SYSCAN®

SYSCAN Technology Holdings Limited

矽感科技控股有限公司

Stock code : 8083

2006 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.

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.

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

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Corporate Information

Executive Directors
Cheung Wai, *Chairman and Chief Executive Officer*
Zhang Ming

Independent Non-executive Directors
Lo Wai Ming
Fong Chi Wah
Jin Qingjun

Company Secretary
Tsang Lai Ting

Qualified Accountant
Tsang Lai Ting

Compliance Officer
Cheung Wai

Authorised Representatives
Cheung Wai
Zhang Ming

Audit Committee
Lo Wai Ming
Fong Chi Wah
Jin Qingjun

Auditors
CCIF CPA Limited
Certified Public Accountants
20/F Sunning Plaza
10 Hysan Avenue
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				
	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Turnover	**92,690**	66,555	192,339	264,213	41,752
Cost of sales	**(67,713)**	(42,359)	(162,679)	(216,834)	(34,498)
Gross profit	**24,977**	24,196	29,660	47,379	7,254
Other revenues	**22,724**	4,376	36,153	10,672	18,756
Selling and distribution expenses	**(5,953)**	(10,450)	(17,024)	(18,482)	(13,338)
General and administrative expenses	**(19,819)**	(57,348)	(29,193)	(33,673)	(25,441)
Research and development expenses	**(4,657)**	(39,195)	(17,605)	(13,273)	(10,400)
Other operating expenses	**(21,959)**	(23,797)	(14,977)	(3,128)	(1,151)
Loss from operations	**(4,687)**	(102,218)	(12,986)	(10,505)	(24,320)
Finance costs	**(7,419)**	(4,644)	(5,636)	(6,218)	(3,735)
Gain on deemed disposal of a subsidiary	**–**	2	4,228	–	–
(Loss)/gain on disposal of subsidiaries	**(377)**	(472)	(9,440)	–	2,508
Negative goodwill on acquisition of a subsidiary	**–**	8,911	–	–	–
Share of losses of associates	**(565)**	(1,660)	(42)	–	–
Loss before taxation	**(13,048)**	(100,081)	(23,876)	(16,723)	(25,547)
Income tax	**(2)**	(7)	(7)	(7)	(7)
Loss for the year	**(13,050)**	(100,088)	(23,883)	(16,730)	(25,554)
Minority interests	**1,450**	653	843	2,079	951
Loss attributable to equity holders of the Company	**(11,600)**	(99,435)	(23,040)	(14,651)	(24,603)
Dividend	**–**	–	–	–	–

Financial Summary

(Amounts expressed in Hong Kong dollars)

Consolidated Balance Sheets

	As at 31 December				
	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Intangible assets and goodwill	**877**	2,551	6,272	3,112	4,220
Property, plant and equipment	**14,073**	23,154	41,364	46,581	47,311
Property under development	**157,229**	141,134	127,807	123,706	119,720
Long-term loan receivable	**–**	–	–	189	–
Interest in associates	**33,134**	32,403	17,241	–	–
Available-for-sale investment	**–**	9,342	–	–	–
Long-term investments	**–**	–	9,342	14,059	16,589
Current assets	**60,603**	41,478	96,151	148,715	141,656
Current liabilities	**(249,983)**	(231,115)	(176,447)	(195,405)	(170,964)
Non-current liabilities	**(398)**	(446)	(616)	(772)	(921)
Net assets	**15,535**	18,501	121,114	140,185	157,611
Capital and reserves:					
Share capital	**4,095**	1,024	1,024	1,024	102,264
Reserves	**11,440**	16,027	114,283	137,643	50,817
Equity attributable to the equity holders of the Company	**15,535**	17,051	115,307	138,667	153,081
Minority interests	**–**	1,450	5,807	1,518	4,530
Total equity	**15,535**	18,501	121,114	140,185	157,611

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.*

Chairman's Statement

I am pleased to present to the shareholders herewith the annual results of SYSCAN Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2006.

Turnover and Performance

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK$92,690,000 (2005: HK$66,555,000), representing an increase of approximately 39.3%. The audited loss attributable to shareholders was approximately HK$11,600,000 (2005: HK$99,435,000).

For the year ended 31 December 2006, the Group made other income of approximately HK$22,724,000 (2005: HK$4,376,000), representing an increase of approximately 419.3%. The total revenue and income for the year ended 31 December 2006 reached approximately HK$115,414,000 (2005: HK$70,931,000), representing an increase of approximately 62.7% comparing with year 2005.

Prospects and Appreciation

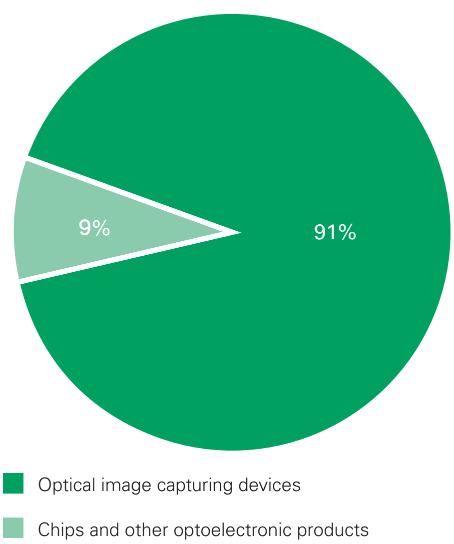
The year of 2006 has been a difficult year for the Group and the year ahead will continue to be challenging given the economic uncertainties. The most important task for the Group is to establish different stable income sources while maintaining stringent cost control. During the year 2006, the Group 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.

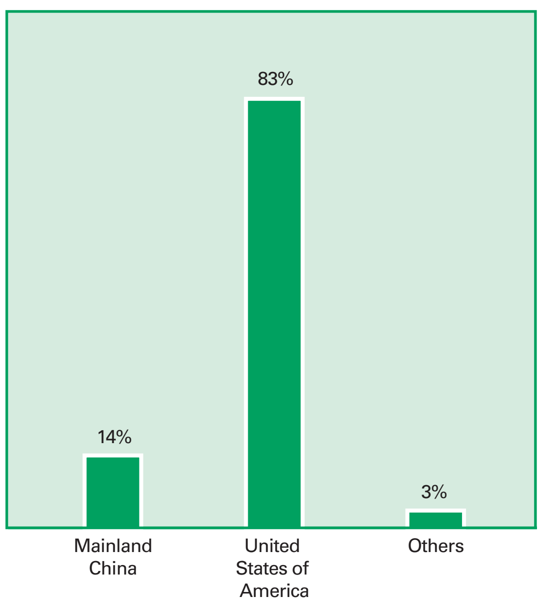
Cheung Wai
Chairman

Hong Kong, 26 March 2007

Turnover Breakdown by Products



Turnover Breakdown by Geographical Location



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$92,690,000 for the year 2006 increased by approximately 39.3% as compared to the turnover of HK$66,555,000 last year. The Group's gross profit margin had decreased from the year 2005 from 36.4% to the year 2006 of 26.9%.

The Group recorded loss attributable to shareholders for the year 2006 of approximately HK$11,600,000 comparing with the loss of HK$99,435,000 for the year for 2005.

Research and Development

The Group had decreased its research and development expenses by 88.1% as compared to year 2005 due to there were less new products under development in year 2006.

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 2006 brought continued opportunity growth for the Group's products in the Western market channels. In order to save costs, the Group did not join any shows in first quarter of 2006.

At the China Hi-Tech Fair 2006 in October, the Group had an overwhelming response to our Group's products.

In mid-November, we held a highly successful exhibition at The 5th Optics Valley of China International Optoelectronic Exposition and Forum (OVC EXPO 2006), 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, 2D barcode products, 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.

Management Discussion and Analysis

Investment/Divestment and Acquisition

During the year 2006, the Group did not have any investment, divestment and acquisition.

Financial Resources and Liquidity

As of 31 December 2006, the Group had a cash and bank balances of approximately HK$4,919,000 (2005: HK$8,140,000). The RMB-denominated short term bank borrowing of HK$144,482,000 (2005: HK$138,445,000), 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 7% and 9% p.a.

As at 31 December 2006, the total current assets over the total current liabilities was 0.24 times. The ratio of all debts to total assets was about 54%.

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

The Group had no contingent liabilities as at 31 December 2006 and up to the date of the approval of the financial statements.

Financial Guarantee Contract

Company

The carrying amount of the financial guarantee contract recognised in the balance sheet was HK$132,020,000 (2005: (as restated) HK$116,577,000).

Intellectual Property

During the year 2006, the Group had over 49 trademarks, product names and logos registered in different countries and regions, of which 20 trademarks have been approved. As of 31 December 2006, the Group had been granted 94 patents and have 158 patents filed in different countries and regions under processing.

Employees

As at 31 December 2006, the Group has 325 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.

Corporate Governance Report

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 2006 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 2006, all Directors have compiled with the Code of Ethics and Securities Transaction.

Corporate Governance Report

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 2006, the Board comprised an Executive Director, 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.

CORPORATE GOVERNANCE REPORT

The Board held four regular meetings in 2006 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%
Executive Director	Zhang Ming (appointed on 2 February 2007)	N/A
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 30 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. Zhang Ming (appointed on 2 February 2007)

** 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 30 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. Zhang Ming (appointed on 2 February 2007)
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.

Corporate Governance Report

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 2006 and one meeting to date in 2007.

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 AUDITOR 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 auditor's remuneration fee of HK$480,000, provide Accountant's Report for very substantial disposal of Syscan Imaging Limited and its subsidiaries with auditor's remuneration fee of HK$460,000, and provide financial information for Open Offer with auditor's remuneration fee of HK$250,000. No other non-audit related services were performed by CCIF.

INTERNAL CONTROL

An internal control system, being an integral part of the Company's operations, is a process effected by the Board and management team to provide reasonable assurance regarding the effectiveness and efficiency of operations in achieving the established corporate objectives, safeguarding Company assets, providing reliable financial reporting, and complying with applicable laws and regulations.

The Board is responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the Audit Committee, it regularly reviews the effectiveness of the system.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board is committed to providing clear and full information about the Company's performance to shareholders through the publication of quarterly reports and annual reports. In addition to dispatching circulars, notices and financial reports to shareholders, additional information is also available to shareholders on the website of the Stock Exchange.

The annual general meeting provides a useful forum for shareholders to raise comments and exchange views with the Board. Shareholders are encouraged to attend annual general meetings for which the Company gives at least 21 days' notice. The Chairman, Directors and external auditors are available to answer questions on the Company's businesses at the meeting.

Shareholders have statutory rights to call for extraordinary general meetings by serving written requests to the Company and to put forward agenda items for consideration by shareholders. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular dispatched to shareholders. The results of the poll are published on the Stock Exchange's website. Financial and other information is available on the Stock Exchange's website, which is updated regularly.

The Company values feedback from shareholders on its effort to promote transparencies and foster investor relationships. Comments and suggestions are welcome and can be addressed to our Company by mail.

By Order of the Board
Cheung Wai
Chairman

Hong Kong, 26 March 2007

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Cheung Wai, aged 56, 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 30 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 Zhang Ming, aged 49, has been the executive director and authorised representative of the Company's PRC subsidiary since 2004, and is responsible for the business operations, production, sales and marketing performance in Mainland China. He joined the Group on 2 February 2007. He holds a bachelor's degree in Engineering Management from China University of Petroleum. Mr Zhang has held management positions in a computing company and a petroleum facilities company. Mr Zhang has over 14 years' substantial experience in the fields of petroleum and natural gas, he has been working in 中國石油部地球勘探局 and 中國石油天燃氣總公司.

Independent Non-executive Directors

Mr Lo Wai Ming, aged 55, is the founder and president of Greater China Asset Management Limited. Mr Lo has over 30 years' extensive experience in investment, consumer marketing, business development and corporate finance. Presently, he is the director and general manager of SW China Strategic Holdings Limited and the independent non-executive director of Solartech International Holdings Limited, a company of which listed in the main board of the Stock Exchange. 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. He was appointed as an independent non-executive director of the Group in 2000.

Mr Fong Chi Wah, aged 45, is a Certified Practicing Accountant (Australia), a Chartered Financial Analyst and a member of the Hong Kong Institute of Directors. Mr Fong has over 21 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 50, is currently a partner of King & Wood Law Firm. He has over 20 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 the PRC. He has previously worked as Attorney for C & C Law Office in the 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 Bank Group International Finance Corporation. He is now also acting as independent director of two listed companies in the PRC namely Success Information Industry (Group) Stock Co., Ltd. (成功信息產業(集團)股份有限公司), a company of which listed in the Shenzhen stock exchange and China United Travel Stock Co., Ltd. (國旅聯合股份有限公司) a company of which listed in the Shanghai stock exchange. He is also an independent director of a sino-US investment management firm, namely INVESCO Great Wall Securities Fund Management Co., Ltd. (景順長城基金管理有限公司). Mr Jin is one of the first lawyers who was granted the license to advise on securities transactions in PRC. He holds a bachelor's degree in English from Anhui University and a master's 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 an Arbitrator of China International Economic and Trade Arbitration Commission and Shenzhen Arbitration Commission. 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.

Profiles of Directors and Senior Management

Senior Management

Mr Chen Longjun, aged 39, is the General Manager of the Mobile Bar Code Business Centre. He has over 10 years experience in several fields, such as mobile communication, computer network, computer software development and image recognition technology, etc., he worked in the Silicon Valley headquarters of Cisco Company in America as senior engineer and senior manger. Besides, he was appointed as secretary-general of American Silicon Valley Engineer Association. And he established American Acamar Systems Wireless Network Company in the early period of 2002, which was purchased successfully by American Intel Company in 2004. He received the master's degree in computer from Xi'an Jiaotong University as well as the doctor's degree in computer from University of North Dakota in America.

Mr Ge Zhuang, aged 42, is the General Manager of the System Integration Business Center. He has over 10 years experience in IT industry and as the vice-chairman of Shenzhen Information Expert Working Committee, he is familiar with various industry markets, such as telecommunication and government, as well as relevant technologies. He has organized and implemented many large-scale computer network and software projects in the fields of computer system integration, software development and so on. He held the post of senior vice-president in the Shenzhen Modern Computer Manufacturer co., Ltd. He has the master's degrees in computer and international trade from Nankai University.

Mr Dou Yi, aged 36, is the Manager of the Industry Application Business Center. He has over 10 years of experience in IT industry, he worked in several famous enterprises, such as Canada IBM TORONTO LAB, American SARGENT & LUNDY LTD as well as the former State Electric Power Corporation, engaging in leading technology development and management. He received the bachelor's degrees in electric project from Sichuan University as well as computer science of York University in Canada.

Mr Lv Yingfeng, aged 37, is the Manager of New Product R&D Business Center. He has over 10 years experience in project management and profound experience in image processing and barcode identification field, he has been engaged in the technical development field since graduation and has successfully directed several big design projects. He directs the development of CM/GM 2D barcode and reader project, and the project has passed the appraisal by Ministry of Information Industry. He received the bachelor's degrees in electric automation from Heilongjiang institute of Science and Technology.

Ms Tsang Lai Ting, aged 40, is the qualified accountant and company secretary of the Group. She joined the Group in March 2006. Ms Tsang is responsible for accounting and company secretarial affairs of the Group. Ms Tsang has over 12 years experience in accounting. She holds a bachelor degree in University of South Australia, Australia. She is a member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Report of the Directors

The Directors present their report together with the audited financial statements of SYSCAN Technology Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2006.

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 segment result by product category and turnover and segment assets by geographical location for the year ended 31 December 2006, are as follows:

		Turnover		**Segment result**	
		2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
a.	**By product category**				
	– optical image capturing devices	**84,530**	48,094	**(4,964)**	(59,830)
	– modules unit	**–**	5,745	**–**	(7,148)
	– chips and other optoelectronic products	**8,160**	12,716	**(479)**	(15,819)
		92,690	66,555	**(5,443)**	(82,797)

Principal Activities *(Cont'd)*

		Turnover		Segment assets	
		2006	2005	**2006**	2005
		HK$'000	HK$'000	**HK$'000**	HK$'000
b.	**By geographical location***				
	– Mainland China	**13,276**	14,054	**217,913**	217,724
	– The United States of America	**77,116**	44,629	**–**	29,745
	– Others	**2,298**	7,872	**48,003**	2,593
		92,690	66,555	**265,916**	250,062

* *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 2006, the five largest customers accounted for approximately 57% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 48% of the Group's total purchases. The largest customer accounted for approximately 50% of the Group's total turnover while the largest supplier accounted for approximately 27% 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 2006 are set out in the consolidated income statement on page 32 of this annual report.

The Directors do not recommend the payment of any dividend and recommend that the accumulated deficit of approximately HK$195,967,000 of the Company as at 31 December 2006 be carried forward.

Share Capital

Details of share capital of the Company are set out in Note 30 to the accompanying financial statements.

REPORT OF THE DIRECTORS

Reserves and Accumulated Deficit

Movements in reserves of the Group and the Company during the year are set out in Note 31 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 32 of this annual report.

As at 31 December 2006, 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 2006 are set out in Notes 25 to the accompanying financial statements.

Employee Retirement Benefits

Details of the Group's pension schemes are set out in Note 35 to the accompanying financial statements.

Related Party Transactions

Details of related party transactions are set out in Note 37 to the accompanying financial statements.

Report of the Directors

Directors

The Directors who held office during the year and up to the date of this report were:

Executive directors

Mr Cheung Wai, *Chairman*
Mr Chan Man Ching (service contract terminated on 31 December 2006)
Mr Zhang Ming (appointed on 2 February 2007)

Independent non-executive directors

Mr Lo Wai Ming
Mr Fong Chi Wah
Mr Jin Qingjun

Mr Zhang Ming, the Executive Directors, has entered into a service agreement with the Company for a term of three years commencing from 2 February 2007.

Pursuant to a service contract entered into between Mr Jin Qingjun and the Company, Mr Jin agreed to act as an Independent Non-executive Director and a member of the audit committee of the Company for a term of three years commencing from 30 September 2004.

Pursuant to the service contracts between, Mr Chan Man Ching (the Executive Director and Chief Financial Officer) and the Company, both have agreed to terminate the Director's Service Agreement wherely in case of Mr Chan ceased to be the Executive Director and Chief Financial Officer from 31 December 2006.

Taking this opportunity, the Board expresses on behalf of the Company great appreciation and gratitude to Mr Chan Man Ching for his past contribution to the Group.

In accordance with Bye-law 99 of the Bye-Laws of the Company, Mr Zhang Ming, Mr Lo Wai Ming and Mr Jin Qingjun 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 Zhang Ming, the Executive Director, has entered into a service agreement with the Company for a term of three years commencing from 2 February 2007.

Mr Chan Man Ching, the Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 21 August 2004. However, Mr Chan Man Ching and the Company, both have agreed to terminate the Director's Service Agreement whereby Mr Chan ceased to be the Executive Director from 31 December 2006.

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).

Report of the Directors

Directors' interest in Shares

As at 31 December 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 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	189,882,409	–	41,240,000 *(Note 1)*	–	231,122,409	56.45%
Mr Jin Qingjun	50,000	–	–	–	50,000	0.01%

Notes:

1. *19,200,000 shares and 22,040,000 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 2006, no options have been granted to the Directors of the Company under Share Option Scheme A.

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

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

Details of the options granted to the Directors of the Company under Share Option Scheme B and Share Option Scheme C since its adoption and up to 31 December 2006 were as follows:

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$1.65	1,000,000	–	–	1,000,000
Mr Chan Man Ching	4/12/2000	4/12/2001 to 3/12/2010	HK$0.508	100,000	–	(100,000)	–
				1,100,000	–	(100,000)	1,000,000

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$0.706	100,000	–	(100,000)	–
	12/11/2002	12/11/2003 to 11/11/2012	HK$0.50	400,000	–	(400,000)	–
				500,000	–	(500,000)	–

REPORT OF THE DIRECTORS

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

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

Save as disclosed above, as at 31 December 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 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 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

Name	Capacity	Nature of interest	Number of shares	Percentage of issued share capital
Mr Cheung Wai *(Note 1)*	Beneficial owner	Personal & Corporate	231,122,409	56.45%

Notes:

1. *Details of the interests of Mr Cheung Wai is duplicated in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS" disclosed above.*

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.

As a result of the Open Offer on 7 July 2006, there was an adjustment of the share option exercise price of and the number of shares to be alloted, the full detail of the adjustments was published on the GEM website on 2 November 2006.

(II) Details of the movement of options under Scheme A during the year ended 31 December 2006 were as follows:

				Number of shares								
Class of Optionees	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted before 7/7/2006	Lapsed before 7/7/2006	Exercised before 7/7/2006	Adjusted on 7/7/2006	Granted after 7/7/2006	Lapsed after 7/7/2006	Exercised after 7/7/2006	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$0.2422	1,004,000	–	–	–	1,004,000	–	–	–	2,008,000
Suppliers of goods and services	–	–	–	–	–	–	–	–	–	–	–	–
All other optionees	2 March 2000	2 March 2000 to 2 March 2010	HK$0.2422	1,144,000	–	–	–	1,144,000	–	–	–	2,288,000
				2,148,000	–	–	–	2,148,000	–	–	–	4,296,000

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.

As a result of the Open Offer on 7 July 2006, there was an adjustment of the share option exercise price of and the number of shares to be alloted, the full detail of the adjustments was published on the GEM website on 2 November 2006.

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 2006 were as follows:

				Number of shares								
Class of Optionees	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted before 7/7/2006	Lapsed before 7/7/2006	Exercised before 7/7/2006	Adjusted on 7/7/2006	Granted after 7/7/2006	Lapsed after 7/7/2006	Exercised after 7/7/2006	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$1.65	1,000,000	–	–	–	1,000,000	–	–	–	2,000,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$1.03	1,800,000	–	–	–	1,800,000	–	–	–	3,600,000
	4 December 2000	4 December 2001 to 3 December 2010	HK$0.508	50,000	–	–	–	50,000	–	(100,000)	–	–
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$1.23	85,000	–	–	–	85,000	–	–	–	170,000
	4 December 2000	4 December 2001 to 3 December 2010	HK$0.508	70,000	–	–	–	70,000	–	–	–	140,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$1.03	930,000	–	–	–	930,000	–	–	–	1,860,000
	13 August 2001	13 August 2002 to 12 August 2011	HK$1.38	470,000	–	–	–	470,000	–	–	–	940,000
Suppliers of goods and services	–	–	–	–	–	–	–	–	–	–	–	–
All other optionees	4 December 2000	4 December 2001 to 3 December 2010	HK$0.508	–	–	–	–	–	–	–	–	–
	17 January 2001	17 January 2002 to 16 January 2011	HK$1.03	–	–	–	–	–	–	–	–	–
				4,405,000	–	–	–	4,405,000	–	(100,000)	–	8,710,000

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.

As a result of the Open Offer on 7 July 2006, there was an adjustment of the share option exercise price of and the number of shares to be alloted, the full detail of the adjustments was published on the GEM website on 2 November 2006.

The total number of shares available for issue under Scheme C is 10,528,864 (representing approximately 2.57% 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 2006 were as follows:

				Number of shares								
Class of Optionees	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted before 7/7/2006	Lapsed before 7/7/2006	Exercised before 7/7/2006	Adjusted on 7/7/2006	Granted after 7/7/2006	Lapsed after 7/7/2006	Exercised after 7/7/2006	End of year
Directors, chief executive, management shareholder, or substantial shareholders or their respective associates	14 May 2002	14 May 2003 to 13 May 2012	HK$0.706	50,000	–	–	–	50,000	–	(100,000)	–	–
	12 November 2002	12 November 2003 to 11 November 2012	HK$0.50	200,000	–	–	–	200,000	–	(400,000)	–	–
Optionees with options granted in excess of individual limit	–	–	–	–	–	–	–	–	–	–	–	–
Employees working under continuous employee contracts	14 May 2002	14 May 2003 to 13 May 2012	HK$0.706	1,480,000	–	–	–	1,480,000	–	(20,000)	–	2,940,000
	14 August 2002	14 August 2003 to 13 August 2012	HK$0.50	835,000	–	–	–	835,000	–	–	–	1,670,000
	12 November 2002	12 November 2003 to 11 November 2012	HK$0.50	50,000	–	–	–	50,000	–	–	–	100,000
	26 March 2003	26 March 2004 to 25 March 2013	HK$0.50	1,147,000	–	–	–	1,147,000	–	–	–	2,294,000
	13 August 2003	13 August 2004 to 12 August 2013	HK$0.50	280,000	–	–	–	280,000	–	–	–	560,000
Suppliers of goods and services	–	–	–	–	–	–	–	–	–	–	–	–
All other optionees	14 May 2002	14 May 2003 to 13 May 2012	HK$0.706	130,000	–	–	–	130,000	–	–	–	260,000
	14 August 2002	14 August 2003 to 13 August 2012	HK$0.50	700,000	–	–	–	700,000	–	–	–	1,400,000
	12 November 2002	12 November 2003 to 11 November 2012	HK$0.50	100,000	–	–	–	100,000	–	–	–	200,000
				4,972,000	–	–	–	4,972,000	–	(520,000)	–	9,424,000

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

Report of the Directors

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Code of Best Practice

In the opinion of the Directors, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board of Directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout year ended 31 December 2006.

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 2006 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

ZHANG MING
Director

Hong Kong, 26 March 2007

Independent Auditor's Report

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SYSCAN TECHNOLOGY HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We were engaged to audit the financial statements of SYSCAN Technology Holdings Limited (the "Company") set out on pages 32 to 84, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. Scope limitation – Prior year's audit scope limitation affecting opening balances

As detailed in our report dated 27 March 2006 on the Group's financial statements for the year ended 31 December 2005, because of the significance of the possible effects of the limitation in evidence made available to us, specifically, we were unable to obtain sufficient and appropriate evidence to satisfy ourselves as to whether the financial statement items were fairly stated and free from material misstatement in the following areas: (i) no direct access to the books and records of a major subsidiary; (ii) impairment of intangible assets, available-for-sale investment and interest in subsidiaries; (iii) interest in associates; (iv) trade payables, accruals and other payables and (v) provision for impairment of trade and other receivables, write-down of inventories, research and development expenses. Any adjustments found to be necessary in respect thereof had we obtained sufficient and appropriate evidence would have had a consequential effect on the net assets of the Group and the Company as at 31 December 2006, and of its loss for the current year and the prior year and the related disclosures thereof in the financial statements. In respect of the limitation of scope in prior year in the areas as described above, we are unable to express our opinion as to whether the balances brought forward as at 1 January 2006 and the comparative figures were fairly stated in the financial statements.

2. **Scope limitation – Disposal of subsidiaries**

As further explained in note 34 (b) to the financial statements, on 18 May 2006 (the "Disposal Date"), the Group disposed of certain subsidiaries (the "Disposed Group"). Details in connection with the disposal were outlined in the circular dated 25 April 2006. The directors had no direct access to the books and records of the Disposed Group as the Disposed Group was controlled by a former director of the Company. In addition, we were unable to carry out alternative audit procedures to obtain sufficient and appropriate evidence on the financial statements of the Disposed Group for the period ended 18 May 2006. Consequently, we were unable to satisfy ourselves as to whether the value of the net assets disposed of by the Group as at the Disposal Date was fairly stated and correspondingly, the loss on disposal of HK$377,000 arising thereon, the net outflow of cash and cash equivalents of HK$4,487,000 and the other amounts related to the Disposed Group included in the consolidated cash flow statement; and the turnover of HK$33,880,000 and profit after tax of HK$4,094,000 included in the consolidated income statement of the Disposed Group for the period up to the Disposal Date. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated balance sheet and consolidated income statement in respect of the Disposed Group up until the Disposal Date, with a corresponding effect on the loss on disposal, amounts recorded in the consolidated cash flow statement and the related disclosures thereof in the financial statements.

3. **Scope limitation – carrying amount of interest in associates and provision for impairment of amount due from associates**

As at 31 December 2006, included in the consolidated balance sheet were interest in associates of HK$33,134,000, amount due from associates of HK$nil, stated net of a provision for impairment against the amount of HK$20,284,000, of which HK$19,886,000 was charged to the consolidated income statement for the year ended 31 December 2006, and amount due to associates of HK$38,559,000 as detailed in notes 18 and 23 to the financial statements. We were not provided with sufficient and appropriate evidence to satisfy ourselves as to whether the amounts were fairly stated and free from material misstatement and were unable to obtain sufficient evidence or carry out alternative audit procedures on the value of the share of net assets of the associates, the amount due from or to the associates as at 31 December 2006 and the share of losses of associates of HK$565,000 included in the consolidated income statement. Any adjustments found to be necessary to the above amounts would affect the amount recorded in the consolidated balance sheet and the consolidated income statement in respect of the share of losses of associates and impairment loss on the amount due from the associates and consequently the net carrying amount of interest in associates and the amount due from or to associates as at 31 December 2006.

Qualification arising from material uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the financial statements which describes the liquidity issues and financial difficulties experienced by the Group and the measures undertaken by the Group to ensure that adequate cash resources are available to the Group. Specifically, the Group is dependent upon the continuing financial support of its major bank to renew its credit facility of RMB120,000,000 (equivalent HK$120,000,000), which became due on 22 April 2006. As explained in note 32 to the financial statements, the Group defaulted in respect of the repayment of the bank loan from its major banker and the related interest, the total amount of RMB121,240,000 (equivalent HK$116,577,000) became 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 continues to negotiate with the major banker for the rescheduling or extension of the existing loan currently in default. On the assumption that the negotiations continue successfully and the major banker would renew its credit facilities and withdraw the writ and there are successful outcome of other measures undertaken as described in note 2 to the financial statements, the directors consider that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future.

Independent Auditor's Report

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the continuing financial support from its major banker and successful outcome of the measures undertaken as descried in note 2 to the financial statements to ensure that adequate cash resources are available 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 material uncertainties relating to the measures mentioned above that may cast significant doubt on the Group's ability to continue as a going concern, we have disclaimed our opinion. The financial statements do not include any adjustments that would be necessary if the various measures as described above fail to take place. Any adjustment to the financial statements may have a consequential significant effect on the loss for the year and net assets as at 31 December 2006.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of (i) the possible effects of the scope limitations in evidence made available to us in each of the areas as set out in paragraphs (1) to (3) in the basis for disclaimer of opinion paragraph and (ii) the material uncertainties relating to the going concern basis, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2006 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2007

Delores Teh
Practising Certificate Number P03207

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	*7*	**92,690**	66,555
Cost of sales		**(67,713)**	(42,359)
Gross profit		**24,977**	24,196
Other revenue	*7*	**22,724**	4,376
Selling and distribution expenses		**(5,953)**	(10,450)
General and administrative expenses		**(19,819)**	(57,348)
Research and development expenses		**(4,657)**	(39,195)
Other operating expenses	*8(c)*	**(21,959)**	(23,797)
		(52,388)	(130,790)
Loss from operations		**(4,687)**	(102,218)
Finance costs	*8(a)*	**(7,419)**	(4,644)
Gain on deemed disposal of a subsidiary		**–**	2
Loss on disposal of subsidiaries		**(377)**	(472)
Negative goodwill on acquisition of a subsidiary		**–**	8,911
Share of losses of associates		**(565)**	(1,660)
Loss before taxation	*8*	**(13,048)**	(100,081)
Income tax	*10*	**(2)**	(7)
Loss for the year		**(13,050)**	(100,088)
Attributable to:			
Equity holders of the Company		**(11,600)**	(99,435)
Minority interests		**(1,450)**	(653)
		(13,050)	(100,088)
Loss per share			
– Basic	*12(a)*	**(4.6) cents**	(97.1) cents
– Diluted	*12(b)*	**N/A**	N/A

The notes on pages 38 to 84 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Intangible assets	*13*	**877**	2,551
Goodwill	*14*	**–**	–
Property, plant and equipment	*15*	**14,073**	23,154
Property under development	*16*	**157,229**	141,134
Interest in associates	*18*	**33,134**	32,403
Available-for-sale investments	*19*	**–**	9,342
		205,313	208,584
Current assets			
Inventories	*20*	**3,097**	5,860
Trade receivables	*21*	**11,918**	8,286
Prepayments, deposits and other receivables	*22*	**40,669**	1,680
Due from an associate	*23*	**–**	17,512
Cash and cash equivalents	*24*	**4,919**	8,140
		60,603	41,478
Current liabilities			
Bank loans, secured	*25*	**144,084**	137,999
Trade payables	*26*	**24,840**	25,707
Accruals and other payables	*27*	**37,890**	28,369
Due to a director	*28*	**4,590**	–
Due to associates	*23*	**38,579**	39,040
		249,983	231,115
Net current liabilities		**(189,380)**	(189,637)
Total assets less current liabilities		**15,933**	18,947
Non-current liabilities			
Bank loans, secured	*25*	**(398)**	(446)
Net assets		**15,535**	18,501
Capital and reserves			
Share capital	*30*	**4,095**	1,024
Reserves	*31*	**11,440**	16,027
Total equity attributable to the equity holders of the Company		**15,535**	17,051
Minority interests		**–**	1,450
Total equity		**15,535**	18,501

Approved and authorised for issue by the board of directors on 26 March 2007

On behalf of the board

CHEUNG WAI
Director

ZHANG MING
Director

The notes on pages 38 to 84 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (As restated)
Non-current assets			
Interest in subsidiaries	*17*	**–**	50,640
Current assets			
Prepayments, deposits and other receivables	*22*	**35,616**	460
Cash and cash equivalents		**11**	9
		35,627	469
Current liabilities			
Accruals and other payables		**4,204**	1,980
Due to a director	*28*	**4,240**	–
		8,444	1,980
Net current assets/(liabilities)		**27,183**	(1,511)
Total assets less current liabilities		**27,183**	49,129
Non-current liabilities			
Financial guarantee contract	*29*	**(132,020)**	(116,577)
Net liabilities		**(104,837)**	(67,448)
Capital and reserves			
Share capital	*30*	**4,095**	1,024
Reserves	*31*	**(108,932)**	(68,472)
Deficiency in equity		**(104,837)**	(67,448)

Approved and authorised for issue by the board of directors on 26 March 2007

On behalf of the board

CHEUNG WAI
Director

ZHANG MING
Director

The notes on pages 38 to 84 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Statutory reserve fund** HK$'000	**Exchange reserve** HK$'000	**Accu-mulated losses** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
At 1 January 2005	1,024	–	198,068	439	1,272	(85,496)	115,307	5,807	121,114
Effect of adoption HKFRS 3 on negative goodwill	–	–	–	–	–	564	564	–	564
Exchange adjustments	–	–	–	–	580	–	580	–	580
Deemed disposal of a subsidiary	–	–	(2)	–	28	–	26	24	50
Disposal of a subsidiary	–	–	–	–	9	–	9	(221)	(212)
Acquisition of a 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
At 1 January 2006	1,024	–	198,066	439	1,889	(184,367)	17,051	1,450	18,501
Shares issued arising from open offer *(note 30)*	3,071	6,141	–	–	–	–	9,212	–	9,212
Exchange adjustments	–	–	–	–	872	–	872	–	872
Loss for the year	–	–	–	–	–	(11,600)	(11,600)	(1,450)	(13,050)
At 31 December 2006	**4,095**	**6,141**	**198,066**	**439**	**2,761**	**(195,967)**	**15,535**	**–**	**15,535**

The notes on pages 38 to 84 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES			
Loss before taxation		**(13,048)**	(100,081)
Adjustment for:			
Amortisation of intangible assets		**513**	470
Depreciation of property, plant and equipment		**5,877**	6,383
Gain on deemed disposal of subsidiaries	*34(a)*	**–**	(2)
Impairment of positive goodwill		**–**	3,869
Finance costs		**7,419**	4,644
Interest income		**(114)**	(73)
Gain on disposal of non-current assets		**(15,904)**	–
Loss on disposal of subsidiaries	*34(b)*	**377**	472
Loss on disposal of property, plant and equipment		**208**	3,079
Reversal of impairment loss on trade receivables		**(1,793)**	–
Impairment losses on trade and other receivables		**–**	20,191
Write-down of inventories		**376**	29,235
Negative goodwill on acquisition of a subsidiary	*34(c)*	**–**	(8,911)
Share of loss of associates		**565**	1,660
Reversal of impairment loss on amount due from associate		**–**	(733)
Impairment loss on available-for-sale investment		**1,560**	–
Impairment loss on amount due from an associate		**19,886**	–
Trade payables written off		**(1,412)**	(456)
OPERATING PROFIT/(LOSS) BEFORE WORKING CAPITAL CHANGES		**4,510**	(40,253)
Increase in inventories		**(3,909)**	(2,779)
(Increase)/decrease in trade receivables		**(11,393)**	14,814
(Increase)/decrease in prepayments, deposits and other receivables		**(34,518)**	3,436
Increase in due to a director		**4,590**	–
Increase/(decrease) in trade payables		**6,255**	(3,095)
Increase in accruals and other payables		**20,289**	15,560
CASH OUTFLOW FROM OPERATIONS		**(14,176)**	(12,317)
Oversea tax paid		**(2)**	(7)
Interest received		**114**	73
Interest paid		**(1,649)**	(7,751)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**(15,713)**	(20,002)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(897)**	(1,762)
Proceeds from disposal of property, plant and equipment		**20,955**	12,961
Additions to property under development		**(5,440)**	(7,762)
Cash outflow from deemed disposal of a subsidiary	*34(a)*	**–**	(8)
Cash (outflow)/inflow from disposal of subsidiaries	*34(b)*	**(4,487)**	23
Cash inflow from acquisition of subsidiaries	*34(c)*	**–**	4,062
(Increase)/decrease in due from/to associates		**(1,634)**	3,535
NET INFLOW FROM INVESTING ACTIVITIES		**8,497**	11,049
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans, secured		**(2,063)**	(2,691)
Shares issued arising from open offer		**9,212**	–
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**7,149**	(2,691)
DECREASE IN CASH AND CASH EQUIVALENTS		**(67)**	(11,644)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		**8,140**	23,162
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**(3,154)**	(3,378)
CASH AND CASH EQUIVALENT AT END OF YEAR		**4,919**	8,140
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**4,919**	8,140

The notes on pages 38 to 84 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. CORPORATE INFORMATION

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. Inherent in the Group's business are various risks and uncertainties, including risks associated with the technology industry, history of losses, uncertain profitability and the ability to raise additional capital.

2. BASIS OF PREPARATION – MATERIAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

The Group sustained consolidated loss attributable to equity holders of the Company of HK$11,600,000 (2005: HK$99,435,000) for the year ended 31 December 2006. At 31 December 2006, the Group had consolidated net current liabilities of HK$189,380,000 (2005: HK$189,637,000) and bank loans of HK$144,482,000 (2005: HK$138,445,000) of which of HK$132,020,000 (2005: HK$116,577,000) were overdue as at the balance sheet date.

During the year, the Group experienced financial difficulties and was unable to repay the bank loans. Certain trade creditors took legal actions against the Group demanding for repayment of amounts due to them (see note 7). As explained in note 32 to the financial statements, the major bank had applied to the court in Guangdong, mainland China, to freeze the land, which was pledged as collateral for the bank loans of RMB120,000,000 (equivalent HK$120,000,000), plus the outstanding interest due as at 31 December 2006 at RMB12,020,000 (equivalent HK$12,020,000).

In view of the liquidity problems faced by the Group, the directors have adopted the following measures with the view to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis:

(a) the directors are currently negotiating with the major banker for the rescheduling and extension of the existing loan with the outstanding interest of HK$120,000,000 and HK$12,020,000 respectively for a total of HK$132,020,000 which was already overdue as at the balance sheet date;

(b) the directors are seeking support from the banker to further extend the payment term of the bank loan of HK$12,000,000, the current term of which will expire on 28 March 2007;

(c) the directors have identified and have been negotiating with potential purchasers to realize certain major assets of the Group; and

(d) the directors have adopted various cost control measures to reduce various general and administrative and other operating expenses.

In the opinion of the directors, in light of the measures adopted, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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 GEM.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. The accounting policies of the Group and Company after the adoption of these new and revised HKFRSs have been summarised below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41). The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006. Except for HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts, all others are not relevant to the Group's operations:

- HKAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 – Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 Amendment, Exploration for and Evaluation of Mineral Resources;
- HKFRS-Int 4 – Determining whether an Arrangement contains a Lease; and
- HKFRS-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments classified as available-for-sale are stated at their fair value (see note 3(j)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Cont'd)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

(c) SUBSIDIARIES

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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 that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total income statement for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(m)).

(d) ASSOCIATES

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets, unless it is classified as held for sale. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 3(e) and 3(m)).

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) ASSOCIATES *(Cont'd)*

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

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 income statement.

(e) GOODWILL

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but 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.

An excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement.

On disposal of a cash generating unit, an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) PROPERTY, PLANT AND EQUIPMENT

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(m)):

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gain or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the items and are recognised in income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.	
– Plant and machinery	10 to 20%
– Furniture, fixtures and equipment	20 to 33%
– Motor vehicles	20%
– Leasehold improvement	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) LEASE ASSETS

(i) Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For the purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal 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. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term (see note 3(f)).

(h) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(m)).

Amortisation of intangible assets with finite useful lives is charged to income statement on a straight-line basis over the assets' estimated useful lives. The patents and intellectual property rights are amortised from the date they are available for use and their estimated useful lives on average of 10 years.

Both the period and method of amortisation are received annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) PROPERTY UNDER DEVELOPMENT

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(j) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

The group's and the company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in the income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized in the income statement.

Dated debt securities that the group and/or the company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 3(m)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (see note 3(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognized directly in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement. When these investments are derecognized or impaired (see note 3(m)), the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(m)).

(l) INVENTORIES

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(m) IMPAIRMENT OF ASSETS

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognized as follows:

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognized directly in equity is removed from equity and is recognized in the income statement. The amount of the cumulative loss that is recognized in the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the income statement.

  Impairment losses recognized in the income statement in respect of available-for-sale equity securities are not reversed through income statement. Any subsequent increase in the fair value of such assets is recognized directly in equity.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired.

– property, plant and equipment;
– intangible assets;
– investment in subsidiaries; and
– goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(m) IMPAIRMENT OF ASSETS *(Cont'd)*

(ii) Impairment of other assets (Cont'd)

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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).

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

A reversal of an impairment loss 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 income statement in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim, financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 3(m)).

(n) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(o) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that many support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date, Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(o) INCOME TAX *(Cont'd)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity (see note 6(a)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the income statement on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(q) FINANCIAL GUARANEES ISSUED, PROVISION AND CONTINGENT LIABILITIES

(i) Financial guarantees issued are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issues. In addition, provisions are recognized in accordance with note 3(q)(iii) if and when (i) it become probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of the guarantee i.e. the amount initially recognized, less accumulated amortization.

(ii) *Contingent liabilities acquired in business combinations*
Contingent liabilities acquired as part of a business combination are initially recognized at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognized at the higher of the amount initially recognized, less accumulated amortization where appropriate, and the amount that would be determined in accordance with note 3(q)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 3(q)(iii).

(iii) *Other provisions and contingent liabilities*
Provisions are recognized for other liabilities of uncertain timing or amount when the group or the company 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 expenditure 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.

(r) BORROWING COSTS

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(s) RELATED PARTIES

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) EMPLOYEE BENEFITS

(i) Short term employee benefit and contributions to defined contribution retirement plans.

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is defined and the effect would be material, these amounts are stated at their present values.

(ii) *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)*

(t) EMPLOYEE BENEFITS *(Cont'd)*

(iii) 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.

(u) 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.

(v) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(w) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised as fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(x) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

(i) Sales of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are incurred.

iii) Government grants

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. Grant or subsidy that compensation the group for expenses incurred are recognized as revenue, on a systematic basis in the same periods in which the expenses are incurred. Where the grant or subsidy relates to an asset, the fair value is deducted in arriving at the carrying amount of the related asset.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

4. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group.

Note 3 to the financial statements summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41) except for HK(IFRIC) 10, Interim financial reporting and impairment which is effective for accounting periods beginning on or after 1 November 2006.

HKAS 39 and HKFRS 4 Amendment:

The fair value of financial guarantee contracts is recognised in the balance sheet on the date when HKAS 39 was initially adopted by the Group (i.e. 1 January 2005) by initially adopted by adjusting the accumulated losses.

4. CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Effects of change in accounting policies on the Company's balance sheet

The adoption of HKAS 39 and HKFRS 4 Amendment has the following impact on the Company's balance as at 1 January 2005 and 31 December 2005:

	31/12/2005 HK$'000	1/1/2005 HK$'000
(Increase)/decrease in liabilities/equity		
– Financial guarantee contract	**(1,192)**	(115,385)
– Accumulated losses	**1,192**	115,385

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-down 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 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

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. These risks are limited by the Group's financial management policies and practices described below:

(a) Foreign currency risk

The Group mainly operates in mainland China, the United States of America and Hong Kong. Most of the Group's transactions, assets and liabilities are dominated in Renminbi ("RMB"), United States Dollars and Hong Kong Dollars. RMB is not freely convertible into other foreign currencies.

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group manages its foreign risks by performing regular review and monitoring its foreign exchange exposures.

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Bank loans at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's bank loans have been disclosed in note 25 to the financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(c) Credit risk

The Group's has a certain concentration of credit risk in relation to its single customer for sales to the United States of America. At 31 December 2006, the trade receivables due from this single customer accounted for 54% of the total gross trade receivables of the Group.

(d) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans (see note 25).

7. TURNOVER AND OTHER REVENUE

The principal activities of the Group are design, research, development, manufacture and distribution of optical image capturing devices, chips and other optoelectronic products.

Turnover represents the amounts received and receivable for goods sold to outside customers excluding value-added taxes, less returns and allowances.

	2006 HK$'000	2005 HK$'000
Turnover		
Sales of merchandise		
– Optical image capturing devices	**84,530**	48,094
– Modules of optical image capturing devices	**–**	5,745
– Chips and other optoelectronic products	**8,160**	12,716
	92,690	66,555
Other revenue		
Exchange gain, net	**495**	74
Interest income	**114**	73
Others	**792**	1,455
Rental income	**1,498**	928
Reversal of impairment loss on trade receivables	**1,793**	–
Subsidy income *(note i)*	**716**	1,390
Gain on disposal of non-current assets *(note ii)*	**15,904**	–
Trade payables written off *(note iii)*	**1,412**	456
	22,724	4,376

Notes: (i) During the year ended 31 December 2006, the Group received cash subsidies from certain mainland China government bodies totaling of HK$716,000 (2005: HK$1,390,000). These cash subsidies were for the Group's development of certain products.

(ii) On 31 December 2006, the Company entered into an agreement (the "Agreement") with a former subsidiary. Pursuant to the Agreement, the Company disposed certain plant and machinery and patents to settle the amount owed by the Group. The disposal resulted in a gain of HK$15,904,000.

(iii) During the year ended 31 December 2006, certain trade creditors with outstanding balance amounted to RMB2,342,000 (equivalent HK$2,296,000) took legal actions against the Group demanding for repayment of amounts due to them. As part of the settlement agreement, these creditors in total waived RMB1,440,000 (equivalent HK$1,412,000) for immediate settlement. The waiver was accounted for as other revenue in the consolidated income statement.

8. LOSS BEFORE TAXATION

Loss before taxation was arrived at after charging/(crediting) the following items:

		2006 HK$'000	2005 HK$'000
(a)	Finance costs:		
	Interest on bank loans repayable within 5 years	**12,113**	7,716
	Interest on bank loans repayable after 5 years	**316**	35
		12,429	7,751
	Less: amounts capitalised into property under development *(note)*	**(5,010)**	(3,107)
		7,419	4,644

Note: During the year ended 31 December 2006, interest on bank loans repayable within 5 years of HK$5,010,000 (2005: HK$3,107,000) was capitalised as construction expenditure included in property under development. The borrowing costs have been capitalized at a rate of 7% to 9% per annum (2005: 2% to 8% per annum).

		2006 HK$'000	2005 HK$'000
(b)	Staff costs:		
	Salaries and allowance (including directors' emoluments)	**16,633**	23,114
	Retirement costs	**409**	428
		17,042	23,542
(c)	Other operating expenses:		
	Reversal of impairment loss on amount due from an associate	**–**	(733)
	Impairment loss on amount due from an associate	**19,886**	–
	Impairment loss on trade and other receivables	**–**	20,191
	Impairment loss on available-for-sale investment	**1,560**	–
	Amortisation of intangible assets	**513**	470
	Impairment loss on goodwill	**–**	3,869
		21,959	23,797

8. LOSS BEFORE TAXATION *(Cont'd)*

		2006 HK$'000	2005 HK$'000
(d)	Other items:		
	Auditor's remuneration		
	– audit services	**480**	410
	– other services	**710**	–
	Cost of inventories *(note)*	**67,713**	42,359
	Depreciation	**5,877**	6,383
	Loss on disposal of subsidiaries	**377**	472
	Loss on disposal of property, plant and equipment	**208**	3,079
	Share of losses of associates	**565**	1,660
	Gain on deemed disposal of a subsidiary	**–**	(2)
	Negative goodwill on acquisition of a subsidiary	**–**	(8,911)
	Write-down of inventories	**376**	29,235
	Operating lease rentals of premises	**829**	1,967

Note: Cost of inventories included HK$5,033,000 (2005: HK$3,872,000) relating to staff costs and depreciation, which amount was also included in the respective total amounts disclosed separately above for each of these types of expenses.

9. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

(a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 31 December 2006			
	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Retirement contributions HK$'000**	**Total HK$'000**
Executive directors				
Chan Man Ching *(note)*	**–**	**503**	**12**	**515**
Cheung Wai	**–**	**1,344**	**12**	**1,356**
Independent non-executive directors				
Fong Chi Wah	**120**	**–**	**–**	**120**
Lo Wai Ming	**120**	**–**	**–**	**120**
Jin Qingjun	**120**	**–**	**–**	**120**
	360	**1,847**	**24**	**2,231**

9. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

(a) *(Cont'd)*

	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 *(note)*	–	203	–	203
Zhang Fu *(note)*	–	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

Note: Mr. Darwin Hu, Mr. Zhang Fu and Mr. Chan Man Ching resigned as directors on 19 January 2005, 31 March 2005 and 31 December 2006 respectively.

(b) The five highest paid employees during the year included two (2005: two) directors, details of the remuneration paid to the remaining three (2005: three) are as follows:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**1,218**	3,354
Retirement costs	**–**	–
	1,218	3,354

During the year, no remuneration were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The remuneration of the remaining three highest paid employees falls within the following band:

	2006 Number of individuals	2005 Number of individuals
HK$Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**–**	2
	3	3

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been provided for in the financial statements as the Group did not derive any assessable profit in Hong Kong for the year (2005: Nil).

No provision for United States federal income tax has been provided for in the financial statements as the Group did not derive any assessable profit in the United States of America. However, a subsidiary was liable to the California State income tax of HK$2,000 (2005: HK$7,000), being the minimum amount for the company in a tax loss position.

No provision for mainland China enterprise income tax has been provided for in the financial statements as the Group did not derive any assessable profits in mainland China for the year (2005: Nil).

(a) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2006 HK$'000	2005 HK$'000
Loss before taxation	**(13,048)**	(100,081)
Notional tax on loss before taxation, calculated at the rates applicable to loss in the tax jurisdictions concerned	**(15,211)**	(16,659)
Tax effect of non-taxable income	**(838)**	(4)
Tax effect of non-deductible expenses	**273**	3,860
Tax effect of unused tax losses not recognized	**21,401**	12,810
Utilization of previously unrecognised tax losses	**(5,623)**	–
Actual tax expense	**2**	7

(b) **Deferred tax**

No provision for deferred taxation has been made as the effect of all temporary differences at the balance sheet date to the Group is immaterial.

The Group has tax losses of approximately HK$239,205,000 (2005: HK$395,610,000) which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for a number of years. The tax losses arising from subsidiaries established in mainland China can be carried forward for five years immediately after the respective accounting year, all other tax losses do not expire under current tax legislation.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

During the year ended 31 December 2006, the consolidated loss attributable to equity holders of the Company included the loss of HK$46,601,000 (2005: as restated HK$5,802,000) 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 2006 is as follows:

	2006 HK$'000	2005 HK$'000
Net loss attributable to equity holders of the Company	**(11,600)**	(99,435)

	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares in issue during the year	**251,283**	102,364
Loss per share – Basic	**(4.6) cents**	(97.1) cents

(b) No diluted loss per share is presented as the outstanding employee share options had an anti-dilutive effect on the basic loss per share for both years.

13. INTANGIBLE ASSETS

Group

	Patents HK$'000	Intellectual property rights HK$'000	Total HK$'000
Cost			
At 1/1/2005	2,745	1,415	4,160
Exchange adjustments	53	27	80
At 31/12/2005	2,798	1,442	4,240
At 1/1/2006	2,798	1,442	4,240
Exchange adjustments	112	58	170
Disposals (see note 7)	(2,910)	–	(2,910)
At 31/12/2006	**–**	**1,500**	**1,500**
Amortisation			
At 1/1/2005	858	335	1,193
Exchange adjustments	17	9	26
Amortisation for the year	343	127	470
At 31/12/2005	1,218	471	1,689
At 1/1/2006	1,218	471	1,689
Exchange adjustments	57	21	78
Amortisation for the year	382	131	513
Written back on disposal (see note 7)	(1,657)	–	(1,657)
At 31/12/2006	**–**	**623**	**623**
Net book value			
At 31/12/2006	**–**	**877**	**877**
At 31/12/2005	1,580	971	2,551

(a) At 31 December 2006, intangible assets with carrying value HK$877,000 (2005: HK$971,000) has been pledged to secured the Group's bank loans (see note 25).

(b) The amortization charge for the year is included in "other operating expenses" in the consolidated income statement.

14. GOODWILL

Group

	Positive goodwill HK$'000	Negative goodwill HK$'000	Total HK$'000
Cost			
At 1/1/2005	4,487	(602)	3,885
Effect of adoption HKFRS 3 on negative goodwill *(note)*	–	602	602
Acquisition of a subsidiary *(see note 34(c))*	–	(8,911)	(8,911)
Recognised in income statement	–	8,911	8,911
At 31/12/2005 and 31/12/2006	4,487	–	4,487
Accumulated impairment losses			
At 1/1/2005	618	(38)	580
Effect of adoption HKFRS 3 on negative goodwill *(note)*	–	38	38
Impairment loss	3,869	–	3,869
At 31/12/2005 and 31/12/2006	4,487	–	4,487
Carrying amount			
At 31/12/2006	**–**	**–**	**–**
At 31/12/2005	–	–	–

Note: In accordance with the transitional provisions of HKFRS 3, the Group has eliminated the carrying amounts of accumulated amortization as at 1 January 2005 against the cost of goodwill as at the same date and to derecognise the carrying amounts of negative goodwill existing prior to 1 January 2005 against accumulated losses as at 1 January 2005.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and building held for own use *(note a)* HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1/1/2005	24,961	2,951	8,371	38,443	4,389	79,115
Exchange adjustments	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
At 1/1/2006	8,132	2,951	9,164	40,004	2,983	63,234
Exchange adjustments	421	–	271	1,163	60	1,915
Additions	–	–	337	197	363	897
Disposals	–	–	(74)	(10,002)	(307)	(10,383)
Disposal of subsidiaries	–	–	(440)	(1,077)	–	(1,517)
At 31/12/2006	**8,553**	**2,951**	**9,258**	**30,285**	**3,099**	**54,146**
Accumulated depreciation						
At 1/1/2005	3,711	2,951	2,937	25,791	2,361	37,751
Exchange adjustments	53	–	44	194	15	306
Charge 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
At 1/1/2006	1,815	2,951	3,699	30,028	1,587	40,080
Exchange adjustments	83	–	121	451	27	682
Charge for the year	510	–	848	4,256	263	5,877
Disposals	–	–	(33)	(5,954)	(167)	(6,154)
Disposal of subsidiaries	–	–	(166)	(246)	–	(412)
At 31/12/2006	**2,408**	**2,951**	**4,469**	**28,535**	**1,710**	**40,073**
Net book value						
At 31/12/2006	**6,145**	**–**	**4,789**	**1,750**	**1,389**	**14,073**
At 31/12/2005	6,317	–	5,465	9,976	1,396	23,154

Notes:

(a) As the land and building held for own use cannot be allocated reliably between the land and building elements and it is cleared that only the land element is operating lease, the entire lease is classified as a finance lease and accounted for under HKAS 16 in accordance with HKAS 17.

(b) The land and building are located in Shenzhen, mainland China, and are used as research and development centre of the Group and are held under medium lease term. All land and building and plant and machinery are pledged as collateral for the Group's bank loans (see note 25(b)).

(c) The plant and machinery disposed during the year represented the settlement of amount owed by the Group (see note 7).

16. PROPERTY UNDER DEVELOPMENT

Group

	Land	**Construction expenditure**	**Total**
	HK$'000	HK$'000	HK$'000
At 1/1/2005	49,992	77,815	127,807
Exchange adjustments	960	1,498	2,458
Additions	–	10,869	10,869
At 31/12/2005	50,952	90,182	141,134
At 1/1/2006	50,952	90,182	141,134
Exchange adjustments	2,039	3,606	5,645
Additions	–	10,450	10,450
At 31/12/2006	**52,991**	**104,238**	**157,229**
At 31/12/2005	50,952	90,182	141,134

The leasehold land is located in Shenzhen, mainland China, for a period of 50 years up to July 2051. At 31 December 2006, the leasehold land was pledged for the bank loans granted to the Group (see note 25(a)).

17. INTEREST IN SUBSIDIARIES

Company

	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**74,698**	74,698
Due from subsidiaries	**100,878**	92,986
Due to subsidiaries	**–**	(3,544)
	175,576	164,140
Less: impairment losses	**(175,576)**	(113,500)
	–	50,640

(a) The amounts due from/(to) subsidiaries are unsecured and interest free. 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.

(b) The impairment losses represented the write-down of investment cost and amount due from subsidiaries of HK$74,698,000 and HK$100,878,000, respectively.

17. INTEREST IN SUBSIDIARIES *(Cont'd)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place of incorporation/ operations	Particulars of issued and paid up capital	Percentage of equity interest attributable to the Group Directly	Indirectly	Principal activities
SYSCAN Holdings Limited	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 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
SYSCAN Manufacturing Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	Investment holding
深圳市矽感科技有限公司 (Shenzhen SYSCAN Technology Co., Ltd.) *	mainland China	US$10,000,000	–	100%	Design, development, manufacture and sale of optoelectronic products
深圳矽感光電有限公司 (SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd.) *	mainland China	US$6,000,000	–	100%	Property holding
深圳市旭感數碼系統有限公司 (SYSCAN Digital Systems Co., Ltd.) *	mainland China	RMB15,000,000	–	100%	Design, development, manufacture and sale of optoelectronic products

* *These companies are wholly owned foreign enterprises established in mainland China.*

18. INTEREST IN ASSOCIATES

Group

	2006 **HK$'000**	2005 HK$'000
Share of net assets	**33,134**	32,403

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affect the results, assets or liabilities of the Group:

Name of associate	**Place of incorporation/ and operations**	**Particulars of paid up registered capital**	**Percentage of equity interest attributable to the Group**		**Principal activities**
			Directly	**Indirectly**	
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 joint venture 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 joint venture company established in mainland China to be operated for 14 years up to 2018.

Summary of financial information on associates is as follows:

	Assets HK$'000	**Liabilities** HK$'000	**Equity** HK$'000	**Revenue** HK$'000	**Loss for the year** HK$'000
2006					
100%	**95,980**	**13,145**	**82,835**	**20,180**	**(1,413)**
Group's effective interest	**38,392**	**5,258**	**33,134**	**8,072**	**(565)**
2005					
100%	105,107	24,091	81,016	6,275	(4,150)
Group's effective interest	42,041	9,638	32,403	2,510	(1,660)

19. AVAILABLE-FOR-SALE INVESTMENTS

Group

	2006 **HK$'000**	2005 HK$'000
CMOS Sensor, Inc. *(i)*	**–**	7,782
GFG Asia Alliance Holdings Co., Ltd. *(ii)*	**–**	1,560
	–	9,342

Notes:

(i) During the year, the equity interest of 16.1% in CMOS Sensor, Inc., a company incorporated in California, the United States of America, was disposed together with the subsidiaries as disclosed in note 34(b).

(ii) At 31 December 2006, full impairment was made to the investment of US$200,000 (equivalent HK$1,560,000) in the preference stocks of GFG Asia Alliance Holdings Co., Ltd., a company incorporated in British Virgin Islands.

20. INVENTORIES

Group

	2006 **HK$'000**	2005 HK$'000
Raw materials	**17,823**	21,767
Work-in-progress	**5,614**	2,600
Finished goods	**12,553**	13,467
	35,990	37,834
Less: write-down of inventories	**(32,893)**	(31,974)
	3,097	5,860

21. TRADE RECEIVABLES

Group

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:

	2006 **HK$'000**	2005 HK$'000
0 to 1 month	**12,193**	8,444
1 to 2 months	**–**	887
2 to 3 months	**–**	40
3 to 6 months	**–**	111
6 to 12 months	**–**	884
Over 12 months	**9,617**	9,266
	21,810	19,632
Less: impairment losses for bad and doubtful debts	**(9,892)**	(11,346)
	11,918	8,286

The carrying amounts of trade receivables approximate their fair values and are mainly denominated in United States Dollars.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group and Company

Included in the prepayments, deposits and other receivables was receivable of US$4,500,000 (equivalent HK$35,100,000) due from the purchaser in connection with the disposal of certain subsidiaries of which the disposal was constituted a very substantial disposal of the Company as outlined in the circular dated 25 April 2006. The amount was repayable on or before 30 June 2007.

23. DUE FROM/(TO) ASSOCIATES

	2006 HK$'000	2005 HK$'000
Due from an associate	**20,284**	19,131
Less: impairment loss on amount due from an associate	**(20,284)**	(1,619)
	–	17,512
Due to associates	**(38,579)**	(39,040)

The amounts due from/(to) associates are unsecured, interest free and repayable on demand.

24. CASH AND CASH EQUIVALENTS

Group

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 HK$'000	2005 HK$'000
RMB	**4,300**	2,283

25. BANK LOANS, SECURED

Group

As at 31 December 2006, the bank loans, secured, were repayable as follows:

	2006 HK$'000	2005 HK$'000
Bank loans		
On demand *(note a)*	**132,020**	116,577
Within 1 year	**12,064**	21,422
After 1 year but within 5 years	**258**	237
After 5 years	**140**	209
	144,482	138,445
Current portion of bank loans	**(144,084)**	(137,999)
Non-current portion of bank loans	**398**	446

25. BANK LOANS, SECURED *(Cont'd)*

(a) Included in the bank loans on demand, there were bank loan of HK$120,000,000 (2005: HK$115,385,000) and outstanding interest of HK$12,020,000 (2005: HK$1,192,000).

At 31 December 2006, the bank loan was secured by the leasehold land included in property under development of HK$52,991,000 (2005: HK$50,952,000) (see note 16).

The leasehold land has been frozen by the court in mainland China following the legal action taken by the bank (see note 32).

(b) Other than the bank loan on demand as mentioned above, the remaining bank loans were secured by:

(i) the Group's leasehold land and buildings included in the property, plant and equipment with net book value of HK$6,145,000 (2005: HK$6,317,000) (see note 15);

(ii) the Group's intangible assets with net book value of HK$877,000 (2005: HK$971,000) (see note 13);

(iii) the Group's plant and machinery included in property, plant and equipment with net book value of HK$1,750,000 (2005: HK$9,976,000) (see note 15); and

(iv) the personal guarantee given by Mr. Cheung Wai, the director of the Company.

(c) All of the Group's bank loans were denominated in RMB. At 31 December 2006, the bank loans bore interest at a rate of 7% to 9% per annum (2005: 2% to 8% per annum).

26. TRADE PAYABLES

Group

The aged analysis of trade payables is as follows:

	2006 **HK$'000**	2005 HK$'000
0 to 1 month	**3,193**	3,653
1 to 2 months	**2,151**	1,531
2 to 3 months	**2,333**	1,102
3 to 6 months	**2,670**	1,196
6 to 12 months	**26**	1,009
Over 12 months	**14,467**	17,216
	24,840	25,707

The carrying amounts of trade payables approximate their fair values and are mainly denominated in RMB.

27. ACCRUALS AND OTHER PAYABLES

Group

Included in the accruals and other payables is an amount of HK$5,000,000 being an advance from an independent third party who being a potential purchaser to acquire certain assets of the Group. The amount is unsecured, interest free and repayable on demand.

28. DUE TO A DIRECTOR

Group and Company

The amount due to a director is unsecured, interest free and repayable on demand.

29. FINANCIAL GUARANTEE CONTRACT

Company

The carrying amount of the financial guarantee contract recognised in the Company's balance sheet in accordance with HKAS 39 and HKFRS 4 Amendment was HK$132,020,000 (2005: (as restated) HK$116,577,000). The financial guarantee contract was eliminated on consolidation.

30. SHARE CAPITAL

Group and Company

	2006		2005	
	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				
At 1 January	**102,364,000**	**1,024**	102,364,000	1,024
Shares issued arising from open offer *(note)*	**307,093,000**	**3,071**	–	–
At 31 December	**409,457,000**	**4,095**	102,364,000	1,024

Note:

On 15 February 2006, the Company entered into an underwriting agreement with the Company Chairman and Chief Executive Officer, Mr. Cheung Wai, as the Underwriter, who already 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 funding of not less than HK$9,200,000 and not more than HK$10,300,000, before expenses of approximately HK$900,000 by way of an open offer, of not less than 307,092,981 offer shares and not more than 341,667,881 offer shares at the subscription price of HK$0.03 per open offer share on the basis of 3 offer shares for every 1 share held by the qualifying shareholders. The Underwriter has irrevocably undertaken to the Company to take up the excluded offer shares as his entitlement under the open offer. The above transaction was detailed in the Company's announcement dated 28 February 2006.

On 7 July 2006, 28 valid applications for assured allotment were received for an aggregate of 120,090,572 offer shares. As the open offer was undersubscribed, Mr. Cheung Wai as the Underwriter fulfilled his obligation to take up a total of 187,002,407 offer shares. As a result, 307,092,981 ordinary shares were allotted for a consideration of HK$9,213,000 of which HK$3,071,000 was credited to share capital and the balance of HK$6,141,000 was credited to the share premium account.

31. RESERVES

Group

	Capital reserve (note a) HK$'000	Share premium HK$'000	Statutory reserve fund (note b) HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1/1/2005	198,068	–	439	1,272	(85,496)	114,283
Effect of adoption HKFRS 3 on negative goodwill	–	–	–	–	564	564
Exchange adjustments	–	–	–	580	–	580
Deemed disposal of a subsidiary	(2)	–	–	28	–	26
Disposal of a subsidiary	–	–	–	9	–	9
Loss for the year	–	–	–	–	(99,435)	(99,435)
At 31/12/2005	198,066	–	439	1,889	(184,367)	16,027
At 1/1/2006	198,066	–	439	1,889	(184,367)	16,027
Exchange adjustments	–	–	–	872	–	872
Share premium (note 30)	–	6,141	–	–	–	6,141
Loss for the year	–	–	–	–	(11,600)	(11,600)
At 31/12/2006	**198,066**	**6,141**	**439**	**2,761**	**(195,967)**	**11,440**
Reserves retained by:						
Company and subsidiaries	198,066	6,141	439	2,761	(193,700)	13,707
Associates	–	–	–	–	(2,267)	(2,267)
At 31/12/2006	**198,066**	**6,141**	**439**	**2,761**	**(195,967)**	**11,440**
Company and subsidiaries	198,066	–	439	1,889	(182,665)	17,729
Associates	–	–	–	–	(1,702)	(1,702)
At 31/12/2005	198,066	–	439	1,889	(184,367)	16,027

Notes:

(a) Capital reserve mainly represented the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the reorganization completed on 27 March 2000.

(b) As stipulated by regulations in mainland China, Shenzhen SYSCAN Technology Co., Ltd. is required to appropriate 10% of its after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50% of its capital and thereafter any further appropriation is optional.

31. RESERVES *(Cont'd)*

Company

	Contributed surplus *(note a)* HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1/1/2005, as previously reported	70,121	–	(17,406)	52,715
Prior year adjustment *(note 4)*	–	–	(115,385)	(115,385)
At 1/1/2005, as restated	70,121	–	(132,791)	(62,670)
Loss for the year, as previously reported	–	–	(4,610)	(4,610)
Prior year adjustment *(note 4)*	–	–	(1,192)	(1,192)
Loss for the year, as restated	–	–	(5,802)	(5,802)
At 31/12/2005	70,121	–	(138,593)	(68,472)
At 1/1/2006	70,121	–	(138,593)	(68,472)
Loss for the year	–	–	(46,601)	(46,601)
Share premium *(note 30)*	–	6,141	–	6,141
At 31/12/2006	**70,121**	**6,141**	**(185,194)**	**(108,932)**

Note:

(a) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to a group reorganisation completed on 27 March 2000.

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 had no reserves available for distribution to shareholders as at 31 December 2006.

32. LITIGATION

On 6 January 2006, the major banker, 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 RMB1,200,000 (equivalent HK$1,153,000) accrued up to 21 December 2005 on a bank loan of RMB120,000,000 (equivalent HK$115,385,000) granted from BOC on 22 April 2005. BOC claimed against the Company and SOT for repayment of the loan and accrued interest totalling RMB121,240,000 (equivalent HK$116,577,000) as at 31 December 2005 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 BOC against the Company and SOT for the above claim. The above transaction was detailed in the Company's announcement dated 3 March 2006.

At 31 December 2006, the loan and accrued interest totaled RMB132,020,000 (equivalent HK$132,020,000) (see note 25(a)).

33. 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 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 initial 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.

Under Share Option Scheme C, the Company may grant options to employees of the Group (including directors of the Company) or at the absolute discretion of the directors to invite any person who has contributed to the Group's business to take up options to subscribe for ordinary shares of HK$0.01 each, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the nominal value of the ordinary shares, (ii) the average of the closing price of the ordinary shares quoted on the GEM on the five business days immediately preceding the date of grant, and (iii) the closing price of ordinary shares quoted on the GEM on the date of grant, which must be a business day.

Notes to the Financial Statements

For the year ended 31 December 2006

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

The following table disclosed 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 the year ended 31 December 2006.

Date of grant	Exercise period	Subscription price per share (a)	Beginning of year	Granted before 7/7/2006	Lapsed before 7/7/2006	Exercised before 7/7/2006	Adjusted on 7/7/2006	Granted after 7/7/2006	Lapsed after 7/7/2006	Exercised after 7/7/2006	End of year
I. Share Option Scheme A											
Other employees and optionees											
2 March 2000	2 March 2000 to 1 March 2010	HK$0.2422	2,148,000	–	–	–	2,148,000	–	–	–	4,296,000
			2,148,000	–	–	–	2,148,000	–	–	–	4,296,000
II. Share Option Scheme B											
Directors											
19 June 2000	19 June 2001 to 18 June 2010	HK$1.65	1,000,000	–	–	–	1,000,000	–	–	–	2,000,000
4 December 2000	4 December 2001 to 3 December 2010	HK$0.508	50,000	–	–	–	50,000	–	(100,000)	–	–
17 January 2001	17 January 2002 to 16 January 2011	HK$1.03	1,800,000	–	–	–	1,800,000	–	–	–	3,600,000
			2,850,000	–	–	–	2,850,000	–	(100,000)	–	5,600,000
Other employees and optionees											
12 July 2000	12 July 2001 to 11 July 2010	HK$1.23	85,000	–	–	–	85,000	–	–	–	170,000
4 December 2000	4 December 2001 to 3 December 2010	HK$0.508	70,000	–	–	–	70,000	–	–	–	140,000
17 January 2001	17 January 2002 to 16 January 2011	HK$1.03	930,000	–	–	–	930,000	–	–	–	1,860,000
13 August 2001	13 August 2002 to 12 August 2011	HK$1.38	470,000	–	–	–	470,000	–	–	–	940,000
			1,555,000	–	–	–	1,555,000	–	–	–	3,110,000
			4,405,000	–	–	–	4,405,000	–	(100,000)	–	8,710,000

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

Date of grant	Exercise period	Subscription price per share (a)	Beginning of year	Granted before 7/7/2006	Lapsed before 7/7/2006	Exercised before 7/7/2006	Adjusted on 7/7/2006	Granted after 7/7/2006	Lapsed after 7/7/2006	Exercised after 7/7/2006	End of year
III. Share Option Scheme C											
Directors											
14 May 2002	14 May 2003 to 13 May 2012	HK$0.706	50,000	–	–	–	50,000	–	(100,000)	–	–
12 November 2002	12 November 2003 to 11 November 2012	HK$0.5	200,000	–	–	–	200,000	–	(400,000)	–	–
			250,000	–	–	–	250,000	–	(500,000)	–	–
Other employees and optionees											
14 May 2002	14 May 2003 to 13 May 2012	HK$0.706	1,610,000	–	–	–	1,610,000	–	(20,000)	–	3,200,000
14 August 2002	14 August 2003 to 13 August 2012	HK$0.5	1,535,000	–	–	–	1,535,000	–	–	–	3,070,000
12 November 2002	12 November 2003 to 11 November 2012	HK$0.5	150,000	–	–	–	150,000	–	–	–	300,000
26 March 2003	26 March 2004 to 25 March 2013	HK$0.5	1,147,000	–	–	–	1,147,000	–	–	–	2,294,000
13 August 2003	13 August 2004 to 12 August 2013	HK$0.5	280,000	–	–	–	280,000	–	–	–	560,000
			4,722,000	–	–	–	4,722,000	–	(20,000)	–	9,424,000
			4,972,000	–	–	–	4,972,000	–	(520,000)	–	9,424,000
Total share options			11,525,000	–	–	–	11,525,000	–	(620,000)	–	22,430,000

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

(a) Following the completion of the open offer of the Company (see note 30), adjustments have been made to the subscription price of and the number of shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options of the Company in accordance with the terms of the Share Options Schemes with effect from 7 July 2006. The share options had been adjusted in accordance with the terms in the Share Options Schemes, the requirements set out in Rule 23.03 (13) of the GEM Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustments of the share options.

The adjustments to share options were detailed in the Company's announcement dated 2 November 2006.

(b) **The adjusted subscription price and number of shares**

Name of the Share Option Scheme	**Original subscription per share** HK$	**Original number of shares**	**Adjusted subscription price per share** HK$	**Adjusted number of shares**
Share Option Scheme A	0.4844	2,148,000	0.2422	4,296,000
Share Option Scheme B	3.30	1,000,000	1.65	2,000,000
	2.06	2,730,000	1.03	5,460,000
	2.46	85,000	1.23	170,000
	1.016	120,000	0.508	240,000
	2.75	470,000	1.38	940,000
Share Option Scheme C	1.412	1,660,000	0.706	3,320,000
	1.00	3,312,000	0.50	6,624,000

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 **HK$'000**	2005 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	–	48
Inventories	–	1,603
Trade receivables	–	18
Prepayments, deposits and other receivables	–	1,160
Cash and bank balances	–	8
Trade payables	–	(1,707)
Accruals and other payables	–	(1,182)
Minority interests	–	24
Net liabilities	–	(28)
Reserve released		
Capital reserve	–	(2)
Exchange reserve	–	28
	–	(2)
Gain on deemed disposal of a subsidiary	–	2
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
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	–	(8)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(b) Net cash (outflow)/inflow from disposal of subsidiaries

	2006 **HK$'000**	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment	**1,105**	–
Available-for-sale investment	**7,782**	–
Trade receivables	**9,554**	–
Inventories	**6,296**	10
Prepayments, deposits and other receivables	**30,630**	697
Cash and bank balances	**4,487**	29
Bank loans	**(7,902)**	–
Trade payables	**(1,189)**	–
Other payables and accruals	**(15,289)**	–
Minority interest	**–**	(221)
Net assets	**35,474**	515
Reserve released		
Exchange reserve	**3**	9
	35,477	524
Loss on disposal of subsidiaries	**(377)**	(472)
Consideration	**35,100**	52
Satisfied by:		
Cash consideration	**35,100**	–
Analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries		
Cash consideration received	**–**	52
Less: Cash and bank balances disposed of	**(4,487)**	(29)
Net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(4,487)**	23

On 25 November 2005, the Company entered into an agreement with Mr. Wan Han ("Mr. Wan"), an independent third party, pursuant to which the Company agreed to dispose of the entire share of Syscan Imaging Limited ("SIL") at a consideration of US$4,500,000 (equivalent HK$35,100,000). On 7 March 2006, the Company and Mr. Wan entered into a supplemental agreement in connection with the same transaction.

The disposal constituted a very substantial disposal of the Company as outlined in the circular dated 25 April 2006. On 18 May 2006, the disposal was approved by the shareholders at the Special General Meeting.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(b) Net cash (outflow)/inflow from the disposal of subsidiaries *(Cont'd)*

The directors had no access to the books and records of SIL and its subsidiaries (the "Disposed Group") except for the unaudited management account for the period from 1 January 2006 to 18 May 2006 (date of disposal) (the "unaudited management account"). Accordingly, the result for the period from 1 January 2006 to 18 May 2006 has been incurred in the consolidated income statement. Based on the net assets value as at 18 May 2006, the loss on disposal of the Disposed Group amounted to HK$377,000 was accounted for in the consolidated income statement and other amounts related to the Disposed Group included in the consolidated cash flow statement.

(c) Net cash inflow from acquisition of a subsidiary

	2006 HK$'000	2005 HK$'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
Negative goodwill	–	(8,911)
Total consideration	–	–
Satisfied by:		
Cash consideration	–	–
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary		
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

35. 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% (2005: 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 2006, the aggregate contributions of the Group to the aforementioned retirement benefit schemes were approximately HK$409,000 (2005: HK$428,000). At 31 December 2006, there were no forfeitures available to offset the Group's future contributions (2005: Nil).

36. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segment

The Group comprises the following main business segments:

(i) Optical image capturing devices unit: the manufacturing and selling of optical image capturing devices.

(ii) Modules unit: the manufacturing and selling of modules of optical image capturing devices.

(iii) Chips and other optoelectronic products unit: the manufacturing and selling of chips and other optoelectronic products.

36. SEGMENT REPORTING *(Cont'd)*

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

	Optical image capturing devices unit		Modules unit		Chips and other optoelectronic products unit		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**84,530**	48,094	**–**	5,745	**8,160**	12,716	**92,690**	66,555
Segment result	**(4,964)**	(59,830)	**–**	(7,148)	**(479)**	(15,819)	**(5,443)**	(82,797)
Unallocated operating income and expenses							**756**	(19,421)
Loss from operation							**(4,687)**	(102,218)
Finance costs							**(7,419)**	(4,644)
Negative goodwill on acquisition of a subsidiary							**–**	8,911
Gain on deemed disposal of a subsidiary							**–**	2
Loss on disposal of subsidiaries							**(377)**	(472)
Share of losses of associates							**(565)**	(1,660)
Income tax							**(2)**	(7)
Loss for the year							**(13,050)**	(100,088)
Depreciation and amortization	**5,827**	4,952	**–**	592	**563**	1,309	**6,390**	6,853
Impairment loss on								
– goodwill	**–**	3,869	**–**	–	**–**	–	**–**	3,869
– available-for-sale investments	**1,560**	–	**–**	–	**–**	–	**1,560**	–
Segment assets	**242,506**	180,699	**–**	21,588	**23,410**	47,775	**265,916**	250,062
Segment liabilities	**228,338**	167,330	**–**	19,990	**22,043**	44,241	**250,381**	231,561
Capital expenditure	**818**	1,273	**–**	152	**79**	337	**897**	1,762

36. SEGMENT REPORTING *(Cont'd)*

(b) Geographical segment

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. The United States of America is a major market for all of the group's businesses, and it is the location of most of its customers.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets. No segment capital expenditures by geographical location is presented as the majority of the group's capital expenditures incurred during the year are located in mainland China.

	mainland China		The United States of America		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**13,276**	14,054	**77,116**	44,629	**2,298**	7,872	**92,690**	66,555
Segment assets	**217,913**	217,724	**–**	29,745	**48,003**	2,593	**265,916**	250,062

37. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

The key management personnel of the group are the directors of the Company. Details of the remuneration paid to them are set out in note 9 to the financial statements.

(b) Other related party transactions

	Note	2006 HK$'000	2005 HK$'000
Rental expenses paid/payable to a director	*(i)*	**–**	72

Note:

(i) The amount of rent charged under the lease was determined with reference to amount charged by the director, Mr. Cheung Wai to third party.

38. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2006 not provided for in the Group's financial statements were as follows:

	2006 **HK$'000**	2005 HK$'000
Contracted but not provided for	**–**	4,292

(b) Operating lease commitments

At 31 December 2006, the Group's total minimum lease payment under non-cancellable operating leases are payable as follows:

	2006 **HK$'000**	2005 HK$'000
– Within one year	**37**	936
– In the second to fifth years	**–**	37
	37	973

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

39. FUTURE OPERATING LEASE ARRANGEMENTS

At 31 December 2006, the Group's total future aggregate minimum lease receipts under non-cancellable operating leases are receivables as follows:

	2006 **HK$'000**	2005 HK$'000
– Within one year	**371**	628
– In the second to fifth years	**177**	393
	548	1,021

40. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies and/or to conform with the current's year presentation. Further details on the changes in accounting policies are disclosed in note 4 to the financial statements.

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE, FOR THE YEAR ENDED 31 DECEMBER 2006

The Group has not early applied the following amendments, new standard and interpretations that have been issued but are not yet effective. The directors of the company anticipate that the application of these standards or interpretations will have no material impacts on the financial statements of the company.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRS)-Int 11	HKFRS 2 – Group and Treasury Share Transfer[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007