

SYSCAN Technology Holdings Limited

矽感科技控股有限公司

Stock code: 8083



06

Third Quarterly Report





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

*(Incorporated in Bermuda with limited liability)*

## **HIGHLIGHTS**

The Group recorded a turnover of approximately HK\$22,021,000 for the three-month period ended 30 September 2006, representing an increase of approximately 52.7% over the same period last year. The gross profit margin for the third quarter of this year was about 18.9%, as compared to that of 31.5% for the same period last year.

Loss attributable to shareholders for the three-month period ended 30 September 2006 amounted to approximately HK\$3,242,000, which represents a decrease of approximately 59.1% over the same period in 2005.

\* *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 30 September 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	22,021	14,418	60,073	47,875
Cost of sales		(17,870)	(9,873)	(41,879)	(31,537)
Gross profit		4,151	4,545	18,194	16,338
Other revenue	3	2,571	1,353	4,007	2,877
Provision for bad and doubtful receivables		-	-	-	(1,860)
Selling and marketing expenses		(695)	(2,655)	(5,079)	(7,915)
General and administrative expenses		(5,611)	(6,824)	(19,262)	(30,227)
Research and development expenses		(635)	(2,597)	(3,531)	(6,778)
Loss from operations		(219)	(6,178)	(5,671)	(27,565)
Interest income		9	23	102	55
Interest expense		(3,118)	(1,899)	(9,278)	(5,762)
(Loss)/gain on disposal of subsidiary		-	-	(455)	-
Loss before taxation		(3,328)	(8,054)	(15,302)	(33,272)
Taxation	4	(7)	-	(7)	(7)
Loss after taxation		(3,335)	(8,054)	(15,309)	(33,279)
Minority interests		93	135	322	299
Loss attributable to shareholders		(3,242)	(7,919)	(14,987)	(32,980)
Loss per share – Basic	5	HK(0.8) cents	HK(7.7) cents	HK(3.7) cents	HK(32.2) cents
Dividend	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, 2004. 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 comprises 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 30 September 2006 consisted of a sundry income of approximately HK\$2,571,000 (2005: HK\$1,353,000).

**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 and the nine-month period ended 30 September 2006 (2005: Nil).

The United States subsidiary 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 (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 no assessable profit during the three-month period and the nine-month period ended 30 September 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 and the nine-month period ended 30 September 2006 (2005: Nil).

There was no significant unprovided deferred taxation for the three-month period and the nine-month period ended 30 September 2006 (2005: Nil).

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

The calculation of the basic loss per share for the three-month period and the nine-month period ended 30 September 2006 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$3,242,000 (2005: HK\$7,919,000) for the three-month period ended 30 September 2006 and approximately HK\$14,987,000 (2005: HK\$32,980,000) for the nine-month period ended 30 September 2006 and on the weighted average number of approximately 409,457,308 shares (2005: 102,364,328 shares) in issue during the three-month period ended 30 September 2006 and approximately 409,457,308 shares (2005: 102,364,328 shares) in issue during the nine-month period ended 30 September 2006.

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

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

The Board does not recommend the payment of an interim dividend for the three-month period and the nine-month period ended 30 September 2006 (2005: Nil).

### **RESERVES MOVEMENT**

At the beginning of 2006, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$200,394,000 (2005: HK\$199,779,000). For the nine-month period ended 30 September 2006, the Group's reserves increased by approximately HK\$6,315,000 (2005: (HK\$24,000)), representing the increase in cumulative translation adjustment of HK\$115,000 (2005: (HK\$24,000)) for the period and the increase in capital reserve of HK\$6,200,000 (2005: HK\$Nil). As a result, the consolidated reserves of the Group as at 30 September 2006 were approximately HK\$206,709,000 (2005: HK\$199,755,000).

At the beginning of 2006, the Group had accumulated deficit of approximately HK\$184,367,000 (2005: HK\$85,496,000). For the nine-month period ended 30 September 2006, the Group's accumulated deficit increased by approximately HK\$14,987,000 (2005: HK\$32,980,000), representing the loss attributable to shareholders for the period. As a result, the accumulated deficit of the Group as at 30 September 2006 was approximately HK\$199,354,000 (2005: HK\$118,476,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The Group recorded a turnover of approximately HK\$22,021,000 for the three-month period ended 30 September 2006, representing an increase of approximately 52.7% over the same period last year. The gross profit margin for the third quarter of this year was about 18.9%, as compared to that of 31.5% for the same period last year.

Loss attributable to shareholders for the three-month period ended 30 September 2006 amounted to approximately HK\$3,242,000, which represents a decrease of approximately 59.1% over the same period in 2005.

### RESEARCH AND DEVELOPMENT

For the three-month period ended 30 September 2006, the Group has continued its effort in strengthening its research and development team on existing, as well as, new products while the research and development expenses had decreased by 75.5% over the same period last year.

The Group continues to explore different application for its own proprietary CM and GM coding certified by PRC authorities.

### PRODUCTION

The directors believe that the current production capacity can fulfill the production needs in the coming year.

### SALES AND MARKETING

The Group has put ads in various magazines for its own scanners and 2D bar code products. The Group expects these will bring in more new customers to the Group.

### ACQUISITION AND INVESTMENT

During the third quarter of 2006, the Group did not make any new investment. However, the Group will evaluate new investment and acquisition opportunities in order to bring in revenue to the Group.

### FUTURE PROSPECTS

Facing the tough and competitive IT industry, the Group will actively cut down its general overheads and production cost, and will actively develop different products in order to bring in more revenue to the Group.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 September 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	189,882,409	–	41,240,000 (Note 2)	–	231,122,409	56.45%
Mr Darwin Hu	3,840,000	1,615,600 (Note 1)	–	–	5,455,600	1.33%
Mr Jin Qingjun	50,000	–	–	–	50,000	0.01%

#### Notes:

1. These shares were held by Mrs Sonya Hsiu-Yu Hu, the spouse of Mr Darwin Hu.
2. 19,200,000 shares and 22,040,000 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 30 September 2006, 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 and Scheme C since their adoption and up to 30 September 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
				2,850,000	-	-	2,850,000

## 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 30 September 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 30 September 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 interest	Number of shares	Percentage of issued share capital
Mr Cheung Wai (Note 1)	Beneficial owner	Personal & Corporate	231,122,409	56.45%
Mr Darwin Hu (Note 1)	Beneficial owner	Personal & Family	5,455,600	1.33%
Mr Joseph Liu (Note 2)	Beneficial owner	Personal & Family	7,200,000	1.76%

### 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 30 September 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 nine-month period ended 30 September 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 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 for the nine-month period ended 30 September 2006 complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made) has reviewed the unaudited results of the Group for the nine-month period ended 30 September 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

Hong Kong, 14 November 2006