



S Y S C A N

Syscan Technology Holdings Limited

(Incorporated in Bermuda with limited liability)

MOBILITY

CONNECTIVITY

Third Quarterly Report 2000

SIMPLICITY

HIGHLIGHTS

For the nine-month period ended 30 September 2000, the Group's turnover of HK\$24.4 million represented an increase of approximately 395% over the same period in 1999, while the operating loss of HK\$15.9 million was lowered by approximately 32% over the same period in 1999. During this period, the Group completed the establishment of production lines for *TravelScan-PRO* (the USB version of *TravelScan*) in the Shenzhen factory for mass production and the pilot run preparation of business card reader. The Group plans to launch the business card reader as a mobile companion to Palmtop PDA and pocket PC business application. The 600 dpi A8, A6 and A4 size CIS module for niche applications and the Group's mobile scanner products are expected to be released for mass production in the fourth quarter of 2000.

FINANCIAL RESULTS

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2000 respectively together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	6,239	1,619	24,371	4,927
Cost of sales		(3,741)	(2,329)	(15,133)	(6,970)
Gross profit/(loss)		2,498	(710)	9,238	(2,043)
Other income		47	496	706	710
Selling and marketing expenses		(1,760)	(854)	(3,923)	(1,839)
General and administrative expenses		(7,048)	(2,396)	(13,713)	(8,412)
Research and development expenses		(2,914)	(5,132)	(14,111)	(14,470)
Interest income		2,912	1,674	5,885	2,606
Loss before taxation		(6,265)	(6,922)	(15,918)	(23,448)
Taxation	3	—	—	(153)	(7)
Loss attributable to shareholders		(6,265)	(6,922)	(16,071)	(23,455)
Loss per share - Basic	4	(0.71 cents)	(1.38 cents)	(1.97 cents)	(4.66 cents)

Notes:

1. **Basis of presentation**

The Company was incorporated in Bermuda on 17 August 1999 as an exempted company with limited liabilities under the Companies Act of Bermuda (as amended). Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), the Company became the ultimate holding company of the Group on 27 March 2000. Details of the Reorganisation are set out in the Company's prospectus dated 10 April 2000 (the "Prospectus"). The shares of the Company were listed on GEM on 14 April 2000.

The consolidated results included the results of the companies comprising the Group, using the merging basis of accounting, as if the Group had been in existence since 1 January 1999 or their respective dates of incorporation when there was a shorter period.

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

2. *Turnover comprises the net invoiced value of merchandise sold after allowance for returns and discounts.*

3. *Hong Kong profits tax has been provided at the rate of 16% for HK\$146,000 during the nine-month period ended 30 September 2000 (1999: Nil).*

No provision for United States federal income tax was made as the Group had no assessable profits in the United States during the nine-month period ended 30 September 2000 (1999: Nil).

California State income tax of approximately HK\$7,000, being the minimum amount of a company in a tax loss position, has been provided during the nine-month period ended 30 September 2000 (1999: HK\$7,000).

No provision for Mainland China enterprise income tax was made as there were no assessable profits for the PRC subsidiary since its incorporation. The PRC subsidiary is exempted from income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years.

No provision for Taiwan income tax was made as the Group had no assessable profits in Taiwan during the nine-month period ended 30 September 2000 (1999: Nil).

4. *The calculation of basic loss per share for the three months and nine months ended 30 September 2000 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$6,265,000 (1999: HK\$6,922,000) for the three months ended 30 September 2000 and unaudited loss attributable to shareholders of approximately HK\$16,071,000 (1999: HK\$23,455,000) for the nine months ended 30 September 2000 and on the weighted average number of approximately*

888,552,000 shares (1999: 503,080,000 shares) in issue during the three months ended 30 September 2000 and 816,216,000 shares (1999: 503,080,000 shares) in issue during the nine months ended 30 September 2000.

The diluted loss per share is the same as the basic loss per share as the outstanding share options were anti-dilutive.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

General

For the nine-month period ended 30 September 2000, the Group's unaudited consolidated turnover was HK\$24.4 million, representing an approximate 395% increase over the same period in previous year (1999: HK\$4.9 million). The increase was mainly attributable to the sales of *TravelScan* - PCMCIA version. The CIM module is delayed due to wafer shortage problem. The Group had completed the design and tooling release of *TravelScan* - USB version and started the mass production in the third quarter of 2000. In addition, the Group completed the design release of A8 size Business Card Reader.

The tighter control over operating costs had led to higher gross profit margin comparing with the corresponding quarter last year. Financial resources were devoted mainly to exploring new markets and developing new products. The unaudited consolidated loss attributable to shareholders was approximately HK\$16.0 million for the nine-month period ended 30 September 2000, which represents approximately 31.5% decrease from the corresponding period in 1999 (1999: HK\$23.4 million).

Research and Development

During the three-month period ended 30 September 2000, the Group completed the design and tooling release of *TravelScan-PRO* (USB version of *TravelScan*) and had started mass production of *TravelScan-PRO* in the third quarter of 2000. The design release of A8 size Business Card Reader and its pilot run were completed in this period as well. The software driver of *TravelScan* Plus had been upgraded to Window 2000/NT. Modification in the design of CIM module to fit the standard of the new fabrication house had been completed and is expected to be released in the beginning of November 2000. The design and engineering sample of SV354A6-IR infrared CIS module had been completed in the third quarter of 2000.

The development of iMac software driver for *TravelScan* - USB to support Apple iMac platform is expected to be completed in the fourth quarter of 2000. Furthermore, the Group plans to complete the design release of A8 size Business Card Reader and SV182 CIM project based on 6", 0.5 μ m as a CCD replacement for scanner applications by the fourth quarter of 2000. The Group will also start new product planning for mobile-centric and PDA-centric Internet appliances.

Production

Production lines for *TravelScan-PRO* had been set up in the Group's existing Shenzhen factory and mass production have commenced since August 2000 with a daily production capacity of 600 to 700 sets. The pilot-run preparation of A8 Business Card Reader was completed during the third quarter period. It is anticipated that A8 Business Card Reader which works with PDA, desktop and mobile PC will be launched in the fourth quarter for mass production. With the upgrading of the software driver of *TravelScan* Plus from Windows 95/98 to Windows 2000/NT, it is anticipated that upgraded *TravelScan* Plus will be launched for mass production in the fourth quarter of 2000. The 600 dpi A6, A8 and A4 size CIS modules for niche applications and for use in the Group's mobile scanner products are also expected to be launched for mass production in the next quarter.

Sales and Marketing

During the third quarter period, the Group had actively participated in various tradeshow, including the Hong Kong Electronics Fair, to recruit distributors and pursue private label or OEM opportunities. The Group is currently preparing itself for the "Comdex" to be held in the U.S.A. in November 2000.

It is anticipated that the recent upgrade of the Windows 2000/NT software driver of *TravelScan* Plus will help to improve our sales in the next quarter. The Group plans to launch *TravelScan-PRO* as an ODA (Office Document Assistant) for desktop and notebook PC application and A8 Business Card Reader as a mobile companion to Palmtop PDA and pocket PC business application. Active marketing effort will be focused on strengthening the Group's own brand name in the Chinese and Asian markets.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Interests in Share Capital

As at 30 September 2000, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"), the interests of Directors, chief executive and their associates in shares of the Company were as follows:

Name	Personal Interests	Family Interests	Corporate Interests	Other Interests
Darwin Hu	38,400,000	3,360,000 <i>(Note 1)</i>	—	—
Joseph Liu	19,200,000	52,800,000 <i>(Note 2)</i>	—	—
Cheung Wai	7,200,000	—	48,000,000 <i>(Note 3)</i>	—
Wong Wai Keung, Gordon <i>(Note 4)</i>	9,760,000	—	—	—

Notes:

- These shares were held by Mrs. Sonya Hsiu-Yu Hu, the spouse of Mr. Darwin Hu.*
- These shares comprises the shares held by Emmy Liu, Shirley Liu, Hui Chuan Liu and H.S. Liu, family associates of Mr. Joseph Liu.*
- These shares were held by Haing Assets Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheung Wai.*
- Dr. Wong Wai Keung, Gordon resigned as an executive director of the Company with effect from 22 August 2000.*

Save as disclosed above, as at 30 September 2000, none of the Directors, chief executive or their associates had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

Interests in Share Options

Prior to the listing of the Company on 14 April 2000, Directors were granted options to subscribe for shares in SYSCAN, Inc., a wholly-owned subsidiary of the Company. Such options were fully exercised to subscribe for shares in SYSCAN, Inc. on 18 and 26 February 2000 respectively. Pursuant to the corporate reorganisation of the Group in preparation for the listing, such shares in SYSCAN, Inc. were converted into shares of the Company on 27 March 2000. Details of the corporate reorganisation were set out in Appendix V of the Prospectus.

On 2 March 2000, the Company adopted Share Option Scheme A and Scheme B (the “Schemes”) under which share options to subscribe for shares of the Company may be granted under the terms and conditions stipulated in the Schemes as described in Appendix V of the Prospectus.

As at the date of this report, no options have been granted to the Directors under Scheme A.

Details of the options granted to the Directors under Scheme B since its adoption up to the date of this report are as follows:

Name	Date of grant	Exercise price	Exercise period	No. of underlying shares comprising the options granted and outstanding
Darwin Hu	19/6/2000	HK\$0.33	19/6/2001 to 18/6/2010	5,000,000
Cheung Wai	19/6/2000	HK\$0.33	19/6/2001 to 18/6/2010	5,000,000
Wong Wai Keung, Gordon (<i>Note</i>)	19/6/2000	HK\$0.33	19/6/2001 to 18/6/2010	5,000,000

Note: Dr. Wong Wai Keung, Gordon resigned as an executive director of the Company with effect from 22 August 2000 and accordingly, the share options granted to him will lapse three months thereafter pursuant to the terms and conditions of Scheme B.

Directors’ and Chief Executive’s Rights to Acquire Securities

Save for the Schemes, as at the date of this report, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of the Directors, chief executive and their associates, as at 30 September 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company:

Name	No. of shares held	Percentage of issued share capital
Hotung Venture Capital Corp. <i>(Note 1)</i>	1,904,000	0.214%
Daitung Development and Investment Co. Ltd. <i>(Note 1)</i>	4,000,000	0.450%
Wantung Venture Capital Corp. <i>(Note 2)</i>	8,000,000	0.900%
Baotung Venture Capital Corp. <i>(Note 2)</i>	16,000,000	1.800%
Litung Venture Capital Corp. <i>(Note 1)</i>	24,000,000	2.700%
Maton Fund I L.P. <i>(Note 1)</i>	40,000,000	4.500%
	<hr/> 93,904,000	<hr/> 10.564%

Notes:

- Hotung Venture Capital Corp., Daitung Development and Investment Co. Ltd. and Litung Venture Capital Corp. are managed by Hotung Investment Holdings Limited, a Taiwan corporation listed on the Singapore Stock Exchange ("Hotung Investment") and have made certain investments in Maton Fund I L.P.*
- Wantung Venture Capital Corp. and Baotung Venture Capital Corp. are wholly-owned by Hotung International Company Limited, a corporation incorporated in Taiwan which owns 40% interests in Hotung Investment.*

MANAGEMENT SHAREHOLDERS

Save for the interests disclosed above in respect of the Directors, chief executive and their associates, the Directors are not aware of any persons who as at 30 September 2000 were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

OUTSTANDING SHARE OPTIONS

Other than the interests in share options disclosed above in respect of the Directors, as at the date of this report, details of the outstanding share options granted to the optionees under the Schemes are as follows:

Scheme A

No. of optionees	Date of grant	Exercise price	Exercise period	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options lapsed	No. of underlying shares comprising the options outstanding
43 (Note3)	2/3/2000	HK\$48.44 per 1,000 shares	2/3/2000 to 1/3/2010	52,624,000	1,056,000 (Note1)	6,776,000 (Note2)	44,792,000 (Note3)
1 (Note3)	2/3/2000	HK\$24.22 per 1,000 shares	2/3/2000 to 1/3/2010	160,000	—	—	160,000 (Note3)

Scheme B

No. of optionees	Date of grant	Exercise price	Exercise period	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options lapsed	No. of underlying shares comprising the options outstanding
12 (Note 5)	12/7/2000	HK\$0.246 per share	12/7/2001 to 11/7/2010	6,660,000	—	80,000 (Note 4)	6,580,000

Notes:

1. A total of 4 optionees had exercised their share options all at an exercise price of HK\$48.44 per 1,000 shares to subscribe for shares of the Company. The closing price of the shares of the Company immediately before the date of exercise of options by the 4 optionees were HK\$0.385, HK\$0.238, HK\$0.25 and HK\$0.249 respectively.
2. The lapse of share options was resulted from the resignation of a total of 12 optionees as employees of the Group.
3. At the date of adoption of Scheme A on 2 March 2000, an aggregate of 52,784,000 options were granted to the optionees. As a result of the exercise/lapse of options by the optionees as disclosed in Notes 1 and 2 above, a total of 44 optionees are holding an aggregate of 44,952,000 options as at the date of this report.

4. *The lapse of share options was resulted from the resignation of an optionee as employee of the Group.*
5. *Since the adoption of Scheme B on 2 March 2000 and up to the date of this report, an aggregate of 6,660,000 options were granted to the optionees. As a result of the lapse of options by the optionee as disclosed in Note 4 above, a total of 12 optionees are holding an aggregate of 6,580,000 options as at the date of this report.*

Save as disclosed above, during the nine-month period ended 30 September 2000, none of the Directors and employees of the Company or its subsidiaries were granted share options to subscribe for shares in the Company.

INTERESTS OF SPONSOR

As updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor", formerly known as BNP Prime Peregrine Capital Limited), as at 30 September 2000, a director and an employee of the Sponsor held 200,000 shares and 120,000 shares in the Company respectively.

Save as disclosed herein, neither the Sponsor nor its directors or employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the arrangement entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 14 April 2000 to 31 December 2002.

COMPETING INTERESTS

The Directors are not aware of, as at 30 September 2000, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deal clearly with its authority and duties. The Committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

The Committee comprises two members, namely Mr. Lo Wai Ming and Mr. Cheung Yuk Ming, both being the independent non-executive directors.

YEAR 2000 COMPLIANCE

The Group has completed a full review of all the hardware and software used by the Group for both its office and manufacturing computer systems. All hardware and software were confirmed to be Year 2000 compliant in the review. The Directors believe that the products currently produced by the Group will not be affected by the Year 2000 issue.

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

During the nine months ended 30 September 2000, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

By Order of the Board
Cheung Wai
Chairman

Hong Kong, 8 November 2000

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

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

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

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

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

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