



SYSCAN Technology Holdings Limited

矽感科技控股有限公司

Stock code : 8083



SYSCAN

2007

Third 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.

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.



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\$19,757,000 for the three-month period ended 30 September 2007, representing a decrease of approximately 10% over the same period last year. The gross profit margin for the third quarter of this year was about 8%, as compared to that of 19% for the same period last year.

Loss attributable to shareholders for the three-month period ended 30 September 2007 amounted to approximately HK\$4,709,000, which represents an increase of approximately 45% over the same period in 2006.

* *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 2007 together with the comparative unaudited figures for the corresponding periods in 2006 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	2	19,757	22,021	62,006	60,073
Cost of sales		(18,078)	(17,870)	55,395	(41,879)
Gross profit		1,679	4,151	6,611	18,194
Other revenue	3	71	2,571	1,666	4,007
Provision for bad and doubtful receivables		792	-	-	-
Selling and marketing expenses		(1,013)	(695)	(3,061)	(5,079)
General and administrative expenses		(3,720)	(5,611)	(10,589)	(19,262)
Research and development expenses		(932)	(635)	(2,884)	(3,531)
Loss from operations		(4,707)	(219)	(8,257)	(5,671)
Interest income		-	9	-	102
Interest expense		(2)	(3,118)	(646)	(9,278)
(Loss)/gain on disposal of subsidiary		0	-	0	(455)
Loss before taxation		(4,709)	(3,328)	(8,903)	(15,302)
Taxation	4	-	(7)	-	(7)
Loss before minority interest		(4,709)	(3,335)	(8,903)	(15,309)
Minority interests		0	93	0	322
Loss attributable to shareholders		(4,709)	(3,242)	(8,903)	(14,987)
Loss per share – Basic (HK\$ cents)	5	HK(1.2) cents	HK(0.8) cents	HK(2.2) cents	HK(3.7) 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 31 December 2006. 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.

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 2007 consisted of a sundry income of approximately HK\$71,000 (2006: HK\$2,571,000).

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 2007 (2006: Nil).

In 2006, an 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, 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 2007 (2006: Nil).

There was no significant unprovided deferred taxation for the three-month period and the nine-month period ended 30 September 2007 (2006: Nil).

5. (Loss)/profit per share

The calculation of the basic loss per share for the three-month period and the nine-month period ended 30 September 2007 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$4,709,000 (2006: HK\$3,242,000) for the three-month period ended 30 September 2007 and approximately HK\$8,903,000 (2006: HK\$14,987,000) for the nine-month period ended 30 September 2007 and on the weighted average number of approximately 409,457,308 shares (2006: 409,457,308 shares) in issue during the three-month period ended 30 September 2007 and approximately 409,457,308 shares (2006: 409,457,308 shares) in issue during the nine-month period ended 30 September 2007.

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 2007 (2006: Nil).

7. Subsequent event

Reference is made to the Company's announcement dated 17 July 2007. Pursuant to the subscription agreement dated 28 June 2007, the independent third party investor ("Investor") would subscribe for 80% shares of a subsidiary of the Company thereby, upon completion, the said subsidiary will become an associate of the Company. The subscription constitutes a deemed disposal of the Company's equity interest in the subsidiary under Rule 19.29 of the GEM Listing Rules.

The Investor paid the first three installments in accordance with the terms of the said agreement up to 20 August 2007. However, the Investor defaulted in payment for the fourth and fifth installments on 20 September and 20 October 2007 respectively. On-going negotiation and allowances for time extension had been made and offered but they still could not fulfill their obligations as further agreed and within the extended time allowed.

On 23 October 2007, the Company announced that since the Investor failed to comply with the agreed terms and obligation within the extended time constraint, the Company decided to terminate the subscription agreement with effective on that date according to the supplemental agreement entered into between the parties.

On 30 October 2007, the Company entered into another share transfer agreement with another independent third party investor ("New Investor"). The new share transfer agreement stipulated that the New Investor would purchase for 55% of the existing share capital of a subsidiary of the Company. Thereby, upon completion, the said subsidiary will become an associate of the Company.



The disposal constituted a very substantial disposal (“VSD”) under Rule 19.24 of the GEM Listing Rules and is subject to the approval of shareholders at the SGM. An announcement giving the details of the said transaction was published on 8 November 2007 and a notice of SGM will be sent to the shareholders as soon as practicable in accordance with the relevant requirement of the GEM Listing Rules.

Reserves Movement

At the beginning of 2007, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$207,407,000 (2006: HK\$200,394,000). For the nine-month period ended 30 September 2007, the Group’s reserves increased by approximately HK\$963,000 (2006: (HK\$6,315,000)), representing the increase in cumulative translation adjustment of HK\$527,000 (2006: (HK\$115,000)) for the period and the increase in capital reserve of HK\$436,000 (2006: HK\$6,200,000). As a result, the consolidated reserves of the Group as at 30 September 2007 were approximately HK\$208,370,000 (2006: HK\$206,709,000).

At the beginning of 2007, the Group had accumulated deficit of approximately HK\$195,967,000 (2006: HK\$184,367,000). For the nine-month period ended 30 September 2007, the Group’s accumulated deficit increased by approximately HK\$8,903,000 (2006: HK\$14,987,000), representing the loss attributable to shareholders for the period. As a result, the accumulated deficit of the Group as at 30 September 2007 was approximately HK\$204,870,000 (2006: HK\$199,354,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group recorded a turnover of approximately HK\$19,757,000 for the three-month period ended 30 September 2007, representing a decrease of approximately 10% over the same period last year. The gross profit margin for the third quarter of this year was about 8%, as compared to that of 19% for the same period last year.

Loss attributable to shareholders for the three-month period ended 30 September 2007 amounted to approximately HK\$4,709,000, which represents an increase of approximately 45% over the same period in 2006.

Research and Development

For the three-month period ended 30 September 2007, the Group has continued its effort in strengthening its research and development team on existing, as well as, new products including the 2D barcode technology while the research and development expenses had increased by 47% 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 2007, 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.

After several years' intensive research and development activities over the 2D barcode technology, it is expected that real life application of the technology would be crystallized. The management is confident that the Company would become a major service provider in the 2D barcode application business within the PRC market.

Directors' and Chief Executive's Interests

As at 30 September 2007, 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 standards of dealing 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") are 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 <i>(Note 1)</i>	-	231,122,409	56.45%
Mr Jin Qingjun	50,000	-	-	-	50,000	0.01%

Note:

1. 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 2007, 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 30 June 2007 are as follows:

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\$1.65	1,000,000	-	-	1,000,000
				<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>

Since its adoption and up to 30 September 2007, no options have been granted to the Directors of the Company under Share Option Scheme C.

Save as disclosed above, as at 30 September 2007, 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 standards of dealing 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 2007, 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 (<i>Note 1</i>)	Beneficial owner	Personal & Corporate	231,122,409	56.45%

Note:

1. Details of the interests of Mr Cheung Wai is duplicated in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS" disclosed above.

Competing Interests

The Directors are not aware of, as at 30 September 2007, 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 2007, 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 Fong Chi Wah, Mr Jin Qingjun and Mr Wang Ruiping. 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 three-month period ended 30 September 2007 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 three-month period ended 30 September 2007 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 2007

As at the date of this report, the Board comprises the following members:

Executive Directors

Cheung Wai, *Chairman*
Zhang Ming

Independent Non-executive Directors

Fong Chi Wah
Jin Qingjun
Wang Ruiping