



SYSCAN Technology Holdings Limited

矽感科技控股有限公司

What You See is What You Get

portable scanner
TravelScan
palm size scanner
CIS technology
CIM technology

World leader in image capturing technology

SYSCAN

The advertisement features a close-up of a smiling woman's face on the left. The text and images are overlaid on a dark background. The SYSCAN logo is at the bottom right of the ad.

Annual Report 2000

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

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

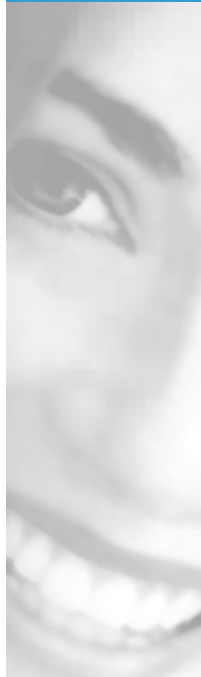
Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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.

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EXECUTIVE DIRECTORS

Cheung Wai, *Chairman*
Darwin Hu, *Chief Executive Officer*
Zhang Hongru, *Chief Financial Officer*

NON-EXECUTIVE DIRECTORS

Joseph Liu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lo Wai Ming
Cheung Yuk Ming

COMPANY SECRETARY

Chow Suk Han, *Caroline*

QUALIFIED ACCOUNTANT

Chan Man Ching

COMPLIANCE OFFICER

Zhang Hongru

AUTHORISED REPRESENTATIVES

Cheung Wai
Darwin Hu

AUDIT COMMITTEE

Lo Wai Ming
Cheung Yuk Ming

AUDITORS

Arthur Andersen & Co
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hua Chiao Commercial Bank Limited

SHARE REGISTRARS

Central Registration Hong Kong Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cedar House
41 Cedar Avenue
Hamilton, HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 808, 8th Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

Financial Summary

(Amounts expressed in Hong Kong dollars)

	Years ended 31st December,		
	2000	1999	1998
	\$'000	\$'000	\$'000
Consolidated operating results			
Turnover	32,200	6,022	6,353
Cost of sales	(24,746)	(5,733)	(4,295)
Gross profit before provision against inventories	7,454	289	2,058
Provision against inventories and trade receivables	(6,731)	(195)	(2,406)
Selling and distribution expenses	(7,054)	(4,350)	(1,446)
Research and development expenses	(19,389)	(19,510)	(13,857)
General and administrative expenses	(21,616)	(16,409)	(14,838)
Loss from operations	(47,336)	(40,175)	(30,489)
Interest income	7,415	1,337	—
Loss before taxation	(39,921)	(38,838)	(30,489)
Taxation	(7)	(7)	(7)
Loss attributable to shareholders	(39,928)	(38,845)	(30,496)
Dividend	—	—	—

Consolidated assets and liabilities

	As at 31st December,	
	2000	1999
	\$'000	\$'000
Total assets	234,192	82,604
Net current assets	128,476	57,572
Total liabilities	(12,826)	(8,244)
Net assets	221,366	74,360

Financial Summary

(Amounts expressed in Hong Kong dollars)

Notes:

1. Pursuant to a group reorganisation scheme ("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, the Company became the holding company of the Group on 27th March, 2000. The summary of consolidated assets and liabilities as at 31st December, 1999 and 2000 and operating results for the years ended 31st December, 1998, 1999 and 2000 was prepared as if the current group structure had been in existence as at those dates. Details of the basis of presentation are set out in Note 1 to the accompanying financial statements.
2. As the Company has only become the holding company of the Group since 27th March, 2000, no audited consolidated financial statements for the Group had been prepared before 31st December, 2000. The consolidated operating results for the years ended 31st December, 1998 and 1999 and the consolidated assets and liabilities as at 31st December, 1999 were extracted from the Company's prospectus dated 10th April, 2000.

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 31st December, 2000.

LISTING ON THE GROWTH ENTERPRISE MARKET ("THE GEM")

The Group was successfully listed on the GEM of The Stock Exchange of Hong Kong Limited on 14th April, 2000. It was the first Silicon Valley company successfully listed on the GEM. The listing laid an important foundation for the future development of the Group.

FINANCIAL PERFORMANCE

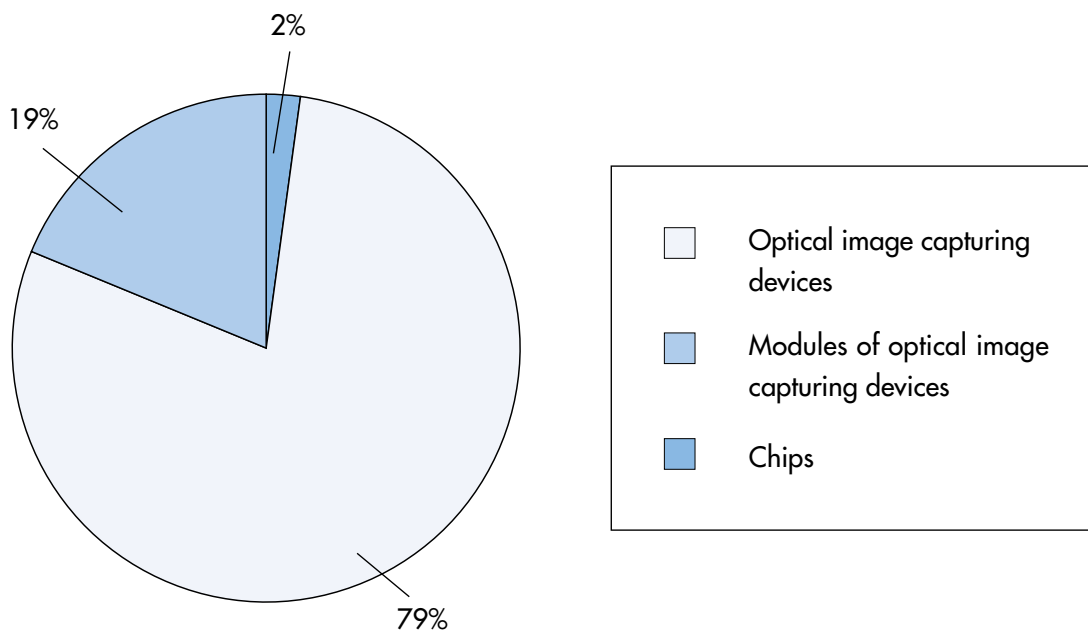
Turnover and Performance

For the year ended 31st December, 2000, the Group recorded a turnover of approximately HK\$32,200,000 (1999: HK\$6,022,000), representing an increase of 4.35 times. The audited loss attributable to shareholders was approximately HK\$39,928,000 (1999: HK\$38,845,000), representing approximately an increase of 2.8%.

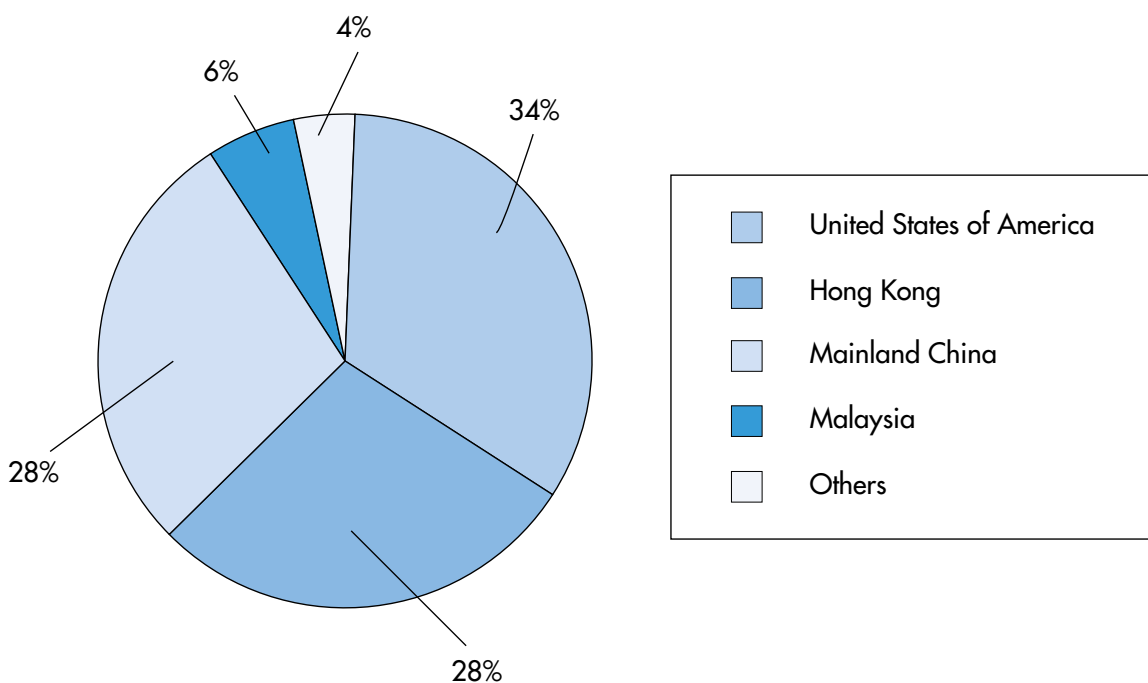
Improved Margins

Due to the improved economies of scale after listing on the GEM and the Group's efforts in cost control, the gross profit margin before provision against inventories was increased dramatically from approximately 4.8% for 1999 to approximately 23.1% for 2000.

Turnover breakdown by products



Turnover breakdown by geographical location



BUSINESS REVIEW

I would like to take this opportunity to highlight the significant development of the Group for the year.

Research and Development

The Group completed the 600 dpi CIS module design based on the SV168 chip and placed this module into mass production. The development of the CIM module was seriously delayed because of the wafer shortage problem in 2000 and the Group was engaged with a new foundry house to make modifications on the CIM design that required stitching process as an alternative. However, due to the engineers changes in the foundry house, the Group's CIM module development was delayed again. The Group then started to revise its old CIM designs and adapted a new CIM module design based on 0.25 μ m chip technology that will eliminate the stitching need on both wafer design and fabrication phases.

In addition, the Group completed the 200 dpi CIS module design based on the SV112 chip. The SV112 chip-based CIS module is very price competitive since the cost of SV112 chip is low. The Group also completed the design and development of A4 format 600 dpi module, 600 dpi color sheet-fed (SF) module, infrared (IR) CIS module, A8 format color CIS module and low-profile A8 CIS module (prototype).

During the year, the Group completed the design of modules SV665D5C, SV668D5C-IR and SV354A6C under contracts for various OEM clients.

Building upon the above-mentioned chip and module development, the Group completed several key system level products during the year. These products included both PC-Card and USB versions of our *Travel/Scan* product line which is co-marketed with COMPAQ (USA) distribution channels and is also sold under OEM contracts with OMRON (Japan) and Olivetti (Europe & Latin America). The Group successfully introduced two new-format portable scanners (the A8 size business card scanner and the A6 size Photo/ID scanner) late in the year at the COMDEX trade show. The A8 Business Card Reader was put into mass production while the Group finished the engineering design of A6 size ID/Photo scanner.

Production

Production lines for assembling the *TravelScan* family products have been set up in the Group's Shenzhen factory to take over the previous subcontracting function in Shanghai. The Group's daily production capacity for *TravelScan* family products has increased. The Group has commenced mass production of 300 dpi and 600 dpi CIS modules for use in the Group's mobile scanner products. The A8 Business Card Reader which works directly with desktop and laptop computers and synchronizes with PDA also began production in the fourth quarter of 2000. The *TravelScan-Plus* that provides upgrading of the software driver from Windows 95/98 to Windows 2000/NT began mass production. The *TravelScan-Plus* product extends the product life-cycle of the PC-Card version of the *TravelScan* by 12-18 months. The upgrade of the existing clean room facilities from class "ten-thousand" to class "one-hundred" was postponed due to the delay of the development of the CIM module.

Sales and Marketing

The Group had strengthened its sales and marketing team in San Jose, Houston, Taipei and Singapore in order to target for first-tier OEM customers in Northern and Southern America and regional distributors in Asia respectively.

During the year of 2000, the Group had actively participated in various trade shows, including the Hong Kong Electronics Fair and COMDEX which was held in the U.S.A., to market the Group's products and to recruit distributors as well as to pursue private label or OEM opportunities.

During the year of 2000, the Group has made effective marketing efforts conveying the image of the Group to markets from a perception of an imaging components research and development house into an enterprise integrating research and development, manufacturing and distribution of imaging modules and system products.

Corporate Development and Acquisition

During the year, the Group acquired a piece of land (approximately 250,000 square meters) in Shenzhen, Mainland China in order for the Group to build the SYSCAN Hi-Tech Park which will accommodate various plants, a research and development center, a product exhibition hall and accommodation buildings mainly for the Group's own use. The Group had made partial payment for acquiring the land and is awaiting the Shenzhen Government to issue a formal land use right and title documents upon its confirmation on the exact area figures and the amount of land tax to be paid by the Group. In addition, the Group had purchased office units and a residential unit (for accommodating R&D staff from overseas) for research & development purposes in Shenzhen, Mainland China. The Group had also invested in a company which is engaged in hi-tech and high return projects in Mainland China. The Group had entered into an agreement to acquire 49% equity interest in a company in Shenzhen which manufactures laser marking systems.

FUTURE PROSPECTS

The Group will continue to emphasize the research and development of hi-tech digital imaging technologies and optical-electronic products in order to maintain its leading position in the mobile imaging and embedded image capture appliances. The Group will continue to develop the CIM module by focusing on the 0.25 μ m chip technology which is expected to be completed by the third quarter of 2001. The development of new products including image input devices for PDA, Palm Computer and mobile phone, high speed color CIS sensors, and modules for high speed scanners will be commenced in this year. With the Group's research and development efforts, these new products are expected to be released for mass production and introduced to markets in near future.

In order to best utilise the Group's research & development resources in Silicon Valley, Taiwan and a Mainland China, the Group has set up a company in Hong Kong, SYSCAN Lab., Limited ("SYSCAN Lab"), to coordinate all research and development efforts of the Group and to attract R&D talents to the Group. A research and development center in Shenzhen will be set up in SYSCAN Hi-Tech Park, and the Group's Silicon Valley based research and development team will continue to focus on imaging sensor design and embedded or built-in software development under the direction of SYSCAN Lab in Hong Kong.

Following the Group's research and development restructuring strategy, the Group has started to construct a self-owned factory in SYSCAN Hi-Tech Park in Shenzhen with an estimated construction area of approximate 124,000 square meters. The Group plans to complete the construction of Group's new factory and R&D center — SYSCAN Hi-Tech Park in three years (three phases). Phase I is expected to be completed by the end of 2001. The Group plans to finance the completion of SYSCAN Hi-Tech Park mainly through bank borrowing. With the new factory and R&D facilities in SYSCAN Hi-Tech Park, the Group's production and testing capacity will be significantly expanded, and should meet the high demand of digital optical imaging technologies and products in the forthcoming years. In future, the Group will consider to capitalise a small portion of buildings and/or land in SYSCAN Hi-Tech Park through cooperation and/or forming strategic alliance with those top tie hi-tech companies in optical electronic field that have strong business synergies with the Group for the ultimate goal of increasing shareholder's value.

The Group reasonably believes that SYSCAN Hi-Tech Park will be fully supported by Shenzhen Government and hi-tech promoting government bodies in China since the Group will continue to focus the core business of SYSCAN Hi-Tech Park on optical electronic field. In order to bring in more business synergies to the Group, the Group considers to cooperate with Shenzhen and national hi-tech promoting government bodies to engage in various joint efforts and actions to encourage and facilitate optical-

electronic related hi-tech companies to form some forms of joint ventures and strategic alliance with the Group and move into SYSCAN Optical-Electronic Valley-SYSCAN Hi-Tech Park.

The Group will put more active efforts in further aggressively strengthening its sales and marketing team and distribution network for promoting SYSCAN image and brand-name in Asia, Northern and Southern America and Europe for developing new distribution channels and OEM business so that the sales of the Group can be rapidly increased and sustained.

The Group is optimistic about its future prospects. Its objectives are to maintain its comparative leading advantage in mobile image capturing industry in the world through further developing new hi-tech imaging and optical-electronic products, to strengthen its marketing and sales networks, to actively and consistently control costs, so as to enable the Group to develop strongly, stably and profitably in future.

I wish to thank the Group's management team, staff, audit committee and shareholders for their strong support during last year. Together we will build on the Group's forefront position in mobile image capturing technology and bring positive returns for the Group's shareholders.

Cheung Wai

Chairman

Hong Kong, 27th March, 2001

Comparison of business objectives with actual business progress

Business objectives for the year ended 31st December, 2000 as stated in the prospectus dated 10th April, 2000 (the "Prospectus")

Business objectives as stated in the Prospectus

Actual business progress/change in business objectives

Research & Development

For the period ended 30th June, 2000

Develop the CIM Scan Carriage module.

Development was seriously delayed due to the shortage of wafer. New fabrication house was planned to be engaged to alleviate the problem. CIM module was modified based on 6-inch, 0.5µm wafer to adapt to the requirement of the new fabrication house which required stitching process on both wafer design and fabrication phases. It was anticipated that the new CIM module would be launched in the fourth quarter of 2000. However, the development was again delayed due to the engineers' changes in the fabrication house.

Launch the USB interface version of *TravelScan*.

The USB version of *TravelScan*, *TravelScan - PRO*, was launched at Computex in June. Pilot run and mass production commenced in the third quarter of 2000.

Launch the 600 dpi Color Mobile Scanner, *TravelScan Plus*.

The design of 600 dpi CIS module was completed. Mass production of *TravelScan* family products was started in the third quarter of 2000.

Complete the 600 dpi A8 module for business card reader; develop the business card reader with USB interface for mobile application.

Prototype of the A8 business card reader was announced and displayed at Computex. The development of the business card reader with USB interface for mobile applications was completed and put into mass production in the fourth quarter of 2000.

Research & Development (Cont'd)

For the period ended 30th June 2000 (Cont'd)

Develop the iMAC Driver for *TravelScan*.

iMAC software driver for *TravelScan* - USB was under development to support Apple iMAC platform. It was then expected to be completed in the fourth quarter of 2000.

Develop PDA related image input appliances.

The progress of PDA related image input modules was on schedule and it was expected to be completed in the fourth quarter of 2000.

For the period from July 2000 to December 2000

Conduct the pilot run of the CIM Scan Carriage module.

Development was seriously delayed due to the shortage of wafer. New fabrication house was to be engaged to fix the problem but CIM module design had to be modified based on 6-inch, 0.5 μ m wafer to adapt to the requirement of the new fabrication house, but the engineers' changes in the new fabrication house delayed the delivery of wafer. The contract with this fabrication house was later terminated in the first quarter of 2001. However, a new CIM design based on 0.25 μ m wafer was started. It is anticipated that the pilot run of the CIM module would be conducted in the third quarter of 2001.

Launch the iMAC Driver for *TravelScan*.

Software engineers had been tied up for upgrading the existing driver to fit Windows 2000 version. Therefore the original planned iMAC Driver development was delayed. iMAC software driver for *TravelScan-USB* was put on hold in the fourth quarter of 2000 depending on the Group's review on the market demand for iMAC Driver.

Research & Development (Cont'd)**For the period from July 2000 to December 2000 (Cont'd)**

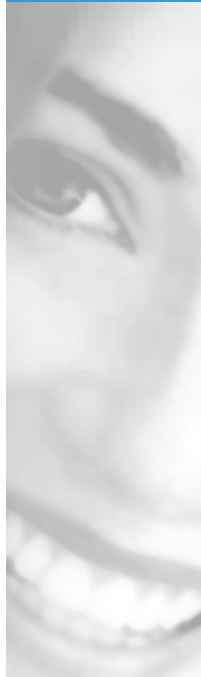
Launch the PDA related image input appliances. Module prototype for PDA related image input appliances was completed in the fourth quarter of 2000. Launching of the PDA related image input appliances was delayed. The Group expects to launch the PDA related image input appliances in the third quarter of 2001.

Continue the development of business card reader with USB interface. With the effort of our R & D team, the development of the business card reader was completed earlier than expected in the Prospectus. The business card reader has already been put into mass production since the fourth quarter of 2000.

Develop further imaging system products. A6 ID/Photo scanner design and development was completed and is planned to be released in the second quarter of 2001.

Improve the functions of the CIS sensor chip. SV112 sensor's new design reduced its material cost. SV182 1200 dpi sensor is a big improvement over SV180 sensor with material cost reduced.

Approximately HK\$19 million as against the intended amount of HK\$50 million stated in the Prospectus (funded out of the proceeds of the Placing) has been incurred for the research and development activities for the year ended 31st December, 2000 due to the delay in the development of the CIM modules and iMAC Driver for *TravelScan*. The remaining balance will be applied to continuing the development of CIM modules, CIM Scan Carriage and PDA related image input appliances in the year of 2001. The Board presently believes that the Group has sufficient funds for the completion of the above plans.



Production

For the period ended 30th June, 2000

Set up production lines for assembling the *TravelScan* family products in the existing Shenzhen factory.

Upgrade the existing clean room facilities from class "ten-thousand" to class "one-hundred" for assembling and packaging CIM modules; develop the tooling for the mass production of CIM modules.

Commence mass production of the 300 dpi and the 600 dpi CIS modules for use in the Group's mobile scanner products.

Production capacity is expected to be increased from 100,000 units to 130,000 units of modules per month.

The production lines in the Shenzhen factory were set up in June 2000 and have been running smoothly.

The upgrade and the tooling was postponed because of the delay of the development of the CIM module.

The Group commenced mass production of 300 dpi and 600 dpi mobile scanner products in May 2000.

Production capacity had been increased to 130,000 units as planned.

For the period from July 2000 to December 2000

Expand the CIS module assembly line and the production facilities for CIM modules.

Set up a new and larger clean-room environment and install three additional automated production lines with die mounting and wire bonding systems incorporating the new CIM technology in the Group's Shenzhen factory.

Production capacity is expected to be about 200,000 units of modules per month.

The expansion was delayed due to the delay in the development of CIM module. The expansion is expected to be completed in the fourth quarter of 2001 when a new factory is completed in SYSCAN Hi-Tech Park.

Two production lines for CIS modules and system products have been installed in October 2000. No new equipment for CIM production has been installed due to the delay in CIM development.

The current rented factory does not have enough space to install more machines, therefore production capacity remains at 130,000 units per month. The Group has started to build a new and larger factory.

Production (Cont'd)**For the period from July 2000 to December 2000 (Cont'd)**

Due to the postponement of the clean room upgrading, tooling and expansion of the CIS module assembly line and production facilities, approximately HK\$4 million as against the planned amount of HK\$15 million as stated in the Prospectus (funded out of the proceeds of the Placing) has been incurred for the above activities. The Board will apply the remaining balance of the proceeds to continue the aforesaid activities and presently believes that the Group shall have sufficient sources of funding for the completion of the above plans.

Sales and marketing**For the period ended 30th June, 2000**

Develop high visibility of *TravelScan* products in private label community and distributor network by promoting the products on the Internet (i.e. the Group's own website at www.syscaninc.com), media advertisement and trade shows.

Enhance the sales and marketing team in the existing Taiwan office together with application engineering support to focus on sales in the Asia Pacific Rim.

Increase the marketing and sales staff in the US and Hong Kong from two to six.

The brand name of *TravelScan* was actively promoted in the trade shows in Beijing and Taipei as well as through media advertisement programs with distributors. The Group's own website was redesigned to promote the new products.

The Taiwan office was strengthened with 6 additional application engineering and marketing staff members to promote the system products in the Asia Pacific Rim and Europe.

The Group's marketing and sales staff headcount was increased from two to ten. Marketing strategy has been redefined to penetrate the mobile scanner market.

For the period from July 2000 to December 2000

Develop high visibility in relation to *TravelScan* products in the private label community and distributor network through media advertisements, the Internet and participation in trade shows to penetrate the markets of *TravelScan*, PDA related participation in image input appliances, business card reader products, as well as OEM module market for facsimile equipment and flatbed scanners.

The brand name of *TravelScan* has been actively promoted in trade shows in Beijing, Taipei and USA as well as through media advertisement programs with distributors. The Group's own website has been redesigned to promote the new products.

Sales and marketing (Cont'd)

For the period from July 2000 to December 2000 (Cont'd)

Establish a sales and marketing team in the existing Shenzhen factory together with application engineering support to focus on the sales in the PRC; total internal marketing force of the Group will be increased to 15 staff.

The Group's sales team in Shenzhen factory was formed, and sales to clients in China have been generated. The marketing and sales team has about 15 employees.

Set up two additional sales offices in Texas, the U.S. and Amsterdam, Holland respectively to focus on the sales in the US and Europe.

Sales office in Texas was successfully set up. However, the setup of sales office in Europe was delayed due to lack of experienced and suitable sales persons for the market. The Group expects to set up a sales office in Europe in the 3rd quarter of 2001.

Approximately HK\$7 million, versus the planned amount of HK\$5 million stated in the Prospectus (funded out of the proceeds of the Placing), has been incurred for the above activities. The additional expenses were incurred for advertising and promotional activities for the Group's products. The Board believes that the intended funds as stated in the Prospectus for the subsequent periods are sufficient for the completion of the respective plans.

Investments

During the year ended 31st December, 2000, the Group acquired 49% equity interest of Han's Laser Science & Technology Co., Ltd., a company established in Shenzhen, Mainland China that manufactures hi-tech laser marking systems. The Group also paid a deposit to acquire 51% equity interest in a newly set-up optoelectronic equipment and service provider, Wealthy Circle Limited, which is to commence business in Mainland China in the second quarter of 2001.

The Group also acquired a minority interest in a company that engages in investments in hi-tech and high return projects in Mainland China.

The total investments made as of 31st December, 2000 were approximately HK\$32,755,000 as compared to the planned amount of HK\$39,000,000 as stated in the Prospectus.

EXECUTIVE DIRECTORS

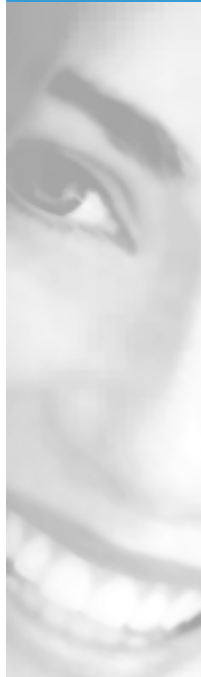
Mr. Cheung Wai, aged 50, is the Chairman of the Group. Mr. Cheung is responsible for the overall strategic planning for the Group's development. He has over 24 years of extensive business and management experiences in the field of electronic and computer industry in the PRC and overseas. He holds a bachelor's degree in Electronics Engineering from China Central Institute of Technology, Mainland China.

Mr. Darwin Hu, aged 48, is the Chief Executive Officer of the Group. Mr. Hu is responsible for marketing, research and development and daily overall management. He has over 18 years of experience in research and development management, imaging product development, manufacturing and sales and marketing. Before joining the Group in April 1998, Mr. Hu held senior management positions in Microtek, Xerox, OKI, AVR, DEST, Olivetti and Grundig. Mr. Hu holds a bachelor's degree in Engineering Science from National Cheng-Kung University, Taiwan, and a master's degree in Computer Science and Engineering from California State University, USA.

Mr. Zhang Hongru, aged 38, is the Chief Financial Officer and compliance officer of the Group. Mr. Zhang is responsible for the Group's corporate planning, financial control and investor's relationship of the Group. He has over 10 years' experience in the field of banking, finance and corporate development. He held various management positions in ArcSoft Hong Kong, DBS Asia Capital, Grand Generale Asia, Crosby Securities and HSBC. Mr. Zhang joined the Group on 1st December, 2000 and was appointed as executive director and compliance officer of the Group in February 2001. Mr. Zhang holds a master's degree in geography from the Chinese Academy of Science and a master's degree in natural resources economics from University of Alaska, USA.

NON-EXECUTIVE DIRECTORS

Mr. Joseph Liu, aged 49, is the non-executive director and ex-chairman of SYSCAN Inc.. Mr. Liu is the General Partner of TechLink Technology Partners, a high-tech venture investment company based in Silicon Valley and holds directorships in several companies in the US and Taiwan. He has over 21 years of corporate experience in high technology, direct investment and venture capital.



INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wai Ming, aged 49, is the founder and managing director of Greater China Asset Management Limited. Mr. Lo has over 24 years' extensive experience in infrastructure investment, consumer marketing, business development and corporate finance including positions of managing director of Citifood Company International Limited, Director of Cosmos Machinery Enterprises Limited and Managing Director of Ocean Grand Holdings Limited. He holds a master's degree in Business Administration from the Chinese University of Hong Kong. He is also a member of the Chartered Institute of Marketing and British Institute of Management.

Mr. Cheung Yuk Ming, aged 48, is a practicing Certified Public Accountant in Hong Kong. Prior to that, Mr. Cheung worked in the area of portfolio investment and printed circuit board assembly management of computer disc drives. Mr. Cheung is a member of the British Computer Society, Hong Kong Securities Institute and the Chartered Association of Certified Accountants and completed the senior management program at the Business School of Columbia University, USA and the MBA Degree at the University of East Asia in Macao.

SENIOR MANAGEMENT

Mr. William Hawkins, aged 45, is the President of the Group's subsidiary in Silicon Valley SYSCAN Inc. and Vice President of Marketing and Sales of the Group, and is responsible for marketing and sales planning of the Group. Mr. Hawkins has over 17 years' marketing and sales experience in the field of electronic industry related to computer peripheral and imaging system including General Electric (UK), Karma Aerospace, British Aerospace, Gaertner research and Per Scholas. He holds a bachelor's degree in Physics from University of Maryland, USA, and a master's degree in Technology Management from Johns Hopkins University, USA.

Mr. Alpha Hou, aged 46, is the Vice-President of Engineering and General Manager of the Group's Taiwan branch, and is responsible for technology research and development and system engineering of the Group. Mr. Hou has over 16 years' experiences in imaging system product development and engineering management in design and scanning and display industry including Microtek, Trident, Genoa, Alpha Vision, Grundig and RCA. He holds a bachelor's degree in Engineering from Northwestern Polytechnic University, USA.

SENIOR MANAGEMENT *(Cont'd)*

Mr. Wang Kuang Yu, aged 39, is the Head of System Engineering, and is responsible for the system engineering of the Group in Taiwan. Mr. Wang has over 14 years' extensive experience in system engineering in scanner, image capturing devices and PC peripherals. Mr. Wang holds a bachelor's degree in Electrical Engineering from National Tsinghua University, Taiwan and a master's degree in Electrical-Optical Science from National Central University, Taiwan.

Dr. Luo Xiaoming, aged 39, is the Head of Production Engineering, and is responsible for the production engineering of the Group in Shenzhen. Dr. Luo has over 19 years' extensive experience in engineering and manufacturing operations. Dr. Luo holds a master's degree in Mechanical Engineering from Harbin Institute of Technology, Mainland China and a doctoral degree in Engineering from Zhejiang University, Mainland China.

Mr. Chan Man Ching, aged 32, is the Qualified Accountant of the Group. He graduated from the University of South Australia with a bachelor's degree in Accountancy. He is also an Associate of Hong Kong Society of Accountants and a member of CPA Australia. He has over 8 years' experience in accounting and auditing.

Ms Chow Suk Han, Caroline, aged 31, is the company secretary of the Group and responsible for regulatory compliance and corporate affairs of the Group. She graduated from the City University of Hong Kong with a bachelor's degree in accountancy. She is also an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. She has over 8 years' experience in company secretarial and corporate affairs in professional firm and listed companies.



The Directors are pleased to present their first report together with the audited financial statements of SYSCAN Technology Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st December, 2000.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 17th August, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Pursuant to a reorganisation scheme of the Group in preparation for the listing of the Company's shares on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 27th March, 2000. The Company's shares were listed on the GEM on 14th April, 2000.

Details of the group reorganisation scheme and the basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

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 and related components. The Group also has investments in certain companies which the Group has minority interests.

An analysis of the Group's turnover and loss attributable to shareholders by product category and geographical location for the year ended 31st December, 2000, are as follows:

	Turnover	Loss
	HK\$'000	attributable to
		shareholders
		HK\$'000
a. By product category		
Optical image capturing devices	25,454	(31,563)
Modules of optical image capturing devices	6,050	(7,502)
Chips	696	(863)
	<hr/>	<hr/>
	32,200	(39,928)
	<hr/>	<hr/>

PRINCIPAL ACTIVITIES (Cont'd)

	Turnover HK\$'000
b. By geographical location*	
United States of America	10,774
Hong Kong	9,175
Mainland China	9,090
Malaysia	1,873
Others	1,288
	<hr/>
	32,200
	<hr/>

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

No analysis of loss attributable to shareholders by geographical location is presented as it was generally in line with the distribution of turnover set out above.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the five largest customers accounted for approximately 72% of the Group's total turnover, while the five largest suppliers of the Group accounted for approximately 46% of the Group's total purchases. The largest customer accounted for approximately 27% of the Group's total turnover while the largest supplier accounted for approximately 19% 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 31st December, 2000 are set out in the consolidated income statement on page 38 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficit of approximately HK\$165,113,000 as at 31st December, 2000 be carried forward.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 19 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 21 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 38 of this annual report.

As at 31st December, 2000, approximately HK\$33,775,000 of the Company's reserves were available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda in relation to the issue of new shares by the Company.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 12 to the accompanying financial statements.

PROPERTIES, MACHINERY AND EQUIPMENT

Details of movements in properties, machinery and equipment during the year are set out in Note 10 to the accompanying financial statements.

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 23 to the accompanying financial statements.

CONNECTED TRANSACTIONS

During the year ended 31st December, 2000, a tenancy agreement was entered into between Mr. Cheung Wai, a Director of the Company, as the landlord and SYSCAN InterVision Limited (a wholly owned subsidiary of the Company) as the tenant on 8th January, 2000 whereby Mr. Cheung Wai agreed to lease all that property of Office 8 on 8th Floor of K. Wah Centre, 191 Java Road, North Point, Hong Kong at a monthly rental of HK\$16,500 for a term of two years, exclusive of rates and management fees.

DIRECTORS

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

Executive directors

Mr. Cheung Wai, <i>Chairman</i>	(Appointed on 1st October, 1999)
Mr. Darwin Hu	(Appointed on 1st October, 1999)
Dr. Wong Wai Keung, <i>Gordon</i>	(Appointed on 11th February, 2000 and resigned on 22nd August, 2000)
Mr. Zhang Hongru	(Appointed on 2nd February, 2001)

Non-executive director

Mr. Joseph Liu	(Appointed on 2nd March, 2000)
----------------	--------------------------------

Independent non-executive directors

Mr. Lo Wai Ming	(Appointed on 2nd March, 2000)
Mr. Cheung Yuk Ming	(Appointed on 2nd March, 2000)

In accordance with bye-law 102(A) of the Bye-Laws of the Company, Mr. Zhang Hongru retires and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with bye-law 99 of the Bye-Laws of the Company, Mr. Lo Wai Ming and Mr. Cheung Yuk Ming, retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS (Cont'd)

In view of the future development of the Group which will involve more and more co-operation, investment and acquisition opportunities and the substantial amount of legal work to be incurred in relation thereto, the Board, for the best interest of the Group and its minority shareholders, recommends to the shareholders that Mr. Lo Hang Fong be elected in place of Mr Cheung Yuk Ming as an independent non-executive director at the forthcoming annual general meeting.

Mr. Lo Hang Fong, aged 37, is a solicitor practicing in Hong Kong. He holds a bachelor's degree in laws from the University of Bristol in England and a diploma in Chinese laws from the Chinese Law Society. Mr. Lo is currently a partner with Messrs. Stevenson, Wong & Co., Solicitors & Notaries in Hong Kong. He has acquired over ten years of experience in corporate advisory on mergers and acquisitions, initial public offerings and loan syndication.

Taking this opportunity, the Board expressed on behalf of the Company the great appreciation and gratitude to Mr. Cheung Yuk Ming for his professional services and advice on the Board.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of four years commencing from, in the cases of Mr. Cheung Wai and Mr. Darwin Hu, 1st April, 2000 and in the case of Mr. Zhang Hongru, 2nd February, 2001.

Mr. Joseph Liu, the non-executive director has entered into a service agreement with the Company for a term of three years commencing from 1st April, 2000.

Mr. Lo Wai Ming and Mr. Cheung Yuk Ming, the independent non-executive directors, have entered into service agreements with the Company for a term of three years commencing from 1st April, 2000.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming Annual General Meeting 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' INTERESTS IN SHARES

As at 31st December, 2000, the following Directors of the Company had or were deemed to have interests in the equity securities of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of 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 to 5.59 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"):

Name	Number of ordinary shares held				Total	Percentage of interests
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Cheung Wai	7,200,000	—	48,000,000 <i>(Note 3)</i>	—	55,200,000	6.21%
Mr. Darwin Hu	38,400,000	3,360,000 <i>(Note 1)</i>	—	—	41,760,000	4.70%
Mr. Joseph Liu	19,200,000	52,800,000 <i>(Note 2)</i>	—	—	72,000,000	8.10%
Dr. Wong Wai Keung, Gordon <i>(Note 4)</i>	9,760,000	—	—	—	9,760,000	1.10%
Mr. Zhang Hongru	—	—	4,176,000 <i>(Note 5)</i>	—	4,176,000	0.47%

Notes:

1. These shares were held by Mrs. Sonya Hsiu-Yu Hu, the spouse of Mr. Darwin Hu.
2. These shares comprised the shares held by Messrs Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr. Joseph Liu.
3. These shares were held by Haing Assets Limited, a company incorporated in the British Virgin Islands and is beneficially owned by Mr. Cheung Wai.
4. Dr. Wong Wai Keung, Gordon resigned as an executive director of the Company with effect from 22nd August, 2000.
5. These shares were held by Osbeck Investments Limited, a company incorporated in the British Virgin Islands and is beneficially owned by Mr. Zhang Hongru.

DIRECTORS' INTERESTS IN SHARES *(Cont'd)*

Save as disclosed above, none of the Directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of 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 during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Prior to the listing of the Company's shares on the GEM on 14th April, 2000, the Company's 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 18th February, 2000 and 26th February, 2000 respectively. Pursuant to the Group Reorganisation Scheme, such shares in SYSCAN Inc. were converted into shares of the Company on 27th March, 2000.

On 2nd 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.

Share Option Scheme A ceased to be effective (save for the options granted) upon the listing of the shares of the Company on the GEM on 14th December, 2000. During the year ended 31st December, 2000, no options have been granted to the Company's Directors under Share Option Scheme A.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

Details of the options granted to the Directors of the Company under Share Option Scheme B during the year ended 31st December, 2000 are as follows:

Name	Date of grant	Exercise period	Exercise Price per share	Number of shares				
				Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	End of year
Mr. Cheung Wai	19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	—	5,000,000	—	—	5,000,000
Mr. Darwin Hu	19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	—	5,000,000	—	—	5,000,000
Dr. Wong Wai Keung, Gordon (Note)	19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	—	5,000,000	(5,000,000)	—	—
Mr. Zhang Hongru	4th December, 2000	4th December, 2001 to 3rd December, 2010	HK\$0.1016	—	5,000,000	—	—	5,000,000
				—	20,000,000	(5,000,000)	—	15,000,000

Note: Dr. Wong Wai Keung, Gordon resigned as an executive director of the Company with effect from 22nd August, 2000 and accordingly, the share options granted were lapsed on 21st November, 2000 pursuant to the terms and conditions of the scheme.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any of the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Save as disclosed above, none of the Directors 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the following entities (not being a Director or chief executive of the Company) had or were deemed to have interests, being 10% or more in the issued share capital of the Company, as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance.

Name	Number of issued shares	Percentage of shareholding
Hotung Venture Capital Corp. (Note 1)	1,904,000	0.214%
Daitung Development and Investment Co. Ltd. (Note 1)	4,000,000	0.450%
Wantung Venture Capital Corp. (Note 2)	8,000,000	0.900%
Baotung Venture Capital Corp. (Note 2)	16,000,000	1.800%
Litung Venture Capital Corp. (Note 1)	24,000,000	2.700%
Maton Fund I L.P. (Note 1)	40,000,000	4.500%
	<u>93,904,000</u>	<u>10.564%</u>

Notes:

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

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest in ten per cent or more of the issued share capital of the Company as at 31st December, 2000.

EMPLOYEE SHARE OPTIONS

The Company has two employee share option schemes, namely Share Option Scheme A and Share Option Scheme.

Under Share Option Scheme A, the Company granted options to employees of the Group (including directors of the Company) and consultants of the Group to subscribe for a maximum of 52,784,000 ordinary shares of HK\$0.1 each, at exercise prices ranging from HK\$0.02422 to HK\$0.04844 per ordinary share. Share Option Scheme A ceased to be effective (save for the options already granted) upon the listing of the Company on the GEM on 14th April, 2000. No options have been granted to the Directors.

Movements of the options under Share Option Scheme A during the year ended 31st December, 2000 were as follows:

Date of grant	Exercise period	Exercise Price per share	Beginning of year	Number of shares			End of year
				Granted during the year	Lapsed during the year	Exercised during the year	
2nd March, 2000	2nd March, 2000 to 1st March, 2010	HK\$0.04844	—	52,624,000	(7,376,000)	(1,056,000)	44,192,000 <i>(Note)</i>
2nd March, 2000	2nd March, 2000 to 1st March, 2010	HK\$0.02422	—	160,000	—	—	160,000
			—	52,784,000	(7,376,000)	(1,056,000)	44,352,000

Note: The closing prices immediately before the date of exercise of options were HK\$0.385 (280,000 options), HK\$0.238 (640,000 options), HK\$0.25 (16,000 options) and HK\$0.249 (120,000 options) respectively.

Under Share Option Scheme B, the Company may grant options to employees of the Group (including Directors of the Company) to subscribe for ordinary shares of HK\$0.1 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 trading 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. Details of the options granted to the Directors are set out on page 27 of this annual report.

EMPLOYEE SHARE OPTIONS (Cont'd)

Movements of the options under Share Option Scheme B (inclusive of the options granted to the Directors) during the year ended 31st December, 2000 were as follows:

Date of grant	Exercise period	Exercise Price per share	Beginning of year	Number of shares			End of year	
				Granted during the year	Lapsed during the year	Exercised during the year		
19th June, 2000	19th June, 2001 to 18th June, 2010	HK\$0.33	—	15,000,000	(5,000,000)	—	10,000,000	
12th July, 2000	12th July, 2001 to 11th July, 2010	HK\$0.246	—	6,660,000	(900,000)	—	5,760,000	
4th December, 2000	4th December, 2001 to 3rd December, 2010	HK\$0.1016	—	6,700,000	—	—	6,700,000	
				—	28,360,000	(5,900,000)	—	22,460,000

SPONSOR'S INTERESTS

As at 31st December, 2000, a director and an employee of BNP Paribas Peregrine Capital Limited ("the Sponsor", formerly known as BNP Prime Peregrine Capital Limited) held 200,000 shares and 120,000 shares in the Company respectively.

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

Save as disclosed above, neither the Sponsor, its directors, employees nor associates had any interests in the securities of the Company, including options or rights to subscribe for such securities.

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.

AUDIT COMMITTEE

The Company established an audit committee on 2nd 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 two independent non-executive directors, namely Mr. Lo Wai Ming and Mr. Cheung Yuk Ming. The Committee has met six times since its establishment with the management to discuss and review the Group's various internal control and audit issues with a view to further improve the Group's corporate governance.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co 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

Hong Kong, 27th March, 2001



NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of SYSCAN Technology Holdings Limited (the "Company") will be held at Banquet Room No.9, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on 28th April, 2001, at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and Auditors for the year ended 31st December, 2000;
2. To elect Directors and to authorise the Board of Directors to fix the remuneration of the Directors;
3. To appoint auditors and to authorise the Board of Directors to fix their remuneration;
4. To consider as special business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT

- (A) subject to paragraph (C) of this Resolution, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market ("the GEM") on The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) of this Resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (A) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) the exercise of options granted under the share option schemes adopted by the Company; or (iii) any scrip dividend scheme or similar arrangements providing for the allotment of shares in lieu of the whole or a part of a dividend on shares of the Company pursuant to the Bye-laws of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and
- (D) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders in general meetings; and
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to the holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).";

5. To consider as special business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (A) subject to paragraph (B) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in Resolution No. 4(D) set out in the Notice of this Meeting) of all the powers of the Company to repurchase issued shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved; and
- (B) the aggregate nominal amount of shares of the Company which are authorised to be repurchased by the Company pursuant to the approval in paragraph (A) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly.”; and

6. To consider as special business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT conditional upon the passing of Resolution No. 5, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares of the Company pursuant to Resolution No. 4 be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 5, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution.”

By Order of the Board

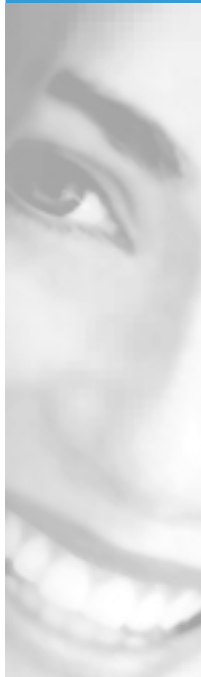
Cheung Wai

Chairman

Hong Kong, 27th March, 2001

Notes :

1. The Register of Members of the Company will be closed from Monday, 23rd April, 2001 to Friday, 27th April, 2001, both days inclusive, during which period no transfer of shares can be registered.
2. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and, in the event of a poll, vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company.
3. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Head Office and Principal Place of Business of the Company in Hong Kong at Unit 808, 8th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjourned meeting.
4. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the Meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. A circular containing further details regarding Resolutions Nos. 4 to 6 as required by the GEM Listing Rules will be dispatched to shareholders together with the Annual Report 2000.





ARTHUR ANDERSEN

Arthur Andersen & Co

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**Auditors' Report to the Shareholders of
SYSCAN TECHNOLOGY HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 38 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

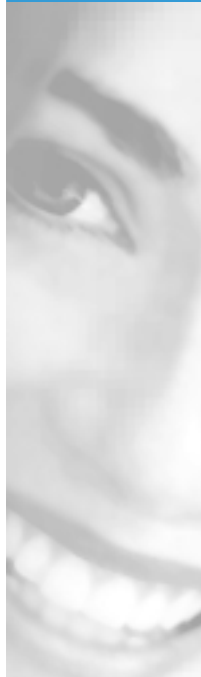
OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December, 2000 and of the loss and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO

Certified Public Accountants

Hong Kong, 27th March, 2001.



Consolidated Income Statement

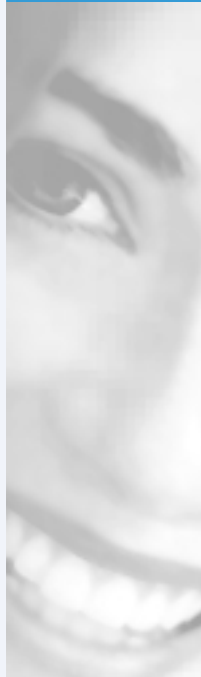
For the Year ended 31st December, 2000
(Expressed in Hong Kong dollars)

	Note	2000 \$'000	1999 \$'000
Turnover	4	32,200	6,022
Cost of sales		(24,746)	(5,733)
Gross profit before provision against inventories		7,454	289
Provision against inventories and trade receivables		(6,731)	(195)
Selling and distribution expenses		(7,054)	(4,350)
Research and development expenses		(19,389)	(19,510)
General and administrative expenses		(21,616)	(16,409)
Loss from operations		(47,336)	(40,175)
Interest income		7,415	1,337
Loss before taxation	5	(39,921)	(38,838)
Taxation	7	(7)	(7)
Loss attributable to shareholders	8	(39,928)	(38,845)
Accumulated deficit, beginning of year		(125,185)	(86,340)
Accumulated deficit, end of year		(165,113)	(125,185)
Loss per share - Basic	9	HK (4.78) cents	HK (6.95) cents

Consolidated Statement of Recognised Gains and Losses

For the Year ended 31st December, 2000
(Expressed in Hong Kong dollars)

	Note	2000 \$'000	1999 \$'000
Gain not recognised in the consolidated income statement			
- Translation adjustments	21	518	357
Loss attributable to shareholders		<u>(39,928)</u>	<u>(38,845)</u>
Net recognised losses		<u>(39,410)</u>	<u>(38,488)</u>



Balance Sheets

As at 31st December, 2000
(Expressed in Hong Kong dollars)

	Note	Consolidated		Company	
		2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Non-current assets					
Properties, machinery and equipment	10	17,212	16,788	—	—
Properties under development	11	42,903	—	—	—
Investment in subsidiaries	12	—	—	168,287	—
Long-term investments	13	32,775	—	3,824	—
Total non-current assets		92,890	16,788	172,111	—
Current assets					
Inventories	14	25,672	11,172	—	—
Trade receivables	15	9,908	1,519	—	—
Prepayments, deposits and other current assets		5,026	2,322	223	—
Due from a director	3,16	1	78	—	—
Cash and bank deposits	17	100,695	50,725	50,252	—
Total current assets		141,302	65,816	50,475	—
Current liabilities					
Trade payables		(3,153)	(3,514)	—	—
Due to directors	3	(245)	(210)	(240)	—
Accruals and other payables	18	(9,428)	(4,520)	(980)	—
Total current liabilities		(12,826)	(8,244)	(1,220)	—
Net currents assets		128,476	57,572	49,255	—
Net assets		221,366	74,360	221,366	—

Balance Sheets

As at 31st December, 2000
(Expressed in Hong Kong dollars)

		Consolidated		Company	
Note	2000	1999	2000	1999	
	\$'000	\$'000	\$'000	\$'000	
Capital and reserves					
Share capital	19	88,887	193,153	88,887	—
Reserves	21	297,592	6,392	168,825	—
Accumulated deficit		(165,113)	(125,185)	(36,346)	—
Shareholders' equity		221,366	74,360	221,366	—

Approved by the Board of Directors on 27th March, 2001:

CHEUNG WAI

Chairman

DARWIN HU

Director and Chief Executive Officer

Consolidated Cash Flow Statement

For the Year ended 31st December, 2000
(Expressed in Hong Kong dollars)

	Note	2000 \$'000	1999 \$'000
Operating activities	22.a	(60,949)	(42,835)
Returns on investments and servicing of finance			
Interest received		7,415	1,337
Taxation			
Overseas tax paid		(7)	(7)
Investing activities			
Additions to properties, machinery and equipment		(8,496)	(10,407)
Proceeds from disposal of properties, machinery and equipment		751	179
Additions to properties under development		(42,903)	—
Increase in long-term investments		(32,775)	—
Translation adjustments		518	357
		(82,905)	(9,871)
Net cash outflow before financing		(136,446)	(51,376)
Financing	22.b		
Proceeds from issuance of shares by a subsidiary prior to the Reorganisation		3,402	51,273
Proceeds from issuance of shares		202,160	—
Share issuance expenditures		(19,197)	—
Proceeds from issuance of shares upon exercise of employee share options		51	—
		186,416	51,273
Increase (Decrease) in cash and bank deposits		49,970	(103)
Cash and bank deposits, beginning of year		50,725	50,828
Cash and bank deposits, end of year		100,695	50,725

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

SYSCAN Technology Holdings Limited ("the Company") was incorporated in Bermuda on 17th 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 ("the GEM") since 14th April, 2000.

On 27th March, 2000, the Company became the holding company of the other companies comprising the group pursuant to a group reorganisation ("the Reorganisation"). The Reorganisation involved companies under common control, and the Company and its subsidiaries ("the Group") resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st December, 2000, rather than from the date on which the Reorganisation was completed. The comparative figures for the year ended 31st December, 1999 are presented on the same basis.

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 and related components. The Group also has investments in certain companies which the Group has minority interests (see Note 13).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, 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. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

d. Long-term investments

Long-term investments are carried at cost less provision for any impairment in value.

e. Turnover and revenue recognition

Turnover represents the net invoiced value of merchandise sold after allowances for returns and discounts.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

f. Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

g. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are charged against income in the period incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) the enterprise intends to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.

All research and development costs for the years ended 31st December, 1999 and 2000 have been expensed as no expenditure met the criteria for deferral.

h. Advertising and promotion costs

The costs of advertising and promotion are expensed in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**i. Employee retirement benefits**

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

j. Properties, machinery and equipment and depreciation

Properties, machinery and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of properties, machinery and equipment which will result in future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	20 to 50%
Furniture and office equipment	20 to 33%
Machinery and equipment	10 to 20%
Motor vehicles	20%

The carrying value of properties, machinery and equipment is assessed periodically or when factors indicating an impairment are present. Individual items of properties, machinery and equipment carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of individual items of properties, machinery and equipment, expected future cash flows are not discounted to their present value.

Gains and losses on disposal of properties, machinery and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

k. Properties under development

Properties under development are stated at cost, which includes cost of purchase or, where construction is undertaken by the Group, land costs and construction expenditures incurred, as well as other direct costs capitalised during the construction period. No depreciation is provided in respect of properties under development until the construction work is completed.

l. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction of expense in the period in which the reversal occurs.

m. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

n. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, monetary assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the average applicable rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

a. Particulars of significant transactions between the Group and related parties are as follows:

	2000 \$'000	1999 \$'000
深圳榮寶齋有限公司 (i)		
- Purchase of furniture (Artistic decorations)	1,869	—
RT Technology Development Limited (ii)		
- Commission paid for arranging the issuance of preferred shares by a subsidiary prior to the Reorganisation	—	475
Shanghai Shinny Electronic Technology Corp. (iii)		
- Processing fee paid	732	1,267
Mr. Cheung Wai		
- Rental payment for office premise	198	—

Notes -

- (i) Mr. Cheung Wai, a director of the Company, is a director of and has minority interest in 深圳榮寶齋有限公司.
- (ii) Mr. Cheung Wai, a director of the Company, is a director of and has a beneficial interest in RT Technology Development Limited.
- (iii) Shanghai Shinny Electronic Technology Corp. is beneficially owned by a minority shareholder of the Company.

b. The amounts due from and due to directors are unsecured, non-interest bearing and repayable on demand.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER AND REVENUE

Analysis of turnover and revenue by product category is:

	2000 \$'000	1999 \$'000
Sales of merchandise		
- Optical image capturing devices	25,454	4,150
- Modules of optical image capturing devices	6,050	1,255
- Chips	696	617
Total turnover	32,200	6,022
Interest income	7,415	1,337
Total revenue	39,615	7,359

Analysis of turnover by geographical location * is:

	2000 \$'000	1999 \$'000
United States of America	10,774	2,951
Hong Kong	9,175	2,770
Mainland China	9,090	—
Malaysia	1,873	—
Others	1,288	301
	32,200	6,022

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

Sales to the top five customers accounted for approximately 72% of the Group's sales for the year ended 31st December, 2000 (1999 - 59%).

5. LOSS BEFORE TAXATION

Loss before taxation is determined after charging and crediting the following items:

	2000 \$'000	1999 \$'000
After charging -		
Staff costs (including directors' emoluments)	21,523	6,845
Operating lease rentals in respect of premises	2,848	2,229
Advertising and promotion expenses	1,573	—
Provision for slow-moving and obsolete inventories	4,878	—
Provision for bad and doubtful debts	1,853	195
Depreciation of properties, machinery and equipment	7,321	6,127
Net loss on disposal of properties, machinery and equipment	—	16
Net exchange loss	253	—
Auditors' remuneration	900	675
	<hr/>	<hr/>
After crediting -		
Write-back of provision for slow-moving and obsolete inventories	—	1,634
Interest income from bank deposits	7,415	1,337
Net exchange gain	—	31
	<hr/>	<hr/>

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments paid/payable to directors of the Company are:

	2000 \$'000	1999 \$'000
Fees for executive directors	—	—
Fees for non-executive directors	240	—
Other emoluments for executive directors		
- Basic salaries and allowances	3,382	1,179
	<hr/>	<hr/>
	3,622	1,179
	<hr/>	<hr/>

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

a. (Cont'd)

No directors waived any emoluments during the year. No payment as inducement to join or upon joining the Group or as compensation for loss of office was paid or is payable to any directors.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2000	1999
Executive directors		
- Nil to \$1,000,000	1	2
- \$1,000,001 to \$1,500,000	1	1
- \$1,500,001 to \$2,000,000	1	—
Non-executive directors		
- Nil to \$1,000,000	<u>3</u>	<u>1</u>
	<u>6</u>	<u>4</u>

b. Details of emoluments paid/payable to the five highest paid individuals (including directors and other employees) are:

	2000	1999
	\$'000	\$'000
Basic salaries and allowances	<u>5,742</u>	<u>4,186</u>

Two (1999 - One) of the highest paid individuals were directors of the Company, whose emoluments are included in Note 6. a above.

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

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

b. (Cont'd)

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	2000	1999
Nil to \$1,000,000	1	4
\$1,000,001 to \$1,500,000	3	1
\$1,500,001 to \$2,000,000	1	—
	<hr/>	<hr/>
	5	5
	<hr/>	<hr/>

7. TAXATION

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

SYSCAN Inc. is subject to United States federal income tax at a rate of 35% (1999 - 35%) and California State income tax at a rate of 5.8% (1999 - 5.8%). It had no assessable profit subject to United States federal income tax and California State income tax and, consequently, was liable to California State income tax of approximately \$7,000 (1999 - \$7,000), being the minimum amount for a company in a tax loss position.

SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., a wholly foreign owned enterprise established and operated in a special economic zone in Mainland China, is subject to Mainland China enterprise income tax at a rate of 15% (1999 - 15%). However, it is exempted from enterprise 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 Mainland China enterprise income tax has been recorded as SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. has incurred losses since its incorporation.

No Taiwan income tax is payable by the Taiwanese branch of SYSCAN InterVision Limited as the branch had no assessable profit in Taiwan.

There was no significant unprovided deferred taxation for the year ended 31st December, 2000.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately \$36,346,000 dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2000 is based on the loss attributable to shareholders of approximately \$39,928,000 (1999 - \$38,845,000) and the weighted average of approximately 835,721,000 (1999 - 559,293,000) ordinary shares deemed to be in issue during the year, on the basis of presentation relating to the Reorganization as described in Note 1.

No diluted loss per share is presented as the outstanding employee share options were anti-dilutive.

10. PROPERTIES, MACHINERY AND EQUIPMENT

Movements of properties, machinery and equipment (consolidated) are:

	2000				1999	
	Leasehold improvements	Furniture and office equipment	Machinery and equipment	Motor vehicles	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
Beginning of year	3,491	6,527	22,413	534	32,965	23,826
Additions	429	3,765	3,612	690	8,496	10,407
Disposal	(399)	(290)	(1,676)	—	(2,365)	(1,268)
End of year	3,521	10,002	24,349	1,224	39,096	32,965
Accumulated depreciation						
Beginning of year	1,212	2,279	12,457	229	16,177	11,123
Provision for the year	1,631	1,437	4,143	110	7,321	6,127
Disposal	(78)	—	(1,536)	—	(1,614)	(1,073)
End of year	2,765	3,716	15,064	339	21,884	16,177
Net book value						
End of year	756	6,286	9,285	885	17,212	16,788
Beginning of year	2,279	4,248	9,956	305	16,788	12,703

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. PROPERTIES UNDER DEVELOPMENT

Properties under development (consolidated) consisted of:

	2000 \$'000	1999 \$'000
Construction-in-progress		
- Land *	11,377	—
- Construction expenditures **	13,208	—
	24,585	—
Amount paid to purchase office premises ***	18,318	—
	42,903	—

* The land is located in Shenzhen, Guangdong Province, Mainland China, for which the Group has yet to obtain the formal land use right.

** This development will be used as a production plant of the Group.

*** It is anticipated that the office premises will be transferred to the Group in 2001. These premises will be used as a research and development centre of the Group.

12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2000 \$'000	1999 \$'000
Unlisted shares	74,698	—
Due from subsidiaries	133,387	—
	208,085	—
Less: Provision for impairment in value	(39,798)	—
	168,287	—

The amounts due from subsidiaries are unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 31st December, 2000.

Details of the subsidiaries as at 31st December, 2000 are:

Name	Place of incorporation / operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group*	Principal activities
SYSCAN Holdings Limited	British Virgin Islands	US\$3	100%	Investment holding
SYSCAN Imaging Limited	British Virgin Islands	US\$1	100%	Investment holding
SYSCAN Inc.	California, United States of America	—	100%	Design, development and marketing of image sensor modules

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation / operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group*	Principal activities
SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. **	Mainland China	US\$6,000,000 registered capital	100%	Manufacture and sale of image sensor modules
SYSCAN InterVision Limited	Hong Kong	HK\$10,000	100%	Trading of image sensor modules
Netboss Management Limited	British Virgin Islands	US\$1	100%	Investment holding

* SYSCAN Holdings Limited and SYSCAN Imaging Limited are held by the Company directly. All other subsidiaries are held by the Company indirectly.

** SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 15 years up to 2009.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2000.

13. LONG-TERM INVESTMENTS

Long-term investments consisted of:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Grandview Investments Group Limited (a)	16,720	—	—	—
Han's Laser Science & Technology Co., Ltd. (b)	9,346	—	—	—
Wealthy Circle Limited (c)	3,824	—	3,824	—
Chinese collectibles (d)	2,885	—	—	—
	32,775	—	3,824	—

Notes -

- (a) In October 2000, the Group acquired a 22% equity interest in Grandview Investments Group Limited, an investment holding company incorporated in the British Virgin Islands. Grandview Investments Group Limited has an effective equity interest of approximately 30.6%, through several intermediate holding companies, in a cooperative joint venture incorporated in Hubei Province, Mainland China, which is principally engaged in the operation and management of two toll roads in that Province.
- (b) In October 2000, the Group paid a deposit of approximately \$9,346,000 to acquire a 49% equity interest in Han's Laser Science & Technology Co., Ltd., a company established in Mainland China, which is principally engaged in the manufacturing of laser marking systems. Total consideration for the investment is approximately \$17,336,000. It is anticipated that the acquisition will be completed by June 2001.
- (c) In December 2000, the Group paid a deposit of approximately \$3,824,000 to acquire a 51% equity interest in Wealthy Circle Limited, a company incorporated in the British Virgin Islands, which is principally engaged in the manufacturing of optoelectronics equipment. Total consideration for the investment is approximately \$3,980,000. It is anticipated that the acquisition will be completed by June 2001.
- (d) The Group has invested in certain Chinese collectibles.

The Company's Directors are of the opinion that the underlying value of the long-term investments is not less than their carrying value as at 31st December, 2000.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVENTORIES

Inventories (consolidated) consisted of:

	2000 \$'000	1999 \$'000
Raw materials	14,335	4,996
Work-in-progress	1,164	5,648
Finished goods	16,243	1,720
	<u>31,742</u>	<u>12,364</u>
Less: Provision for slow-moving and obsolete inventories	(6,070)	(1,192)
	<u>25,672</u>	<u>11,172</u>

15. TRADE RECEIVABLES

Trade receivables (consolidated) consisted of:

	2000 \$'000	1999 \$'000
Trade receivables	11,956	1,714
Less: Provision for bad and doubtful debts	(2,048)	(195)
	<u>9,908</u>	<u>1,519</u>

16. DUE FROM A DIRECTOR

Details of the amount due from a director (consolidated) are:

Name	2000 \$'000	1999 \$'000	Maximum amount outstanding during the year
			\$'000
Mr. Darwin Hu	<u>1</u>	<u>78</u>	<u>78</u>

The outstanding balance with the director is unsecured, non-interest bearing and repayable on demand.

17. CASH AND BANK DEPOSITS

Approximately \$9,995,000 (1999 - \$614,000) of the Group's cash and bank deposits were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

18. ACCRUALS AND OTHER PAYABLES

Accruals and other payables comprised of:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Payable of land cost	5,688	—	—	—
Accrued operating expenses	3,740	4,520	980	—
	9,428	4,520	980	—

19. SHARE CAPITAL

Movements were:

Authorised	Number of shares	Amount \$'000
(i) Ordinary shares		
Upon incorporation of the Company (a)	1,200,000	93
Increase in authorised share capital (b)	98,800,000	7,657
Redenomination from US\$0.01 each to \$0.1 each (d)	(22,500,000)	—
Increase in authorised share capital (e)	1,282,180,000	128,218
Conversion from preferred shares (h)	640,320,000	64,032
	<u>2,000,000,000</u>	<u>200,000</u>
As at 31st December, 2000		

19. SHARE CAPITAL (Cont'd)

	Number of shares	Amount \$'000
(ii) Preferred shares		
Upon incorporation of the Company	—	—
Increase in authorised share capital (b)	65,000,000	5,038
Redenomination from US\$0.01 each to \$0.1 each (d)	(14,625,000)	—
Increase in authorised share capital (e)	589,945,000	58,994
Conversion to ordinary shares (h)	(640,320,000)	(64,032)
	<hr/>	<hr/>
As at 31st December, 2000	—	—
	<hr/>	<hr/>
Issued and fully paid		
(i) Ordinary shares		
Issue of shares (c)	1,200,000	—
Redenomination from US\$0.01 each to \$0.1 each (d)	(270,000)	—
The Reorganisation (f)	5,948,080	595
Repurchase of shares (g)	(930,000)	—
Conversion from preferred shares (h)	39,822,000	3,982
Issue of shares through placing (i)	152,000,000	15,200
Capitalisation of share premium (j)	690,039,200	69,004
Issue of shares through exercise of employee share options (k and Note 20)	1,056,000	106
	<hr/>	<hr/>
As at 31st December, 2000	888,865,280	88,887
	<hr/>	<hr/>

19. SHARE CAPITAL (Cont'd)

	Number of shares	Amount \$'000
(ii) Preferred shares		
The Reorganisation (f)	39,822,000	3,982
Conversion to ordinary shares (h)	(39,822,000)	(3,982)
	<hr/>	<hr/>
As at 31st December, 2000	<hr/> —	<hr/> —

Notes -

- a. On 17th August, 1999, the Company was incorporated with an authorised share capital of US\$12,000 (equivalent to \$93,000), divided into 1,200,000 ordinary shares of US\$0.01 each.
- b. On 1st October, 1999, the authorised share capital of the Company was increased to US\$1,650,000 (equivalent to approximately \$12,788,000) by the creation of an additional 98,800,000 ordinary shares of US\$0.01 each, ranking pari passu with the then existing ordinary shares in all respects, and 65,000,000 preferred shares of US\$0.01.
- c. On 1st October, 1999, 1,200,000 ordinary shares of US\$0.01 each were issued at par, nil paid.
- d. On 28th February, 2000, the authorised share capital of the Company of US\$1,650,000 (equivalent to approximately \$12,788,000) were redenominated to approximately \$12,788,000, divided into 77,500,000 ordinary shares of \$0.10 each and 50,375,000 preferred shares of \$0.10 each.
- e. On 28th February, 2000, the authorised share capital of the Company was increased from approximately \$12,788,000 to \$200,000,000 by the creation of an additional 1,282,180,000 ordinary shares of \$0.10 each and 589,945,000 preferred shares of \$0.10 each, ranking pari passu with the then existing shares in all respects. In addition, the 640,320,000 preferred shares of \$0.1 each were reclassified into 64,000,000 Series A, 178,640,000 Series B, 237,680,000 Series C and 160,000,000 Series D preferred shares.
- f. On 27th March, 2000, 5,948,080 ordinary shares of \$0.1 each and 39,822,000 preferred shares of \$0.1 each (comprising 3,985,000 Series A, 10,982,000 Series B, 14,855,000 Series C and 10,000,000 Series D preferred shares) were issued at par and credited as fully paid in connection with the Reorganisation referred to in Note 1.
- g. On 27th March, 2000, 930,000 issued and nil paid ordinary shares of \$0.1 each (representing 1,200,000 ordinary shares of US\$0.01 each before the redenomination) were repurchased by the Company for nil consideration.

19. SHARE CAPITAL (Cont'd)

- h. On 7th April, 2000, each of the preferred shares of \$0.1 each was converted into one ordinary share of \$0.1 each.
- i. On 10th April, 2000, 152,000,000 ordinary shares of \$0.1 each were issued at \$1.33 each through a placement in connection with the listing of the Company's shares on the GEM for an aggregate consideration of \$202,160,000.
- j. On 10th April, 2000, share premium of approximately \$69,004,000 was capitalised for the issuance of 690,039,200 ordinary shares on a pro-rata basis to the Company's shareholders before the placing described in (i) above.
- k. During the year, 1,056,000 ordinary shares at \$0.1 each were issued pursuant to the Share Option Scheme A of the Company, resulting in net cash proceeds of approximately \$51,000 (see Note 20).

The comparative share capital of the Group as at 31st December, 1999 shown on the consolidated balance sheet represents the aggregate nominal value of the share capital of the Company's subsidiaries as at that date.

20. EMPLOYEE SHARE OPTIONS

The Company has two employee share option schemes, namely Share Option Scheme A and Share Option Scheme B.

Under Share Option Scheme A, the Company granted options to employees of the Group (including directors of the Company) and consultants of the Group to subscribe for a maximum of 52,784,000 ordinary shares of \$0.1 each, at exercise prices ranging from \$0.02422 to \$0.04844 per ordinary share.

Movements of the options under Share Option Scheme A during the year ended 31st December, 2000 are as follows:

Date of grant	Exercise period	Exercise Price per share	Number of shares				End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	
2nd March, 2000	2nd March, 2000 to 1st March, 2010	\$0.04844	—	52,624,000	(7,376,000)	(1,056,000)	44,192,000
2nd March, 2000	2nd March, 2000 to 1st March, 2010	\$0.02422	—	160,000	—	—	160,000
			—	52,784,000	(7,376,000)	(1,056,000)	44,352,000

20. EMPLOYEE SHARE OPTIONS (Cont'd)

Under Share Option Scheme B, the Company may grant options to employees of the Group (including directors of the Company) to subscribe for ordinary shares of \$0.1 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 trading 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.

Movements of the options under Share Option Scheme B during the year ended 31st December, 2000 are as follows:

Date of grant	Exercise period	Exercise Price per share	Number of shares				End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	
19th June, 2000	19th June, 2001 to 18th June, 2010	\$0.33	—	15,000,000	(5,000,000)	—	10,000,000
12th July, 2000	12th July, 2001 to 11th July, 2010	\$0.246	—	6,660,000	(900,000)	—	5,760,000
4th December, 2000	4th December, 2001 to 3rd December, 2010	\$0.1016	—	6,700,000	—	—	6,700,000
			—	28,360,000	(5,900,000)	—	22,460,000

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. RESERVES

Movements of reserves are:

	Share premium	Contributed surplus (i)	Capital reserve (ii)	Cumulative translation adjustments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Balance as at 31st December, 1998	—	—	6,090	(55)	6,035
Translation adjustments	—	—	—	357	357
Balance as at 31st December, 1999	—	—	6,090	302	6,392
Effect of the Reorganisation (Note 1)	—	—	191,978	—	191,978
Premium on issue of shares through placing (Note 19)	186,960	—	—	—	186,960
Share issuance expenses (Note 19)	(19,197)	—	—	—	(19,197)
Capitalisation of share premium (Note 19)	(69,004)	—	—	—	(69,004)
Exercise of employee share options	(55)	—	—	—	(55)
Translation adjustments	—	—	—	518	518
Balance as at 31st December, 2000	<u>98,704</u>	<u>—</u>	<u>198,068</u>	<u>820</u>	<u>297,592</u>
Company					
Balance as at 31st December, 1999	—	—	—	—	—
Effect of the Reorganisation (Note 1)	—	70,121	—	—	70,121
Premium on issue of shares (Note 19)	186,960	—	—	—	186,960
Share issuance expenses (Note 19)	(19,197)	—	—	—	(19,197)
Capitalisation of share premium (Note 19)	(69,004)	—	—	—	(69,004)
Exercise of employee share options	(55)	—	—	—	(55)
Balance as at 31st December, 2000	<u>98,704</u>	<u>70,121</u>	<u>—</u>	<u>—</u>	<u>168,825</u>

21. RESERVES (Cont'd)

Notes -

- (i) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).
- (ii) Capital reserve represents 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 Reorganisation (see Note 1), and the difference between the consideration paid and the net assets value acquired upon the acquisition of 100% equity interest of SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., a wholly-owned subsidiary, by SYSCAN Inc., another wholly-owned subsidiary.

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, or 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's reserves (contributed surplus less accumulated deficit) as at 31st December, 2000 available for distribution to shareholders are approximately \$33,775,000.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- a. Reconciliation of loss before taxation to net cash outflow from operating activities:

	2000	1999
	\$'000	\$'000
Loss before taxation	(39,921)	(38,838)
Interest income	(7,415)	(1,337)
Depreciation of properties, machinery and equipment	7,321	6,127
Net loss on disposal of properties, machinery and equipment	—	16
Increase in inventories	(14,500)	(10,075)
Increase in trade receivables	(8,389)	(1,468)
Increase in prepayments, deposits and other current assets	(2,704)	(1,494)
Decrease in amount due from a director	77	—
(Decrease) Increase in trade payables	(361)	2,265
Increase in amount due to directors	35	—
Increase in accruals and other payables	4,908	1,969
	<u>(60,949)</u>	<u>(42,835)</u>

- b. Analysis of changes in financing is as follows:

	Share capital and share premium
	\$'000
Shares issued upon the Reorganisation	4,577
Issue of shares through placing	202,160
Share issuance expenses	(19,197)
Exercise of employee share options	51
	<u>187,591</u>
Balance as at 31st December, 2000	<u>187,591</u>

- c. Major non-cash transaction:

During the year ended 31st December, 2000, 5,948,080 ordinary shares of \$0.1 each and 39,822,000 preferred shares of \$0.1 each were issued at par and credited as fully paid as a consideration for the Reorganisation described in Note 1.

23. PENSION SCHEMES

As stipulated by regulations in Mainland China, SYSCAN Optoelectronics Technology (Shenzhen) Co., Ltd., a subsidiary incorporated and operated in Mainland China, contributes to a defined contribution retirement plan for all of its employees. The subsidiary contributes to a state sponsored retirement plan amounting approximately 6% to 19% (1999 - 6% to 19%) of the basic salary of its employees, and has no further obligation for actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. During the year ended 31st December, 2000, the Group's contributions were approximately \$310,000 (1999 - \$202,000).

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund in Hong Kong since 1st December, 2000 and make monthly contributions to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to \$12,000 per annum. During the year ended 31st December, 2000, the Group's employer's contributions were approximately \$8,000 (1999 - Nil). The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

24. COMMITMENTS

a. Capital commitments

Capital commitments (consolidated) not provided for in the financial statements are analysed as follows:

	2000 \$'000	1999 \$'000
Authorised and contracted for		
- long-term investments	8,146	—
Authorised but not contracted for		
- purchase of land	5,553	—
	13,699	—

24. COMMITMENTS (Cont'd)

b. Operating lease commitments

As at 31st December, 2000, the Group had aggregate outstanding operating lease commitments of approximately \$2,274,000 (1999 - \$3,076,000) in respect of rented premises under various non-cancellable operating lease agreements. The total commitments payable under these agreements are analysed as follows:

	2000	1999
	\$'000	\$'000
Amounts payable		
- within one year	2,227	2,450
- between one year to two years	47	626
	<u>2,274</u>	<u>3,076</u>

The commitments payable within the next twelve months are analysed as follows:

	2000	1999
	\$'000	\$'000
Leases expiring within a period		
- not exceeding one year	1,127	697
- within two years	1,100	1,753
	<u>2,227</u>	<u>2,450</u>