

SYSCAN Technology Holdings Limited

矽感科技控股有限公司



What You See is What You Get



portable scanner
palm size scanner
TravelScan
CIS technology
CIM technology

World leader in image capturing technology



First Quarterly Report 2001

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 mobile scanners. For the three-month period ended 31 March 2001, the Group's turnover of approximately HK\$14.4 million represents approximately 40.2% increase over the same period in 2000, while operating loss of approximately HK\$5.8 million was increased by approximately 90.0% over the same period in 2000. The increase in loss was mainly due to the increase of general and administrative expenses. The increase in sales was mainly due to the sales of the Group's A6 CIS color modules and A8 business card reader. The Group's gross profit margin for the period was about 43.0%, versus 39.4% for the same period in 2000. The improvement in the gross profit margin was mainly due to the control in production costs and a higher profit margin achieved by a new product mix of business card reader and A6 CIS color modules.

FINANCIAL RESULTS

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2001 together with the comparative unaudited figures for the corresponding period in 2000 as follows:

	<i>Note</i>	Three months ended 31 March	
		2001	2000
		HK\$'000	HK\$'000
Turnover	2	14,417	10,282
Cost of sales		(8,220)	(6,233)
Gross profit		6,197	4,049
Other income		612	526
Selling and distribution expenses		(1,428)	(431)
General and administrative expenses		(7,812)	(2,267)
Research and development expenses		(3,384)	(4,789)
Loss before taxation		(5,815)	(2,912)
Taxation	3	(7)	(153)
Loss attributable to shareholders		(5,822)	(3,065)
Loss per share - Basic	4	HK(0.65) cents	HK(0.44) cents

Notes:

1. *Basis of presentation*

For the three-month period ended 31 March 2001, the consolidated results included the results of the companies comprising the Group.

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. *No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong during the three-month period ended 31 March 2001 (2000: HK\$146,000 had been provided at the rate of 16% on the estimated assessable profits for the three-month period ended 31 March 2000).*

The U.S. subsidiary is subject to United States federal income tax at a rate of 35% (2000: 35%) and California State income tax at a rate of 5.8% (2000: 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 HK\$7,000 (2000: HK\$7,000), being the minimum amount for a company in a tax loss position.

No provision for Mainland China enterprise income tax was made as there were no assessable profits for the Mainland China subsidiaries since their incorporation. The Mainland China subsidiaries are 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 (2000: Nil).

No provision for Taiwan income tax was made as the Group had no assessable profits in Taiwan during the three-month period ended 31 March 2001 (2000: Nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2001. (2000: Nil).

4. *The calculation of the basic loss per share for the three-month period ended 31 March 2001 was based on the unaudited loss attributable to shareholders of approximately HK\$5,822,000 (2000: HK\$3,065,000) and on the weighted average number of approximately 888,865,000 shares (2000: 691,876,000 shares) in issue during the three-month period ended 31 March 2001.*

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

5. *Comparative figures*

For the three-month period ended 31 March 2000, the consolidated results included the results of the companies comprising the Group, using the basis of merger accounting, as if the Group had been in existence since 1 January 2000 or their respective dates of incorporation where this is a shorter period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three-month period ended 31 March 2001 (2000: Nil).

RESERVES MOVEMENT

At the beginning of 2001, the Group had a consolidated reserves, excluding accumulated deficit, of approximately HK\$297,592,000. During the three-month period ended 31 March 2001, the Group's reserves decreased by approximately HK\$431,000, representing the decrease of cumulative translation adjustments for the period. The consolidated reserves of the Group as at 31 March 2001 were approximately HK\$297,161,000.

At the beginning of 2001, the Group had accumulated deficit of approximately HK\$165,113,000. During the three-month period ended 31 March 2001, the Group's accumulated deficit increased by approximately HK\$5,822,000, representing the operating loss for the period. The accumulated deficit of the Group as at 31 March 2001 were approximately HK\$170,935,000.

BUSINESS REVIEW AND PROSPECT

General

The Group recorded a turnover of approximately HK\$14.4 million and loss attributable to shareholders of approximately HK\$5.8 million for the three-month period ended 31 March 2001. The increase in turnover by about 40.2% as compared to the same period in 2000 was mainly due to the sales of the Group's A6 CIS modules and A8 business card reader. The increase in loss was mainly due to the increase of general and administrative expenses.

In order to increase sales, additional resources were allocated to marketing and selling activities resulting in an increase in the selling and distribution expenses. General and administrative expenses were increased mainly due to the additional general expenses resulting from the enlargement of the Group's operations and the general provision of bad and doubtful debts made in accordance with the Group's accounting policy. Research and development expenses were reduced since the Group shifted parts of the development work to Shenzhen, Mainland China. The Group's gross profit margin for the period was about 43.0%, versus 39.4% for the same period in 2000. The improvement in the gross profit margin was mainly due to the control in production costs and a higher profit margin achieved by a new product mix of the business card reader and A6 CIS color modules.

Research and development

During the three-month period ended 31 March 2001, the Group continued the development of the CIM sensor chip based on 0.25 μ m chip technology, as well as the development of image input devices for PDA, Palm Computer, mobile phone, and high speed color CIS sensors.

Production

Production process was smooth and the production capacity remained the same as those in the fourth quarter of 2000. Active efforts and measures were made to reduce the production costs and raw material costs, and to improve quality passing rate, which contributed to the improvement in the gross profit margin.

The new product mix of business card reader and A6 CIS color modules offered a higher gross profit margin than other product mix.

Sales and Marketing

Considerable marketing efforts were committed to developing the distribution channels in various regions worldwide to deliver the Group's system products of *TravelScan*, A8 business card reader and A6 CIS color modules. The Group participated in Cebit show in Europe, and made advertisements in different newspapers, trade shows and magazines in Mainland China, Hong Kong and Taiwan.

The sales of *TravelScan* for the three-month period ended 31 March 2001 were slower, but the sales of business card reader and A6 CIS color modules increased rapidly.

SYSCAN Hi-Tech Park

It is planned that Phase I of SYSCAN Hi-Tech Park will be completed in the fourth quarter of 2001. The Group has started the construction of new plants and R & D testing center in SYSCAN Hi-Tech Park.

Acquisition

Since the Group has signed an agreement to acquire 49% equity interest in Han's Laser Science & Technology Co., Ltd. in Shenzhen, Mainland China, the Group has been working with vendors to fulfill the conditions of the acquisition. It is expected that the acquisition will be completed in the second quarter of 2001 after all conditions are fulfilled.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Interests in Share Capital

As at 31 March 2001, 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 to 5.59 of the Rules Governing the Listing of Securities on GEM, the interests of Directors, chief executive and their associates in shares of the Company were as follows:

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%
Mr Zhang Hongru	—	—	4,176,000 <i>(Note 4)</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. *These shares were held by Osbeck Investments Limited, a company incorporated in the British Virgin Islands and is beneficially owned by Mr Zhang Hongru.*

Save as disclosed above, as at 31 March 2001, 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

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.

Share Option Scheme A ceased to be effective (save for the options granted) upon the listing of the Company on 14 April 2000. Since its adoption and up to 31 March 2001, no options have been granted to the Directors of the Company under Share Option Scheme A.

Details of the options granted to the Directors of the Company under Share Option Scheme B since its adoption and up to 31 March 2001 were as follows:

Name	Date of grant (dd/mm/yy)	Exercise Price per share	Exercise period (dd/mm/yy)	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
Mr Cheung Wai	19/6/2000	HK\$ 0.33	19/6/2001 to 18/6/2010	5,000,000	—	—	5,000,000
Mr Darwin Hu	19/6/2000	HK\$ 0.33	19/6/2001 to 18/6/2010	5,000,000	—	—	5,000,000
	17/1/2001	HK\$0.206	17/1/2002 to 16/1/2011	18,000,000	—	—	18,000,000
Mr Zhang Hongru	4/12/2000	HK\$0.1016	4/12/2001 to 3/12/2010	5,000,000	—	—	5,000,000
	17/1/2001	HK\$0.206	17/1/2002 to 16/1/2011	4,000,000	—	—	4,000,000
				<u>37,000,000</u>	<u>—</u>	<u>—</u>	<u>37,000,000</u>

Directors' and Chief Executive's rights to acquire securities

Save for the Schemes, as at 31 March 2001, 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 31 March 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent or more of the issued share capital of the Company:

Name	No. of shares held	Percentage of issued share capital
Hotung Venture Capital Corp. <i>(Note 1)</i>	1,904,000	0.214%
Daitung Development and Investment Co. Ltd. <i>(Note 1)</i>	4,000,000	0.450%
Wantung Venture Capital Corp. <i>(Note 2)</i>	8,000,000	0.900%
Baotung Venture Capital Corp. <i>(Note 2)</i>	16,000,000	1.800%
Litung Venture Capital Corp. <i>(Note 1)</i>	24,000,000	2.700%
Maton Fund I L.P. <i>(Note 1)</i>	40,000,000	4.500%
	<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, as at 31 March 2001, no other person was recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest in 10 per cent or more of the issued share capital of the Company.

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 31 March 2001, 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 interest in share options disclosed above in respect of the Directors, as at 31 March 2001, details of the outstanding share options granted to the optionees under the Schemes were as follows:

Scheme A

No. of optionees	Date of grant (dd/mm/yy)	Exercise price	Exercise period (dd/mm/yy)	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
40 (Note 3)	2/3/2000	HK\$48.44 per 1,000 shares	2/3/2000 to 1/3/2010	52,624,000	(1,056,000) (Note 1)	(7,376,000) (Note 2)	44,192,000 (Note 3)
1 (Note 3)	2/3/2000	HK\$24.22 per 1,000 shares	2/3/2000 to 1/3/2010	160,000	—	—	160,000 (Note 3)
41				<u>52,784,000</u>	<u>(1,056,000)</u>	<u>(7,376,000)</u>	<u>44,352,000</u>

Scheme B

No. of optionees	Date of grant (dd/mm/yy)	Exercise price	Exercise period (dd/mm/yy)	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
10 <i>(Note 5)</i>	12/7/2000	HK\$0.246 per share	12/7/2001 to 11/7/2010	6,660,000	—	(900,000) <i>(Note 4)</i>	5,760,000 <i>(Note 5)</i>
4 <i>(Note 5)</i>	4/12/2000	HK\$0.1016 per share	4/12/2001 to 3/12/2010	1,700,000	—	—	1,700,000 <i>(Note 5)</i>
14 <i>(Note 5)</i>	17/1/2001	HK\$0.206 per share	17/1/2002 to 16/1/2011	19,000,000	—	—	19,000,000 <i>(Note 5)</i>
<u>28</u>				<u>27,360,000</u>	<u>—</u>	<u>(900,000)</u>	<u>26,460,000</u>

Notes:

- A total of 4 optionees had exercised their share options all at an exercise price of HK\$48.44 per 1,000 shares to subscribe for shares of the Company. The closing price of the shares of the Company immediately before the date of exercise of options by the 4 optionees were HK\$0.385, HK\$0.238, HK\$0.25 and HK\$0.249 respectively.*
- The lapse of share options was resulted from the resignation of a total of 14 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 of the optionees as disclosed in Notes 1 and 2 above, a total of 41 optionees are holding an aggregate of 44,352,000 options as at 31 March 2001.*
- The lapse of share options was resulted from the resignation of a total of 3 optionees as employees of the Group.*
- Since the adoption of Scheme B on 2 March 2000 and up to 31 March 2001, an aggregate of 27,360,000 options were granted to the optionees. As a result of the lapse of options of the optionees as disclosed in Note 4 above, a total of 28 optionees are holding an aggregate of 26,460,000 options as at 31 March 2001.*

Save as disclosed above, during the three-month period ended 31 March 2001, 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 at 31 March 2001, a director and an employee of BNP Paribas Peregrine Capital Limited (the "Sponsor") 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 14 April 2000 to 31 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.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2001, 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.

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

During the three months ended 31 March 2001, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

By Order of the Board
Cheung Wai
Chairman

Hong Kong, 11 May 2001