



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



Portable Scanner
The Best Companion for Mobile Office
TravelScan
CIM technology

First Quarterly Report

2002

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 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 2002, the Group's turnover of approximately HK\$10.42 million represents approximately 27.7% decrease over the same period in 2001, while the net loss of approximately HK\$6.76 million for the first quarter of 2002 represents an increase by approximately 16.2% over the same period in 2001. The increase in loss was mainly due to (i) the drop in sales as a result of the price competition from pirate products and the sluggish market demand; (ii) the increase in selling and marketing expenses; and (iii) the increase in interest expense.

The decrease in sales for the first quarter as compared to the same period for 2001 was mainly due to the decline in the sales of modules. Sales of the Group's system products in the first quarter of this year such as *TravelScan-PRO*, *TravelScan 860*, and *ODA* were almost the same as sales for the first quarter of 2001. The gross margin for the first quarter of this year was about 30.3%, versus 43.0% for the same period in 2001. The decrease in gross margin was mainly caused by the price competition from pirate products and the weak market demand. The Group has engaged intellectual property legal experts to enforce the Group's intellectual property rights.

* for identification purposes only

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 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

		Three months ended 31 March	
	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Turnover	2	10,424	14,417
Cost of sales		(7,264)	(8,220)
Gross profit		3,160	6,197
Other income		471	22
Selling and marketing expenses		(2,200)	(1,428)
General and administrative expenses		(6,723)	(7,630)
Research and development expenses		(2,757)	(3,384)
Loss from operations		(8,049)	(6,223)
Interest income		2,074	590
Interest expense		(780)	(182)
Loss before taxation		(6,755)	(5,815)
Taxation	3	(7)	(7)
Loss attributable to shareholders		(6,762)	(5,822)
Loss per share – Basic	4	HK(0.66) cent	HK(0.65) cent
Dividend		–	–

Notes:

1. Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.
2. Turnover comprised (i) the net invoiced value of merchandise sold after allowance for returns and discounts and exclusion of value-added tax, and (ii) design fees.

3. 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 2002 (2001: 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 (2001: 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 (2001: 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 2002 (2001: Nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2002. (2001: Nil).

4. The calculation of the basic loss per share for the three-month period ended 31 March 2002 was based on the unaudited loss attributable to shareholders of approximately HK\$6,762,000 (2001: HK\$5,822,000) and on the weighted average number of approximately 1,022,631,000 shares (2001: 888,865,000 shares) in issue during the three-month period ended 31 March 2002.

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three-month period ended 31 March 2002 (2001: Nil).

RESERVES MOVEMENT

At the beginning of 2002, the Group had a consolidated reserves, excluding accumulated deficit of approximately HK\$301,203,000. During the three-month period ended 31 March 2002, the Group's reserves decreased by approximately HK\$556,000, representing the decrease of cumulative translation adjustments and share premium of HK\$552,000 and HK\$4,000 respectively for the period. The consolidated reserves of the Group as at 31 March 2002 were approximately HK\$300,647,000.

At the beginning of 2002, the Group had accumulated deficit of approximately HK\$225,868,000. During the three-month period ended 31 March 2002, the Group's accumulated deficit increased by approximately HK\$6,762,000, representing the loss attributable to shareholders for the period. The accumulated deficit of the Group as at 31 March 2002 were approximately HK\$232,630,000.

BUSINESS REVIEW AND PROSPECT

General

The Group recorded a turnover of approximately HK\$10.42 million and loss attributable to shareholders of approximately HK\$6.76 million for the three-month period ended 31 March 2002. The decrease in turnover by about 27.7% as compared to the same period in 2001 was mainly due to (i) the drop in sales as a result of the price competition from pirate products and the sluggish market demand; (ii) the increase in selling and marketing expenses; and (iii) the increase in interest expense.

The decrease in sales for the first quarter as compared to the same period for 2001 was mainly due to the decline in the sales of modules. Sales of the Group's system products in the first quarter of this year such as *TravelScan-PRO*, *TravelScan 860*, and ODA were almost the same as sales for the first quarter of 2001. The gross margin for the first quarter of this year was about 30.3%, versus 43.0% for the same period in 2001. The decrease in gross margin was mainly caused by the price competition from pirate products and the weak market demand. The Group has engaged intellectual property legal experts to enforce the Group's intellectual property rights.

In order to increase sales, additional resources were allocated to marketing and selling activities in Mainland China and Europe, thereby resulting in an increase in the marketing expenses. General and administrative expenses were decreased mainly due to the implementation of cost control measures. Research and development expenses were reduced since the Group shifted most of the development works to Shenzhen, Mainland China.

Research and development

During the three-month period ended 31 March 2002, the Group continued the development of the CIM sensor chip as well as the development of image input devices used for children education, identity card verification, personal computers 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 2001. Active efforts and measures were made to reduce the production costs and raw material costs, and to improve quality-passing rate.

Sales and Marketing

Considerable marketing efforts were committed to develop the distribution channels in various regions worldwide; especially in Europe to deliver the Group's system products of *TravelScan*, A8 business card reader, A6 ID and Photo Scanner, and CIS color modules. The Group participated in Cebit show in Europe this year and tradeshow in Italy, and made advertisements in different newspapers, tradeshows and magazines in Mainland China and Hong Kong.

The sales of modules for the three-month period ended 31 March 2002 were slower than the sales in the same period in 2001, but the sales of A8 business card reader, ODA, *TravelScan-PRO* and co-branded *TravelScan PaperPort* increased slightly compared to the same period last year. The aggressive marketing campaign launched in the first quarter of 2002 drove the sales of the above mentioned products. Currently, 5 sales agents are responsible for products distribution in Hong Kong and Macau respectively. Six distribution centers have been set up in Mainland China for distributing the Group's products in Mainland China. In the future, the Group will seek for more business partners in order to strengthen the marketing and distribution network.

SYSCAN Hi-Tech Park

The completion of Phase I of SYSCAN Hi-Tech Park was delayed. It is now planned that Phase I of SYSCAN Hi-Tech Park will be completed by the end of June 2002. The Group intends to complete Phase II and Phase III construction in co-operation with other business partners.

Investment and Acquisition

During the period ended 31 March 2002, the Group did not make any new investment. However, the Group has been evaluating new investment and acquisition opportunities in order to create sales and business synergies to the Group's existing products, facilities and assets. Once negotiation is crystallized, the Group will make announcement in accordance with the GEM Listing Rules.

Intellectual Property and Legal Litigation

So far, the Group has filed more than 70 patents. The Group has formed an intellectual property department to manage the Group's intellectual property. Facing the rampant pirate products in the market, the Group will take drastic measures to enforce the Group's intellectual property.

The Group has engaged several intellectual property legal experts for analyzing our patents which have been granted and pending for approval. The conclusion from the experts was that suspected pirate products in the market did violate the Group's patents. The Group has engaged intellectual property litigation lawyers to prepare for and to launch actions against those suspected sellers, manufacturers and distributors of the pirate products in direct competition with the Group's products.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Interests in Share Capital

As at 31 March 2002, 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 pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 to 5.59 of the GEM Listing Rules, 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	-	103,100,000 <i>(Note 3)</i>	-	110,300,000	10.79%
Mr. Darwin Hu	38,400,000	16,156,000 <i>(Note 1)</i>	-	-	54,556,000	5.33%
Mr. Joseph Liu	19,200,000	52,800,000 <i>(Note 2)</i>	-	-	72,000,000	7.04%
Mr. Zhang Hongru	-	-	4,176,000 <i>(Note 4)</i>	-	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. 48,000,000 shares and 55,100,000 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).
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 2002, 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 2002, 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 2002 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	19/6/2001	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
				37,000,000	-	-	37,000,000

Directors' and Chief Executive's Rights to Acquire Securities

Save for the Schemes, as at 31 March 2002, 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

Save for the interests disclosed above in respect of Mr. Cheung Wai in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES", as at 31 March 2002, 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% or more of the issued share capital of the Company.

OUTSTANDING SHARE OPTIONS

Other than the interests in share options disclosed above in respect of the Directors, as at 31 March 2002, details of the outstanding share options granted to the optionees under the Schemes were as follows:

Scheme A

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
2/3/2000	HK\$0.04844	2/3/2000 to 1/3/2010	52,624,000	(2,833,999) (Note)	(15,236,667)	34,553,334
2/3/2000	HK\$0.02422	2/3/2000 to 1/3/2010	160,000	-	-	160,000
			<u>52,784,000</u>	<u>(2,833,999)</u>	<u>(15,236,667)</u>	<u>34,713,334</u>

Scheme B

Date of grant <i>(dd/mm/yy)</i>	Exercise price per share	Exercise period <i>(dd/mm/yy)</i>	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
12/7/2000	HK\$0.246	12/7/2001 to 11/7/2010	6,660,000	-	(1,180,000)	5,480,000
4/12/2000	HK\$0.1016	4/12/2001 to 3/12/2010	1,700,000	-	-	1,700,000
17/1/2001	HK\$0.206	17/1/2002 to 16/1/2011	19,000,000	-	(1,350,000)	17,650,000
13/8/2001	HK\$0.275	13/8/2002 to 12/8/2011	9,580,000	-	(100,000)	9,480,000
			<u>36,940,000</u>	<u>-</u>	<u>(2,630,000)</u>	<u>34,310,000</u>

Note: The closing price of the shares of the Company immediately before the date of exercise of options 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, HK\$0.29 and HK\$0.19 respectively.

Save as disclosed above, during the three-month period ended 31 March 2002, 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 2002, an employee of the Sponsor, BNP Paribas Peregrine Capital Limited, held 120,000 shares in the Company. Save as disclosed herein, 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 2002, 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 2002, 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 two independent non-executive directors, namely Mr. Lo Wai Ming and Mr. Lo Hang Fong. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Committee has reviewed the draft of this report and has provided advice and comments thereon.

By Order of the Board

Cheung Wai

Chairman

Hong Kong, 14 May 2002