

SYSCAN Technology Holdings Limited  
矽感科技控股有限公司

Stock code: 8083



06

First Quarterly Report



## **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.**

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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.*

## 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 ended 31 March 2006 together with the comparative unaudited figures for the corresponding period in 2005 as follows:

		<b>For the three months ended 31 March</b>	
		<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	HK\$'000
Turnover	2	<b>20,239</b>	14,321
Cost of sales		<b>(12,413)</b>	(8,913)
Gross profit		<b>7,826</b>	5,408
Other revenue	3	<b>481</b>	443
Selling and marketing expenses		<b>(2,158)</b>	(2,379)
General and administrative expenses		<b>(7,182)</b>	(6,132)
Research and development expenses		<b>(1,423)</b>	(2,221)
		<b>(10,763)</b>	(10,732)
Loss from operations		<b>(2,456)</b>	(4,881)
Finance costs		<b>(2,116)</b>	(1,797)
Loss before taxation		<b>(4,572)</b>	(6,678)
Taxation	4	<b>(7)</b>	(7)
Loss after taxation		<b>(4,579)</b>	(6,685)
Minority interests		<b>111</b>	78
Loss attributable to shareholders		<b>(4,468)</b>	(6,607)
Loss per share – Basic	5	<b>HK(4.4) cents</b>	HK(6.5) cents
Dividends	6	–	–



Notes:

**1. BASIS OF PRESENTATION**

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the annual financial statements for the year ended 31st December, 2005. The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods beginning on or after 1st January, 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

The Group’s unaudited consolidated quarterly results has not been audited by the Company’s auditors but has been reviewed by the Company’s audit committee.

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 allowances for returns and discounts and exclusion of value-added tax.
3. Other revenue for the three-month period ended 31 March 2006 consisted of (i) a sundry income of approximately HK\$438,000 (2005: HK\$427,000), and (ii) an interest income of approximately HK\$43,000 (2005: HK\$16,000).

**4. TAXATION**

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period ended 31 March 2006 (2005: Nil).

The United States subsidiary had no assessable profit subject to United States federal income tax and California State income tax. However, the Company was liable to California State income tax of approximately HK\$7,000 (2005: 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 (2005: Nil) had no assessable profit for the three-month period ended 31 March 2006 (2005: Nil).



No provision for Taiwan income tax was made as the Group had no assessable profit in Taiwan during the three-month period ended 31 March 2006 (2005: Nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2006 (2005: Nil).

#### **5. LOSS PER SHARE**

The calculation of the basic loss per share for the three-month period ended 31 March 2006 was based on the unaudited loss attributable to shareholders of approximately HK\$4,468,000 (2005: HK\$6,607,000) and on the weighted average number of approximately 102,364,327 shares (2005: 102,364,327 shares) in issue during the three-month period ended 31 March 2006.

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

#### **6. INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three-month period ended 31 March 2006 (2005: Nil).

### **RESERVES MOVEMENT**

At the beginning of 2006, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$200,394,000. For the three-month period ended 31 March 2006, the Group's reserves have no movement. As a result, the consolidated reserves of the Group as at 31 March 2006 were approximately HK\$200,394,000.

At the beginning of 2006, the Group had accumulated deficit of approximately HK\$184,367,000. For the three-month period ended 31 March 2006, the Group's accumulated deficit increased by approximately HK\$4,468,000, representing the loss attributable to shareholders for the period. As a result, the accumulated deficit of the Group as at 31 March 2006 was approximately HK\$188,835,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The Group recorded a turnover of approximately HK\$20,239,000 for the three-month period ended 31 March 2006, representing an increase of approximately 41% over the same period last year. This is mainly attributable to the Group's effort to seek more new customers. The gross margin for the first quarter of this year was about 38%, as compared to that of 37% for the same period in 2005.

Loss attributable to shareholders for the three-month period ended 31 March 2006 amounted approximately HK\$4,468,000, which represents a decrease of approximately 32% over the same period in 2005.

### RESEARCH AND DEVELOPMENT

For the three-month period ended 31 March 2006, the Group had less expenses on research and development activities for new products and therefore such expenses has decreased by approximately 36% when compared to the corresponding period last year.

The Group continues to explore the application of its 2D barcode technology in different fields of business. For instance, the Group had finished the research and testing for a new ID card reader.

### PRODUCTION

The directors believe that such production capacity can fulfill the forthcoming production needs. The Group had relocated part of the machinery to a new factory in Wu Han.

### SALES AND MARKETING

The first quarter of 2006 brought continued opportunity growth for the Group's products in the Western market channels. In order to save costs, the Group did not join any shows in first quarter of 2006, but it is planning to join new shows or exhibition in the coming year.

### INVESTMENT AND ACQUISITION

During the three-month period ended 31 March 2006, the Group did not make any new investment.

## FUTURE PROSPECTS

The Group will actively develop new products for different markets and users in order to bring in more sales revenue as well as pursuing more OEM sales and to cut down overheads. With these strategies in place, the Group believes that it is on course to a more promising growth and hence, generating more fruitful returns to our shareholders.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 March 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

### LONG POSITIONS IN SHARES OF THE COMPANY

Name	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr Cheung Wai	720,000	-	10,310,000 (Note 2)	-	11,030,000	10.78%
Mr Darwin Hu	3,840,000	1,615,600 (Note 1)	-	-	5,455,600	5.33%
Mr Jin Qingjun	50,000	-	-	-	50,000	0.049%

Notes:

1. *These shares were held by Mrs Sonya Hsiu-Yu Hu, the spouse of Mr Darwin Hu.*
2. *4,800,000 shares and 5,510,000 shares were held by Haing Assets Limited and Simrita Investments Limited respectively (both companies are incorporated in the British Virgin Islands and are beneficially owned by Mr Cheung Wai).*

## LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

On 2 March 2000, the Company adopted Share Option Scheme A and Scheme B under which share options to subscribe for shares of the Company may be granted under the terms and conditions stipulated in Scheme A and Scheme B.

Share Option Scheme A ceased to be effective (save for the options granted) upon the listing of the Company on 14 April 2000. At the annual general meeting of the Company held on 26 April 2002, shareholders of the Company approved the adoption of a new Share Option Scheme C and the termination of Share Option Scheme B.

Since its adoption and up to 31 March 2006, no options have been granted to the Directors of the Company under Share Option Scheme A and Scheme B.

Details of the options granted to the Directors of the Company under Share Option Scheme B and Scheme C since their adoption and up to 31 March 2006 were as follows:

### *Scheme B*

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Subscription price per share	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	19/6/2001 to 18/6/2010	HK\$3.30	500,000	-	-	500,000
Mr Darwin Hu	19/6/2000	19/6/2001 to 18/6/2010	HK\$3.30	500,000	-	-	500,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$2.06	1,800,000	-	-	1,800,000
Mr Chan Man Ching	4/12/2000	4/12/2001 to 3/12/2010	HK\$1.016	50,000	-	-	50,000
				<u>2,850,000</u>	<u>-</u>	<u>-</u>	<u>2,850,000</u>



### Scheme C

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Subscription price per share	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 Chan Man Ching	14/5/2002	14/5/2003 to 13/5/2012	HK\$1.412	50,000	-	-	50,000
	12/11/2002	12/11/2003 to 11/11/2012	HK\$1.00	200,000	-	-	200,000
				250,000	-	-	250,000

Save as disclosed above, as at 31 March 2006, none of the directors had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

### INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2006, there was no other person (other than a director or chief executive of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### LONG POSITIONS IN SHARES OF THE COMPANY

Name	Capacity	Nature of interests	Number of shares	Percentage of issued share capital
Mr Cheung Wai (Note 1)	Beneficial owner	Personal & Corporate	11,030,000	10.78%
Mr Darwin Hu (Note 1)	Beneficial owner	Personal & Family	5,455,600	5.33%
Mr Joseph Liu (Note 2)	Beneficial owner	Personal & Family	7,200,000	7.03%

Notes:

1. *Details of the interests of Mr Cheung Wai and Mr Darwin Hu are duplicated in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS" disclosed above.*
2. *In addition to 1,920,000 shares held by Mr Joseph Liu, 5,280,000 shares are held by Messrs Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr Joseph Liu.*

## COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2006, 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-month period ended 31 March 2006, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 2 May 2000 with written terms of reference in compliance with the GEM Listing Rules. The Committee now comprises three independent non-executive directors, namely Mr Lo Wai Ming, Mr Fong Chi Wah and Mr Jin Qingjun. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group.

The Committee (who were of the opinion that the preparation of the unaudited results of the Group for the three-month period ended 31 March 2006 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made) has reviewed the Company's unaudited results of the Group for the three-month period ended 31 March 2006 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board  
**SYSCAN Technology Holdings Limited**  
**Cheung Wai**  
*Chairman and Chief Executive Officer*

Hong Kong, 12 May 2006