

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

Stock code: 8083



06

Interim Report



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

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

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

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

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

## HIGHLIGHTS

Facing a very competitive IT environment, the Group has increased about 14% in turnover for the six-month period ended 30 June 2006. The Group recorded a turnover of approximately HK\$38 million for the first half-year of 2006. The increase in turnover is mainly contributed by the Group's effort in promoting the Group's core products. With the Group's effort in concentrating its core business of scanner products, the Group recorded a net loss of approximately HK\$11.8 million for the six-month period ended 30 June 2006, representing a substantial decrease in loss by 53.1% over the same period last year.

For the three months ended 30 June 2006, the Group achieved sales of approximately HK\$17.8 million, representing a decrease of 6.9% over the same period last year. The Group has improved its gross margin from 33.4% to 34.9%. As at 30 June 2006, the Group has a total of HK\$5.0 million cash on hand and a total bank loan of approximately HK\$129.3 million and a director loan of HK\$9.4 million. The Group's current ratio is at 0.21 times.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

## FINANCIAL RESULTS

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30 June 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

### Condensed Consolidated Income Statement

	Notes	Three months ended June 30		Six months ended June 30	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2, 10	17,813	19,136	38,052	33,457
Cost of sales		(11,596)	(12,751)	(24,009)	(21,664)
Gross profit		6,217	6,385	14,043	11,793
Other Income	3	998	1,097	1,436	1,524
Provision for bad and doubtful receivables		-	(1,860)	-	(1,860)
Selling and marketing expenses		(2,226)	(2,881)	(4,384)	(5,260)
General and administrative expenses		(6,469)	(17,271)	(13,651)	(23,403)
Research and development expenses		(1,473)	(1,960)	(2,896)	(4,181)
(Loss)/Profit from operations		(2,953)	(16,490)	(5,452)	(21,387)
Interest income		50	16	93	32
Interest expense		(4,044)	(2,066)	(6,160)	(3,863)
(Loss)/Gain on disposal of subsidiary		(455)	-	(455)	-
(Loss)/Profit before taxation	4	(7,402)	(18,540)	(11,974)	(25,218)
Taxation	5	-	-	(7)	(7)
(Loss)/Profit after taxation		(7,402)	(18,540)	(11,981)	(25,225)
Minority interests		118	86	229	164
(Loss)/Profit attributable to shareholders		(7,284)	(18,454)	(11,752)	(25,061)
(Loss)/Profit per share – Basic	6	HK(7.1) cents	HK(18.0) cents	HK(11.5) cents	HK(24.5) cents
Dividend	11	-	-	-	-

## Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2005 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2005 (Unaudited) HK\$'000	
Share capital	1,024	–	1,024	
Share premium	–	–	–	
Capital reserve	198,068	–	198,068	
Statutory reserve fund	439	–	439	
Cumulative translation adjustments	1,272	233	1,505	
Accumulated deficit	(85,496)	(25,061)	(110,557)	
	<u>115,307</u>	<u>(24,828)</u>	<u>90,479</u>	
	<b>As at 1 January 2006 (Audited) HK\$'000</b>	<b>Elimination of Accumulated Losses HK\$'000</b>	<b>Movements HK\$'000</b>	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>
Share capital	1,024	–	–	1,024
Share premium	–	–	–	–
Capital reserve	198,066	–	(198,066)	–
Statutory reserve fund	439	–	–	439
Cumulative translation adjustments	1,889	–	327	2,216
Accumulated deficit	(184,367)	199,150	(17,320)	(2,537)
	<u>17,051</u>	<u>199,150</u>	<u>(215,059)</u>	<u>1,142</u>

## Condensed Consolidated Balance Sheet

		As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Intangible assets	7	2,016	2,551
Properties, machinery and equipment		18,028	23,154
Properties under development		144,738	141,134
Interest in an associated company		32,739	10,875
Available-for-sale investment		2,020	9,342
		<hr/>	<hr/>
Total non-current assets		<b>199,541</b>	187,056
		<hr/> <hr/>	<hr/> <hr/>
<b>Current assets</b>			
Inventories		4,232	5,860
Trade receivables	8	32,792	8,286
Prepayments, deposits and other receivables		10,256	1,680
Cash and bank balances		4,994	8,140
		<hr/>	<hr/>
Total current assets		<b>52,274</b>	23,966
		<hr/> <hr/>	<hr/> <hr/>

	<b>As at 30 June 2006 (Unaudited) Notes</b>	<b>As at 31 December 2005 (Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current liabilities</b>		
Short-term secured bank loans	<b>(138,246)</b>	(137,940)
Trade payables	9 <b>(28,317)</b>	(25,707)
Current portion of interest-bearing borrowings	<b>(59)</b>	(59)
Due to a director	<b>(3)</b>	(3)
Accruals and other payables	<b>(82,410)</b>	(28,366)
	<u><b>(249,035)</b></u>	<u>(192,075)</u>
Total current liabilities	<b>(249,035)</b>	(192,075)
Net current liabilities	<b>(196,761)</b>	(168,109)
Total assets less current liabilities	<b>2,780</b>	18,947
<b>Non-current liabilities</b>		
Interest-bearing borrowings	<b>(416)</b>	(446)
	<b>2,364</b>	18,501
Minority interests	<b>(1,222)</b>	(1,450)
Net assets	<b>1,142</b>	17,051
<b>Capital and reserves</b>		
Share capital	<b>1,024</b>	1,024
Reserves	<b>2,657</b>	200,394
Accumulated deficit	<b>(2,539)</b>	(184,367)
Shareholders' equity	<b>1,142</b>	17,051

## Condensed Consolidated Cash Flow Statement

	<b>For the six months ended June 30</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>6,011</b>	2,809
Net cash (outflow)/inflow from investing activities	<b>(17,611)</b>	11,818
Net cash (outflow)/inflow before financing activities	<b>(11,600)</b>	14,627
Net cash inflow/(outflow) from financing activities	<b>8,454</b>	(24,526)
Decrease in cash and bank balances	<b>(3,146)</b>	(9,899)
Cash and bank balances, beginning of the six-month period	<b>8,140</b>	23,162
Cash and bank balances, end of the six-month period	<b>4,994</b>	13,263



Notes:

**1. BASIS OF PRESENTATION**

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 December 2004.

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

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS") which are effective for accounting periods beginning on or after 1st January, 2005. The adoption of these HKFRS has no material impact on the Group's results of operations and financial position.

Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

2. Turnover comprises the net invoiced value of merchandise sold after allowances for returns and discounts and exclusion of value-added tax.

**3. OTHER INCOME**

	For the three months ended June 30		For the six months ended June 30	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Sundries	<u>998</u>	<u>1,097</u>	<u>1,436</u>	<u>1,524</u>

#### 4. (LOSS)/PROFIT BEFORE TAXATION

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

	For the three months ended June 30		For the six months ended June 30	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income	(50)	(16)	(93)	(32)
Interest expense	4,044	2,066	6,160	3,863
Depreciation	1,535	1,900	2,895	3,815
Amortisation	409	(88)	809	241

#### 5. TAXATION

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period and the six-month period ended 30 June 2006 (2005: Nil).

The United States subsidiary had no assessable profit subject to United States federal income tax and California State income tax and, consequently, was liable to California State income tax of approximately HK\$7,000 (2005: HK\$7,000), being the minimum amount for a company in a tax loss position.

No provision for Mainland China enterprise income tax was made as the Mainland China subsidiaries had no assessable profit during the three-month period and the six-month period ended 30 June 2006 (2005: Nil).

No provision for Taiwan income tax was made as the Group had no assessable profit in Taiwan during the three-month period and the six-month period ended 30 June 2006 (2005: Nil).

There was no significant unprovided deferred taxation for the three-month period and the six-month period ended 30 June 2006 (2005: Nil).

## 6. (LOSS)/PROFIT PER SHARE

The calculation of the basic (loss)/profit per share for the three-month period and the six-month period ended 30 June 2006 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$7,284,000 (2005: profit of HK\$18,454,000) for the three-month period ended 30 June 2006 and the unaudited loss attributable to shareholders of approximately HK\$11,752,000 (2005: loss of HK\$25,061,000) for the six-month period ended 30 June 2006 and on the weighted average number of approximately 102,364,328 shares (2005: 102,364,328 shares) in issue during the three-month period ended 30 June 2006 and approximately 102,364,328 shares (2005: 102,364,328 shares) in issue during the six-month period ended 30 June 2006.

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

## 7. INTANGIBLE ASSETS

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

## 8. TRADE RECEIVABLES

	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
Trade receivables (net of provision)	<b><u>32,792</u></b>	<u>8,286</u>

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

Aging analysis of trade receivables is as follows:

	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
Current to 90 days	<b>11,664</b>	9,371
91 to 180 days	<b>261</b>	111
Over 180 days	<b><u>20,867</u></b>	<u>(1,196)</u>
	<b><u>32,792</u></b>	<u>8,286</u>

## 9. TRADE PAYABLES

	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
Trade creditors	<b><u>28,317</u></b>	<u>25,707</u>

Aging analysis of trade payables is as follows:

	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
Current to 90 days	<b>5,667</b>	6,286
91 to 180 days	<b>1,699</b>	1,196
Over 180 days	<b><u>20,951</u></b>	<u>18,225</u>
	<b><u>28,317</u></b>	<u>25,707</u>

## 10. TURNOVER AND SEGMENT INFORMATION

The Group's turnover and contribution to loss before taxation for the six-month period from 1 January to 30 June 2006, analyzed by principal activity and geographical location, are as follows:

a.	Turnover		Contribution to loss before taxation	
	2006 From 1 January to 30 June (unaudited) HK\$'000	2005 From 1 January to 30 June (unaudited) HK\$'000	2006 From 1 January to 30 June (unaudited) HK\$'000	2005 From 1 January to 30 June (unaudited) HK\$'000
By principal activity:				
– optical image capturing devices unit	33,423	26,323	12,335	9,278
– modules unit	970	2,405	358	847
– chips and other optoelectronic products unit	3,659	4,729	1,350	1,668
– LCD and CRT monitors unit	–	–	–	–
	<u>38,052</u>	<u>33,457</u>	<u>14,043</u>	11,793
Other income			1,436	1,524
(Loss)/Gain on disposal of subsidiary			(455)	–
Interest income			93	32
Finance costs			(6,160)	(3,863)
Selling and marketing expenses			(4,384)	(5,260)
Provision for bad and doubtful receivables			–	(1,860)
General and administrative expenses			(13,651)	(23,403)
Research and development expenses			(2,896)	(4,181)
Taxation			(7)	(7)
Minority interests			229	164
			<u>(11,752)</u>	<u>(25,061)</u>

b.	Turnover		Contribution to loss before taxation	
	2006 From 1 January to 30 June (unaudited) HK\$'000	2005 From 1 January to 30 June (unaudited) HK\$'000	2006 From 1 January to 30 June (unaudited) HK\$'000	2005 From 1 January to 30 June (unaudited) HK\$'000
By geographical location:				
– Canada	–	43	–	15
– France	261	–	96	–
– Germany	100	73	37	26
– Korea	437	229	161	81
– Singapore	5	1,687	2	594
– Taiwan	319	69	118	24
– Hong Kong	234	395	86	139
– Mainland China	3,951	8,051	1,458	2,837
– Japan	–	–	–	–
– The United States of America	32,182	21,575	11,876	7,603
– Spain	469	682	173	240
– Others	94	653	36	234
	<u>38,052</u>	<u>33,457</u>	<u>14,043</u>	11,793
Other income			1,436	1,524
Gain on deemed disposal of interest in a subsidiary			(455)	–
Interest income			93	32
Finance costs			(6,160)	(3,863)
Selling and marketing expenses			(4,384)	(5,260)
Provision for bad and doubtful receivables			–	(1,860)
General and administrative expenses			(13,651)	(23,403)
Research and development expenses			(2,896)	(4,181)
Taxation			(7)	(7)
Minority interests			229	164
			<u>(11,752)</u>	<u>(25,061)</u>

#### 11. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three-month period and the six-month period ended 30 June 2006 (2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

Facing a very competitive IT environment, the Group has increased about 14% in turnover for the six-month period ended 30 June 2006. The Group recorded a turnover of approximately HK\$38 million for the first half-year of 2006. The increase in turnover is mainly contributed by the Group's effort in promoting the Group's core products. With the Group's effort in concentrating its core business of scanner products, the Group recorded a net loss of approximately HK\$11.8 million for the six-month period ended 30 June 2006, representing a substantial decrease in loss by 53.1% over the same period last year.

For the three months ended 30 June 2006, the Group achieved sales of approximately HK\$17.8 million, representing a decrease of 6.9% over the same period last year. The Group has improved its gross margin from 33.4% to 34.9%. As at 30 June 2006, the Group has a total of HK\$5.0 million cash on hand and a total bank loan of approximately HK\$129.3 million and a director loan of HK\$9.4 million. The Group's current ratio is at 0.21 times.

### RESEARCH AND DEVELOPMENT

For the three-month period ended 30 June 2006, the Group has continued its effort in strengthening its research and development team on existing, as well as, new products. The research and development expenses had been decreased by 24.8% as compared to the corresponding period last year.

The Group continues to refine the 2D barcode technology. Based on the 2D barcode technology, the Group has also developed a LCD monitor reader and ID card reader using the Group's CM code. The Group expects the first delivery of these machines very soon.

### PRODUCTION

The directors believe that the current production capacity can fulfill the production needs in the coming year.

### SALES AND MARKETING

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 has finished the sample 2D barcode products and had sent to its customers for evaluation. The Group had put various ads in magazine and newspapers to promote the Group's products. 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 AND ACQUISITION

During the six-month period ended 30 June 2006, the Group had disposed the entire share of Syscan Imaging Limited, a wholly owned subsidiary of the Company and the immediate holding company of Syscan Inc. at a consideration of US\$4.5 million.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2006, the Group has a cash balance of approximately HK\$4,994,000. The RMB-denominated total bank borrowing is HK\$113,208,000, secured by the Group's land use right and office premises in Shenzhen. These borrowings comprised: (1) one-year term bank loan of RMB120,000,000 plus overdue interest and a director loan of HK\$9,400,000, which had matured in April 2006 pending the renewal of the bank loan and, without repayment and interest term respectively, and (2) two mortgaged loans of RMB710,000 and RMB417,000 which will respectively mature in October 2012 and November 2007. The interest rates for the aforesaid bank loans range from 4.5% to 7.25%.

As at 30 June 2006, the total current assets over the total current liabilities is 0.21 times. The ratio of all liabilities to total assets is about 99.5%. As most sales are made in US dollar, no hedging arrangement is made to offset the exposures to fluctuations in exchange rates.

For the period ended 30 June 2006, the Bank of China ("BOC"), Shenzhen, mainland China, took legal action on 6 January 2006 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. 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 Group believes its pledged leasehold land has much higher current market value over its bank loan and overdue interest which the Group will resolve the law cases with the bank without damaging the financial position of the Group eventually. Save as disclosed above, the Directors are not aware of any other contingent liability.



## **INTELLECTUAL PROPERTY**

The Directors believe that the intellectual property is an important asset of the Group as our revenue is based on the fruits of years of vigorous research and development as well as marketing efforts. As of 30 June 2006, the Group has 49 trademarks, product names and logos applications filed under processing in different countries and regions, of which 20 trademarks have been approved. In addition, the Group has been granted 94 patents and 157 patents are filed in different countries and regions under processing as of 30 June 2006.

## **EMPLOYEES**

As at 30 June 2006, the Group has approximately 371 employees. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include share options and performance bonus.

## **FUTURE PROSPECTS**

The Group will continue to explore different business opportunities and will concentrate on its core business. The Group believes the introduction of the new 2D barcode products will bring significant contribution to the Group in the coming year.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30 June 2006, 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 required standards of dealing by directors of the Company as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") are as follows:

## LONG POSITIONS IN SHARES OF THE COMPANY

Name	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr Cheung Wai	720,000	–	10,310,000 (Note 2)	–	11,030,000	10.78%
Mr Darwin Hu	3,840,000	1,615,600 (Note 1)	–	–	5,455,600	5.33%
Mr 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 30 June 2006, no options have been granted to the Directors of the Company under both Share Option Scheme A and Scheme B.

Details of the options granted to the Directors and Chief Executive of the Company under Share Option Scheme B since its adoption and up to 30 June 2006 are as follows:

<u>Name</u>	<u>Date of grant</u> (dd/mm/yy)	<u>Exercise period</u> (dd/mm/yy)	<u>Subscription price per share</u>	<u>No. of underlying shares comprising the options granted</u>	<u>No. of underlying shares comprising the options exercised</u>	<u>No. of underlying shares comprising the options lapsed</u>	<u>No. of underlying shares comprising the options outstanding</u>
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	4/12/2004	4/12/2001 to 3/12/2010	HK\$1.016	50,000	-	-	50,000
				<u>2,850,000</u>	<u>-</u>	<u>-</u>	<u>2,850,000</u>

Scheme C

<u>Name</u>	<u>Date of grant</u> (dd/mm/yy)	<u>Exercise period</u> (dd/mm/yy)	<u>Subscription price per share</u>	<u>No. of underlying shares comprising the options granted</u>	<u>No. of underlying shares comprising the options exercised</u>	<u>No. of underlying shares comprising the options lapsed</u>	<u>No. of underlying shares comprising the options outstanding</u>
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
				<u>250,000</u>	<u>–</u>	<u>–</u>	<u>250,000</u>

Save as disclosed above, as at 30 June 2006, 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 required standards of dealing by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2006, 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

<u>Name</u>	<u>Capacity</u>	<u>Nature of interests</u>	<u>Number of shares</u>	<u>Percentage of issued share capital</u>
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”). As at 30 June 2006, details of all the share options (including the options granted to the directors of the Company disclosed above in the sub-section “Long positions in underlying shares of the Company” under the section “DIRECTORS AND CHIEF EXECUTIVE’S INTERESTS) under the Schemes are as follows:

### *Scheme A*

Class of optionees	Date of grant	Exercise period	Subscription price per share	Number of underlying shares				Balance as at 30 June 2006
				Beginning of year	Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
Directors, chief executive, management shareholders or substantial shareholders or their respective associates	-	-	-	-	-	-	-	-
Optionees with options granted in excess of the 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 1 March 2010	HK\$0.4844	1,144,000	-	-	-	1,144,000
				<u>2,148,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,148,000</u>


## Scheme B

Class of optionees	Date of grant	Exercise period	Subscription price per share	Number of underlying shares				Balance as at 30 June 2006
				Beginning of year	Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
Directors, chief executive, management shareholders or substantial shareholders or their respective associates	19 June 2000	19 June 2001 to 18 June 2010	HK\$3.30	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 the 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	120,000	-	-	-	120,000
	17 January 2001	17 January 2002 to 16 January 2011	HK\$2.06	930,000	-	-	-	930,000
	13 August 2001	13 August 2002 to 12 August 2011	HK\$2.75	470,000	-	-	-	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	-	-	-	-	-
				4,405,000	-	-	-	4,405,000

## Scheme C

Class of optionees	Date of grant	Exercise period	Subscription price per share	Number of underlying shares				Balance as at 30 June 2005
				Beginning of year	Granted during the six-month period	Lapsed during the six-month period	Exercised during the six-month period	
Directors, chief executive, management shareholders or substantial shareholders or their respective associates	-	-	-	-	-	-	-	-
Optionees with options granted in excess of the individual limit	-	-	-	-	-	-	-	-
Employees working under continuous employee contracts	14 May 2002	14 May 2003 to 13 May 2012	HK\$1.412	1,660,000	-	-	-	1,660,000
	14 August 2002	14 August 2003 to 13 August 2012	HK\$1.00	835,000	-	-	-	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	1,147,000	-	-	-	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	-	-	-	-	-
	14 August 2002	14 August 2003 to 13 August 2012	HK\$1.00	700,000	-	-	-	700,000
	12 November 2002	12 November 2003 to 11 November 2012	HK\$1.00	100,000	-	-	-	100,000
				<u>4,972,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,972,000</u>





The Directors consider it inappropriate to value all the options that can be granted during the six-month period ended 30 June 2006 under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would be meaningless and misleading to the shareholders.

Save as disclosed above, during the six-month period ended 30 June 2006, none of the Directors, employees and eligible optionees of the Company or its subsidiaries were granted share options to subscribe for shares in the Company.

#### COMPETING INTERESTS

The Directors are not aware of, as at 30 June 2006, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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


During the six-month period ended 30 June 2006, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

#### BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the six-month period ended 30 June 2006 the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

#### AUDIT COMMITTEE

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



The Committee (who were of the opinion that the preparation of the unaudited results for the six-month period ended 30 June 2006 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made) has reviewed the Company's unaudited results for the six-month period ended 30 June 2006 and the draft of this report, and has provided advice and comments thereon.

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

Hong Kong, 14 August 2006