



**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*

THIRD 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

- Due to the increment in the sales of LCD monitors during the three-month period ended 30 September 2003, the Group's turnover increased by approximately 402.3% from HK\$7,079,000 to HK\$35,559,000 in light of a slow-rebounding IT industry.
- The Group recorded a net loss of approximately HK\$3,709,000 for the three-month period ended 30 September 2003, representing a decrease of 62.2% over the same period last year.
- The gross margin for the third quarter this year was about 16.0%, as compared to that of 23.2% for the same period in 2002.

\* 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 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	<b>35,559</b>	7,079	<b>122,042</b>	20,485
Cost of sales		<b>(29,871)</b>	(5,440)	<b>(100,243)</b>	(15,635)
Gross profit		<b>5,688</b>	1,639	<b>21,799</b>	4,850
Other income	3	<b>8,544</b>	34	<b>10,427</b>	10,059
Provision for bad and doubtful receivables		<b>(1,508)</b>	-	<b>(2,768)</b>	-
Selling and marketing expenses		<b>(4,718)</b>	(3,579)	<b>(13,434)</b>	(8,441)
General and administrative expenses		<b>(7,304)</b>	(4,617)	<b>(22,259)</b>	(17,031)
Research and development expenses		<b>(3,176)</b>	(2,507)	<b>(8,060)</b>	(7,754)
Loss from operations		<b>(2,474)</b>	(9,030)	<b>(14,295)</b>	(18,317)
Interest income		<b>287</b>	18	<b>420</b>	2,460
Interest expense		<b>(2,184)</b>	(804)	<b>(6,295)</b>	(2,462)
Gain on disposal of interest in a subsidiary		-	-	-	2,508
Loss before taxation		<b>(4,371)</b>	(9,816)	<b>(20,170)</b>	(15,811)
Taxation	4	-	-	<b>(7)</b>	(7)
Loss after taxation		<b>(4,371)</b>	(9,816)	<b>(20,177)</b>	(15,818)
Minority interests		<b>662</b>	-	<b>2,073</b>	-
Loss attributable to shareholders		<b>(3,709)</b>	(9,816)	<b>(18,104)</b>	(15,818)
Loss per share – Basic	5	<b>HK(0.36) cents</b>	HK(0.96) cents	<b>HK(1.77) cents</b>	HK(1.55) cents
Dividend	6	-	-	-	-

**FINANCIAL RESULTS (Cont'd)**

Notes:

**1. Basis of presentation**

Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

2. Turnover comprises (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 income for the three-month period ended 30 September 2003 consisted of (i) the written back of inventories of approximately HK\$6,434,000 (2002: Nil), and (ii) a sundry income of approximately HK\$2,110,000 (2002: HK\$34,000).

**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 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\$194 (2002: Nil) and HK\$386 (2002: Nil) during the three-month period and the nine-month period ended 30 September 2003 respectively) had no assessable profit during the three-month period and the nine-month period ended 30 September 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 and the nine-month period ended 30 September 2003 (2002: Nil).

There was no significant unprovided deferred taxation for the three-month period and the nine-month period ended 30 September 2003 (2002: 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 2003 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$3,709,000 (2002: HK\$9,816,000) for the three-month period ended 30 September 2003 and approximately HK\$18,104,000 (2002: HK\$15,818,000) for the nine-month period ended 30 September 2003 and on the weighted average number of approximately 1,023,643,279 shares (2002: 1,022,643,000 shares) in issue during the three-month period ended 30 September 2003 and approximately 1,023,613,975 shares (2002: 1,022,639,000 shares) in issue during the nine-month period ended 30 September 2003.

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 2003 (2002: Nil).

## **RESERVES MOVEMENT**

At the beginning of 2003, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$301,288,000 (2002: HK\$301,203,000). For the nine-month period ended 30 September 2003, the Group's reserves increased by approximately HK\$197,000 (2002: HK\$499,000), representing an increase of cumulative translation adjustment of HK\$248,000 (2002: HK\$503,000) and a decrease of share premium of HK\$51,000 (2002: HK\$4,000) respectively for the period. The consolidated reserves of the Group as at 30 September 2003 were approximately HK\$301,485,000 (2002: HK\$301,702,000).

At the beginning of 2003, the Group had accumulated deficit of approximately HK\$250,471,000 (2002: HK\$225,868,000). For the nine-month period ended 30 September 2003, the Group's accumulated deficit increased by approximately HK\$18,104,000 (2002: HK\$15,818,000), representing the loss attributable to shareholders for the period. The accumulated deficit of the Group as at 30 September 2003 was approximately HK\$268,575,000 (2002: HK\$241,686,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overview**

Due to the increment in the sales of LCD monitors during the three-month period ended 30 September 2003, the Group's turnover increased by approximately 402.3% from HK\$7,079,000 to HK\$35,559,000 in the light of a slow-rebounding IT industry. The Group recorded a net loss of approximately HK\$3,709,000 for the three-month period ended 30 September 2003, representing a decrease of 62.2% over the same period last year.

The gross margin for the third quarter of this year was about 16.0%, as compared to that of 23.2% for the same period in 2002. The decrease in gross margin was mainly caused by a change in the product mix.

### **Research and Development**

For the three-month period ended 30 September 2003, the Group increased its research and development expenses by 26.7% when compared to the corresponding period last year. This was mainly due to the fact that the Group had a lot more new products under research and development compared with the same period last year. The Group continues to explore different applications using its 2D barcode technology, and is in the process of developing application in cigarette barcode reader, which the Group believes, if successful, would bring in substantial profits to the Group.

### **Production**

The Group believes that the current production capacity of three production lines for LCD monitors assembly and six production lines for scanners production 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, the only participant from China, has participated in the "Frontline's International Supply Chain Week 2003" held in Chicago, U.S.A in September 2003, where a full collection of the Group's scanner products as well as barcode products were displayed.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)**

### **Sales and Marketing (Cont'd)**

In the western markets, the Group's business continues to flourish in the OEM design and manufacturing markets. Highlighting this growth were recently signed agreements with Digimarc Corporation (NASDAQ: DMRC) to provide specialized security scanners that utilize their proprietary digital watermarking technologies. In the European markets, sales to the value-added reseller (VAR) sector have grown by over 200%, reducing dependency on more traditional retail channels. Additionally The Group has completed OEM deals with PENTAX, Datacolor and Visioneer, to provide advanced document management systems for delivery in the forth quarter of 2003 and throughout the year of 2004.

### **Acquisition and Investment**

During the period ended 30 September 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.

### **Capital Reorganization**

At the special general meeting ("SGM") held on 6 October 2003, shareholders of the Company approved (1) the capital reorganization involving capital reduction, share consolidation and capital increase (collectively "Capital Reorganization"); (2) reduction of Share Premium Account ("Share Premium Reduction"); and (3) placing ("Placing") of new consolidated shares (subject to over-allotment option), details of which have been provided in the circular dated 10 September 2003.

In view of the fact that Company's shares have been traded at prices below their nominal value and to facilitate the Placing and any fund-raising exercise or asset acquisition by way of allotment or placement of shares when the Board considers the circumstances so require in the future, the Board considers the Capital Reduction, Share Premium Reduction and Placing be in the best interests of the Company and its shareholders as a whole. The Capital Reorganization and the Share Premium Reduction became effective on 7 October 2003 following the approval from the shareholders at the SGM. When the Placing is completed, the net proceeds will be applied to repay the existing accounts payables/debts and as general working capital. The directors will actively seek more potential investors and/or strategic partners and other ways of raising funds when the circumstances so require in the future.

### **Future Prospects**

Facing the tough global economic environment and a rather sluggish IT industry, the Group will actively develop different products to suit different markets and users in order to bring in more sales revenue as well as pursuing more OEM sales and to cut down production cost so as to bring in more revenue to the Group.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30 September 2003, 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 minimum standards of dealing by directors of the Company as referred to in Rule 5.40 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	7,200,000	–	103,100,000 (Note 2)	–	110,300,000	10.78%
Mr Darwin Hu	38,400,000	16,156,000 (Note 1)	–	–	54,556,000	5.33%

Notes:

1. *These shares were held by Mrs Sonya Hsiu-Yu Hu, the spouse of Mr Darwin Hu.*
2. *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).*
3. *Effective from 7 October 2003 upon the approval by shareholders of the Company of the Capital Reorganization, the number of shares would be adjusted accordingly.*

**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 2003, no options have been granted to the Directors of the Company under both Share Option Scheme A and Scheme C.



**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (Cont'd)****Long positions in underlying shares of the Company (Cont'd)**

Details of the options granted to the Directors of the Company under Share Option Scheme B since its adoption and up to 30 September 2003 were as follows:

Name	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Subscription price per share	No. of	No. of	No. of	No. of
				underlying shares comprising the options granted	underlying shares comprising the options exercised	underlying shares comprising the options lapsed	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
				28,000,000	-	-	28,000,000

*Note: Effective from 7 October 2003 upon the approval by shareholders of the Company of the Capital Reorganization, the number of underlying shares and the subscription price would be adjusted accordingly.*

Save as disclosed above, as at 30 September 2003, 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 minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules.

**INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, as at 30 September 2003, 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.

**INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

(Cont'd)

**Long positions in shares of the Company**

Name	Capacity	Nature of interests	Number of shares	Percentage of issued share capital
Mr Cheung Wai (Note 1)	Beneficial owner	Personal & Corporate	110,300,000	10.78%
Mr Darwin Hu (Note 1)	Beneficial owner	Personal & Family	54,556,00	5.33%
Mr Joseph Liu (Note 2)	Beneficial owner	Personal & Family	72,000,000	7.03%

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 19,200,000 shares held by Mr Joseph Liu, 52,800,000 shares are held by Messrs Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr Joseph Liu.
3. Effective from 7 October 2003 upon the approval by shareholders of the Company of the Capital Reorganization, the number of shares would be adjusted accordingly.

**COMPETING INTERESTS**

The Directors are not aware of, as at 30 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 2003 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 30 September 2003 and the draft of this announcement, and has provided advice and comments thereon.

By Order of the Board  
**SYSCAN Technology Holdings Limited**  
**Cheung Wai**  
*Chairman*

Hong Kong, 11 November 2003