



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

FIRST QUARTERLY REPORT 2004

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.

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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.

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 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

	Note	For the three months ended 31 March	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	105,775	31,654
Cost of sales		(98,247)	(24,116)
Gross profit		7,528	7,538
Other revenue	3	339	1,690
Selling and marketing expenses		(4,993)	(3,780)
General and administrative expenses		(10,648)	(7,126)
Research and development expenses		(1,813)	(2,217)
		(17,454)	(13,123)
Loss from operations		(9,587)	(3,895)
Finance costs		(2,192)	(1,938)
Loss before taxation		(11,779)	(5,833)
Taxation	4	-	(7)
Loss after taxation		(11,779)	(5,840)
Minority interests		451	664
Loss attributable to shareholders		(11,328)	(5,176)
Loss per share – Basic	5	HK(11.1) cents	HK(5.1) 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 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 31 March 2004 consisted of (i) the written back of other receivables of HK\$Nil (2003: HK\$853,000), (ii) a sundry income of approximately HK\$154,000 (2003: HK\$813,000), and (iii) an interest income of approximately HK\$185,000 (2003: HK\$24,000).*

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 2004 (2003: Nil).

The United States subsidiary had no assessable profit subject to United States federal income tax and California State income tax.

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\$8 (2003: HK\$150)) had no assessable profit for the three-month period ended 31 March 2004 (2003: 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 2004 (2003: Nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2004 (2003: Nil).

5. Loss per share

The calculation of the basic loss per share for the three-month period ended 31 March 2004 was based on the unaudited loss attributable to shareholders of approximately HK\$11,328,000 (2003: HK\$5,176,000) and on the weighted average number of approximately 102,364,328 shares (2003: 102,355,400 shares) in issue during the three-month period ended 31 March 2004.

The weighted average number of ordinary shares for the three-month period ended 31 March 2003 for the purpose of basic loss per share has been adjusted for share consolidation which took effect on 7 October 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 2004 (2003: Nil).

RESERVES MOVEMENT

At the beginning of 2004, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$200,099,000. For the three-month period ended 31 March 2004, the Group's reserves decreased by approximately HK\$33,500, representing the decrease in cumulative translation adjustment for the period. As a result, the consolidated reserves of the Group as at 31 March 2004 were approximately HK\$200,065,500.

At the beginning of 2004, the Group had accumulated deficit of approximately HK\$62,457,000. For the three-month period ended 31 March 2004, the Group's accumulated deficit increased by approximately HK\$11,328,000, representing the loss attributable to shareholders for the period. As a result, the accumulated deficit of the Group as at 31 March 2004 was approximately HK\$73,785,000.

MANAGEMENT DISCUSSION AND ANALYSIS**Overview**

The Group recorded a turnover of approximately HK\$105,775,000 for the three-month period ended 31 March 2004, representing an increase of approximately 234% over the same period last year. This is mainly attributable to the Group's effort in promoting sales, in particular, the sale of LCD and CRT monitors. The gross margin for the first quarter of this year was about 7%, as compared to that of 23.8% for the same period in 2003. The decrease in gross margin was mainly caused by the change in the product mix with the inclusion of the new products of LCD and CRT monitors which are of low profit margin.

Loss attributable to shareholders for the three-month period ended 31 March 2004 amounted approximately HK\$11,328,000, which represents an increase of approximately 119% over the same period in 2003.

Research and Development

For the three-month period ended 31 March 2004, the Group continued to have stringent control on the expenses on research and development activities and therefore such expenses has decreased by approximately 18.2% when compared to the corresponding period last year.

The Group started to develop multimedia display controllers that can be used for LCD TV monitors, HDTV (High Definition TV), as well as multimedia display controllers that can enhance the LCD image display.

The Group continues to explore the application of its 2D barcode technology in different fields of business. For instance, the Group successfully finished the prototype of a remote reader for use in the logistics business and expects that mass production may commence in the second quarter of 2004. The prototype of a fingerprints reader that can be used in the security business was completed. It is expected that it can be put into mass production in the second quarter of 2004.

The Group has also completed a new passport and ID card reader with embedded GPRS modules and has already received orders for this product. Such reader is useful for verification of identity purposes by sending the image data scanned by this new passport and ID card reader through the embedded GPRS modules to the police departments or companies' servers, where such departments and companies could verify the information instantly and provide feedback in return simultaneously.

The Group is also developing a duplex scanning device that can scan both sides of documentation with very high speed and expects this products can be launched in the third quarter of 2004.

Production

The current production capacity of the two factories, which respectively contain three production lines for LCD monitors and six production lines for scanners, has been running smoothly. The directors believe that such production capacity can fulfill the forthcoming production needs.

Sales and Marketing

The first quarter of 2004 brought continued opportunity growth for the Group's products in the Western market channels. At the Consumer Electronics Show (CES – Las Vegas) in early January, the Group had an overwhelming response to our new multimedia display controllers, namely ViewTech, for the 19 inch or below LCD (flat-panel) display market and the new 30 inch HDTV, and the enhanced LCD image display.

During February, we began mass shipment of our new mobile digital watermark reader, primarily to European Union VAR (Value Added Resellers) and system integrators. During this time, we also completed our first delivery of various prototype imaging sensors to Xerox Office Systems.

In mid-March, we held a highly successful exhibition at the CeBIT in Hannover Germany, at which we introduced our next generation of duplex and high-speed mobile scanners. Once again we received a very positive response to our ViewTech 101 multimedia display controller, particularly the large format (30 inch) LCD display. In late March, we also began initial shipments of TravelScan 662, which directly targets the security document and ID card reader market. The successful launch of TravelScan 662 and the establishment of key market channels, firmly establishes SYSCAN as a leader in security document mobile readers.

Investment and Acquisition

During the three-month period ended 31 March 2004, 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

As the global economy is picking up, the Group will actively develop new products for different markets and users in order to bring in more sales revenue as well as pursuing more OEM sales and to cut down overheads. With these strategies in place, the Group believes that it is on course to a more promising growth and hence, generating more fruitful returns to our shareholders.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 March 2004, 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 standard of dealings 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") 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	720,000	-	10,310,000 <i>(Note 2)</i>	-	11,030,000	10.78%
Mr Darwin Hu	3,840,000	1,615,600 <i>(Note 1)</i>	-	-	5,455,600	5.33%

Notes:

1. *These shares were held by Mrs Sonya Hsiu-Yu Hu, the spouse of Mr Darwin Hu.*
2. *4,800,000 shares and 5,510,000 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 31 March 2004, 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 2004 were as follows:

<u>Name</u>	<u>Date of grant</u> <i>(dd/mm/yy)</i>	<u>Exercise period</u> <i>(dd/mm/yy)</i>	<u>Subscription price per share</u>	<u>No. of underlying shares comprising the options granted</u>	<u>No. of underlying shares comprising the options exercised</u>	<u>No. of underlying shares comprising the options lapsed</u>	<u>No. of underlying shares comprising the options outstanding</u>
Mr Cheung Wai	19/6/2000	19/6/2001 to 18/6/2010	HK\$3.30	500,000	-	-	500,000
Mr Darwin Hu	19/6/2000	19/6/2001 to 18/6/2010	HK\$3.30	500,000	-	-	500,000
	17/1/2001	17/1/2002 to 16/1/2011	HK\$2.06	1,800,000	-	-	1,800,000
				<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>

Save as disclosed above, as at 31 March 2004, 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 standard of dealings 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 31 March 2004, 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 (Note 1)	Beneficial owner	Personal & Corporate	11,030,000	10.78%
Mr Darwin Hu (Note 1)	Beneficial owner	Personal & Family	5,455,600	5.33%
Mr Joseph Liu (Note 2)	Beneficial owner	Personal & Family	7,200,000	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 1,920,000 shares held by Mr Joseph Liu, 5,280,000 shares are held by Messrs Emmy Liu, Shirley Liu, Hui Chuan Liu and H. S. Liu, family associates of Mr Joseph Liu.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2004, 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 2004, 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 Fong Chi Wah. 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 of the Group for the three-month period ended 31 March 2004 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 of the Group for the three-month period ended 31 March 2004 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 2004