



SYSCAN Technology Holdings Limited

矽感科技控股有限公司

TravelScanner

*The Best Companion
for Mobile Office*



Portable Scanner



CIM technology

FIRST QUARTERLY REPORT **2003**

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\$31.65 million for the three-month period ended 31 March 2003, representing an increase of approximately 203.7% over the same period last year. This is mainly attributable to the Group's effort in promoting sales (particularly the new product of LCD monitors). The gross margin for the first quarter of this year was about 23.8%, as compared to that of 30.3% for the same period in 2002. The decrease in gross margin was mainly caused by the change in the product mix.

Loss attributable to shareholders for the three-month period ended 31 March 2003 amounted approximately HK\$5.18 million, which represents a decrease of 23.4% over the same period in 2002 resulting from the Group's effort in better controlling production cost, and research and development expenses.

** 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 ended 31 March 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

		For the three months ended 31 March	
		2003	2002
		(Unaudited)	<i>(Unaudited)</i>
	Note	HK\$'000	<i>HK\$'000</i>
Turnover	2	31,654	10,424
Cost of sales		(24,116)	(7,264)
Gross profit		7,538	3,160
Other revenue	3	1,690	2,545
Selling and marketing expenses		(3,780)	(2,200)
General and administrative expenses		(7,126)	(6,723)
Research and development expenses		(2,217)	(2,757)
		(13,123)	(11,680)
Loss from operations		(3,895)	(5,975)
Finance costs		(1,938)	(780)
Loss before taxation		(5,833)	(6,755)
Taxation	4	(7)	(7)
Loss after taxation		(5,840)	(6,762)
Minority interests		664	–
Loss attributable to shareholders		(5,176)	(6,762)
Loss per share – Basic	5	HK (0.51) cents	HK (0.66) cents
Dividends	6	–	–

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 three-month period ended 31 March 2003 consisted of (i) the written back of other receivables of approximately HK\$853,000 (2002: Nil), (ii) a sundry income of approximately HK\$813,000 (2002: HK\$471,000), and (iii) an interest income of approximately HK\$24,000 (2002: HK\$2,074,000).*

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 2003 (2002: Nil).

The United States subsidiary had no assessable profit subject to United States federal income tax and California State income tax, but was liable to California State income tax of approximately HK\$7,000 (2002: 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 (except for one subsidiary in Shanghai which was liable to an income tax of approximately HK\$150 (2002: Nil)) had no assessable profit for the three-month period ended 31 March 2003 (2002: 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 2003 (2002: Nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2003 (2002: Nil).

5. Loss per share

The calculation of the basic loss per share for the three-month period ended 31 March 2003 was based on the unaudited loss attributable to shareholders of approximately HK\$5,176,000 (2002: HK\$6,762,000) and on the weighted average number of approximately 1,023,554,000 shares (2002: 1,022,631,000 shares) in issue during the three-month period ended 31 March 2003.

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 2003 (2002: Nil).

RESERVES MOVEMENT

At the beginning of 2003, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$301,288,000. For the three-month period ended 31 March 2003, the Group's reserves increased by approximately HK\$203,000, representing an increase of cumulative translation adjustment of HK\$255,000 and a decrease of share premium of HK\$52,000 respectively for the period. The consolidated reserves of the Group as at 31 March 2003 were approximately HK\$301,491,000.

At the beginning of 2003, the Group had accumulated deficit of approximately HK\$250,471,000. For the three-month period ended 31 March 2003, the Group's accumulated deficit increased by approximately HK\$5,176,000, representing the loss attributable to shareholders for the period. The accumulated deficit of the Group as at 31 March 2003 was approximately HK\$255,647,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group recorded a turnover of approximately HK\$31.65 million for the three-month period ended 31 March 2003, representing an increase of approximately 203.7% over the same period last year. This is mainly attributable to the Group's effort in promoting sales (particularly the new product of LCD monitors). The gross margin for the first quarter of this year was about 23.8%, as compared to that of 30.3% for the same period in 2002. The decrease in gross margin was mainly caused by the change in the product mix.

Loss attributable to shareholders for the three-month period ended 31 March 2003 amounted approximately HK\$5.18 million, which represents a decrease of 23.4% over the same period in 2002 resulting from the Group's effort in better controlling production cost, and research and development expenses.

Research and Development

For the three-month period ended 31 March 2003, the Group was able to reduce its research and development expenses by 19.6% when compared to the corresponding period last year while still maintaining its research and development team and quality.

The Group continues to refine its 2D barcode technology, and is in the process of developing the application of its 2D barcode technology in credit cards and 2D barcode encrypt data transfer software.

During the first quarter period, the Group has completed the modification of A5 flat-bed ID card scanner with OCR function and started to launch this upgraded ID card scanner to various market sectors such as hotels, train stations, bus stations where recognition of ID is required. The Group is in the development stage of ultra high speed 400 dpi A3 color CIS modules which can be used in high speed (120 ppm) color scanners.

The Group is developing the 200 dpi infra-red CIS modules for scanning bank notes, and 400 dpi A4 CIS modules for scanning lottery tickets and bank notes.

Production

At the moment, the Group has three production lines for LCD monitors assembling and six production lines for scanners production. The Group believes that the current production capacity can fulfill the forthcoming production needs.

The Group is still negotiating with various investors and business partners to develop Phase II and Phase III of its SYSCAN Hi-Tech Park.

Sales and Marketing

The Group has participated in Cebit in Germany and launched advertisements in different newspapers and magazines. The Group has signed a sales contract for LCD monitors with a Taiwanese company, Pro Arch Technology Incorporation (光威電腦股份有限公司), which the Group believes would contribute substantial profit to the Group in the coming year.

Investment and Acquisition

During the period ended 31 March 2003, 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 or where there is synergy with the Group's activities.

Future Prospects

Facing the tough economic environment, the Group will continue to seek different business opportunities, take aggressive measures to cut costs, improve production efficiency, and adopt more cost-effective marketing schemes with the aim of improving the Group's competitiveness and overall financial performance.

Retirement of Directors

Pursuant to the service contract between Mr Joseph Liu (the non-executive director) and the Company, Mr Liu's terms of office expired on 31 March 2003. Both the Company and Mr Liu have agreed not to renew the service contract. Accordingly, Mr Liu ceased to be the non-executive director of the Company effective from 1 April 2003.

The Board would like to express on behalf of the Company its appreciation and gratitude towards Mr Liu for his past contribution to the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Interests in Share Capital

As at 31 March 2003, 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				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	10.78%
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	7.03%
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 31 March 2003, 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 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 then 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 (save for the options then granted).

Since its adoption and up to 31 March 2003, 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 31 March 2003 were 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\$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 31 March 2003, 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 31 March 2003, 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.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2003, 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 2003, 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 (who were of the opinion that the preparation of the unaudited results for the three-month period ended 31 March 2003 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 for the three-month period ended 31 March 2003 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, 13 May 2003