



SYSCAN

# **Syscan Technology Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

MOBILITY

CONNECTIVITY

**Interim Report 2000**

SIMPLICITY

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

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*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

For the six-month period ended 30 June 2000, the Group's turnover of HK\$18.1 million represents an increase of approximately 448% over the same period in 1999, while operating loss of HK\$9.6 million was lowered by approximately 42% over the same period in 1999. The Group had experienced a slight production delay of *TravelScan* in the second quarter of the year because of the recent shortage of integrated circuit (IC) wafer resulting from the growing demand for computerised devices worldwide. To solve such wafer shortage problem, the Group will engage a new fabrication house to proceed with the CIM project. While modification on the design of the CIM chip is required to fit the standard of such new fabrication house, considerable progress has been made in respect of such modification process. Nevertheless, *TravelScan* - PRO (the USB version of *TravelScan*) is under mass production in the third quarter. The development of business card reader is at the final stage. The Group plans to launch the two new products, CIM module and business card reader, in the fourth quarter.

## FINANCIAL RESULTS

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	7,850	1,628	18,132	3,308
Cost of sales		(5,159)	(2,988)	(11,392)	(4,641)
Gross profit/(loss)		2,691	(1,360)	6,740	(1,333)
Other income		133	194	659	214
		2,824	(1,166)	7,399	(1,119)
Selling and marketing expenses		(1,732)	(290)	(2,163)	(985)
General and administrative expenses		(4,072)	(3,240)	(6,665)	(6,016)
Research and development expenses		(6,408)	(5,292)	(11,197)	(9,338)
Interest income		2,647	394	2,973	932
Operating loss		(6,741)	(9,594)	(9,653)	(16,526)
Taxation	3	—	—	(153)	(7)
Loss attributable to shareholders		(6,741)	(9,594)	(9,806)	(16,533)
Loss per share - Basic	4	(0.78 cents)	(1.91 cents)	(1.26 cents)	(3.28 cents)



Notes:

1. *Basis of presentation*

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

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

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

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

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

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

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

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

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

4. *The calculation of basic loss per share for the three months and six months ended 30 June 2000 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$6,741,000 (1999: HK\$9,594,000) for the three months ended 30 June 2000 and HK\$9,806,000 (1999: HK\$16,533,000) for the six months ended 30 June 2000 and on the weighted average number of approximately 866,461,000 shares (1999: 503,080,000 shares) in issue during the three months ended 30 June 2000 and 779,949,000 shares (1999: 503,080,000 shares) in issue during the six months ended 30 June 2000.*

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

## **INTERIM DIVIDEND**

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

## **BUSINESS REVIEW AND PROSPECT**

### **General**

For the first half of this financial year, the Group's unaudited consolidated turnover increased by 448% to approximately HK\$18.1 million compared with the corresponding previous period (1999: HK\$3.3 million). The increase was mainly attributable to the sales of *TravelScan - PCMCIA* version, which accounted for approximately 82% of the Group's turnover. The Group had experienced a slight production delay in the CIM project in the second quarter due to the recent shortage of integrated circuit (IC) wafer resulting from the growing demand for computerised devices worldwide. Such shortage has caused the cost of chip to increase by as much as about 50% and adversely affected the semi-conductor industry. It is also expected that the situation might not ease until next year. To solve such wafer shortage problem, the Group will engage a new fabrication house to proceed with the CIM project. While modification on the design of the CIM chip is required to fit the standard of such new fabrication house, considerable progress has been made in respect of such modification process.

The increased turnover together with the appropriate control over operating costs had led to higher gross profit margin. Financial resources were devoted mainly to exploring new markets and developing new products. The unaudited consolidated loss attributable to shareholders was approximately HK\$9.8 million for the six-month period ended 30 June 2000, which represents approximately 40.7 % decrease from the corresponding period (1999: HK\$16.5 million). The Group utilised approximately HK\$13 million of the proceeds from Placing to achieve its business objectives. The balance of the proceeds has been placed on short term deposits with financial institutions in Hong Kong. The cash balance of the Group as at 30 June 2000 amounted to approximately HK\$202 million. The Board believes that the Group has sufficient funds to satisfy the future business objectives as set out in the Prospectus.

## **Research and development**

During the three-month period ended 30 June 2000, the Group completed the 600 dpi CIS module design based on SV168 chip. Also, the software driver of *TravelScan - PCMCIA* version had been upgraded from Windows 95/98 to Windows 2000/NT. At the Taipei Computex tradeshow (the “Computex”) in June 2000, the *TravelScan - PRO* (USB version of *TravelScan*) was launched. The engineering design and molding fabrication of *TravelScan - PRO* is expected to be released in the third quarter of 2000 for mass production.

At the Computex, the engineering prototypes of the A6 size ID/Photo scanner and A8 size business card reader were also displayed. The engineering design and fabrication of tooling of business card reader is expected to be released in the fourth quarter of 2000 for mass production.

The development of the CIM module was delayed because of the wafer shortage problem. A new fabrication house will be engaged for modification of the CIM module. Nevertheless, it is anticipated that the CIM module will be launched in the fourth quarter of 2000 for mass production.

## **Production**

The Group had commenced mass production of 300 dpi and 600 dpi CIS modules for use in the Group’s mobile scanner product. Production lines for assembling the *TravelScan* family products had been set up in the Group’s existing Shenzhen factory to take over the previous subcontracting function in Shanghai. 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. The expansion of the Group’s module production capacity in the second half of this year is expected to be postponed for similar reason.

## **Sales and marketing**

With the strengthening of the Group’s sales and marketing team in Taipei, the Group further established sales offices in Texas, Los Angeles and Singapore to target for first-tier OEM customers in Northern America and regional distributors in Asia respectively. Active marketing effort will be focused on the *TravelScan - PRO* (the USB version of *TravelScan*) and A8 business card reader in the worldwide market in light of the forthcoming peak season near the end of 2000.

**Comparison of business objectives with actual business progress**

Business objectives as stated in the Prospectus	Actual business progress/change in business objective
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*Research & Development*

Develop the CIM Scan Carriage module	Development has been delayed due to the shortage of sensor chip wafer. New fabrication house will be engaged to alleviate the problem. CIM module will be modified based on 6-inch, 0.5 $\mu$ m wafer to adapt to the new fabrication house. It is anticipated that the new CIM module will be launched in the fourth quarter of 2000.
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Launch the USB interface version of <i>TravelScan</i>	The USB version of <i>TravelScan</i> , <i>TravelScan</i> - PRO, has been launched at Computex in June. Pilot run and mass production is expected to be conducted in the third quarter of 2000.
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Launch the 600 dpi Color Mobile Scanner, <i>TravelScan</i> Plus	The design of 600 dpi CIS module has been completed. Mass production of <i>TravelScan</i> family products is expected to be conducted in the third quarter of 2000.
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Complete the 600 dpi A8 module for business card reader; develop the business card reader with USB interface for mobile applications	Prototype of the A8 business card reader was displayed at Computex. The development of the business card reader with USB interface for mobile applications is in progress.
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Develop the iMAC Driver for *TravelScan*

iMAC software driver for *TravelScan* - USB is under development to support Apple iMAC platform.

Develop PDA related image input appliances

Progress of A6 ID/Photo scanner is on schedule and is anticipated to be released in the fourth quarter of 2000.

As of 30 June 2000, approximately HK\$ 7 million out of the intended amount of HK\$25 million as stated in the Propectus (funded out of the proceeds of the Placing) has actually been incurred in respect of the above activities. The development of business card reader, iMac software driver and ID/Photo scanner will continue in the second half year of 2000. The Board believes that the remaining funds are sufficient for the completion of the above plans.

### *Production*

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

The production lines in the Shenzhen factory are at the final stage of test run.

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

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

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

The Group has started mass production of 300 dpi and 600 dpi mobile scanner products.

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

Production capacity has been increased as scheduled.



As of 30 June 2000, because of the postponement of the clean room upgrading and tooling, only approximately HK\$4 million out of the intended amount of HK\$7 million as stated in the Prospectus (funded out of the proceeds of the Placing) has actually been incurred in respect of the above activities. The Board believes that the remaining funds are sufficient for the completion of the above plans.

*Sales and marketing*

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 `syscaninc.com`), media advertisement and tradeshow

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

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

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

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

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

As of 30 June 2000, approximately HK\$ 2 million, instead of the intended amount of HK\$1 million as stated in the Prospectus (funded out of the proceeds of the Placing) has actually been incurred in respect of 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

### *Interests in share capital*

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

<b>Name</b>	<b>Personal Interests</b>	<b>Family Interests</b>	<b>Corporate Interests</b>	<b>Other Interests</b>
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:*

- These shares were held by Mrs. Sonya Hsiu-Yu Hu, the spouse of Mr. Darwin Hu.*
- These shares comprises the shares held by Emmy Liu, Shirley Liu, Hui Chuan Liu and H.S. Liu, family associates of Mr. Joseph Liu.*
- These shares were held by Haing Assets Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheung Wai.*

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

*Interests in share options*

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

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

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

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

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

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

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

**SUBSTANTIAL SHAREHOLDERS**

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

Name	No. of shares held	Percentage of issued share capital
Hotung Venture Capital Corp. <i>(Note 1)</i>	1,904,000	0.22%
Daitung Development and Investment Co. Ltd. <i>(Note 1)</i>	4,000,000	0.45%
Wantung Venture Capital Corp. <i>(Note 2)</i>	8,000,000	0.90%
Baotung Venture Capital Corp. <i>(Note 2)</i>	16,000,000	1.81%
Litung Venture Capital Corp. <i>(Note 1)</i>	24,000,000	2.71%
Maton Fund I L.P. <i>(Note 1)</i>	40,000,000	4.52%
	93,904,000	10.61%

*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.*

2. *Wantung Venture Capital Corp. and Baotung Venture Capital Corp. are wholly-owned by Hotung International Company Limited, a corporation incorporated in Taiwan which owns 40% interests in Hotung Investment.*

## MANAGEMENT SHAREHOLDERS

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

## OUTSTANDING SHARE OPTIONS

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

### Scheme A

No. of optionees	Date of grant	Exercise price	Exercise period	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options lapsed	No. of underlying shares comprising the options outstanding
47 (Note3)	2 March 2000	HK\$48.44 per 1,000 shares	2 March 2000 to 1 March 2010	52,624,000	920,000 (Note1)	4,080,000 (Note2)	47,624,000 (Note3)
1 (Note3)	2 March 2000	HK\$24.22 per 1,000 shares	2 March 2000 to 1 March 2010	160,000	—	—	160,000 (Note3)

**Scheme B**

No. of optionees	Date of grant	Exercise price	Exercise period	No. of underlying shares comprising the options granted	No. of underlying shares comprising the options exercised	No. of underlying shares comprising the options lapsed	No. of underlying shares comprising the options outstanding
13	12 July 2000	HK\$0.246 per share	12 July 2001 to 11 July 2010	6,660,000	—	—	6,660,000

**Notes:**

- A total of 2 optionees had exercised their share options both at an exercise price of HK\$48.44 per 1,000 shares to subscribe for shares of the Company. The closing price of the shares of the Company immediately before the date of exercise of options by the 2 optionees were HK\$0.385 and HK\$0.238 respectively.*
- The lapse of share options was resulted from the resignation of a total of 6 optionees as employees of the Group.*
- At the date of adoption of Scheme A on 2 March 2000, an aggregate of 52,784,000 options were granted to the optionees. As a result of the exercise/lapse of options by the optionees as disclosed in Notes 1 and 2 above, a total of 48 optionees are holding an aggregate of 47,784,000 options as at the date of this report.*

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

**INTERESTS OF SPONSOR**

As updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor", formerly known as BNP Prime Peregrine Capital Limited), as at 30 June 2000, two employees of the Sponsor held a total of 320,000 shares in the Company.

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

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

### **COMPETING INTERESTS**

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

### **AUDIT COMMITTEE**

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

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

### **YEAR 2000 COMPLIANCE**

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

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

During the six months ended 30 June 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, 14 August 2000