



# SYSCAN Technology Holdings Limited

## 矽感科技控股有限公司

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*What You See is What You Get*



portable scanner  
palm size scanner

TravelScan

CIS technology

CIM technology

World leader in image capturing technology



**Third Quarterly Report 2001**



SYSCAN

# SYSCAN Technology Holdings Limited

## 矽感科技控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

### Highlights

The Group's business is in the field of optical electronics industry, and is principally engaged in the design, research, development, manufacture and distribution of optical image capturing devices and related components. For the nine-month period ended September 30, 2001, the Group's turnover of approximately HK\$31.27 million represents a growth of approximately 28.3% over the same period in 2000. The loss attributable to shareholders for the nine-month period ended September 30, 2001 amounted to approximately HK\$24.6 million.

The Group's turnover of approximately HK\$8.34 million in the third quarter of 2001, declined a slightly 2% as compared to the turnover of approximately HK\$8.51 million in the previous quarter of 2001. The third quarter has been very challenging for the Group. Facing the overall continuing global slowdown of the demand for IT and consumer products, the Group has experienced a decrease in the average gross margin due to the reduction of selling prices and high material scrap consumption rate. However, the loss attributable to shareholders in the third quarter was narrowed to approximately HK\$8.27 million as compared to a loss of approximately HK\$10.52 million in the previous quarter, mainly due to the substantial increase in other revenue.

During the period under review, the Group has been successfully granted several patents. As at September 30, 2001, the Group has, in aggregate, obtained 16 patent certificates and filed 68 patent applications in different countries.

\* for identification purposes only

## Financial Results

The board of directors (the "Board") of SYSCAN Technology Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended September 30, 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Note	Three months ended September 30		Nine months ended September 30	
		2001 HK\$'000	2000 (Note 6) HK\$'000	2001 HK\$'000	2000 (Note 6) HK\$'000
Turnover	2	<b>8,342</b>	6,239	<b>31,269</b>	24,371
Cost of sales		<b>(6,361)</b>	(3,741)	<b>(19,870)</b>	(15,133)
Gross profit		<b>1,981</b>	2,498	<b>11,399</b>	9,238
Other revenue	3	<b>4,860</b>	47	<b>4,860</b>	706
Provision for obsolete and slow-moving inventories		<b>(2,051)</b>	–	<b>(2,051)</b>	–
Provision for bad and doubtful debts		<b>(668)</b>	–	<b>(4,527)</b>	–
Selling and distribution expenses		<b>(1,895)</b>	(1,760)	<b>(4,951)</b>	(3,923)
General and administrative expenses		<b>(6,487)</b>	(7,048)	<b>(19,327)</b>	(13,713)
Research and development expenses		<b>(5,776)</b>	(2,914)	<b>(12,129)</b>	(14,111)
Gain on disposal of machinery and equipment		<b>2,300</b>	–	<b>2,300</b>	–
Loss from operations		<b>(7,736)</b>	(9,177)	<b>(24,426)</b>	(21,803)
Interest income		<b>163</b>	2,912	<b>1,170</b>	5,885
Interest expense		<b>(695)</b>	–	<b>(1,347)</b>	–
Loss before taxation		<b>(8,268)</b>	(6,265)	<b>(24,603)</b>	(15,918)
Taxation	4	–	–	<b>(7)</b>	(153)
Loss attributable to shareholders		<b>(8,268)</b>	(6,265)	<b>(24,610)</b>	(16,071)
Loss per share – Basic	5	<b>HK(0.81) cents</b>	HK(0.71) cents	<b>HK(2.54) cents</b>	HK(1.97) cents
Dividends		–	–	–	–

## Notes:

1. *Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.*
2. *Turnover comprised the net invoiced value of merchandise sold after allowance for returns and discounts.*
3. *Other revenue for the nine-month period ended September 30, 2001 consisted of computer chip design fees of approximately HK\$842,000 (2000: HK\$706,000) and compensation received from Han's Laser Science & Technology Co., Limited ("Han's Laser"), a potential investee of the Group, of approximately HK\$4,018,000 (2000: Nil) for the termination of an agreement by Han's Laser relating to the Group's acquisition of 49% interests in Han's Laser.*
4. *No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period and the nine-month period ended September 30, 2001 (2000: No provision for Hong Kong profits tax had been provided for the three-month period ended September 30, 2000 and HK\$146,000 had been provided at the rate of 16% on the estimated assessable profit in Hong Kong for the nine-month period ended September 30, 2000).*

*The United States 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 the Mainland China subsidiaries were 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 profit in Taiwan during the three-month period and the nine-month period ended September 30, 2001 (2000: Nil).*

*There was no significant unprovided deferred taxation for the three-month period and the nine-month period ended September 30, 2001 (2000: Nil).*

5. *The calculation of the basic loss per share for the three-month period and the nine-month period ended September 30, 2001 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$8,268,000 (2000: HK\$6,265,000) for the three-month period ended September 30, 2001 and approximately HK\$24,610,000 (2000: HK\$16,071,000) for the nine-month period ended September 30, 2001 and on the weighted average number of approximately 1,022,081,000 shares (2000: 888,552,000 shares) in issue during the three-month period ended September 30, 2001 and approximately 968,572,000 shares (2000: 816,216,000 shares) in issue during the nine-month period ended September 30, 2001.*

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

6. *For the three-month period and the nine-month period ended September 30, 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 January 1, 2000.*

### ***Interim Dividend***

The Board does not recommend the payment of an interim dividend for the three-month period and the nine-month period ended September 30, 2001 (2000: Nil).

### ***Reserves Movement***

At the beginning of 2001, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$297,592,000. During the nine-month period ended September 30, 2001, the Group's reserves increased by approximately HK\$2,215,000, representing the decrease of cumulative translation adjustments by HK\$463,000 and increase of share premium by HK\$2,678,000 for the period. The consolidated reserves of the Group as at September 30, 2001 were approximately HK\$299,807,000.

At the beginning of 2001, the Group had accumulated deficit of approximately HK\$165,113,000. During the nine-month period ended September 30, 2001, the Group's accumulated deficit increased by approximately HK\$24,610,000, representing loss attributable to shareholders for the period. The accumulated deficit of the Group as at September 30, 2001 was approximately HK\$189,723,000.

### ***Business Review and Prospect***

#### **General**

The Group's business is in the field of optical electronics industry, and is principally engaged in the design, research, development, manufacture and distribution of optical image capturing devices and related components. For the nine-month period ended September 30, 2001, the Group's turnover of approximately HK\$31.27 million represents a growth of approximately 28.3% over the same period in 2000. The loss attributable to shareholders for the nine-month period ended September 30, 2001 amounted to approximately HK\$24.6 million.

The Group's turnover of approximately HK\$8.34 million in the third quarter of 2001 declined a slightly 2% as compared to the turnover of approximately HK\$8.51 million in the previous quarter of 2001. The third quarter has been very challenging for the Group. Facing the overall continuing global slowdown of the demand for IT and consumer products, the Group has experienced a decrease in the average gross margin due to the decline in selling prices and high material scrap consumption rate. However, the loss attributable to shareholders in the third quarter was narrowed to approximately HK\$8.27 million as compared to a loss of approximately HK\$10.52 million in the previous quarter, mainly due to the substantial increase in other revenue.

**Research and Development**

During the three-month period ended September 30, 2001, the Group has continued its development in the CIM sensor chips, image input devices for PDA and pocket PC as well as high speed CIS modules. As at September 30, 2001, the Group has, in aggregate, obtained 16 patent certificates and filed 68 patent applications in different countries.

**Production**

Production has been smooth. The Group has added two sets of production facilities for CIS modules production so that the production capacity has been increased to approximately 200,000 units per month.

In the fourth quarter, the Group will launch a series of system products. TravelScan – Pocket 430/830 is the smallest in the industry and it is the first mobile scanning device that is connected to PDA and Pocket PC. ODA (圖文通) is the Group's first system product targeted to the market in Mainland China. ODA (圖文通) offers one-stop solution to users, combining scanner, fax machine, photocopy machine, and documents and information management function all into one. Co-branded product of TravelScan PaperPort will be distributed in the American and European markets in the fourth quarter.

The planned production of fax machines was delayed due to the dispute with a vendor of fax machine moulds and equipment in Taiwan. The Group is actively negotiating with the vendor through a lawyer in Taiwan to settle the dispute.

**Sales and Marketing**

The Group has continued to dedicate its efforts for sales and marketing. The Group has strengthened its marketing and sales team in different parts of the world, such as San Jose, Houston, Taipei and Mainland China. At the same time, the Group has also focused on putting up advertisements in different newspapers and magazines. In order to maintain working relationships with local distributors and dealers, the Group will participate in various trade shows in different countries. The Group will also set up an European representative office in the fourth quarter.

**New Manufacturing Base – SYSCAN Hi-Tech Park**

The construction of the Group's new manufacturing base – SYSCAN Hi-Tech Park – has been progressing smoothly as scheduled. It is expected that by the end of this year, Phase I of SYSCAN Hi-Tech Park will be completed.

The new manufacturing base of the Group has been named as “矽感光電產業園” (SYSCAN Optical-electronics Industrial Park), and has been designated as “深圳市國家科技成果推廣示範基地” (Shenzhen Promotion and Exhibition Base for National

Scientific and Technology Achievement) by Shenzhen Municipal Government and Ministry of Science and Technology of China. All enterprises operating in the Park will be entitled to various preferential municipal or national policies. The Group has been accredited as hi-tech company in Shenzhen.

### **Acquisition and Investment**

Further to the disclosure made in the Interim Report 2001 in respect of the acquisition of 49% equity interest in Han's Laser Science & Technology Co., Limited, the Group has received the balance payment of RMB3,300,000, being the interest and compensation fees arising from discontinuing the acquisition by the other party.

In addition, the Group has made an investment of US\$600,000 in a CMOS-sensor-designing company in Silicon Valley in exchange for about 9.68% equity stake in the company. The Directors believe that the investment will further strengthen the Group's research and development edge in linear image CIS modules.

### ***Directors' and Chief Executive's Interests in Securities***

#### **Interests in Share Capital**

As at September 30, 2001, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 the Growth Enterprise Market of the Stock Exchange, 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 interest
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Cheung Wai	7,200,000	–	48,000,000 (Note 3)	–	55,200,000	5.40%
Mr. Darwin Hu	38,400,000	3,360,000 (Note 1)	–	–	41,760,000	4.08%
Mr. Joseph Liu	19,200,000	52,800,000 (Note 2)	–	–	72,000,000	7.04%
Mr. Zhang Hongru	–	–	4,176,000 (Note 4)	–	4,176,000	0.41%

*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 September 30, 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 March 2, 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 April 14, 2000. Since its adoption and up to September 30, 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 September 30, 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 September 30, 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 September 30, 2001, no other person was recorded in the register required to be kept under 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 person who, as at September 30, 2001, was 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 was 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 September 30, 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
31 (Note 3)	2/3/2000	HK\$48.44 per 1,000 shares	2/3/2000 to 1/3/2010	52,624,000	(2,747,333) (Note 1)	(14,900,667) (Note 2)	34,976,000 (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)
<b>32</b>				<b>52,784,000</b>	<b>(2,747,333)</b>	<b>(14,900,667)</b>	<b>35,136,000</b>

## 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
9 (Note 5)	12/7/2000	HK\$0.246 per share	12/7/2001 to 11/7/2010	6,660,000	-	(940,000) (Note 4)	5,720,000 (Note 5)
4 (Note 5)	4/12/2000	HK\$0.1016 per share	4/12/2001 to 3/12/2010	1,700,000	-	-	1,700,000 (Note 5)
13 (Note 5)	17/1/2001	HK\$0.206 per share	17/1/2002 to 16/1/2011	19,000,000	-	(1,000,000) (Note 4)	18,000,000 (Note 5)
12 (Note 5)	13/8/2001	HK\$0.275 per share	13/8/2002 to 12/8/2011	9,580,000	-	-	9,580,000 (Note 5)
<b>38</b>				<b>36,940,000</b>	<b>-</b>	<b>(1,940,000)</b>	<b>35,000,000</b>

## Notes:

1. A total of 10 optionees under Scheme A 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 10 optionees were HK\$0.385, HK\$0.238, HK\$0.25, HK\$0.249, HK\$0.26, HK\$0.285, HK\$0.285, HK\$0.285, HK\$0.29 and HK\$0.29 respectively.
2. The lapse of share options was resulted from the resignation of a total of 23 optionees as employees of the Group.
3. At the date of adoption of Scheme A on March 2, 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 32 optionees are holding an aggregate of 35,136,000 options as at September 30, 2001.
4. The lapse of share options was resulted from the resignation of a total of 5 optionees as employees of the Group.
5. Since the adoption of Scheme B on March 2, 2000 and up to September 30, 2001, an aggregate of 36,940,000 options were granted to the optionees. As a result of the lapse of options as disclosed in Note 4 above, a total of 38 optionees are holding an aggregate of 35,000,000 options as at September 30, 2001.

Save as disclosed above, during the nine-month period ended September 30, 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 September 30, 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 April 14, 2000 to December 31, 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 September 30, 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 nine-month period ended September 30, 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, November 13, 2001