



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



Portable Scanner
The Best Companion for Mobile Office
TravelScan
CIS technology

Third 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's business is in the field of optical electronic industry, and is principally engaged in the design, research, development, manufacturing and distribution of optical image capturing devices and related components. The Group's turnover of approximately HK\$7.08 million for the three months ended September 30, 2002 increased by approximately 137.4% as compared to the turnover of approximately HK\$2.98 million for the three months ended June 30, 2002. By achieving economies of scale from the increase in sales volume in the third quarter of 2002 coupled with the better control on production cost, the gross margin for the three-month period ended September 30, 2002 has climbed to 23.2% as compared to the gross margin for the three-month period ended June 30, 2002 of approximately 1.7%.

For the nine months ended September 30, 2002, the Group's turnover of approximately HK\$20.49 million represents a decrease of approximately 34.5% over the same period in 2001. Loss attributable to shareholders for the nine-month period ended September 30, 2002 amounted approximately HK\$15.818 million, which represents a decrease of 35.7% over the same period in 2001 resulting from the Group's effort in promoting sales and in better controlling production cost, general and administrative expenses, and research and development expenses.

* for identification purposes only

SYSCAN Technology Holdings Limited

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

	Note	For the three months ended September 30		For the nine months ended September 30	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2	7,079	8,342	20,485	31,269
Cost of sales		(5,440)	(6,361)	(15,635)	(19,870)
Gross profit		1,639	1,981	4,850	11,399
Other revenue	3	34	4,860	10,059	4,860
Provision for obsolete and slow-moving inventories		-	(2,051)	-	(2,051)
Provision for bad and doubtful debts		-	(668)	-	(4,527)
Selling and marketing expenses		(3,579)	(1,895)	(8,441)	(4,951)
General and administrative expenses		(4,617)	(6,487)	(17,031)	(19,327)
Research and development expenses		(2,507)	(5,776)	(7,754)	(12,129)
Gain on disposal of machinery and equipment		-	2,300	-	2,300
Loss from operations		(9,030)	(7,736)	(18,317)	(24,426)
Interest income		18	163	2,460	1,170
Interest expense		(804)	(695)	(2,462)	(1,347)
Gain on disposal of a subsidiary		-	-	2,508	-
Loss before taxation		(9,816)	(8,268)	(15,811)	(24,603)
Taxation	4	-	-	(7)	(7)
Loss attributable to shareholders		(9,816)	(8,268)	(15,818)	(24,610)
Loss per share – Basic	5	HK(0.96) cents	HK(0.81) cents	HK(1.55) cents	HK(2.54) cents
Dividends		-	-	-	-

Notes:

1. Basis of presentation

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 allowances for returns and discounts and exclusion of value-added tax, and (ii) design fees.*
- 3.** *Other revenue for the nine-month period ended September 30, 2002 consisted of (i) the written back of other receivables of approximately HK\$5,772,000 (2001: Nil), (ii) compensation received from the property developer in Shenzhen of approximately HK\$3,774,000 (2001: HK\$4,018,000 for compensation of termination of investment agreement) for its delay in the handover of the ownership of the offices of the Group's Mainland China subsidiaries, and (iii) a sundry income of approximately HK\$513,000 (2001: HK\$842,000).*

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 September 30, 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 and the nine-month period ended September 30, 2002 (2001: Nil).

There was no significant unprovided deferred taxation for the three-month period and the nine-month period ended September 30, 2002 (2001: Nil).

5. Loss per share

The calculation of the basic loss per share for the three-month period and the nine-month period ended September 30, 2002 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$9,816,000 (2001: HK\$8,268,000) for the three-month period ended September 30, 2002 and approximately HK\$15,818,000 (2001: HK\$24,610,000) for the nine-month period ended September 30, 2002 and on the weighted average number of approximately 1,022,643,000 shares (2001: 1,022,081,000 shares) in issue during the three-month period ended September 30, 2002 and approximately 1,022,639,000 shares (2001: 968,572,000 shares) in issue during the nine-month period ended September 30, 2002.

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

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, 2002 (2001: Nil).

RESERVES MOVEMENT

At the beginning of 2002, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$301,203,000. For the nine-month period ended September 30, 2002, the Group's reserves increased by approximately HK\$499,000, representing an increase of cumulative translation adjustment of HK\$503,000 and a decrease of share premium of HK\$4,000 respectively for the period. The consolidated reserves of the Group as at September 30, 2002 were approximately HK\$301,702,000.

At the beginning of 2002, the Group had accumulated deficit of approximately HK\$225,868,000. For the nine-month period ended September 30, 2002, the Group's accumulated deficit increased by approximately HK\$15,818,000, representing the loss attributable to shareholders for the period. The accumulated deficit of the Group as at September 30, 2002 was approximately HK\$241,686,000.

BUSINESS REVIEW AND PROSPECT

Overview

The Group's business is in the field of optical electronic industry, and is principally engaged in the design, research, development, manufacturing and distribution of optical image capturing devices and related components. The Group's turnover of approximately HK\$7.08 million for the three months ended September 30, 2002 increased by approximately 137.4% as compared to the turnover of approximately HK\$2.98 million for the three months ended June 30, 2002. By achieving economies of scale from the increase in sales volume in the third quarter of 2002 coupled with the better control on production cost, the gross margin for the three-month period ended September 30, 2002 is 23.2% as compared to the gross margin for the three-month period ended June 30, 2002 of approximately 1.7%.

For the nine-months ended September 30, 2002, the Group's turnover of approximately HK\$20.49 million represents a decrease of approximately 34.5% over the same period in 2001. Loss attributable to shareholders for the nine-month period ended September 30, 2002 amounted approximately HK\$15.818 million, which represents a decrease of 35.7% over the same period in 2001 resulting from the Group's effort in promoting sales and in better controlling production cost, general and administrative expenses, and research and development expenses.

The Group will continue to take aggressive measures to reduce overhead and other general expenses while maintaining its research & development and production quality. With the completion of moving its manufacturing facilities into the new manufacturing base in SYSCAN Hi-Tech Park, the Group will allocate more efforts in fully utilizing its production capacity as well as reducing its production cost. The Group will also continue to actively market its products and to negotiate new OEM/ODM contracts.

For the three-month and the nine-month periods ended September 30, 2002, the Group reduced its general and administrative expenses by 28.8% and 11.9% respectively over the same periods last year.

Research and Development

For the three-month and the nine-month periods ended September 30, 2002, the Group was able to reduce its research and development expenses by 56.6% and 36.1% respectively as compared to the corresponding periods last year while maintaining its research and development team and quality.

For the nine-month period ended September 30, 2002, the Group completed the development of its educational kit, "Card King" (developed on the basis of the Group's CIS technology and the 2-D bar code technology) and the ID card verification machine. The Group will continue to refine its PDA and mobile phone-related image input devices, and to develop the A3 high-speed sensor chips, CIS modules and CIM chips.

The Group has obtained three invention patents in respect to its TravelScan series Lightweight Mobile Scanner in the U.S., which will enable the Group to enjoy a competitive edge over its competitors.

Production

The Group's production facilities have been moved to its new manufacturing base in SYSCAN Hi-Tech Park in July 2002. The Group is also negotiating with various investors and business partners to develop Phase II and Phase III of its SYSCAN Hi-Tech Park.

The Group has also adjusted its production capacity as an effort to comply with the market conditions in the third quarter of 2002. Due to the increase in sales volume in this quarter, the unit cost of sales decreased dramatically and also helped to improve the Group's gross margin for this quarter.

At the end of the third quarter of 2002, the Group has started the preparation work for the assembly of new imaging devices LCD monitors in the fourth quarter of 2002, as well as for other projects based on the Group's digital imaging technologies.

Sales and Marketing

The Group has developed private label clients in the U.S. to sell its TravelScan series products through various retail channels in the U.S.

The Group has also hired more IT sales veterans to strengthen its sales team in the third quarter of 2002. During the period under review, the Group has commenced the sales of its educational kit, "Card King", further launched the second generation of "Card King" and put into mass production by the end of this quarter.

The Group has signed OEM contracts with Founder Electronics Co., Ltd., and Visioneer Inc. to develop an extensive range of products based on its patented Lightweight Mobile Scanner technology. The Group will continue to actively market its products and to negotiate potential OEM/ODM contracts.

Last but not least, the Group has also signed co-development and co-branding marketing contracts with Wuhu PKU High-Tech Software Co., Ltd. (武漢北大高科軟件有限公司) and Beijing TH-UNIS Wintone Info Technology (北京清華紫光文通信息技術有限公司), with the aim of selling different ID solutions to various sectors in Mainland China.

Acquisition and Investment

During the three months ended September 30, 2002, the Group invested a total of US\$200,000 in the preference stocks of GFG Asia Alliance Holdings Co., Ltd.

On July 3, 2002, the Group has also signed an agreement with Shenzhen Hua Shi Xin Da Technology Development Co., Ltd. (深圳市華實信達科技發展有限公司) ("Hua Shi") to acquire 50% interests in Hua Shi by injecting RMB5,000,000 in Hua Shi. Subject to Shenzhen Industry and Commerce Bureau's approval in the total amount of equity capital of Hua Shi, the Group's equity percentage in Hua Shi may be adjusted higher. The Directors believe that such an investment will generate encouraging returns for the Group in the coming years by incorporating the Group's renowned technology into the tax machine market in Mainland China.

Future Prospects

Facing the tough economic environment, the Group will seek to explore different business opportunities so as to increase revenue and income, to actively obtain more OEM/ODM sales as well as to cut down the cost of production by fully utilizing its production capacity and improving its production efficiency. The Group is evaluating several ERP systems and is planning to start their implementation in the forth quarter of 2002 or a later date such that the management of the Group can more promptly and efficiently manage and co-coordinate various function departments and resources of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Interests in Share Capital

As at September 30, 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 of Hong Kong Limited pursuant to the minimum standards of dealing 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 interests
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Cheung Wai	7,200,000	-	103,100,000 (Note 3)	-	110,300,000	10.79%
Mr. Darwin Hu	38,400,000	16,156,000 (Note 1)	-	-	54,556,000	5.33%
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. *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 September 30, 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 March 2, 2000, the Company has 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.

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Share Option Scheme A ceased to be effective (save for the options then granted) upon the listing of the Company on April 14, 2000. At the annual general meeting of the Company held on April 26, 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 September 30, 2002, no options have been granted to the Directors of the Company under both Share Option Scheme A and Scheme C.

Details of the options granted to the Directors of the Company under Share Option Scheme B since its adoption and up to September 30, 2002 were as follows:

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise 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\$0.33	5,000,000	-	-	5,000,000
Mr. Darwin Hu	19/6/2000	19/6/2001 to 18/6/2010	HK\$0.33	5,000,000	-	-	5,000,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$0.206	18,000,000	-	-	18,000,000
Mr. Zhang Hongru	4/12/2000	4/12/2001 to 3/12/2010	HK\$0.1016	5,000,000	-	-	5,000,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$0.206	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 Right to Acquire Securities

Save for Share Option Scheme A, Scheme B and Scheme C, as at September 30, 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. None of the Directors, chief executive or their spouses or children under the age of 18 has any right to subscribe for the securities of the Company, or has 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 September 30, 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.

INTERESTS OF SPONSOR

As at September 30, 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 September 30, 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 nine-month period ended September 30, 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 May 2, 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.

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The Committee (who were of the opinion that the preparation of the unaudited results for the nine-month period ended September 30, 2002 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 for the nine-month period ended September 30, 2002 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, November 11, 2002