



S Y S C A N

## **Syscan Technology Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

MOBILITY

CONNECTIVITY

First Quarterly Report 2000

SIMPLICITY

## **Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)**

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

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

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

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

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

## HIGHLIGHTS

The Group is principally engaged in the design, research, development, manufacture and distribution of optical image capturing devices and related components including CMOS sensor chips, optical image capturing modules and scanners. For the first quarter period ended 31 March 2000, the Group turnover of HK\$10.3 million represents approximately 512% increase over the same period in 1999, while operating loss of HK\$2.9 million was lowered by approximately 58% over the same period in 1999. During this period, the Group completed the development of the USB based *TravelScan* and completed the engineering prototype of the CIM sensor chips. In addition, the Group had incurred research and development expenses totaling about HK\$4.8 million.

## RESULTS

The Board of Directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") is pleased to announce the unaudited combined results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

	Notes	Three months ended 31 March 2000 HK\$'000	Three months ended 31 March 1999 HK\$'000
Turnover	2	<u>10,282</u>	<u>1,680</u>
Operating loss		<u>(2,912)</u>	<u>(6,932)</u>
Taxation	3	<u>(153)</u>	<u>(7)</u>
Loss attributable to shareholders		<u><u>(3,065)</u></u>	<u><u>(6,939)</u></u>
Loss per share - Basic	4	<u><u>(0.4)cents</u></u>	<u><u>(1.4)cents</u></u>

### Notes:

#### 1. Basis of presentation

*The Company was incorporated in Bermuda with its shares listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 14 April 2000.*

*The principal accounting policies adopted in preparing the unaudited combined results conform with accounting principles generally accepted in Hong Kong.*

*The summary of the combined results includes the results of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the periods covered by this report or since their respective dates of incorporation when this is a shorter period.*

*All significant intra-group transactions and balances have been eliminated on consolidation.*

2. *Turnover comprises the net invoiced value of merchandise sold after allowance for returns and discounts.*
3. *Hong Kong profits tax has been provided at the rate of 16% (1999: No provision was made as the Group had no assessable profits) on the estimated assessable profits for the period.*

*California State income tax of approximately HK\$7,000, being the minimum amount of a company in a tax loss position, has been provided for the period.*

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

*No provision for Taiwan income tax was made as there were no assessable profits arising in or derived from Taiwan.*

4. *The calculation of basic loss per share for the three months ended 31 March 2000 is based on the loss attributable to shareholders of approximately HK\$3,065,000 (1999: approximately HK\$6,939,000) and the weighted average number of approximately 691,876,434 shares (1999: 503,080,000 shares) in issue during the period.*

*There is no diluted loss per share since the Company has no dilutive potential shares.*

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the quarter ended 31 March 2000 (1999: Nil).

## **BUSINESS REVIEW AND PROSPECT**

### **General**

The Group recorded a turnover of HK\$10.28 million and loss attributable to shareholders of HK\$3.07 million for the three months ended 31 March 2000. The increase in turnover by about 512% as compared to the same period in 1999 is mainly due to the sales of the Group's latest system product, *TravelScan*, first introduced in the COMPUTEX tradeshow in Taiwan in June 1999 and officially launched out into the mass consumer market in US in November 1999.

Additional resources were devoted in March to speed up the development of the USB based *TravelScan* and the CIM sensor chip resulting in an increase in the research and development expenditures, especially in the testing process. Considerable efforts and resources were also committed to develop other versions of *TravelScan* complementary products, marketing activities and the increase of production capacity of the Group's Shenzhen factory. The Group further employed a VP Operation who will be based in Shenzhen and responsible for the operation function of the Group including purchase and production planning.

### **Research and development**

During this period, the Group completed the development of the USB based *TravelScan* and completed the engineering prototype of the CIM sensor chip. The Group will continue to develop the CIM Scan Carriage module and other versions of *TravelScan* complementary products.

### **Production**

The Group started the first phase of the expansion plan for the Shenzhen factory by adding one additional production line for the manufacture of 600 dpi CIS modules. The expansion will enhance the production capacity in 600 dpi CIS modules for use in the Group's mobile scanner products. The Shenzhen factory will also upgrade the existing clean room facilities from class "ten-thousand" to class "one-hundred" preparing itself for assembling and packaging CIM modules.

## Sales and Marketing

The Group further strengthened its distribution network in the Asia-Pacific region by setting up a sales and marketing team in Taipei. This included the signing up of a VP Marketing to be based in Taiwan and responsible for marketing in the Asia-Pacific region. Considerable marketing efforts were committed in developing distribution channels in various regions worldwide to deliver the *TravelScan* products. The Group will continue to strengthen its sales and marketing force and will aim to raise the profile of *TravelScan* products in the private label customer and distributor network. These efforts will include promoting the *TravelScan* and complimentary products on the Internet and in tradeshows.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

### Interests in Share Capital

As at 14 April 2000 (the dealing commencement date of the Company's shares on GEM), according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in rule 5.40 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"), the interests of Directors, chief executives and their associates in shares of the Company were as follows:

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

#### Notes:

1. *These shares were held by Mrs. Sonya Hsiu-Yu Hu, the spouse of Mr. Darwin Hu.*

2. *These shares comprises the shares held by 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.*

Save as disclosed above, as at 14 April 2000, none of the Directors, chief executives or their associates had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

### Interests in Share Options

The Company has Share Option Scheme A and Scheme B (the “Schemes”) under which Directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company under the terms and conditions stipulated in the Schemes.

No options have been granted to the Directors under Scheme B during the quarter ended 31 March 2000.

Details of options granted to the Directors under Scheme A during the quarter ended 31 March 2000 were as follows:

Name	Date of grant	Exercise price	No. of shares granted	Date of exercise of options	Options exercised during the period
Darwin Hu	23 Apr 1998	US\$0.10	800,000	—	—
	02 Oct 1998	US\$0.10	800,000	—	—
	13 Dec 1999	US\$0.10	800,000	—	—
	—	—	—	18 Feb 2000	600,000
	—	—	—	26 Feb 2000	1,800,000
Joseph Liu	07 Jan 1998	US\$0.10	500,000	—	—
	13 Dec 1999	US\$0.10	300,000	—	—
	—	—	—	18 Feb 2000	400,000
	—	—	—	26 Feb 2000	400,000
Cheung Wai	13 Dec 1999	US\$0.10	300,000	—	—
	03 Feb 2000	US\$0.10	150,000	—	—
	—	—	—	26 Feb 2000	450,000
Wong Wai Keung, Gordon	13 Dec 1999	US\$0.10	500,000	—	—
	03 Feb 2000	US\$0.10	110,000	—	—
	—	—	—	26 Feb 2000	610,000

As at 14 April 2000, there are no options outstanding which have been granted to the Directors under the Schemes.

### **Directors' and Chief Executive's rights to acquire securities**

Save for the Schemes, as at 14 April 2000, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

### **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed above in respect of Directors, chief executive and their associates, as at 14 April 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company:

<b>Name</b>	<b>No. of shares held</b>
Hotung Venture Capital Corp. <i>(Note 1)</i>	1,904,000
Daitung Development and Investment Co. Ltd. <i>(Note 1)</i>	4,000,000
Wantung Venture Capital Corp. <i>(Note 2)</i>	8,000,000
Baotung Venture Capital Corp. <i>(Note 2)</i>	16,000,000
Litung Venture Capital Corp. <i>(Note 1)</i>	24,000,000
Maton Fund I L.P. <i>(Note 1)</i>	40,000,000

**Notes:**

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



## **MANAGEMENT SHAREHOLDERS**

Save for the initial management shareholders as herein-above disclosed, the Directors are not aware of any persons who as at 31 March 2000 were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

## **INTEREST OF SPONSOR**

Save as disclosed in the Prospectus of the Company, the Sponsor of the Company, BNP Prime Peregrine Capital Limited, its directors, employees and associates, at 31 March 2000, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

BNP Prime Peregrine Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, BNP Prime Peregrine Capital Limited will act as the Company's continuing sponsor for the period from 14 April 2000 to 31 December 2002.

## **COMPETING INTEREST**

Save as disclosed herein, the Directors are not aware of, as at 31 March 2000, any business or interest of each director, initial management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## **AUDIT COMMITTEE**

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

## **YEAR 2000 COMPLIANCE**

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

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

During the three months ended 31 March 2000, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

By Order of the Board  
**Wong Wai Keung, Gordon**  
*Executive Director*

Hong Kong, 15 May 2000