



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

Stock code: 8083

2011 First Quarterly Report

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk 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.

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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.



SYSCAN Technology Holdings Limited

矽感科技控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

HIGHLIGHTS

The Group recorded a turnover of approximately HK\$27,177,000 for the three-month period ended 31 March 2011, representing an increase of approximately 57.68% over the same period last year. The gross profit margin for the first quarter of this year was about 11.66%, as compared to that of 16.39% for the same period last year.

Loss attributable to shareholders for the three-month period ended 31 March 2011 amounted to approximately HK\$8,283,000, which represents an increase of approximately 39.4% over the same period in 2010.

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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 2011 together with the comparative unaudited figures for the corresponding periods in 2010 as follows:

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 March 2011

	Note	For the three months ended 31 March	
		2011 HK\$'000	2010 HK\$'000
Continuing operations			
Turnover	2	27,177	17,236
Cost of sales		(24,009)	(14,411)
Gross Profit			
		3,168	2,825
Gain/(loss) on financial assets at fair value through profit or loss		-	-
Other revenue	3	674	94
Selling expenses		(2,006)	(1,169)
General and administrative expenses		(8,817)	(4,962)
Research and development expenses		(1,711)	(2,665)
Operating loss			
		(8,692)	(5,877)
Finance costs		(331)	(65)
Share of loss of an associated company		(197)	-
Loss before income tax			
		(9,220)	(5,942)
Income tax expense	4	-	-
Loss from continuing operations			
		(9,220)	(5,942)
Discontinued operation			
Profit/(loss) for the period from discontinued operation		-	-
Loss for the period			
		(9,220)	(5,942)

	Note	For the three months ended 31 March	
		2011 HK\$'000	2010 HK\$'000
Attributable to:			
Owners of the Company		(8,283)	(5,942)
Minority interests		(937)	–
		(9,220)	(5,942)
Dividend	5	–	–
Loss per share for loss attributable to the owners of the Company			
– basic (HK cents)	6		
From continuing and discontinued operations		(0.29)	(0.29)
From continuing operations		(0.29)	(0.29)
– diluted (HK cents)			
From continuing and discontinued operations		N/A	N/A
From continuing operations		N/A	N/A
Loss for the period		(9,220)	(5,942)
Exchange difference on translation of foreign operations		(65)	129
Other comprehensive income for the period, net of tax		(65)	129
Total comprehensive income for the period, net of tax		(9,285)	(5,813)
Attributable to:			
Owners of the Company		(8,348)	(5,813)
Minority Interest		(937)	–
		(9,285)	(5,813)

Notes:

1. General information and basis of presentation

The Company was incorporated in Bermuda on 17 August 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 14 April 2000.

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal office in Hong Kong is situated at Unit C, 21st Floor, Seabright Plaza, 9-23 Shell Street, North Point, Hong Kong.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which also includes Hong Kong Accounting Standards ("HKAS") and Interpretations approved by the HKICPA, and are prepared under the historical cost convention.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the three-month period ended 31 March 2011 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2010.

The Group's unaudited consolidated quarterly results has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

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

2. Turnover comprises 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 2011 consisted of a sundry income of approximately HK\$85,000 (2010: HK\$71,000).

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 2011 (2010: nil).

No provision for Mainland China enterprise income tax was made as no assessable profit during the three-month period ended 31 March 2011 (2010: nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2011 (2010: nil).

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the three month period ended 31 March 2011 (2010: nil).

6. Loss per share

The calculation of the basic loss per share for the three-month period ended 31 March 2011 was based on the unaudited loss attributable to shareholders of approximately HK\$8,283,000 (2010: HK\$5,942,000) and on the weighted average number of ordinary shares of 2,869,014,457 shares (2010: 2,077,327,309 shares) in issue during the three-month period ended 31 March 2011.

7. Share Capital

(1) On 22 November 2010 (after trading hours), the Company entered into the new Placing Agreement with the Placing Agent pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 625,000,000 Placing Shares at a price of HK\$0.32 per Placing Share on a best effort basis.

The placing was completed on 9 March 2011 in accordance with the terms and conditions of the new placing agreement. An aggregate of 625,000,000 placing shares have been successfully placed by the Placing Agent to 4 investors who are and whose ultimate beneficial owners are third parties independent of, not connected with and not acting in concert with any connected person of the Company. None of the placees has become a substantial shareholder (as defined in the GEM Listing Rules) as a result of the placing. An aggregate of 625,000,000 placing shares represents approximately 17.93% of the issued share capital of 3,484,639,457 shares as at the date of completion of the placing. An amount of approximately HK\$18,750,000, being expenses directly attributable to the said placing exercise, was capitalised and debited to the share premium account.

(2) On 28 February 2011, the Group obtained control of the Target Group by acquiring 100% of the issued share capital of the Target Company for a maximum consideration of HK\$850,000,000. The Target Company was principally engaged in the development and operation of electronic payment tools. The acquisition is for the purpose of deployment of the Group's application of self-developed 2D barcode technology to the fast growing electronic payment service industry in the PRC.

The Company has paid cash consideration of HK\$80,000,000 and issued 218,750,000 consideration shares to the Vendor in accordance with the terms of the new sale and purchase agreement on the completion date. The 218,750,000 consideration shares, representing approximately 7.65% of the issued share capital of the Company at 28 February 2011, rank pari passu in all aspects amongst themselves and with the shares in issue on the date of the issue and allotment of the consideration shares.

As at the date of this report, the number of issued shares of the Company was 3,484,639,457 shares.

Reserves Movement

At the beginning of 2011, the Group had consolidated reserves, excluding accumulated deficit, of approximately HK\$200,939,000 (2010: HK\$201,610,000). For the three-month period ended 31 March 2011, the Group's reserves increased by approximately HK\$40,000 (2010: decrease of HK\$77,000), representing the increase in cumulative translation adjustment of HK\$40,000 (2010: decrease of HK\$77,000) for the period and the increase in capital reserve of HK\$nil (2010: HK\$nil). As a result, the consolidated reserves of the Group as at 31 March 2011 were approximately HK\$200,979,000 (2010: HK\$201,533,000).

At the beginning of 2011, the Group had accumulated deficit of approximately HK\$267,158,000 (2010: HK\$149,263,000). For the three-month period ended 31 March 2011, the Group's accumulated deficit increased by approximately HK\$9,285,000 (2010: HK\$5,813,000), representing the loss attributable to shareholders for the period.

As a result, the accumulated deficit of the Group as at 31 March 2011 was approximately HK\$276,443,000 (2010: HK\$155,076,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group recorded a turnover of approximately HK\$27,177,000 for the three-month period ended 31 March 2011, representing an increase of approximately 57.68% over the same period last year. The gross profit margin for the first quarter of this year was about 11.66%, as compared to that of 16.39% for the same period last year.

Loss attributable to shareholders for the three-month period ended 31 March 2011 amounted to approximately HK\$8,283,000, which represents an increase of approximately 39.4% over the same period in 2010.

Research and Development

During the three month ended 31 March 2011, the research and development team of the Group continued to put effort in development and testing of new products based on the previous research and so there had not been large amount of initial expenses on research. As a result, the total research and development expenses spent during the period decreased to approximately HK\$1,711,000 in 2011 as compared to approximately HK\$2,665,000 for the same period in the 2010.

The Group continues to explore different application opportunities for its own proprietary CM and GM encoding and decoding technology as certified by PRC authorities.

Production

The management has started to re-locate to the new factory premises in Wuhan where future production needs would be fulfilled since March 2011 and expect that all re-locations would be completed by June 2011.

Sales and Marketing

We attended China International Exhibition on Financial Banking Technology & Equipment 2010 in Beijing China from 9 to 12 September 2010 and The 7th Optics Valley Of China International Optoelectronic Exhibition and Forum 2010 in Wuhan, China from 2 to 5 November 2010. In the exhibition we introduced products including Auto Bank Card Issuer, IDC – the passport and ID card scanner, bizcard nano, portable scanners, bar code scanners, contact image sensor and free scan. Many customers showed great interests at our products.

Acquisitions

On 22 November 2010, the Company entered into the New Sale and Purchase Agreement with Mighty Advantage Enterprises Ltd. ("MAE") and Country Praise Enterprises Ltd. ("CPE") pursuant to which the parties agreed to acquire the entire equity interest in the CPE at an initial consideration of HK\$150,000,000 (subject to adjustments), but in any event subject to a maximum consideration of HK\$850,000,000. The consideration shall be satisfied in a combination of cash, the Shares and Convertible Bonds.

All the conditions precedent under the New Sale and Purchase Agreement have been fulfilled and that the Completion took place on 28 February 2011 (the "Completion Date"). The Company issued 218,750,000 Consideration Shares to the Vendor in accordance with the terms of the New Sale and Purchase Agreement on the Completion Date. The 218,750,000 Consideration Shares, representing approximately 6.28% of the existing issued share capital of the Company, rank pari passu in all aspects amongst themselves and with the Shares in issue on the date of the issue and allotment of the Consideration Shares. Upon Completion, CPE becomes a wholly-owned subsidiary of the Company and the financial results of the CPE and its subsidiaries will be consolidated to that of the Group.

Upon the completion of the acquisition of CDE and its subsidiary, which are principally engaged in the development and operation of electronic payment tool, the resulting integration of this new line of business together with our existing one, will enhance the deployment of the Group's application of self-developed 2D barcode technology to the fast growing electronic payment service industry in the PRC. The management considers this is a fast growing and with tremendous economic potential business and provides tremendous opportunities available in the market in the foreseeable future.

The Board believes that the investment would further strengthen the Group's competitive power in the industry .

Future Plans and Prospects

The Group is cautious towards its future business plan and will concentrate on the profitable businesses in order to establishing a stable revenue stream and making the Group result to be profitable.

The Group will simplify its corporate structure and laid off excess staffs in order to maintain stringent cost control.

The Group will also carefully assess and differentiate the performances of its various business lines. For those loss making lines, the Group will review the situations and may consider stoppage or discontinue the specific lines of business so as to strike for the most benefits to the shareholders.

DIRECTORS' INTEREST IN SHARES

As at 31 March 2011, 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 (Note 1)	863,112,045	-	-	-	863,112,045	24.77%
Mr. Guan Gui Sen (Note 2)	-	-	218,750,000	-	218,750,000	6.28%
Mr. Frank Cheung (Note 3)	7,500,000	-	-	-	7,500,000	0.22%

Note 1: Mr. Cheung Wai retired as an executive Director on 28 April 2011.

Note 2: Mr. Guan Gui Sen appointed as an executive Director on 28 February 2011. 218,750,000 shares is held by Mighty Advantage Enterprises Limited which is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Gui Sen.

Note 3: Mr. Frank Cheung resigned as an executive Director on 28 February 2011.

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 2011, no options have been granted to the Directors of the Company under Share Option Scheme A and B.

Details of the options granted to the Directors of the Company under Share Option Scheme C since its adoption and up to 31 March 2011 were as follows:

Scheme C

Name	Date of grant	Exercise period	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 cancelled/lapsed	underlying shares comprising the options outstanding
Mr. Frank Cheung (Note)	10/11/2009	10/11/2010 to 9/11/2019	HK\$0.1026	15,000,000	7,500,000	-	7,500,000

Note: Mr. Frank Cheung resigned as an Executive Director on 28 February 2011.

Save as disclosed above, as at 31 March 2011, 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 31 March 2011, 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	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Cheung Wai (Note 1)	863,112,045	-	-	-	863,112,045	24.77%
Mr. Guan Gui Sen (Note 2)	-	-	218,750,000	-	218,750,000	6.28%
Mr. Frank Cheung (Note 3)	7,500,000	-	-	-	7,500,000	0.22%

Note 1: Mr. Cheung Wai retired as an executive Director on 28 April 2011.

Note 2: Mr. Guan Gui Sen appointed as an executive Director on 28 February 2011. 218,750,000 shares is held by Mighty Advantage Enterprises Limited which is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Gui Sen.

Note 3: Mr. Frank Cheung resigned as an executive Director on 28 February 2011.

Details of the interests of Mr. Guan Gui Sen and Mr. Cheung Wai is duplicated in the section "Directors' Interest in Shares" disclosed above.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2011, 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 2011, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at 31 March 2011, the Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules.

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 Audit Committee comprises one non-executive Director and three independent non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The Committee is chaired by Dr. Fong Chi Wah, and the other Audit Committee member is Mr. Li Yuezhong, Mr. Wang Zhongmin and Mr. Gu Jiawang.

The Committee (who were of the opinion that the preparation of the unaudited results for the three-month period ended 31 March 2011 complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made) has reviewed the unaudited results of the Group for the three-month period ended 31 March 2011 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board
SYSCAN Technology Holdings Limited
Guan Gui Sen
Chairman

Hong Kong, 12 May 2011

As at the date of this report, the Board comprises the following members:

Executive Directors

Mr. Guan Gui Sen
Dr. Lei Chun Xiong

Non-executive Director

Mr. Li Yuezhong

Independent Non-executive Directors

Dr. Fong Chi Wah
Mr. Wang Zhongmin
Mr. Gu Jiawang