SYSCAN®

SYSCAN Technology Holdings Limited

矽感科技控股有限公司 *

Stock code: 8083

Annual Report 2008

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk 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 Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

Contents

Corporate Information

EXECUTIVE DIRECTORS
Cheung Wai, Chairman and Chief Executive Officer
Zhang Ming

INDEPENDENT NON-EXECUTIVE DIRECTORS
Fong Chi Wah
Jin Qingjun
Wang Ruiping

COMPANY SECRETARY
Fung Kwok Leung

QUALIFIED ACCOUNTANT
Fung Kwok Leung

COMPLIANCE OFFICER
Cheung Wai

AUTHORISED REPRESENTATIVES
Cheung Wai
Zhang Ming

AUDIT COMMITTEE
Fong Chi Wah
Jin Qingjun
Wang Ruiping

AUDITORS
Cachet Certified Public Accountants Limited
13F, Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

SHARE REGISTRARS
Computershare Hong Kong Investor Services Limited
Shops 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

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified, as appropriate, for the discontinued operation of the LCD and CRT monitors segment.

	Years ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**71,466**	86,227	92,690	66,555	79,917
Cost of sales	**(58,706)**	(73,815)	(67,713)	(42,359)	(52,516)
Gross profit	**12,760**	12,412	24,977	24,196	27,401
Other income and gains	**4,738**	58	4,530	2,331	35,158
Selling and distribution costs	**(8,520)**	(3,826)	(5,953)	(10,450)	(16,058)
General and administrative expenses	**(24,338)**	(14,844)	(19,753)	(49,329)	(14,130)
Research and development expenses	**(10,153)**	(4,023)	(4,657)	(39,195)	(13,758)
Other operating expenses	**(1,131)**	(789)	(21,959)	(13,476)	(14,977)
Gain on deemed disposal of subsidiaries	**–**	–	–	2	4,228
Loss on disposal of subsidiaries	**–**	–	(377)	(472)	(9,440)
Loss on disposal of an associate	**(529)**	–	–	–	–
Negative goodwill on acquisition of a subsidiary		–	–	8,911	–
Share of loss of associates	**(1,864)**	–	(565)	(1,660)	(42)
Finance costs	**(12)**	(398)	(5,120)	(3,635)	(2,902)
LOSS BEFORE TAX	**(29,049)**	(11,410)	(28,877)	(82,777)	(4,520)
Tax	**–**	–	(2)	(7)	(7)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(29,049)**	(11,410)	(28,879)	(82,784)	(4,527)
DISCONTINUED OPERATION					
Gain on deemed disposal of subsidiaries	**–**	98,442	–	–	–
Sales consideration forfeited	**51,387**	–	–	–	–
Profit from a discontinued operation of business	**–**	–	15,829	(17,304)	(19,356)
Profit/(loss) for the year from discontinued operation	**51,387**	98,442	15,829	(17,304)	(19,356)
PROFIT/(LOSS) FOR THE YEAR	**22,338**	87,032	(13,050)	(100,088)	(23,883)
Attributable to:					
Equity holders of the Company	**22,338**	87,032	(11,600)	(99,435)	(23,040)

Financial Summary

(Amounts expressed in Hong Kong dollars)

CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Intangible assets and goodwill	**–**	–	877	2,551	6,272
Property, plant and equipment	**13,775**	14,349	14,073	23,154	41,364
Construction in progress	**1,066**	–	157,229	141,134	127,807
Interest in associates	**119,999**	135,521	33,134	32,403	17,241
Available-for-sale investment	**–**	–	–	9,342	–
Long-term investments	**–**	–	–	–	9,342
Current assets	**48,352**	58,724	60,603	41,478	96,151
Current liabilities	**(49,952)**	(114,232)	(249,983)	(231,115)	(176,447)
Non-current liabilities	**–**	(350)	(398)	(446)	(616)
Net assets	**133,240**	94,012	15,535	18,501	121,114
Capital and reserves:					
Issued capital	**20,473**	4,095	4,095	1,024	1,024
Reserves	**112,767**	89,917	11,440	16,027	114,283
Equity attributable to the equity holders of the Company	**133,240**	94,012	15,535	17,051	115,307
Minority interests	**–**	–	–	1,450	5,807
Total equity	**133,240**	94,012	15,535	18,501	121,114

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 2008.

TURNOVER AND PERFORMANCE

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$71,466,000 (2007: approximately HK$86,227,000), representing an decrease of approximately 17%. The decrease was mainly due to the continual worsened market condition in USA where a majority of the Group's sales were made.

Gross profit for the year increased from approximately 14% in 2007 to approximately 18% for 2008 mainly due to better control on various costs of production.

The audited profit attributable to shareholders was approximately HK$22,338,000 (2007: approximately HK$87,032,000) mainly due to the forfeiture of purchase down payment received in last year from a then buyer of a then subsidiary of the Company during the year.

PROSPECTS AND APRECIATION

The year of 2008 is another difficult year for the Group and the year ahead will continue to be challenging given the economic tsunami which is expected to be prolonged for a few years.

The Company had put much effort on research and development as well as selling and marketing of the Group's products. It is expected that some of the research and development would be crystallized and would contribute to the Group's performance in the near future.

Pursuant to an ordinary resolution passed by way of poll at the Special General Meeting on 22 February 2008 a 1 to 4 rights issue of the Company's share was offered to the qualifying shareholders of the Company.

As disclosed in the Company's announcement dated 14 March 2008, the Rights Issue became unconditional on 12 March 2008 and the Rights Shares were fully subscribed for.

The net subscription money after related expenses amounted to approximately HK$14.48 million was used by the Group as general working capital for the Group's existing business activities.

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, 24 March 2009

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, and is gradually transforming into a 2D barcode solution provider and value-added services operator. The Group's turnover of approximately HK$71,466,000 for the year 2008 decreased by approximately 17% as compared to the turnover of approximately HK$86,227,000 in last year. The Group's gross profit margin had increased from the year 2007 of 14.4% to the year 2008 of 17.8%.

The Group recorded profit attributable to shareholders for the year 2008 of approximately HK$22,338,000 comparing with the profit of HK$87,032,000 for the year for 2007.

The Company had put much effort on research and development as well as selling and marketing of the Group's products. It is expected that some of the research and development would be crystallized and would contribute to the Group's performance in the near future.

Research and Development

The Group had increased its research and development expenses by 2.5 times as compared to year 2007, partly due to more intensive research and development work had been done and partly due to an acquisition of technical knowhow, which the Group considered would benefit the Group's future technical development and hence profitability.

The Group continues to explore the application of its 2D barcode value-added services in different fields of business. For instance, the Group successfully finished the research and testing for learning machine and cigarette barcode reader.

The Group will start to promote 2D barcode application in the sourcing and tracking system for China's food and medical products within certain provinces and cities.

The Group had also completed the development of 2D barcode readers, including multi-barcode and the products had already been launched at the end of 2007.

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 2D card reader using the Group CM code.

On 16 December 2008, AIM Global announced that Grid Matrix, developed by the Group's subsidiary Shenzhen Syscan Technology Limited, was recognised as one of the world's two-dimensional standard for symbology specification, making it the first international standard for symbology specification originated from China.

Production and the Manufacturing Base

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

Sales and Marketing

In October 2008, we attended the GITEX 2008 Middle East International Exhibition which was held in Dubai in order to introduce our products. The exhibition was characterized by computers and communication and consumption oriented electronic appliances. Many customers showed great interests at our 2D barcode products.

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.

Investments/De-vestments and Acquisitions

During the year, the Group disposed of an associate Shenzhen SYSCAN Hecheng Info-tech Co., Ltd. It was a joint venture formed in the PRC but had not been contributory. Disposal of the associated company eliminated the uncertainty as to its fair value to be carried in the Company's consolidated balance sheet

The Group also, through its intermediate holding company, invested in three new subsidiaries, namely, Wuhan Syscan Ltd; 深圳市矽感藝術發展有限公司 and 北京乾元貝盟科技有限公司. Details of these new investments are set out in note 17 to the accounts. The Board believes that these investments would further strengthen the Group's competitive power in the industry as well as acting as concrete base of development, production and marketing vehicle for the Group's new production in the near future.

FINANCIAL RESOURCES AND LIQUIDITY

As of 31 December 2008, the Group had a cash and bank balances of approximately HK$30,230,000 (2007: approximately HK$25,349,000). The RMB-denominated short term bank borrowing of approximately HK$8,983,000 in 2007 were fully repaid, which was secured by 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 the balance sheet date, the Group had no bank loan or other borrowing.

As at 31 December 2008, the total current assets over the total current liabilities was 0.97 times (2007: 0.51 times). The ratio of all debts to total assets was nil (2007: 4%).As most sales are made in US dollar, no hedging arrangement is made to offset the exposures to fluctuations in exchange rates.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2008 and up to the date of the approval of the financial statements.

INTELLECTUAL PROPERTY

As of 31 December 2008, the Group had 50 trademarks registered in different countries and regions, of which 22 trademarks have been approved. At the same time, the Group had been granted 176 patents and have 114 patents filed in different countries and regions, and 24 patents is under processing.

EMPLOYEES

As at 31 December 2008, the Group has 280 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.

OUTSTANDING LITIGATION

During the year, the fellow shareholders of an associated took legal action against the Group for repayment of amount due to the said associate of approximately HK$20,682,000. The directors believe, based on the legal advice obtained, that the best way to resolve the case is to settle by agreement. The Group will only need to repay the amount due to the associate and the amount has been fully provided for in the audited financial statements.

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.

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

Corporate Governance Report

The Board continues its policy of stringent internal control and corporate governance policy. 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.

In the opinion of the Board, save as disclosed below, the Company has complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") set out in Appendix 15 to the GEM Listing Rules, throughout the twelve months period ended 31 December 2008:

Under Code Provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheung Wai, an executive Director, serves as the chairman of the Board and the chief executive officer of the Group. The Board is of the view that this has not compromised accountability and independent decision-making for the following reasons:

- The independent non-executive Directors from the majority of the Board.

- The Audit Committee composed exclusively of independent non-executive Directors.

- The independent non-executive Directors have free and direct access to the Company's external auditor and independent professional advice when considered necessary.

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.

Corporate Governance Report

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 2008, all Directors have compiled with the Code of Ethics and Securities Transaction.

BOARD OF DIRECTORS

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

The Board, led by the Chairman, Mr Cheung Wai, is responsible for the approval and monitoring of Group's overall 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 2008, the Board comprised two Executive Directors namely Mr Cheung Wai, also acting as Chairman and CEO, and Mr Zhang Ming, and three Independent Non-executive Directors. Biographical details of the Directors were referred to on page 14 of this annual report. The board is currently looking for a suitable candidate to fill the vacancy of CEO.

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 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 2008. Attendance of the directors were as follows:

	Name of Directors	Attendance
Chairman, Executive Director,CEO	Cheung Wai	4/4
Executive Director	Zhang Ming	4/4
Independent non-executive Directors	Fong Chi Wah	4/4
	Jin Qingjun	4/4
	Wang Ruiping	4/4

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 provided that every Director shall be subjected to retirement by rotation at least once every three years. 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. The retiring Director shall be eligible for re-election.

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 Jin Qingjun*
Mr Wang Ruiping*
Mr Cheung Wai
Mr Zhang Ming

* 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 meet 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
Mr Fong Chi Wah*
Mr Jin Qingjun*
Mr Wang Ruiping*

* Independent non-executive director

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

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

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

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

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

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

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The Committee is chaired by Mr Fong Chi Wah, and the other Audit Committee members are Mr Jin Qingjun and Mr Wang Ruiping 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 2008 and one meeting to date in 2009.

Name of member	Attendance
Mr Fong Chi Wah	5/5
Mr Jin Qingjun	5/5
Mr Wang Ruiping	5/5

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.

The Audit Committee in conjunction with the external auditors of the Company has reviewed the Company's financial statements for the year ended 31 December 2008 and has provided advice and comments thereon.

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 Cachet Certified Public Accountants Limited 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$430,000. No other non-audit related services were performed by Cachet Certified Public Accountants Limited Certified Public Accountants Limited.

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 20 working 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, 24 March 2009

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Cheung Wai, aged 58, 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 51, brother of Mr. Cheung Wai (Chairman and Chief Executive Officer of the Group) 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 was appointed executive director of the Company (on 2 February 2007). Mr. Zhang 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 and was working in The Earth Exploration Office of the Chinese Petroleum Department (中國石油部地球勘探局) and the Gas Head Corporation of China (中國石油天燃氣總公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Fong Chi Wah, aged 47, is a Certified Practising Accountant (Australia), a Chartered Financial Analyst, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Certified Management Accountants, Australia and a member of Hong Kong Institute of Directors. Mr Fong has over 20 years of extensive experience in various sectors of financial industry, including direct investment, project and structured finance, and capital markets with focus on the PRC and Hong Kong. Mr Fong was previously a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. Mr Fong was also an executive director of Grand Investment International Limited, a company listed on the Stock Exchange. Mr Fong is currently an executive director of National Investment Fund Limited, a company listed on the Stock Exchange. Mr Fong holds a bachelor's degree in management science (economics) from Lancaster University, United Kingdom, a master's degree in business administration from Warwick University, United Kingdom, a master's degree in investment management from the Hong Kong University of Science and Technology and a master's degree in practising accounting from Monash University, Australia.

Mr Jin Qingjun, aged 51, is currently a partner of King & Wood, solicitors and attorneys in PRC. 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 louder and Managing Partner of Shu Jin & Co., solicitors and attorneys in PRC. He has previously worked as Attorney for C & C Law Office in PRC, as Foreign Attorney for Clyde & Co., British solicitors, and Johnson Stokes & Master, solicitors in Hong Kong. Presently, Mr Jin acts as legal consultant for various financial institutions, securities companies, listed companies and overseas corporations such as the World Bank Group International Finance Corporation. He is now also acting as independent director of two listed companies in the PRC namely China International Marine Containers (Group) Stock Co., Ltd. (中國國際海運集裝箱(集團)股份有限公司), a company listed on the Shenzhen stock exchange and China United Travel Stock Co., Ltd. (國旅聯合股份有限公司), a company listed on the Shanghai stock exchange. He is also an independent director of a Sino-US fund 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 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. He is one of the seven members of Shenzhen Stock Exchange Appeal Review 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

Mr Wang Ruiping, aged 46, is a managing director of TDR Capital International Limited and an independent non-executive director of China Huali Holding Limited since March 2003, a company listed in Shenzhen stock exchange. Mr Wang has over 15 years of investment banking and investment management experience. He also has profound experience of investments in China via listings on domestic and foreign stock exchanges. He has previously worked as executive director of Softbank Investment International (Strategic) Limited, vice president of Greater China Investment banking of Deutsche Bank and assistant director of Standard Chartered (Asia) Limited in charge of investment banking business in mainland China. Mr Wang was working for China International Trust and Investment Corporation before joining Standard Chartered Asia Limited. Mr Wang holds a master degree in Economics from Nankai University of China.

SENIOR MANAGEMENT

Mr Wong Hiu Tung, aged 40, is the Chief Financial Officer and is responsible for ensuring the funding needs of the Group, monitoring the Group's operational and financial status such as cash flow and revenue generation, expenses containment and budget forecasting in accordance with the Group's strategic plans. Mr Wong has over 10 years experience in various sectors of financial industry, including venture capital, investment banking and corporate finance with focus on the PRC and Hong Kong. Mr Wong previously worked for WI Harper Group and JPMorgan Chase Bank. Mr Wong holds an Honours Degree in Law and a Master of Business Administration from the University of Exeter, United Kingdom.

Mr Alpha Hou Lan Chung, aged 55, is the Chief Technology Officer and is responsible for technology research and development of the Group. Mr Hou has over 25 years' imaging related product development and engineering management experience in analog and digital design, image capturing and display industry including Pro-Arch, Syscan, Microtek, Trident, Genoa, Grundig and RCA. He holds a bachelor's degree in Electronic Engineering from Northwestern Polytechnic University, USA. Mr Hou joined the Group in December 2007.

Mr Joseph Kung, aged 57, the Director of R&D Department, Responsible for R&D management and projects planning/overall technical scheme. Mr Kung had nearly 20 years electronic circuit design plus 4 years engineering management experiences in Video, Telecommunications and Scanning industries including Syscan, Alphavision, AT&T Bell Labs, Grundig and Sylvania Philco. He held a degree of Master of Science in Electrical Engineering from New Mexico State University, New Mexico, USA. Mr Kung joined SYSCAN group in November 2008.

Dr Chen Longjun, aged 41, is the President 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 asthe doctor's degree in computer from University of North Dakota in America.

Mr Fung Kwok Leung, aged 43, is the qualified accountant and company secretary of the Company. Mr Fung holds an Honours Degree in Accountancy from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr Dou Yi, aged 38, 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.

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 2008.

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 2008, are as follows:

		Turnover		Segment result	
		2008	2007	**2008**	2007
		HK$'000	HK$'000	**HK$'000**	HK$'000
a.	**By product category**				
	– optical image capturing devices	**62,919**	78,659	**(2,899)**	(10,387)
	– modules unit	**–**	–	**–**	–
	– chips and other optoelectronic products	**8,547**	7,568	**(3,852)**	(1,000)
		71,466	86,227	**(6,751)**	(11,387)

		Turnover		Segment assets	
		2008	2007	**2008**	2007
		HK$'000	HK$'000	**HK$'000**	HK$'000
b.	**By geographical location***				
	– Mainland China	**11,767**	14,840	**41,399**	208,594
	– The United States of America	**59,699**	66,804	**21,794**	–
	– Others	**–**	4,583	**–**	–
		71,466	86,227	**63,193**	208,594

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

Report of the Directors

CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers accounted for approximately 84% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 33% of the Group's total purchases. The largest customer accounted for approximately 69% of the Group's total turnover while the largest supplier accounted for approximately 60% 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 2008 are set out in the consolidated income statement on page 29 of this annual report.

The Directors do not recommend the payment of any dividend and recommend that the retained profit of approximately HK$36,505,000 of the Company as at 31 December 2008 be carried forward.

SHARE CAPITAL

Details of movements share capital of the Company are set out in Note 28 to the accompanying financial statements.

RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group and the Company during the year are set out in Note 29 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 29 of this annual report.

As at 31 December 2008, the Company had no reserves available for distribution to its shareholders. However, the Company's share premium account, in the amount of approximately HK$6,141,000, may be distributed in the form of fully paid bonus shares.

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 Notes 17 and 18 respectively to the accompanying financial statements.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

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

Report of the Directors

BANK BORROWINGS

Particulars of bank borrowings as at 31 December 2008 are set out in Note 25 to the accompanying financial statements.

EMPLOYEE RETIREMENT BENEFITS

Details of the Group's pension schemes are set out in Note 30 to the accompanying financial statements.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 34 to the accompanying financial statements.

DIRECTORS

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

Executive directors
Mr Cheung Wai, Chairman
Mr Zhang Ming

Independent non-executive directors
Mr Fong Chi Wah
Mr Jin Qingjun
Mr Wang Ruiping

In accordance with Bye-law 99 and 102A of the Bye-Laws of the Company, Mr Zhang Ming and Mr Jin Qingjun will retire from office by rotation at the forthcoming AGM, and being eligible, offer themselves 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 2008.

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 Fong Chi Wah, Mr Jin Qingjun and Mr Wang Ruiping, the independent non-executive directors, have renewed their service agreements with the Company for a term of three years commencing from, in the case of Mr Fong Chi Wah, 19 December 2006, in the case of Mr Jin Qingjun, 30 September 2007 and in the case of Mr Wang Ruiping, 4 May 2007.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2008, 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	843,112,045	–	–	–	843,112,045	41.18%
Mr. Jin Qingjun (Note 1)	–	–	–	–	–	0%

Note 1 Mr. Jin Qingjun had disposed of 50,000 share on 25 August 2008.

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 2008, no options have been granted to the Directors of the Company under Share Option Scheme A.

Details of the options granted to the Directors of the Company under Share Option Scheme B and Share Option Scheme C since its adoption and up to 31 December 2008 were as follows:

Scheme B

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Subscription price per share	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options cancelled/ lapsed	No. of underlying shares comprising the options outstanding
Mr Cheung Wai	19/6/2000	19/6/2001 to 18/6/2010	HK$0.44 (Note 2)	3,750,000	–	–	3,750,000

Note 2 As a result of the 1 to 4 rights issue on 17 March 2008, there was an adjustment of the share option exercise price and the number of shares to be allotted. The full details of the adjustments was published on the GEM website on 26 May 2008.

Scheme C

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Subscription price per share	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options cancelled/ lapsed	No. of underlying shares comprising the options outstanding
Mr Cheung Wai	13/8/2008	13/8/2009 to 12/8/2018	HK$0.06	20,000,000	–	–	20,000,000
Mr Zhang Ming	13/8/2008	13/8/2009 to 12/8/2018	HK$0.06	20,000,000	–	–	20,000,000

Save as disclosed above, as at 31 December 2008, 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 2008, 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	Beneficial owner	Personal	843,112,045	41.18%

Details of the interests of Mr. Cheung Wai is duplicated in the section "Directors' Interest in Shares" 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.

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 1 to 4 rights issue on 17 March 2008, there was an adjustment of the share option exercise price and the number of shares to be alloted, the full detail of the adjustments was published on the GEM website on 26 May 2008.

(II) Details of the movement of options under Scheme A during the year ended 31 December 2008 were as follows:

				Number of underlying shares				
Class of optionees	**Date of grant**	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**Exercised during the year**	**Balance as at 31 December 2008**
Employees working under continuous employee contracts	2 March 2000	2 March 2000 to 1 March 2010	HK$0.0646	420,000	–	120,000	–	300,000
				420,000	–	120,000	–	300,000

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 1 to 4 rights issue on 17 March 2008, there was an adjustment of the share option exercise price and the number of shares to be alloted, the full detail of the adjustments was published on the GEM website on 26 May 2008.

(II) Details of the movement of options under Scheme B during the year ended 31 December 2008 were as follows:

				Number of underlying shares				
Class of optionees	Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	Balance as at 31 December 2008
Directors, chief executive, management shareholders or substantial shareholders or their respective associates	19 June 2000	19 June 2001 to 18 June 2010	HK$0.44	3,750,000	–	–	–	3,750,000
Employees working under continuous employee contracts	12 July 2000	12 July 2001 to 11 July 2010	HK$0.328	75,000	–	–	–	75,000
	4 December 2000	4 December 2001 to 3 December 2010	HK$0.1355	150,000	–	–	–	150,000
	17 January 2001	17 January 2002 to 16 January 2011	HK$0.2747	600,000	–	–	–	600,000
	13 August 2001	13 August 2002 to 12 August 2011	HK$0.368	225,000	–	–	–	225,000
				4,800,000	–	–	–	4,800,000

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 1 to 4 rights issue on 17 March 2008, there was an adjustment of the share option exercise price and the number of shares to be alloted, the full detail of the adjustments was published on the GEM website on 26 May 2008.

The total number of shares available for issue under Scheme C is 176,792,500 (representing approximately 8.6% 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.

(II) Details of the movement of options under Scheme C during the year ended 31 December 2008 were as follows:

				Number of underlying shares				
Class of optionees	**Date of grant**	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**Exercised during the year**	**Balance as at 31 December 2008**
Directors, chief executive, management shareholders or substantial shareholders or their respective associates	13 August 2008	13 August 2009 to 12 August 2018	HK$0.06	–	72,000,000	–	–	72,000,000
Employees working under continuous employee contracts	14 May 2002	14 May 2003 to 13 May 2012	HK$0.1883	3,225,000	–	187,500	–	3,037,500
	14 August 2002	14 August 2003 to 13 August 2012	HK$0.1333	2,587,500	–	–	–	2,587,500
	26 March 2003	26 March 2004 to 25 March 2013	HK$0.1333	2,370,000	–	202,500	–	2,167,500
	13 August 2008	13 August 2009 to 12 August 2018	HK$0.06	–	96,250,000	–	–	96,250,000
All other optionees	14 May 2002	14 May 2003 to 13 May 2012	HK$0.1883	750,000	–	–	–	750,000
	14 August 2002	14 August 2003 to 13 August 2012	HK$0.1333	3,750,000	–	3,750,000	–	–
				12,682,500	168,250,000	4,140,000	–	176,792,500

The Directors consider it inappropriate to value all the options that can be granted during the year ended 31 December 2008 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 2008.

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 Fong Chi Wah, Mr Jin Qingjun and Mr Wang Ruiping. The Committee has met 4 times since 1 January 2008 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

CCIF CPA Limited acted as auditors of the Company for the year ended 31 December 2006.

During the year ended 31 December 2007, CCIF CPA Limited resigned as auditors of the Company and Messrs Cachet Certified Public Accountants Limited were appointed by the directors to fill the casual vacancy so arising.

The financial statements for the years ended 31 December 2007 and 2008 were audited by Messrs Cachet Certified Public Accountants Limited. A resolution for the reappointment of Messrs Cachet Certified Public Accountants 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, 24 March 2009

Independent Auditors' Report

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

13F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong

TO THE SHAREHOLDERS OF SYSCAN TECHNOLOGY HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Syscan Technology Holdings Limited (the "Company") set out on pages 29 to 90, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our 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 as described in the basis for qualified opinion paragraph, 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. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

Limitation of scope – disposal of an associate

As further explained in note 31(b) to the financial statements, on 30 April 2008 (the "Disposal Date"), the Group disposed of its 40% equity interests in an associate, 深圳旭感和誠信息技術有限公司(Shenzhen SYSCAN Hecheng Info-tech Co., Ltd., "Shenzhen SYSCAN"), to an independent third party (the "Acquirer") in return for the Acquirer to assume the liability amount due from the Group to Shenzhen SYSCAN of approximately HK$13,129,000, resulting in a loss on disposal of approximately HK$529,000 in the Group's consolidated income statment. We were not provided with sufficient and appropriate evidence, or were unable to carry out alternative audit procedures, on the value of the Group's share of net assets of Shenzhen SYSCAN, the amount due to Shenzhen SYSCAN as at the Disposal Date and the share of losses of Shenzhen SYSCAN of HK$Nil for the period ended the Disposal Date. Consequently, we were unable to satisfy ourselves as to whether the loss on disposal of approximately HK$529,000 arising thereon and the Group's share of Shenzhen SYSCAN's profit or loss of HK$Nil for the period up to the Disposal Date were fairly stated. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in consolidated income statement in respect of Shenzhen SYSCAN up until the Disposal Date, with a corresponding effect on the loss on disposal, and the related disclosures thereof in the financial statements.

Limitation of scope – carrying amount of interest in associates and provision for impairment of amount due from associates

Included in the interests in associates in the consolidated balance sheet as at 31 December 2008 were interests in an associate, namely 浙江矽感科技有限公司 of HK$19,960,000, the amount due from one of the associates of HK$Nil, stated net of a provision for impairment loss against the amount of HK$20,284,000, and the amounts due to associates of HK$20,682,000. We were not provided with sufficient and appropriate evidence to satisfy ourselves as to whether the amounts were fairly stated and free from material misstatement and were unable to obtain sufficient evidence or carry out alternative audit procedures on the value of the share of net assets of associates, the amount due from or to the associates as at 31 December 2008 and the share of losses of associates of HK$Nil for the year ended 31 December 2008. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated balance sheet and the consolidated income statement in respect of the share of losses of associates and the provision for impairment loss on the amount due from the associate and consequently the net carrying amount of interests in associates and the amount due from or to the associates as at 31 December 2008.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2008 and of the cash flows of the Group for the year then ended, and except for any adjustments that might have been necessary had we been able to obtain information to satisfy ourselves as to the matter mentioned in the basis for qualified opinion section above, give a true and fair view of the state of affairs of the Group as at 31 December 2008 and the Group's profit for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cachet Certified Public Accountants Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
24 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CONTINUING OPERATIONS			
Revenue	4, 5	**71,466**	86,227
Cost of sales		**(58,706)**	(73,815)
Gross profit		**12,760**	12,412
Other income and gains	5	**4,738**	58
Selling and distribution costs		**(8,520)**	(3,826)
General and administrative expenses		**(24,338)**	(14,844)
Research and development expenses		**(10,153)**	(4,023)
Other operating expenses		**(1,131)**	(789)
Loss from continuing operations		**(26,644)**	(11,012)
Finance costs	7	**(12)**	(398)
Loss on disposal of an associate		**(529)**	–
Share of losses of associates		**(1,864)**	–
Loss before tax	6	**(29,049)**	(11,410)
Tax	10	**–**	–
Loss for the year from continuing operations		**(29,049)**	(11,410)
DISCONTINUED OPERATION			
Gain on deemed disposal of a subsidiary	31(a)	**–**	98,442
Sales consideration forfeited, net	27(a)	**51,387**	–
Profit for the year from a discontinued operation		**51,387**	98,442
Profit for the year		**22,338**	87,032
Attributable to:			
Equity holders of the Company	11	**22,338**	87,032
Minority interests		**–**	–
		22,338	87,032
Earnings/(loss) per share attributable to ordinary equity holders of the Company:	12		
Basic:			
For profit for the year		**1.31 cents**	21.3 cents
For loss for the year from continuing operations		**(1.71 cents)**	(2.8 cents)
Diluted:			
For profit for the year		**N/A**	N/A
For loss for the year from continuing operations		**N/A**	N/A
Dividends		**–**	–

The notes on pages 35 to 90 form an integral part of these financial statements.

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON CURRENT ASSETS			
Intangible assets	13	–	–
Goodwill	14	–	–
Property, plant and equipment	15	13,775	14,349
Construction in progress	16	1,066	–
Interest in associates	18	119,999	135,521
Available-for-sale investments	19	–	–
Total non current assets		134,840	149,870
CURRENT ASSETS			
Inventories	20	3,073	2,422
Trade receivables	21	3,361	4,949
Prepayments, deposits and other receivables	22	8,435	25,387
Financial assets at fair value through profit or loss	23	1,139	–
Due from an associate	18	1,584	–
Prepaid tax		530	617
Cash and cash equivalents	24	30,230	25,349
Total current assets		48,352	58,724
CURRENT LIABILITIES			
Bank loans, secured	25	–	8,633
Trade payables	26	6,121	6,058
Accruals and other payables	27	23,149	64,775
Tax payable		–	11
Due to associates	18	20,682	34,755
Total current liabilities		49,952	114,232
NET CURRENT LIABILITIES		(1,600)	(55,508)
TOTAL ASSETS LESS CURRENT LIABILITIES		133,240	94,362
NON CURRENT LIABILITIES			
Bank loans, secured	25	–	(350)
Net assets		133,240	94,012
EQUITY			
Total equity attributable to the equity holders of the Company			
Issued capital	28	20,473	4,095
Reserves	29	112,767	89,917
		133,240	94,012
Minority interests		–	–
Total equity		133,240	94,012

Approved and authorised for issue by the board of directors on 24 March 2009

On behalf of the board

CHEUNG WAI
Director

ZHANG MING
Director

The notes on pages 35 to 90 form an integral part of these financial statements.

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON CURRENT ASSETS			
Interest in subsidiaries	17	**133,336**	–
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**4,913**	20,480
Cash and cash equivalents	24	**943**	2,363
		5,856	22,843
CURRENT LIABILITIES			
Accruals and other payables	27	**5,952**	675
NET CURRENT (LIABILITIES)/ASSETS		**(96)**	22,168
Net assets		**133,240**	22,168
EQUITY			
Issued capital	28	**20,473**	4,095
Reserves	29	**112,767**	18,073
		133,240	22,168

Approved and authorised for issue by the board of directors on 24 March 2009

On behalf of the board

CHEUNG WAI
Director

ZHANG MING
Director

The notes on pages 35 to 90 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital	**Share premium account**	**Capital reserves**	**Statutory reserves fund**	**Exchange reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2007	4,095	6,141	198,066	439	2,761	(195,967)	15,535	–	15,535
Exchange realignment	–	–	–	–	(2,462)	–	(2,462)	–	(2,462)
Written-back on deemed disposal of a subsidiary	–	–	(6,093)	–	–	–	(6,093)	–	(6,093)
Profit for the year	–	–	–	–	–	87,032	87,032	–	87,032
Balance at 31 December 2007	4,095	6,141	191,973	439	299	(108,935)	94,012	–	94,012
Balance at 1 January 2008	4,095	6,141	191,973	439	299	(108,935)	94,012	–	94,012
Shares issued from a right issue	16,378	–	–	–	–	–	16,378	–	16,378
Exchange realignment	–	–	–	–	512	–	512	–	512
Profit for the year	–	–	–	–	–	22,338	22,338	–	22,338
Balance at 31 December 2008	**20,473**	**6,141**	**191,973**	**439**	**811**	**(86,597)**	**133,240**	**–**	**133,240**

The notes on pages 35 to 90 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**22,338**	87,032
Adjustments for:			
Amortisation of intangible assets		**–**	153
Depreciation of property, plant and equipment		**3,490**	3,319
Finance costs	7	**12**	398
Interest income	5	**(257)**	(58)
(Gain)/loss on disposal of items of property, plant and equipment	6	**(2,876)**	412
Gain on deemed disposal of a subsidiary	31(a)	**–**	(98,442)
Loss on disposal of an associate	31(b)	**529**	–
Share of loss of associates		**1,864**	–
Sales consideration forfeited, net	27(a)	**(51,387)**	–
Operating loss before working capital changes		**(26,287)**	(7,186)
(Increase)/decrease in inventories		**(651)**	675
Decrease in trade receivables		**1,588**	6,968
Decrease in prepayments, deposits and other receivables		**1,352**	12,795
Increase in equity investment at fair value through profit and loss		**(1,139)**	–
Decrease in amount due to a director		**–**	(4,590)
Increase/(decrease) in trade payables		**63**	(18,782)
Increase/(used in) in other payables		**19,899**	26,369
Cash (used in)/generated from operations		**(5,175)**	16,249
Interest received		**257**	58
Interest paid		**(12)**	(398)
Overseas taxes recovered/(paid)		**76**	(606)
Net cash (outflow)/inflow from operating activities		**(4,854)**	15,303

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(7,347)**	(3,831)
Other receivables received in respect of the proceeds from disposal of a subsidiary in previous year		**15,600**	15,192
Proceeds from disposal of items of property, plant and equipment		**8,524**	–
Additions to construction in progress		**(1,066)**	–
Cash inflow from disposal of a subsidiary	31(a)	**–**	135,335
Decrease in amont due to associates		**(944)**	(3,823)
Increase in amount due from associate		**(1,584)**	–
Net cash inflow from investing activities		**13,183**	142,873
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of short term bank loans		**(8,983)**	(124,000)
Interest paid	27(a)	**(10,138)**	–
Repayment of interest-bearing borrowings		**–**	(12,020)
Proceeds from shares issued from a rights issue		**16,378**	–
Net cash outflow from financing activities		**(2,743)**	(136,020)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,586**	22,156
Cash and cash equivalents at beginning of year		**25,349**	4,919
Effect of foreign exchange rate changes, net		**(705)**	(1,726)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**30,230**	25,349
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**30,230**	25,349

The notes on pages 35 to 90 form an integral part of these financial statements.

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 registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is situated at Unit C, 21st Floor, Seabright Plaza, 9-23 Shell Street, North Point, Hong Kong.

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.

2.1 BASIS OF PREPARATION

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

Basis of presentation

The Group had consolidated net current liabilities of approximately HK$1,600,000 as at 31 December 2008. The financial statements have been prepared on a going concern basis, the validity of which depends upon the fact that a director of the Company has agreed to provide certain financial support to the Group. Should the Group be unable to continue 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 as current assets. The effects of these adjustments have not been reflected in the financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 & HKFRS 7 (Amendments)	*Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) *Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(b) *HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) *HK(IFRIC)-Int 12 Service Concession Arrangements*

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

(d) *HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	*Presentation of Financial Statements* [3]
HKAS 23 (Revised)	*Borrowing Costs* [3]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statement* [4]
HKAS 32 & 1 (Amendments)	*Puttable Financial Instruments and Obligations Arising on Liquidation*[3]
HKAS 39 (Amendment)	*Eligible Hedged Items* [4]
HKFRS 1 (Revised)	*First-time Adoption of HKFRSs* [4]
HKFRS 1 & HKAS 27 (Amendments)	*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [3]
HKFRS 2 (Amendment)	*Share-based payment – Vesting Conditions and Cancellation* [3]
HKFRS 3 (Revised)	*Business Combinations* [4]
HKFRS 7 (Amendments)	*Financial Instruments Disclosures* [3]
HKFRS 8	*Operating Segments* [3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [1]
HK(IFRIC)-Int 15	*Agreements for the construction of Real Estate* [3]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [2]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [4]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [4]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 July 2008
2 Effective for annual periods beginning on or after 1 October 2008
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in a changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment loss.

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains 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. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on the acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill *(Cont'd)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (Cont'd)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for the associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less cost to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other asset or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	– Over the shorter of the unexpired term of lease and the estimated useful lives, being no more than 50 years after the date of completion
Leasehold improvements	– 5%
Furniture and office equipment	– 20% – 33%
Machinery and equipment	– 10% – 20%
Motor vehicles	– 20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment and depreciation *(Cont'd)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets *(Cont'd)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition available for sale financial assets are measured at fair values with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of financial assets *(Cont'd)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income tax *(Cont'd)*

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

Retirement benefit

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 settlements is defined and the effect would be material, these amounts are stated at their present values.

Retirement benefit scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefits plans operated by the relevant municipal and provincial social insurance management bodies in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year or in accordance with the requirements of the operators of the plans. The contributions payable are charged as an expense to the income statement as incurred. The Group has no obligation for payment of retirement benefits beyond the contributions.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollars ("HK$"). As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Cont'd)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Property, plant and equipment and construction in progress

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

Impairment loss on inventories

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

Impairment loss on trade and other receivables

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

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2008, no impairment losses have been recognised for available-for-sale assets (2007: HK$Nil). The carrying amount of available-for-sale assets was HK$Nil (2007: HK$Nil).

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2008, the best estimate of the carrying amount of capitalised development costs was HK$Nil (2007: HK$Nil).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Cont'd)*

Estimation uncertainty *(Cont'd)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK$Nil (2007: HK$Nil).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. For management purposes, the Group is currently organised into the following operating activities, which are the basis on which the Group reports its primary segment information:

(i) optical image capturing devices units;

(ii) modules units; and

(iii) chips and other optoelectronic products unit.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Continuing operations				Discontinued operation	
	Optical Image Capturing devices unit HK$'000	Modules unit HK$'000	Chips and other opto-electronic products unit HK$'000	Total HK$'000	LCD and CRT monitors HK$'000	Consolidated HK$'000
Year ended 31 December 2008						
Segment revenue:						
Sales to external customers	62,919	–	8,547	71,466	–	71,466
Total	62,919	–	8,547	71,466	–	71,466
Segment results	(2,899)	–	(3,852)	(6,751)	–	(6,751)
Interest income and unallocated gains				4,738		4,738
Corporate and other unallocated expenses				(24,631)	–	(24,631)
Finance costs				(12)	–	(12)
Loss on disposal of an associate	(529)	–	–	(529)	–	(529)
Share of profits and losses of:						
Associates				(1,864)	–	(1,864)
Sales consideration forfeited, net				–	51,387	51,387
Profit/(loss) before tax				(29,049)	51,387	22,338
Tax				–	–	–
Profit/(loss) for the year				(29,049)	51,387	22,338
Assets and liabilities						
Segment assets	23,317	–	5,715	29,032	–	29,032
Interests in associates				119,999	–	119,999
Corporate and other unallocated assets				34,161	–	34,161
Total assets				183,192	–	183,192
Segment liabilities	18,403	–	3,207	21,610	–	21,610
Corporate and other unallocated liabilities				28,342	–	28,342
Total liabilities				49,952	–	49,952

4. SEGMENT INFORMATION *(Cont'd)*

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

	Continuing operations				Discontinued operation	
	Optical Image Capturing devices unit HK$'000	Modules unit HK$'000	Chips and other opto-electronic products unit HK$'000	Total HK$'000	LCD and CRT monitors HK$'000	Consolidated HK$'000
Other segment information:						
Depreciation and amortisation	2,894	–	596	3,490	–	3,490
				3,490	–	3,490
Capital expenditure	3,987	–	664	4,651	–	4,651
Corporate and other unallocated liabilities				2,696	–	2,696
				7,347	–	7,347

4. SEGMENT INFORMATION *(Cont'd)*

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

	Continuing operations				Discontinued operation	
	Optical Image Capturing devices unit HK$'000	Modules unit HK$'000	Chips and other opto–electronic products unit HK$'000	Total HK$'000	LCD and CRT monitors HK$'000	Consolidated HK$'000
Year ended 31 December 2007						
Segment revenue:						
Sales to external customers	78,659	–	7,568	86,227	–	86,227
Total	78,659	–	7,568	86,227	–	86,227
Segment results	(10,387)	–	(1,000)	(11,387)	–	(11,387)
Gain on deemed disposal of a subsidiary				–	98,442	98,442
Interest income and unallocated gains				375	–	375
Finance cost				(398)	–	(398)
Corporate and other unallocated expenses				–	–	–
Profit/(loss) before tax				(11,410)	98,442	87,032
Tax				–	–	–
Profit/(loss) for the year				(11,410)	98,442	87,032
Assets and liabilities						
Segment assets	52,973	–	20,100	73,073	–	73,073
Interest in associates	135,521	–	–	135,521	–	135,521
Total assets				208,594	–	208,594
Segment liabilities	103,541	–	11,041	114,582	–	114,582
Total liabilities				114,582	–	114,582

4. SEGMENT INFORMATION *(Cont'd)*

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

	Continuing operations				Discontinued operation	
	Optical Image Capturing devices unit HK$'000	Modules unit HK$'000	Chips and other opto–electronic products unit HK$'000	Total HK$'000	LCD and CRT monitors HK$'000	Consolidated HK$'000
Other segment information:						
Depreciation and amortisation	2,955	–	517	3,472	–	3,472
				3,472	–	3,472
Capital expenditure	3,763	–	68	3,831	–	3,831
				3,831	–	3,831

4. SEGMENT INFORMATION *(Cont'd)*

(b) Geographical segment

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	Mainland China HK$'000	United States of America HK$'000	Others HK$'000	Consolidated HK$'000
Year ended 31 December 2008				
Segment revenue:				
Sales to external customers	**11,767**	**59,699**	**–**	**71,466**
Attributable to a discontinued operation	**–**	**–**	**–**	**–**
Revenue from continuing operations	**11,767**	**59,699**	**–**	**71,466**
Other segment information:				
Segment assets	**41,399**	**21,794**	**–**	**63,193**
Interest in associates	**119,999**	**–**	**–**	**119,999**
				183,192
Capital expenditure	**2,884**	**4,463**	**–**	**7,347**
Year ended 31 December 2007				
Segment revenue:				
Sales to external customers	14,840	66,804	4,583	86,227
Attributable to a discontinued operation	–	–	–	–
Revenue from continuing operations	14,840	66,804	4,583	86,227
Other segment information:				
Segment assets	73,073	–	–	73,073
Interest in associates	135,521	–	–	135,521
				208,594
Capital expenditure	68	3,763	–	3,831

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for trade discounts and returns and excludes sales taxes and intra-group transactions during the year.

An analysis of revenue, other income and gains from continuing operations is as follows:

	2008 HK$'000	2007 HK$'000
Revenue		
Sale of goods	**71,466**	86,227
Other income and gains		
Interest income	**257**	58
Gain on disposal of items of property, plant and equipment	**2,876**	–
Subsidy income	**624**	–
Others	**981**	–
	4,738	58
Total revenue, other income and gains	**76,204**	86,285

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2008 HK$'000	2007 HK$'000
Cost of inventories sold	**58,706**	73,815
Depreciation of property, plant & equipment	**3,490**	3,319
Loss on disposal of items of property, plant and equipment	**–**	412
Loss on disposal of an associate (note 31(b))	**529**	–
Minimum lease payments under operating leases on land and buildings	**1,904**	671
Auditors' remuneration		
– audit services	**430**	390
– other services	**180**	380
Employee benefits expense (including directors' remuneration (note 8)):		
Salaries, allowances and benefits in kind	**19,268**	16,832
Performance – related bonuses	**5,222**	–
Retirement benefits contributions	**317**	585
	24,807	17,417
Amortisation of intangible assets	**–**	153
Bank interest income	**(257)**	(58)
Gain on disposal of items of property, plant and equipment	**(2,876)**	–
Subsidy income	**(624)**	–

7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on bank loans repayable within 5 years	**12**	398

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2008 HK$'000	2007 HK$'000
Fees:		
Independent non-executive directors	**300**	400
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**2,998**	1,736
Performance-related bonuses	**5,222**	–
Retirement scheme contributions	**12**	12
	8,532	2,148

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors 2008	2007
Nil – HK$1,000,000	**3**	5
HK$1,000,001 – HK$1,500,000	**1**	1
HK$7,500,001 – HK$8,000,000	**1**	–
	5	6

8. DIRECTORS' REMUNERATION *(Cont'd)*

2008

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-related bonuses HK$'000	Retirement scheme contributions HK$'000	Total emoluments HK$'000
Executive directors:					
Cheung Wai	–	2,575	5,222	12	7,809
Zhang Ming	–	423	–	–	423
Independent non executive directors:					
Fong Chi Wah	120	–	–	–	120
Jin Qingjun	120	–	–	–	120
Wang Ruiping	60	–	–	–	60
	300	2,998	5,222	12	8,532

2007

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-related bonuses HK$'000	Retirement scheme contributions HK$'000	Total emoluments HK$'000
Executive directors:					
Cheung Wai	–	1,356	–	12	1,368
Zhang Ming	–	380	–	–	380
Independent non executive directors:					
Fong Chi Wah	120	–	–	–	120
Jin Qingjun	120	–	–	–	120
Wang Ruiping	40	–	–	–	40
Lo Wai Ming	120	–	–	–	120
	400	1,736	–	12	2,148

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2007: three) non-director, highest paid employees whose individual remuneration fell within the range of HK$Nil to HK$1,500,000, is as follows:

	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,829**	931
Retirement scheme contributions	**24**	–
	1,853	931

10. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2007: HK$Nil). No provision for the overseas income tax has been provided in the financial statements as the Group did not derive any overseas assessable profits in the respective jurisdictions during the year.

A reconciliation of the income tax expense applicable to profit before tax at the rates applicable to profits in the tax jurisdiction concerned to income tax expenses at the Group's effective income tax rates is as follows:

	2008		2007	
	HK$'000	**%**	HK$'000	%
Profit before tax	**22,338**		87,032	
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,523**	**11.3**	15,231	17.5
Tax effect of income not taxable for tax purposes				
– Gain on disposal of subsidiaries	**–**	**–**	(17,227)	(19.8)
– Sales consideration forfeited, net	**(8,479)**	**(37.9)**	–	–
Tax effect of expenses not deductible for tax purposes	**2,669**	**11.9**	–	–
Tax effect of unused tax losses not recognised	**3,287**	**14.7**	1,996	2.3
Actual tax expenses	**–**	**–**	–	–

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$240,947,000 as at 31 December 2008 (2007: approximately HK$227,799,000) which are available for offsetting against future taxable profits of the companies in which the loss arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for a number of years. The tax losses arising from subsidiaries established in the PRC can be carried forward for one to five years immediately after the respective accounting year.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of approximately HK$94,694,000 (2007: approximately HK$127,005,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share for the profit for the year is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Net profit attributable to equity holders of the Company	**22,338**	87,032
	Number of shares	
	'000	'000
Weighted average number of ordinary shares in issue during the year	**1,703,342**	409,457

The calculation of basic loss per share for the loss for the year from continuing operations is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Loss for the year from continuing operations	**(29,049)**	(11,410)
	Number of shares	
	'000	'000
Weighted average number of ordinary shares in issue during the year	**1,703,342**	409,457

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

13. INTANGIBLE ASSETS

Group

31 December 2008

	Intellectual property HK$'000
Cost:	
At 1 January 2008 and 31 December 2008	**823**
Accumulated amortisation:	
At 1 January 2008 and 31 December 2008	**(823)**
Net book value:	
At 31 December 2008	**–**

31 December 2007

	Intellectual property HK$'000
Cost:	
At 1 January 2007	1,500
Exchange realignment	112
Written off during the year	(789)
At 31 December 2007	823
Accumulated amortisation:	
At 1 January 2007	(623)
Exchange realignment	(47)
Amortisation for the year	(153)
At 31 December 2007	(823)
Net book value:	
At 31 December 2007	–

14. GOODWILL

Group

	HK$'000
Cost:	
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	4,487
Accumulated impairment:	
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	(4,487)
Net book value:	
At 31 December 2007 and 2008	–

15. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2008

	Leasehold land and buildings HK$	Leasehold improvements HK$	Furniture and office equipment HK$	Machinery and equipment HK$	Motor vehicles HK$	Total HK$
At 1 January 2008						
Cost	10,385	3,173	9,141	33,311	4,364	60,374
Accumulated depreciation	(3,139)	(3,173)	(5,068)	(32,541)	(2,104)	(46,025)
Net carrying amount	7,246	–	4,073	770	2,260	14,349
At 1 January 2008, net of accumulated depreciation	7,246	–	4,073	770	2,260	14,349
Additions	–	1,715	1,080	3,285	1,267	7,347
Disposal	(5,583)	–	(45)	(5)	(15)	(5,648)
Depreciation provided during the year	(384)	–	(356)	(2,348)	(402)	(3,490)
Exchange realignment	830	–	221	42	124	1,217
At 31 December 2008, net of accumulated depreciation	2,109	1,715	4,973	1,744	3,234	13,775
At 31 December 2008						
Cost	3,544	5,061	10,484	38,399	5,587	63,075
Accumulated depreciation	(1,435)	(3,346)	(5,511)	(36,655)	(2,353)	(49,300)
Net carrying amount	2,109	1,715	4,973	1,744	3,234	13,775

15. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Group *(Cont'd)*

31 December 2007

	Leasehold land and buildings HK$	Leasehold improvements HK$	Furniture and office equipment HK$	Machinery and equipment HK$	Motor vehicles HK$	Total HK$
At 1 January 2007						
Cost	8,553	2,951	9,258	30,285	3,099	54,146
Accumulated depreciation	(2,408)	(2,951)	(4,469)	(28,535)	(1,710)	(40,073)
Net carrying amount	6,145	–	4,789	1,750	1,389	14,073
At 1 January 2007, net of accumulated depreciation	6,145	–	4,789	1,750	1,389	14,073
Additions	1,539	–	259	874	1,159	3,831
Disposal	–	–	(378)	(34)	–	(412)
Depreciation provided during the year	(550)	–	(579)	(1,925)	(265)	(3,319)
Exchange realignment	112	–	(18)	105	(23)	176
At 31 December 2007, net of accumulated depreciation	7,246	–	4,073	770	2,260	14,349
At 31 December 2007						
Cost	10,385	3,173	9,141	33,311	4,364	60,374
Accumulated depreciation	(3,139)	(3,173)	(5,068)	(32,541)	(2,104)	(46,025)
Net carrying amount	7,246	–	4,073	770	2,260	14,349

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 is located in Shenzhen, the PRC, and is used as research and development centre of the Group and are held under a medium lease term.

16. CONSTRUCTION IN PROGRESS

	Group		
	Prepaid land lease payments HK$'000	Construction expenditure HK$'000	Total HK$'000
Cost:			
At 1 January 2007	52,991	104,238	157,229
Deemed disposal of a subsidiary (note 31(a))	(52,991)	(104,238)	(157,229)
At 31 December 2007	–	–	–
At 1 January 2008	–	–	–
Additions	–	1,066	1,066
At 31 December 2008	**–**	**1,066**	**1,066**

17. INTEREST IN SUBSIDIARIES

	Company	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**74,698**	74,698
Due from subsidiaries	**128,193**	100,878
	202,891	175,576
Impairment:		
Balance brought forward	**(175,576)**	(175,576)
Amount written back during the year	**106,021**	–
Balance carried forward	**(69,555)**	(175,576)
	133,336	–

The amounts due from the 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.

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. Details of the principal subsidiaries as at 31 December 2008 were:

Name	Place of incorporation/ registration operations	Issued paid up capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
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/PRC	HK$15,000,000	–	100%	Trading of optical image capturing devices and modules
SYSCAN Lab., Limited*	Hong Kong/PRC	HK$10,000	–	100%	Design and development of image sensor modules
Shenzhen SYSCAN Technology Co., Ltd.*	PRC	US$12,000,000	–	100%	Design, development, manufacture and sales of optoelectronic product
SYSCAN Digital Systems Co., Ltd. *	PRC	RMB25,000,000	–	100%	Design, development, manufacture and sale of optoelectronic products
Wuhan SYSCAN Ltd*#	PRC	US$1,500,000	–	51%	Design and development of bar code related hardware and software
Shenzhen SYSCAN Art Development Co. Ltd*#	PRC	RMB1,000,000	–	100%	Trading and investment of arts related products
Beijing Gan Yuan Bei Meng Technology Co. Ltd*#	PRC	RMB30,000,000	–	100%	Design and development of multimedia and network related hardware and software

* Not audited by Cachet Certified Public Accountants Limited

\# The English names of the above subsidiaries are directly translated from their Chinese names as no English names have been registered.

18. INTEREST IN ASSOCIATES

	Group 2008 HK$'000	Group 2007 HK$'000
Share of net assets	**119,999**	135,521
Due from an associate	**1,584**	20,284
Impairment	**–**	(20,284)
	1,584	–
Due to associates	**(20,682)**	(34,755)

Particulars of the associates of the Group at 31 December 2008 were as follows:

Name	Place of incorporation/ registration and operations	Issued/ paid up capital	Percentage of equity interest attributable to the Group	Principal activities
Zhejiang SYSCAN Technology Co., Ltd. (浙江矽感科技有限公司)	PRC	RMB50,000,000	40%	Development of computer products
SYSCAN Manufacturing Limited	British Virgin Islands/ Hong Kong	US$50,000	45%	Investment Holding

During the year, the amount due from an associate of approximately HK$20,284,000 together with the corresponding full provision for impairment have been written off as uncollectible.

During the year, the fellow shareholders of an associate took a legal action against the Group for repayment of amount due to the associate of approximately HK$20,682,000. The directors believe, based on the legal advice, that it is probable to resolve the case by out of court settlement. The Group will only need to repay the amount due to the associate and the amount has been fully provided for in the financial statements.

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

A summary of financial information of the associates extracted from their management accounts is set out as follows:

	2008	2007
	HK$'000	HK$'000
Current assets	**30,283**	73,833
Non-current assets	**276,834**	248,987
Current liabilities	**(1,584)**	(13,145)
Non-current liabilities	**–**	–
Net assets	**305,533**	309,675
Revenue	**–**	–
Other income and gains	**2,481**	72,003
Total revenue, other income and gains	**2,481**	72,003
Total expenses	**(6,623)**	(5)
(Loss)/profit before tax	**(4,142)**	71,998
Tax	**–**	–
(Loss)/profit for the year	**(4,142)**	71,998

The amounts with the associates are unsecured, interest-free and are repayable on demand.

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Unlisted investment, at cost	**1,560**	1,560
Impairment	**(1,560)**	(1,560)
Net carrying value	**–**	–

The investment in the unlisted preference stock of a company incorporated in the British Virgin Islands was stated at cost less impairment because in the opinion of the directors, the fair value cannot be measured reliably.

20. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**1,484**	1,348
Work-in-progress	**350**	290
Finished goods	**1,239**	784
Net carrying value	**3,073**	2,422

21. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**5,082**	14,841
Impairment	**(1,721)**	(9,892)
	3,361	4,949

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trading receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The Group's terms on credit sales primarily range from 30 to 60 days.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Current	**3,361**	4,790
31 – 60 days	**–**	159
61 – 90 days	**–**	–
Over 90 days	**–**	–
	3,361	4,949

21. TRADE RECEIVABLES *(Cont'd)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**3,361**	4,790
Less than 1 month past due	**–**	159
1 to 3 months (or other appropriate time bands) past due	**–**	–
Over 90 days past due	**–**	–
	3,361	4,949

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in provision for impairment of trade receivables are as folows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**9,892**	9,892
Impairment losses recognised	**–**	–
Amount written off as uncollectible	**(8,171)**	–
Impairment losses reversed	**–**	–
	1,721	9,892

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$1,721,000 (2007: approximately HK$9,892,000) with a carrying amount of approximately HK$1,721,000 (2007: approximately HK$9,892,000). The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group 2008 HK$'000	Group 2007 HK$'000
Prepayments	**185**	262
Deposits and other receivables	**12,627**	29,276
	12,812	29,538
Impairment:		
Balance brought forward	**(4,151)**	(3,849)
Exchange realignment	**(226)**	(302)
Balance carried forward	**(4,377)**	(4,151)
	8,435	25,387

	Company 2008 HK$'000	Company 2007 HK$'000
Deposits and other receivables	**4,913**	20,480

The above assets that were neither past due nor impaired relate to receivables for which there was no recent history of default.

Included in the deposits and other receivables as at 31 December 2008 was receivable of US$548,495 (equivalent to HK$4,308,210) (2007: US$2,548,446 equivalent to HK$19,907,820) 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.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Unit trust investments, at market value:		
Elsewhere	**1,139**	–

The above unit trust investments at 31 December 2008 were, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

24. CASH AND CASH EQUIVALENTS

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:

	Group	
	2008	2007
	HK$'000	HK$'000
USD	**15,000**	1,143
RMB	**14,704**	14,016

	Company	
	2008	2007
	HK$'000	HK$'000
USD	**841**	12
RMB	**–**	–

The carrying amount of the cash and bank balances approximates its fair value.

At the balance sheet date, the cash and bank balances denominated in RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. BANK LOANS, SECURED

	Group	
	2008	2007
	HK$'000	HK$'000
Bank loans due:		
Within 1 year	**–**	8,633
After 1 year but within 5 years	**–**	293
After 5 years	**–**	57
	–	8,983
Current portion of bank loans	**–**	(8,633)
Non-current portion of bank loans	**–**	350

The remaining bank loans as at 31 December 2007 were secured by:

(i) the Group's leasehold land and buildings included in the property, plant and equipment with net book value of HK$7,246,000;

(ii) the Group's intangible assets with net book value of HK$Nil;

(iii) the Group's plant and machinery included in property, plant and equipment with net book value of HK$770,000; and

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

The bank loans have been settled during the year.

26. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 to 1 month	**1,834**	1,168
1 to 2 months	**2,157**	3,241
2 to 3 months	**1,634**	764
3 to 12 months	**341**	737
Over 12 months	**155**	148
	6,121	6,058

The trade payables, which are denominated mainly on RMB, are non-interest-bearing and are normally settled on 60-day terms. The carrying amounts of trade payables approximate their fair values.

27. ACCRUALS AND OTHER PAYABLES

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sales consideration received, net	(a)	**–**	51,387	**–**	–
Emoluments payableto directors		**5,522**	–	**5,522**	–
Accruals		**1,853**	675	**430**	675
Other payables	(b)	**15,774**	12,713	**–**	–
		23,149	64,775	**5,952**	675

Notes:

(a) On 28 June 2007, the Company, SYSCAN Manufacturing Limited ("SYSCAN Manufacturing") (a wholly-owned subsidiary of the Company) and Luck Fame International Investment Holdings Limited ("Luck Fame"), a third party independent of and not connected with the Group, entered into a share subscription agreement (the "Subscription"). Pursuant to the Subscription, Luck Fame would contribute a total of RMB184,000,000 (approximately HK$196,880,000) into SYSCAN Manufacturing in return for an 80% equity interest in the enlarged issued share capital of SYSCAN Manufacturing. Upon completion of the Subscription, the Group's equity interest in SYSCAN Manufacturing would be diluted to 20% and SYSCAN Manufacturing. The subscription consideration of RMB184,000,000 (approximately HK$196,880,000) (the "Consideration") had been agreed to be payable by 5 instalments by Luck Fame.

The Company had so far only received from Luck Fame the first, second and third instalments of the Consideration in the total sum of RMB57,500,000 (approximately HK$61,525,000) and RMB126,500,000 (approximately HK$135,335,000) (being the 4th and 5th instalments) remained outstanding. The payment due date for the 4th instalment of the Consideration in the amount of RMB34,500,000 (approximately HK$36,915,000) was 20 September 2007.

The Company, Syscan Manufacturing and Luck Fame entered into a supplemental agreement on 16 October 2007 (the "Supplemental Agreement"), pursuant to which, if Luck Fame fails to make payment of RMB126,500,000 (approximately HK$135,335,000) (being the total outstanding balance of the 4th and 5th instalments of the Consideration) to the Company on or before 20 October 2007, the Company should have the rights to terminate the Subscription and the Supplemental Agreement, and to retain all the Consideration instalments already received from Luck Fame and that Luck Fame would not have any rights to obtain any shares of SYSCAN Manufacturing.

As at 20 October 2007, the Company still had not received payment of RMB126,500,000 (approximately HK$135,335,000) from Luck Fame. In light of default of payment of the outstanding Consideration by Luck Fame for a long time, the Board announced on 23 October 2007 that the Company decided to terminate the Subscription and the Supplemental Agreement with immediate effect. The partial Consideration already received from Luck Fame in the total sum of RMB57,500,000 (approximately HK$61,525,000) had not been refunded by the Company to Luck Fame. SYSCAN Manufacturing had not issued any of its shares to Luck Fame.

Deducted from the Consideration forfeited by the Group of HK$61,525,000, the Group has applied an amount of approximately HK$10,138,000 as settlement of interest for bank loans of the subsidiary of SYSCAN Manufacturing, resulting in the net amount of sales consideration forfeited of approximately HK$51,387,000 credited to the consolidated income statement.

(b) The other payables are non-interest-bearing and have an average terms of ten months.

28. SHARE CAPITAL

	2008 HK$'000	2007 HK$'000
Authorised:		
20,000,000 ,000 (2007: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,047,286,540 (2007: 409,457,308) ordinary shares of HK$0.01 each	**20,473**	4,095

On 18 December 2007, the Company entered into an underwriting agreement with Mr. Cheung Wai (a director of the Company, "Mr. Cheung"), as the underwriter, in respect of a proposed rights issue (the "Rights Issue") to raise a funding of not less than approximately HK$16.38 million and not more than approximately HK$16.57 million before expenses by way of the Rights Issue of not less than 1,637,829,232 rights shares (the "Rights Shares") and not more than 1,656,925,232 Rights Shares at a price of HK$0.01 per Rights Share on the basis of four Rights Shares for every existing Share held. Mr. Cheung has irrevocably undertaken to the Company to take up the excluded Rights Shares as his entitlement under the Rights Issue. The above transaction was detailed in the Company's prospectus dated 25 February 2008 was approved by the independent shareholders of the Company at a special general meeting on 22 February 2008.

On 12 March 2008, 1,052 valid acceptances of provisional allotment of Rights Shares have been received for a total of 1,601,194,212 Rights Shares and 1,075 valid applications for excess Rights Shares have been received for a total of 20,310,575,289 excess Rights Shares, resulting in a total of valid applications for 21,911,769,501 Rights Shares. In March 2008, a total of 1,637,829,232 new ordinary shares of the Company were issued to the qualifying shareholders of the Company at a price of HK$0.01 each for cash. The subsciption money from the Rights Issue, net of the related expenses, of approximately at HK$14.48 million was used by the Group as general working capital for the Group's existing business activities.

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity.

Company

	Contributed surplus HK$'000	Share premium HK$'000	(Accumulated losses)/ retained profit HK$'000	Total HK$'000
At 1 January 2007	70,121	6,141	(185,194)	(108,932)
Profit for the year	–	–	127,005	127,005
Balance at 31 December 2007	70,121	6,141	(58,189)	18,073
At 1 January 2008	70,121	6,141	(58,189)	18,073
Profit for the year	–	–	94,694	94,694
At 31 December 2008	70,121	6,141	36,505	112,767

30. 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 Share Option Scheme A and Share Option 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's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited 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 B (save for the options already granted but unexercised).

Under Share Option Scheme A, the Company might have granted 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$0.54844 per ordinary share.

Under Share Option Scheme B, the Company might have granted 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 would be determined by the Company's Board of Directors, and would 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.

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

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

The following table 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 2008:

			Number of underlying shares				
Date of grant	**Exercise period**	**Subscription price per share**	**At 1 January 2008**	**Granted during the year**	**Cancelled/ lapsed during the year**	**Exercised during the year**	**At 31 December 2008**
I. Share Option Scheme A							
Other employees and option-holders							
2 March 2000	2 March 2000 to 1 March 2010	HK$0.0646	420,000	–	120,000	–	300,000
Sub-total			420,000	–	120,000	–	300,000
II. Share Option Scheme B							
Directors and Chief Executives							
19 June 2000	19 June 2001 to 18 June 2010	HK$0.44	3,750,000	–	–	–	3,750,000
Other employees and option-holders							
12 July 2000	12 July 2001 to 11 July 2010	HK$0.328	75,000	–	–	–	75,000
4 December 2000	4 December 2001 to 3 December 2010	HK$0.1355	150,000	–	–	–	150,000
17 January 2001	17 January 2002 to 16 January 2011	HK$0.2747	600,000	–	–	–	600,000
13 August 2001 12 August 2011	13 August 2002 to	HK$0.368	225,000	–	–	–	225,000
Sub-total			4,800,000	–	–	–	4,800,000

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

			Number of underlying shares				
Date of grant	**Exercise period**	**Subscription price per share**	**At 1 January 2008**	**Granted during the year**	**Cancelled/ lapsed during the year**	**Exercised during the year**	**At 31 December 2008**
III. Share Option Scheme C							
Directors and Chief Executives							
13 August 2008	13 August 2009 to 12 August 2018	HK$0.06	–	72,000,000	–	–	72,000,000
Employees working under continuous employee contracts							
14 May 2002	14 May 2003 to 13 May 2012	HK$0.1883	3,225,000	–	187,500	–	3,037,500
14 August 2002	14 August 2003 to 13 August 2012	HK$0.1333	2,587,500	–	–	–	2,587,500
26 March 2003	26 March 2004 to 25 March 2013	HK$0.1333	2,370,000	–	202,500	–	2,167,500
Other employees and option-holders							
14 May 2002	14 May 2003 to 13 May 2012	HK$0.1883	750,000	–	–	–	750,000
14 August 2002	14 August 2003 to 13 August 2012	HK$0.1333	3,750,000	–	3,750,000	–	–
13 August 2008	13 August 2009 to 12 August 2018	HK$0.06	–	96,250,000	–	–	96,250,000
Sub-total			12,682,500	168,250,000	4,140,000	–	176,792,500
Total share options			17,902,500	168,250,000	4,260,000	–	181,892,500

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

Reference is made to the announcement of the Company dated 14 March 2008 in relation to the results of the Rights Issue.

Pursuant to the terms of the Share Option Schemes, adjustments are required to be made to the exercise price of and the number of Shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding options of the Company (the "Share Options") as a result of the Rights Issue.

In accordance with the terms set out in the Share Option Schemes, the requirements set out in Rule 23.03(13) of the GEM Listing Rules and the Supplementary Guidance regarding adjustments of share options, the Adjustments have been made in the following manner with effect from 26 May 2008:

Name of the Share Option Scheme	Original exercise price per Share to be issued before the completion of the Rights Issue	Original number of Share to be issued before the completion of the Rights Issue	Adjusted exercise price per Share to be issued upon completion of the Rights Issue	Adjusted number of Shares to be issued upon completion of the Rights Issue
	HK$		HK$	
Share Option Scheme A	0.2422	112,000	0.0646	420,000
Share Option Scheme B	1.6500	1,000,000	0.4400	3,750,000
	1.2300	20,000	0.3280	75,000
	0.5080	40,000	0.1355	150,000
	1.0300	160,000	0.2747	600,000
	1.3800	60,000	0.3680	225,000
Share Option Scheme C	0.7060	1,060,000	0.1883	3,975,000
	0.5000	2,322,000	0.1333	8,707,500

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2008 HK$'000	2007 HK$'000
Net liabilities disposed of:		
Construction in progress	–	157,229
Prepayments, deposits and other receivables	–	91
Accruals and other payables	–	(79)
Amounts due to group companies	–	(114,255)
Net liabilities	–	(42,986)
Capital reserve released	–	(6,093)
	–	(36,893)
Gain on deemed disposal of a subsidiary	–	98,442
	–	135,335
Satisfied by:		
Cash consideration	–	135,335

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary is as follows:

	2008 HK$'000	2007 HK$'000
Cash consideration received	–	135,335
Less: Cash and bank balances disposed of	–	–
Net inflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	–	135,335

(b) Major non-cash transaction

Apart from the net sales consideration forfeited detailed in note 27(a), during the year, the Group disposed of its equity interest in an associated company in return for the acquirer to take up the liability of the Group due to the associate, resulting in a loss on disposal of approximately HK$529,000.

32. COMMITMENTS

(a) The Group and the Company did not have any significant capital commitments as at the balance sheet date.

(b) Operating lease commitment – Group

As leasee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008 **HK$'000**	2007 HK$'000
As lessee:		
Within one year	**3,487**	1,079
In the second to fifth years, inclusive	**579**	924
After five years	**–**	–
	4,066	2,003

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008 **HK$'000**	2007 HK$'000
Contracted, but not provided for:		
Leasehold improvements	**1,787**	–

The Company did not have any significant operating lease commitments as at the balance sheet date.

33. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

34. RELATED PARTY TRANSACTIONS

Details of the rights issue underwritten by Mr. Cheung Wai, a director of the Company, in 2008 are set out in note 28.

Compensation of key management personnel of the Group

	Group	
	2008 **HK$'000**	2007 HK$'000
Short term employee benefits	**7,797**	1,736
Post-employment benefits	**–**	–
Share-based payments	**–**	–
Total compensation paid to key management personnel	**7,797**	1,736

The accrued emoluments payable to certain directors by the Group and the Company are set out in note 27 to the financial statement.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

31 December 2008

Financial assets

	Financial assets at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Held to maturity investments HK$'000	Loans and receivables HK$'000	Available for-sale financial assets HK$'000	Total HK$'000
Trade receivables (note 21)	–	–	–	3,361	–	3,361
Due from an associate (note 18)	–	–	–	1,584	–	1,584
Financial asset at fair value through profit or loss (note 23)	1,139	–	–	–	–	1,139
Financial assets included in prepayments, deposits and other receivables (note 22)	–	–	–	8,435	–	8,435
Cash and cash equivalents (note 24)	–	–	–	30,230	–	30,230
	1,139	–	–	43,610	–	44,749

Financial liabilities

	Financial liabilities at fair value thought profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables (note 26)	–	–	6,121	6,121
Financial liabilities included in accruals and other payables (note 27)	–	–	23,149	23,149
Due to associates (note 18)	–	–	20,682	20,682
	–	–	49,952	49,952

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

Group *(Cont'd)*

31 December 2007

Financial assets

	Financial assets at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Held to maturity investments HK$'000	Loans and receivables HK$'000	Available for-sale financial assets HK$'000	Total HK$'000
Trade receivables (note 21)	–	–	–	4,949	–	4,949
Financial assets included in prepayments, deposits and other receivables (note 22)	–	–	–	25,387	–	25,387
Cash and cash equivalents (note 24)	–	–	–	25,349	–	25,349
	–	–	–	55,685	–	55,685

Financial liabilities

	Financial liabilities at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables (note 26)	–	–	6,058	6,058
Financial liabilities included in accruals and other payables (note 27)	–	–	64,775	64,775
Due to associates (note 18)	–	–	34,755	34,755
Bank loans, secured (note 25)	–	–	8,983	8,983
	–	–	114,571	114,571

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

Company

31 December 2008

Financial assets

	Financial assets at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Held to maturity investments HK$'000	Loans and receivables HK$'000	Available for-sale financial assets HK$'000	Total HK$'000
Financial assets included in prepayments, deposits and other receivables (note 22)	–	–	–	4,913	–	4,913
Cash and cash equivalents (note 24)	–	–	–	943	–	943
	–	–	–	5,856	–	5,856

Financial liabilities

	Financial liabilities at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in accruals and other payables (note 27)	–	–	5,952	5,952

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

Company

31 December 2007

Financial assets

	Financial assets at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Held to maturity investments HK$'000	Loans and receivables HK$'000	Available for-sale financial assets HK$'000	Total HK$'000
Financial assets included in prepayments, deposits and other receivables (note 22)	–	–	–	20,480	–	20,480
Cash and cash equivalents (note 24)	–	–	–	2,363	–	2,363
	–	–	–	22,843	–	22,843

Financial liabilities

	Financial liabilities at fair value through profit and loss – designated as such upon initial recognition HK$'000	– held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in accruals and other payables (note 27)	–	–	675	675

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest bearing bank borrowings and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in United States dollars ("USD"), Chinese Renminbi ("RMB") and Hong Kong dollars (HKD). Approximately 99% (2007: 98%) of the Group's sales costs are denominated in currencies other than the functional currency of the operating units making the sale, and almost 99% (2007: 98%) of costs are denominated in currencies other than the units' other functional currency.

During the years ended 31 December 2008 and 2007, the exchange rate of USD was more stable and approximately 83% (2007: 78%) of the Group's sales are denominated in USD.

The exchange rate of RMB was comparatively volatile.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rate of RMB, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	HK$'000	HK$'000
31 December 2008			
If HKD weakens against RMB	**2.5%**	**726**	**726**
If HKD strengthens against RMB	**(2.5%)**	**(726)**	**(726)**
31 December 2007			
If HKD weakens against RMB	2.5%	62	62
If HKD strengthens against RMB	(2.5%)	(62)	(62)

At 31 December 2008 and 2007, the Group had not hedged any foreign currency sales to reduce such foreign currency risk.

In the opinion of the directors, they will monitor this risk, and if the exchange rates of these foreign currencies have continuous fluctuation, they will consider using forward currency contracts to reduce these risks.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss, amounts due from associates, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and other interest-bearing loans. A director of the Company has agreed to provide certain financial support to the Group. With such financial support, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

The maturity profile of the financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group
31 December 2008

	On demand HK$'000	Less than 3 months HK$'000	Held to 3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables (note 26)	–	–	5,966	155	6,121
Accruals and other payables (note 27)	906	1,750	7,981	12,512	23,149
Due to associates (note 18)	–	–	–	20,682	20,682
	906	1,750	13,947	33,349	49,952

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Liquidity risk *(Cont'd)*

Group

31 December 2007

	On demand HK$'000	Less than 3 months HK$'000	Held to 3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables (note 26)	–	–	6,058	–	6,058
Accruals and other payables (note 27)	–	–	64,775	–	64,775
Bank loans, secured (note 25)	–	8,633	–	350	8,983
Due to associates (note 18)	–	–	–	34,755	34,755
	–	8,633	70,833	35,105	114,571

Company

31 December 2008

	On demand HK$'000	**Less than 3 months HK$'000**	**Held to 3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Accruals and other payables (note 27)	**–**	**–**	**5,952**	**–**	**5,952**
	–	**–**	**5,952**	**–**	**5,952**

31 December 2007

	On demand HK$'000	Less than 3 months HK$'000	Held to 3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Accruals and other payables (note 27)	–	–	675	–	675
	–	–	675	–	675

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Capital management *(Cont'd)*

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, accruals and other payables and an amount due to an associate, less cash and cash equivalents, and excludes discontinued operations. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Trade payables (note 26)	**6,121**	6,058
Accruals and other payables (note 27)	**23,149**	64,775
Bank loans, secured (note 25)	**–**	8,983
Due to associates (note 18)	**20,682**	34,755
Less: Cash and cash equivalents (note 24)	**(30,230)**	(25,349)
Net debt	**19,722**	89,222
Equity attributable to equity holders	**133,240**	94,012
Total capital	**133,240**	94,012
Capital and net debt	**152,962**	183,234
Gearing ratio	**12.9%**	49.0%

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2009.