank balances approximately of HK$2,283,000 (2004: HK$4,557,000) were denominated in Renminbi, a currency which is not freely convertible into other currencies.

24. Short-term Bank Loans – Pledged

(a) Included in the short-term bank loans of the Group of HK$137,940,000 (2004: HK$140,375,000) were loan and related interest totalling HK$116,576,000 (2004: Nil), of which the Group had defaulted on the repayment, such amounts had become repayment on demand. The loan was secured by the leasehold land included in the property under development of the Group. The banker had applied to the court in Guangdong, mainland China, to freeze the leasehold land (Note 38(a)).

(b) All the Group's short-term bank loans were denominated in Renminbi. As at 31 December 2005, the short-term bank loans bore interest at the rates of 6% – 8% (2004: 5.58% per annum).

25. Trade Payables

Group

	2005 **HK$'000**	2004 HK$'000
0 to 1 month	**3,653**	18,652
1 to 2 months	**1,531**	1,985
2 to 3 months	**1,102**	1,080
3 to 6 months	**1,196**	3,391
6 to 12 months	**1,009**	1,464
Over 12 months	**17,216**	592
	25,707	27,164

26. Interest-bearing Borrowings

Group

	2005 HK$'000	2004 HK$'000
Bank loan, secured	**505**	761
The analysis of the above balances is as follows:		
Bank loans		
Within one year	**59**	145
After 1 year but within 2 years	**59**	145
After 2 years but within 5 years	**178**	196
After 5 years	**209**	275
	505	761
Current portion of bank loan	**(59)**	(145)
Non-current portion of bank loan	**446**	616

27. Share Capital

Company

	2005		2004	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**20,000,000,000**	**200,000**	20,000,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each	**102,364,327**	**1,024**	102,364,327	1,024

28. Reserves

	Contributed surplus HK$'000	Capital reserve HK$'000	Statutory reserve fund HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Group						
At 1 January 2004	79,107	198,068	439	1,592	(141,563)	137,643
Elimination of accumulated losses	(79,107)	–	–	–	79,107	–
Exchange differences	–	–	–	(313)	–	(313)
Disposal of a subsidiary	–	–	–	(7)	–	(7)
Loss attributable to equity holders of the Company	–	–	–	–	(23,040)	(23,040)
At 31 December 2004	–	198,068	439	1,272	(85,496)	114,283
At 1 January 2005	–	198,068	439	1,272	(85,496)	114,283
Effect of adoption HKFRS 3 on negative goodwill	–	–	–	–	564	564
Exchange differences	–	–	–	580	–	580
Deemed disposal of a subsidiary	–	(2)	–	28	–	26
Disposal of a subsidiary	–	–	–	9	–	9
Loss attributable to equity holders of the Company	–	–	–	–	(99,435)	(99,435)
At 31 December 2005	**–**	**198,066**	**439**	**1,889**	**(184,367)**	**16,027**
Reserves retained by:						
Company and subsidiaries	–	198,068	439	1,272	(85,454)	114,325
Associates	–	–	–	–	(42)	(42)
At 31 December 2004	–	198,068	439	1,272	(85,496)	114,283
Company and subsidiaries	–	198,066	439	1,889	(182,665)	17,729
Associates	–	–	–	–	(1,702)	(1,702)
At 31 December 2005	**–**	**198,066**	**439**	**1,889**	**(184,367)**	**16,027**

28. Reserves *(Cont'd)*

	Contributed surplus HK$'000	Capital reserve HK$'000	Statutory reserve fund HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Company						
At 1 January 2004	149,228	–	–	–	(91,337)	57,891
Elimination of accumulated losses	(79,107)	–	–	–	79,107	–
Loss for the year	–	–	–	–	(5,176)	(5,176)
At 31 December 2004	70,121	–	–	–	(17,406)	52,715
At 1 January 2005	70,121	–	–	–	(17,406)	52,715
Loss for the year	–	–	–	–	(4,610)	(4,610)
At 31 December 2005	**70,121**	**–**	**–**	**–**	**(22,016)**	**48,105**

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 2005.

29. 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.

29. 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 the movements during Relevant Period.

For the year ended 31 December 2004

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
I. Share Option Scheme A								
Directors and chief executives	–	–	–	–	–	–	–	–
Other employees and optionees								
	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
II. Share Option Scheme B								
Directors and chief executives								
Mr Cheung Wai	19 June 2000	19 June 2001 to 18 June 2010	HK$3.30	500,000	–	–	–	500,000
Mr Darwin Hu	19 June 2000	19 June 2001 to 18 June 2010	HK$3.30	500,000	–	–	–	500,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$2.06	1,800,000	–	–	–	1,800,000
Mr Chan Man Ching	4 December 2000	4 December 2001 to 3 December 2010	HK$1.016	50,000	–	–	–	50,000
				2,850,000	–	–	–	2,850,000

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

II. Share Option Scheme B *(Cont'd)*

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
Other employees and optionees								
	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	620,000	–	(500,000)	–	120,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$2.06	1,940,000	–	(1,000,000)	–	940,000
	13 August 2001	13 August 2002 to 12 August 2011	HK$2.75	570,000	–	–	–	570,000
				3,535,000	–	(1,820,000)	–	1,715,000
				6,385,000	–	(1,820,000)	–	4,565,000

III. Share Option Scheme C

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
Directors and chief executives								
Mr Chan Man Ching	14 May 2002	14 May 2003 to 13 May 2012	HK$1.412	50,000	–	–	–	50,000
	12 November 2002	12 November 2003 to 11 November 2012	HK$1.00	200,000	–	–	–	200,000
Dr Zhang Fu	14 August 2002	14 August 2003 to 13 August 2012	HK$1.00	300,000	–	–	–	300,000
	26 March 2003	26 March 2004 to 25 March 2013	HK$1.00	700,000	–	–	–	700,000
				1,250,000	–	–	–	1,250,000

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

III. Share Option Scheme C *(Cont'd)*

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
Other employees and optionees								
	14 May 2002	14 May 2003 to 13 May 2012	HK$1.412	2,941,000	–	(1,331,000)	–	1,610,000
	14 August 2002	14 August 2003 to 13 August 2012	HK$1.00	1,535,000	–	–	–	1,535,000
	12 November 2002	12 November 2003 to 11 November 2012	HK$1.00	150,000	–	–	–	150,000
	26 March 2003	26 March 2004 to 25 March 2013	HK$1.00	1,387,000	–	(240,000)	–	1,147,000
	13 August 2003	13 August 2004 to 12 August 2013	HK$1.00	280,000	–	–	–	280,000
				6,293,000	–	(1,571,000)	–	4,722,000
				7,543,000	–	(1,571,000)	–	5,972,000
Total share options				17,196,000	–	(4,511,000)	–	12,685,000

For the year ended 31 December 2005

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
I. Share Option Scheme A								
Directors and chief executives	–	–	–	–	–	–	–	–
Other employees and optionees								
	2 March 2000	2 March 2000 to 1 March 2010	HK$0.4844	2,148,000	–	–	–	2,148,000
				2,148,000	–	–	–	2,148,000

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

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
II. Share Option Scheme B								
Directors and chief executives								
Mr Cheung Wai	19 June 2000	19 June 2001 to 18 June 2010	HK$3.30	500,000	–	–	–	500,000
Mr Darwin Hu	19 June 2000	19 June 2001 to 18 June 2010	HK$3.30	500,000	–	–	–	500,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$2.06	1,800,000	–	–	–	1,800,000
Mr Chan Man Ching	4 December 2000	4 December 2001 to 3 December 2010	HK$1.016	50,000	–	–	–	50,000
				2,850,000	–	–	–	2,850,000
Other employees and optionees								
	12 July 2000	12 July 2001 to 11 July 2010	HK$2.46	85,000	–	–	–	85,000
	4 December 2000	4 December 2001 to 3 December 2010	HK$1.016	120,000	–	(50,000)	–	70,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$2.06	940,000	–	(10,000)	–	930,000
	13 August 2001	13 August 2002 to 12 August 2011	HK$2.75	570,000	–	(100,000)	–	470,000
				1,715,000	–	(160,000)	–	1,555,000
				4,565,000	–	(160,000)	–	4,405,000

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

	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	End of year
III. Share Option Scheme C								
Directors and chief executives								
Mr Chan Man Ching	14 May 2002	14 May 2003 to 13 May 2012	HK$1.412	50,000	–	–	–	50,000
	12 November 2002	12 November 2003 to 11 November 2012	HK$1.00	200,000	–	–	–	200,000
Dr Zhang Fu	14 August 2002	14 August 2003 to 13 August 2012	HK$1.00	300,000	–	(300,000)	–	–
	26 March 2003	26 March 2004 to 25 March 2013	HK$1.00	700,000	–	(700,000)	–	–
				1,250,000	–	(1,000,000)	–	250,000
Other employees and optionees								
	14 May 2002	14 May 2003 to 13 May 2012	HK$1.412	1,610,000	–	–	–	1,610,000
	14 August 2002	14 August 2003 to 13 August 2012	HK$1.00	1,535,000	–	–	–	1,535,000
	12 November 2002	12 November 2003 to 11 November 2012	HK$1.00	150,000	–	–	–	150,000
	26 March 2003	26 March 2004 to 25 March 2013	HK$1.00	1,147,000	–	–	–	1,147,000
	13 August 2003	13 August 2004 to 12 August 2013	HK$1.00	280,000	–	–	–	280,000
				4,722,000	–	–	–	4,722,000
				5,972,000	–	(1,000,000)	–	4,972,000
Total share options				12,685,000	–	(1,160,000)	–	11,525,000

30. Notes to the Consolidated Cash Flow Statement

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

	2005 HK$'000	2004 HK$'000
Net liabilities disposed of:		
Intangible assets	–	245
Property, plant and equipment	48	300
Inventories	1,603	13,877
Trade receivables	18	556
Prepayments, deposits and other receivables	1,160	3,094
Amounts due from group companies	–	20,639
Cash and bank balances	8	1,200
Trade payables	(1,707)	(34,430)
Accruals and other payables	(1,182)	(8,896)
Amounts due to group companies	–	(1,559)
Minority interests	24	746
Net liabilities	(28)	(4,228)
Reserves released		
Capital reserve	(2)	–
Exchange reserve	28	–
	(2)	(4,228)
Gain on deemed disposal of a subsidiary	2	4,228
Consideration	–	–
Satisfied by:		
Cash consideration	–	–
Analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary		
Cash consideration received	–	–
Less: Cash and bank balances disposed of	8	1,200
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	(8)	(1,200)

30. Notes to the Consolidated Cash Flow Statement *(Cont'd)*

(b) Net cash inflow/(outflow) from disposal of a subsidiary

	2005 HK$'000	2004 HK$'000
		(i)
Net assets disposed of:		
Property, plant and equipment	–	1,252
Long-term investments	–	3,846
Inventories	10	1,939
Trade receivables	–	8,294
Prepayments, deposits and other receivables	697	1,504
Short term loan receivable	–	189
Cash and bank balances	29	4,048
Trade payables	–	(8,456)
Accruals and other payables	–	(1,414)
Amount due to a group company	–	(1,120)
Minority interest	(221)	–
Net assets	515	10,082
Reserves released		
Capital reserve	–	(635)
Exchange reserve	9	(7)
	524	9,440
Loss on disposal of a subsidiary	(472)	(9,440)
Consideration	52	–
Satisfied by:		
Cash consideration	–	–
Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary		
Cash consideration received	52	–
Less: Cash and bank balances disposed of	(29)	(4,048)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary	23	(4,048)

(i) On 23 December 2004, the Group disposed of 90% equity interest in 深圳市旭感數碼系統有限公司 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, had substantial personal interest indirectly, for a consideration of RMB1.

30. Notes to the Consolidated Cash Flow Statement *(Cont'd)*

(c) Net cash inflow from acquisition of a subsidiary

	2005 **HK$'000**	2004 HK$'000
Fair value of identiable assets/(liabilities) acquired:		
Property, plant and equipment	**1,568**	–
Inventories	**663**	–
Trade receivables	**6,500**	
Prepayments, deposits and other receivables	**4,171**	–
Cash and bank balances	**4,062**	–
Trade payables	**(3,801)**	–
Accruals and other payables	**(7,759)**	–
Minority interests	**3,507**	–
Net assets	**8,911**	–
Goodwill	**(8,911)**	–
Total consideration	**–**	–
Satisfied by:		
Cash consideration	**–**	–
Cash and bank balances acquired	**4,062**	–
Cash consideration	**–**	–
Net inflow of cash and cash equivalent in respect of the acquisition of a subsidiary	**4,062**	–

On 11 March 2005, the Group purchased back the 90% equity interest in 深圳市旭感數碼系統有限公司 with the consideration of RMB1 from 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, had substantial personal interest indirectly.

31. Business Combinations

On 11 March 2005, the Group purchased 90% of equity interest of 深圳市旭感數碼系統有限公司 for a consideration of RMB1. Since the date of acquisition, the revenue of 深圳市旭感數碼系統有限公司 was approximately HK$6 million and it incurred net loss of approximately HK$3 million for the year ended 31 December 2005.

Details of net assets acquired and goodwill are as follows:

	2005 HK$'000
Purchase consideration:	
Cash	–
Fair value of net assets acquired	**8,911**
Excess of the fair value of net assets acquired over the cost of acquisition	**(8,911)**

The assets and liabilities arising from acquisition are as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Net assets acquired:		
Property, plant and equipment	1,568	1,568
Inventories	663	663
Trade receivables	6,500	6,500
Prepayment, deposits and other receivables	4,171	4,171
Cash and bank balances	4,062	4,062
Trade payables	(3,801)	(3,801)
Accruals and other payables	(7,759)	(7,759)
Minority interests	3,507	3,507
	8,911	8,911

32. 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% (2004: 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 2005, the aggregate contributions of the Group to the aforementioned retirement benefit schemes were approximately HK$428,000 (2004: HK$894,000). As at 31 December 2005, there were no forfeitures available to offset the Group's future contributions (2004: Nil).

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

33. 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; (ii) the manufacturing and selling of modules of optical image capturing devices; (iii) the manufacturing and selling of chips and other optoelectronic products and (iv) the manufacturing and selling of LCD and CRT monitors.

Analysis by business segment is as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
– optical image capturing devices unit	**48,094**	47,901
– modules unit	**5,745**	6,681
– chips and other optoelectronic products unit	**12,716**	21,779
– LCD and CRT monitors	**–**	115,978
	66,555	192,339
Loss attributable to equity holders of the Company		
– optical image capturing devices unit	**(71,853)**	(5,738)
– modules unit	**(8,583)**	(800)
– chips and other optoelectronic products unit	**(18,999)**	(2,609)
– LCD and CRT monitors	**–**	(13,893)
	(99,435)	(23,040)

33. Segment Information *(Cont'd)*

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

	2005 HK$'000	2004 HK$'000
Depreciation and amortization		
– optical image capturing devices unit	**4,612**	1,555
– modules unit	**551**	217
– chips and other optoelectronic products unit	**1,220**	707
– LCD and CRT monitors	**–**	3,766
	6,383	6,245
Capital expenditures		
– optical image capturing devices unit	**1,273**	745
– modules unit	**152**	104
– chips and other optoelectronic products unit	**337**	339
– LCD and CRT monitors	**–**	1,803
	1,762	2,991
Assets		
– optical image capturing devices unit	**152,489**	74,260
– modules unit	**18,215**	10,358
– chips and other optoelectronic products unit	**40,318**	33,762
– LCD and CRT monitors	**–**	179,797
	211,022	298,177
Liabilities		
– optical image capturing devices unit	**139,119**	44,097
– modules unit	**16,618**	6,150
– chips and other optoelectronic products unit	**36,784**	20,049
– LCD and CRT monitors	**–**	106,767
	192,521	177,063

33. Segment Information *(Cont'd)*

(b) Secondary segment

An analysis of turnover and loss attributable to equity holders of the Company by geographical location is as follows:

	2005 HK$'000	2004 HK$'000
Turnover *		
– The Philippines	**–**	414
– Taiwan	**348**	108,162
– Hong Kong	**596**	645
– Mainland China	**14,054**	32,895
– Japan	**–**	565
– The United States of America	**44,629**	45,447
– Korea	**1,305**	1,779
– Singapore	**3,136**	1,203
– France	**204**	453
– Germany	**232**	341
– Italy	**332**	63
– Nigeria	**153**	–
– Pakistan	**588**	–
– Spain	**843**	–
– Others	**135**	372
	66,555	192,339

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

	2005 HK$'000	2004 HK$'000
Loss attributable to equity holders of the Company		
– The Philippines	**–**	(49)
– Taiwan	**(520)**	(12,957)
– Hong Kong	**(891)**	(77)
– Mainland China	**(20,997)**	(3,940)
– Japan	**–**	(68)
– The United States of America	**(66,676)**	(5,444)
– Korea	**(1,949)**	(213)
– Singapore	**(4,685)**	(144)
– France	**(304)**	(54)
– Germany	**(347)**	(41)
– Italy	**(497)**	(8)
– Nigeria	**(228)**	–
– Pakistan	**(879)**	–
– Spain	**(1,260)**	–
– Others	**(202)**	(45)
	(99,435)	(23,040)

33. Segment Information *(Cont'd)*

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

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:

	2005 HK$'000	2004 HK$'000
Assets		
– Mainland China	**178,684**	267,458
– Hong Kong	**2,593**	3,228
– The United States of America	**29,745**	27,488
– Taiwan	**–**	3
	211,022	298,177

34. Related Party Transactions

Apart from those disclosed elsewhere in the financial statements, the Group also had the following transactions with the related parties during the year.

	2005 HK$'000	2004 HK$'000
Rental expenses paid/payable to a director	**72**	216
Trade payables to a director as at the balance sheet date	**3**	3

Rental expenses were based on the terms stated in the lease agreement.

35. Commitments

(a) Capital commitments

As at the balance sheet date, the Group had the following commitments

	2005 HK$'000	2004 HK$'000
Contracted but not provided for	**4,292**	6,880

35. Commitments *(Cont'd)*

(b) Operating lease commitments

As at the balance sheet date, the Group had the following commitments for future lease payable/receivable under non-cancellable operating leases as follows:

	2005 **HK$'000**	2004 HK$'000
Lease receivable		
– Within one year	**628**	260
– In the second to fifth years	**393**	435
	1,021	695
Lease payable		
– Within one year	**936**	1,097
– In the second to fifth years	**37**	788
	973	1,885

(c) The Company did not have capital and operating lease commitments as at the balance sheet date.

36. Pledged of Assets

As at 31 December 2005, the Group had banking facilities of HK$150,225,000 (2004: HK$183,720,000) in which HK$138,445,000 (2004: HK$141,136,000) were utilised. These facilities were secured by:

(i) pledge of the Group's leasehold land included in property under development with a net book value of HK$50,952,000 (2004: HK$49,992,000) (Note 16), the leasehold land has been frozen by the court in mainland China following the legal action taken by a banker of the Group (Note 38(a));

(ii) pledge of the Group's intangible assets with net book value of HK$971,000 (2004: Nil) (Note 13).

(iii) pledge of the Group's leasehold land and buildings with net book value of HK$6,317,000 (2004: HK$21,250,000) (Note 15).

(iv) pledge of the Group's machinery with net book value of HK$9,976,000 (2004: Nil) and motor vehicle with net book value of Nil (2004: HK$318,000) (Note 15).

37. Contingent Liabilities

Group

As at 31 December 2005, the Group had contingent liabilities relating to the discounted bills of approximately HK$1,243,000 (2004: Nil).

Company

As at 31 December 2005, the Company had contingent liabilities relating to corporate guarantee given in respect of banking facilities extended to certain subsidiaries of HK$150,225,000 (2004: HK$233,832,000).

Apart from the above, the Group and the Company had no other contingent liabilities as at 31 December 2005.

38. Post Balance Sheet Events

(a) On 6 January 2006, the Bank of China ("BOC"), Shenzhen, mainland China, took legal action against the Company and Syscan Optoelectronics Technology (Shenzhen) Co., Limited ("SOT"), an indirect wholly owned subsidiary of the Company, in respect of SOT's default on repayment of interest of approximately RMB1.2 million accrued up to 21 December 2005 on a bank loan of RMB120 million granted from BOC on 22 April 2005. The BOC claimed against the Company and SOT for repayment of the loan and accrued interest totalling approximately RMB121.2 million (equivalent to approximately HK$116.5 million) and applied to freeze the leasehold land of SOT (Notes 24 and 36). On 2 March 2006, the Company received a writ of summons issued from the Guangdong Province Higher People's Court lodged by the BOC against the Company and SOT for the above claim. The above transaction was detailed in the Company's announcement dated 3 March 2006.

(b) On 25 November 2005, the Company entered into an agreement (the "Agreement") with Wan Han ("Mr. Wan"), an independent third party, pursuant to which the Company agreed to dispose of the entire share of Syscan Imaging Limited, a wholly owned subsidiary of the Company and the immediate holding company of SI, at a consideration of US$4.5 million. On 7 March 2006, the Company and Mr. Wan entered into a supplemental agreement (the "Supplementary Agreement") for the purpose of postponing the date on completion of the disposal. The above transaction was detailed in the Company's announcement dated 13 December 2005 and 8 March 2006 respectively and will be subject to approval at the special general meeting of the shareholders of the Company and by The Stock Exchange of Hong Kong Limited.

(c) On 13 February 2006, an executive director of the Company, Mr. Cheung Wai ("the Underwriter") advanced a shareholder's loan of HK$9,400,000 ("the Loan") to the Company. The loan does not carry any interest and is repayable to the Underwriter on demand.

On 15 February 2006, the Company entered into an underwriting agreement with Mr. Cheung Wai, as the Underwriter, who owned approximately 10.78% of the issued share capital of the Company as at the date of the Company's announcement, in respect of a proposed open offer to raise a fund of not less than HK$9.2 million and not more than HK$10.3 million, before expenses of approximately HK$0.9 million by way of an open offer, of not less than 307,092,981 offer shares and not more than 341,667,981 offer shares on the basis of 3 offer shares for every 1 share to the qualifying shareholders. The Underwriter has irrevocably undertaken to the Company to take up the excluded offer share as his entitlement under the open offer. The above transaction was detailed in the Company's announcement dated 28 February 2006.

39. Comparative Amounts

As further explained in notes 3 and 4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.