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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

ANNUAL RESULTS ANNOUNCEMENT
For the year ended 31 December 2006

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Exchange")

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

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This announcement, for which the directors of SYSCAN Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to SYSCAN Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *for identification purposes only*

FINANCIAL RESULTS

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 together with the comparative audited figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	Note	2006 HK$'000	2005 HK$'000
Turnover	*4*	**92,690**	66,555
Cost of sales		**(67,713)**	(42,359)
Gross profit		**24,977**	24,196
Other revenue	*4*	**22,724**	4,376
Selling and distribution expenses		**(5,953)**	(10,450)
General and administrative expenses		**(19,819)**	(57,348)
Research and development expenses		**(4,657)**	(39,195)
Other operating expenses	*5(c)*	**(21,959)**	(23,797)
		(52,388)	(130,790)
Loss from operations		**(4,687)**	(102,218)
Finance costs	*5(a)*	**(7,419)**	(4,644)
Gain on deemed disposal of a subsidiary		**–**	2
Loss on disposal of subsidiaries		**(377)**	(472)
Negative goodwill on acquisition of a subsidiary		**–**	8,911
Share of losses of associates		**(565)**	(1,660)
Loss before taxation	*5*	**(13,048)**	(100,081)
Income tax	*6*	**(2)**	(7)
Loss for the year		**(13,050)**	(100,088)
Attributable to:			
Equity holders of the Company		**(11,600)**	(99,435)
Minority interests		**(1,450)**	(653)
		(13,050)	(100,088)
Loss per share			
– Basic	*7(a)*	**(4.6) cents**	(97.1) cents
– Diluted	*7(b)*	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Note	**2006** **HK$'000**	2005 HK$'000
Non-current assets			
Intangible assets		**877**	2,551
Goodwill		**–**	–
Property, plant and equipment		**14,073**	23,154
Property under development		**157,229**	141,134
Interest in associates		**33,134**	32,403
Available-for-sale investments		**–**	9,342
		205,313	208,584
Current assets			
Inventories		**3,097**	5,860
Trade receivables	*8*	**11,918**	8,286
Prepayments, deposits and other receivables		**40,669**	1,680
Due from an associate		**–**	17,512
Cash and cash equivalents		**4,919**	8,140
		60,603	41,478
Current liabilities			
Bank loans, secured	*10*	**144,084**	137,999
Trade payables	*9*	**24,840**	25,707
Accruals and other payables		**37,890**	28,369
Due to a director		**4,590**	–
Due to associates		**38,579**	39,040
		249,983	231,115
Net current liabilities		**(189,380)**	(189,637)
Total assets less current liabilities		**15,933**	18,947
Non-current liabilities			
Bank loans, secured	*10*	**(398)**	(446)
Net assets		**15,535**	18,501
Capital and reserves			
Share capital		**4,095**	1,024
Reserves	*11*	**11,440**	16,027
Total equity attributable to the equity holders of the Company		**15,535**	17,051
Minority interests		**–**	1,450
Total equity		**15,535**	18,501

NOTES:

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

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

During the year, the Group experienced financial difficulties and was unable to repay the bank loans. Certain trade creditors took legal actions against the Group demanding for repayment of amounts due to them (see note 4). As explained in note 32 to the financial statements, the major bank had applied to the court in Guangdong, mainland China, to freeze the land, which was pledged as collateral for the bank loans of RMB120,000,000 (equivalent HK$120,000,000), plus the outstanding interest due as at 31 December 2006 at RMB12,020,000 (equivalent HK$12,020,000).

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

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

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

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

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

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

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM.

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

HKAS 39 and HKFRS 4 Amendment:

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

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

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

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

4. TURNOVER AND OTHER REVENUE

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

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

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

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

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

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

5. LOSS BEFORE TAXATION

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

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

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

		2006 HK$'000	2005 HK$'000
(b)	Staff costs:		
	Salaries and allowance (including directors' emoluments)	**16,633**	23,114
	Retirement costs	**409**	428
		17,042	23,542
(c)	Other operating expenses:		
	Reversal of impairment loss on amount due from an associate	**–**	(733)
	Impairment loss on amount due from an associate	**19,886**	–
	Impairment loss on trade and other receivables	**–**	20,191
	Impairment loss on available-for-sale investment	**1,560**	–
	Amortisation of intangible assets	**513**	470
	Impairment loss on goodwill	**–**	3,869
		21,959	23,797
(d)	Other items:		
	Auditor's remuneration		
	– audit services	**480**	410
	– other services	**710**	–
	Cost of inventories *(note)*	**67,713**	42,359
	Depreciation	**5,877**	6,383
	Loss on disposal of subsidiaries	**377**	472
	Loss on disposal of property, plant and equipment	**208**	3,079
	Share of losses of associates	**565**	1,660
	Gain on deemed disposal of a subsidiary	**–**	(2)
	Negative goodwill on acquisition of a subsidiary	**–**	(8,911)
	Write-down of inventories	**376**	29,235
	Operating lease rentals of premises	**829**	1,967

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

6. INCOME TAX EXPENSE

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

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

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

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

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

(b) Deferred tax

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

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

7. LOSS PER SHARE

(a) The calculation of basic loss per share for the year ended 31 December 2006 is as follows:

	2006 **HK$'000**	2005 HK$'000
Net loss attributable to equity holders of the Company	**(11,600)**	(99,435)
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares in issue during the year	**251,283**	102,364
Loss per share – Basic	**(4.6) cents**	(97.1) cents

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

8. TRADE RECEIVABLES

Group

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

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

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

9. TRADE PAYABLES

Group

The aged analysis of trade payables is as follows:

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

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

10. BANK LOANS, SECURED

Group

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

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

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

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

The leasehold land has been frozen by the court in mainland China following the legal action taken by the bank.

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

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

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

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

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

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

11. RESERVES

Group

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

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

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

Company

	Contributed surplus *(note a)* HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1/1/2005, as previously reported	70,121	–	(17,406)	52,715
Prior year adjustment *(note 3)*	–	–	(115,385)	(115,385)
At 1/1/2005, as restated	70,121	–	(132,791)	(62,670)
Loss for the year, as previously reported	–	–	(4,610)	(4,610)
Prior year adjustment *(note 3)*	–	–	(1,192)	(1,192)
Loss for the year, as restated	–	–	(5,802)	(5,802)
At 31/12/2005	70,121	–	(138,593)	(68,472)
At 1/1/2006	70,121	–	(138,593)	(68,472)
Loss for the year	–	–	(46,601)	(46,601)
Share premium	–	6,141	–	6,141
At 31/12/2006	**70,121**	**6,141**	**(185,194)**	**(108,932)**

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

Under the Companies Act 1981 of Bermuda (as amended) contributed surplus is distributable to shareholders subject to the condition that the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if (i) it is, nor would after the payment be, unable to pay its liabilities as they become due or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

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

12. SEGMENT REPORTING

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

(a) Business segment

The Group comprises the following main business segments:

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

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

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

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

(b) Geographical segment

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

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

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

13. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: Nil).

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion

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

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

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

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

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

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

Qualification arising from material uncertainties relating to the going concern basis

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

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

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2006.

The figures in respect of the preliminary announcement of the Group's result for the year ended 31 December 2006 have been agreed by the Group's auditors, CCIF CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by CCIF CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements on Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The Group's business is in the field of optical electronic industry, and is principally engaged in the design, research, development, manufacturing and distribution of optical image capturing devices and related components. The Group's turnover of approximately HK$92,690,000 for the year 2006 increased by approximately 39.3% as compared to the turnover of HK$66,555,000 last year. The Group's gross profit margin had decreased from the year 2005 from 36.4% to the year 2006 of 26.9%.

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

Research and Development

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

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

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

The Group has its own proprietary CM and GM coding certified by PRC authorities. With the use of the Group's 2D barcode products, the coding can provide for more superior results than normal 1D coding which can contain more data within the coding. The Group continues to refine the 2D barcode technology. Based on the 2D barcode technology, the Group has developed a new credit card reader and 1D card reader using the Group CM code.

Production and the Manufacturing Base – SYSCAN Hi-Tech Park

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

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

Sales and Marketing

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

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

In mid-November, we held a highly successful exhibition at The 5th Optics Valley of China International Optoelectronic Exposition and Forum (OVC EXPO 2006), at which we also introduced our Group's products. Once again we received a very positive response to our products. We had also shifted our western business emphasis to less seasonal sensitive channels in order to maintain a stable turnover.

The Group has concentrated its efforts on selling its own proprietary optical image capturing devices units, 2D barcode products, chips and other optoelectronic products units which have much higher gross profit margins. The Group do not make any sales for LCD and CRT monitors unit due to the very competitive markets and very low profit margins.

Investment/Divestment and Acquisition

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

Financial Resources and Liquidity

As of 31 December 2006, the Group had a cash and bank balances of approximately HK$4,919,000 (2005: HK$8,140,000). The RMB-denominated short term bank borrowing of approximately HK$144,020,000 (2005: HK$137,940,000), which was secured by the Group's leasehold land included in property under development, the Group's leasehold land and buildings in Shenzhen, and the Group's machinery and intangible assets. The interest rates of these short term loans were between 7% and 9% p.a. The Group also has one (2005: one) RMB-denominated mortgage loans totalling HK$462,000 (2005: HK$505,000). The mortgage loan will mature in August 2012 and the interest rates is 7.4% (2005: 6.6%) p.a.

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

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

Contingent Liabilities

Group

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

Financial Guarantee Contract

Company

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

Intellectual Property

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

Employees

As at 31 December 2006, the Group has 325 employees. The Directors believe that the quality of the employees is the most important factor in sustaining the Group's growth and improving its profitability. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include share options and performance bonus.

Future Plans and Prospects

The Group is cautious towards its future business plan and will concentrate on the profitable businesses in order to establishing a stable revenue stream and making the Group result to be profitable earlier.

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

CORPORATE GOVERNANCE REPORT

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

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

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

The Company has complied with the Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") throughout the year ended 31 December 2006 except that Independent Non-executive Directors had no set term of office but retire on a rotation basis. The Company is in compliance with all code provisions of the new Code on Corporate Governance Practices of the GEM Listing Rules.

Below are the corporate governance practices adopted by the Group.

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

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

Directors' securities transactions

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

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

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

During the year ended 31 December 2006, all Directors have compiled with the Code of Ethics and Securities Transaction.

Board of Directors

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

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

As at 31 December 2006, the Board comprised an Executive Director, including Chairman and CEO are currently acting by the Chairman, Mr. Cheung Wai since the resignation of Mr. Darwin Hu, being the ex-CEO, in 19 January 2005 and is currently looking for suitable candidate to fill the vacancy, and three Independent Non-executive Directors. Biographical details of the Directors referred to page 14 of the annual report.

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

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

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

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

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

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

The Board held four regular meetings in 2006 and a special meeting in respect with the amendment to the bye-laws. All Directors present in all meetings.

	Name of Directors	**Attended/Eligible to attend**
Chairman	Cheung Wai	100%
Executive Director	Zhang Ming (appointed on 2 February 2007)	N/A
Independent non-executive Directors	Lo Wai Ming	100%
	Fong Chi Wah	100%
	Jin Qingjun	100%

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

REMUNERATION OF DIRECTORS

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

Mr. Fong Chi Wah* – *Committee Chairman*
Mr. Lo Wai Ming*
Mr. Jin Qing Jun*
Mr. Cheung Wai
Mr. Zhang Ming (appointed on 2 February 2007)

** Independent non-executive Director*

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

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

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

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

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

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

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

NOMINATION OF DIRECTORS

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

Mr. Cheung Wai – *Committee Chairman*
Mr. Zhang Ming (appointed on 2 February 2007)
Mr. Fong Chi Wah*
Mr. Lo Wah Ming*
Mr. Jin Qingjun*

** Independent non-executive director*

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

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

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

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

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

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

AUDIT COMMITTEE

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

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

The Audit Committee members held four meetings in 2006 and one meeting to date in 2007.

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

Financial Statements

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

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

EXTERNAL AUDITORS AND REMUNERATION

The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors. The Group only engaged CCIF for business advisory and assurance service that includes audit services provided in connection with the audit of the consolidated financial statements with annual auditor's remuneration fee of HK$480,000, provide Accountant's Report for very substantial disposal of Syscan Imaging Limited and its subsidiaries with auditor's remuneration fee of HK$460,000, and provide financial information for Open Offer with auditor's remuneration fee of HK$250,000. No other non-audit related services were performed by CCIF.

INTERNAL CONTROL

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

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

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

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

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

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

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

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.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board of Directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout year ended 31 December 2005.

AUDIT COMMITTEE

The Company established an audit committee on 2 May 2000 with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The audit committee comprises three independent non-executive directors, namely Mr Lo Wai Ming, Mr Fong Chi Wah and Mr Jin Qingjun. The Committee has met 4 times since 1 January 2006 with the management to discuss and review the Group's various internal control, audit issues and results of the Group with a view to further improve the Group's corporate governance.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors comprises Mr Cheung Wai, Mr Zhang Ming, Mr Lo Wai Ming, Mr Fong Chi Wah and Mr Jin Qingjun.

On behalf of the Board

CHEUNG WAI
Chairman and Chief Executive Officer

ZHANG MING
Director

Hong Kong, 26 March 2007

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the Company's website at www.syscangroup.com.