



**Arcontech Corporation**

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2000-2001

## **Characteristics of The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “ Stock 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 of the Stock Exchange 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 Stock 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 at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange 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 Arcontech Corporation collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Arcontech Corporation. 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.*

## FIRST QUARTER RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Arcontech Corporation (the “Company”) is pleased to announce the unaudited combined results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2000, together with the comparative unaudited figures for the corresponding period in 1999 (the “Relevant Periods”) as follows:

		Three months ended 30 June	
		2000	1999
	Note	HK\$'000	HK\$'000
Turnover	2	107,790	24,889
Cost of sales		(69,063)	(17,351)
Gross profit		38,727	7,538
Other revenue	2	84	45
Selling and distribution expenses		(754)	(404)
General and administrative expenses		(3,750)	(1,856)
Operating profit		34,307	5,323
Finance costs	3	(1,396)	(753)
Profit before taxation		32,911	4,570
Taxation	4	(5,400)	(730)
Profit attributable to shareholders		27,511	3,840
Earnings per share	5	HK\$0.0481	HK\$0.0067

Note:

### 1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 5 April 2000 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on GEM of the Stock Exchange, the Company became the holding company of the Group on 21 July 2000. Further details of the Reorganisation are set out in the prospectus of the Company dated 8 August 2000 (the “Prospectus”). The Company’s shares were listed on GEM of the Stock Exchange on 16 August 2000.

The unaudited combined results of the Group for the Relevant Periods include the results of companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, whichever is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

## 2. Turnover and revenue

The company is engaged in the sale of semiconductor products and design, development of software and engineering solutions. Revenues recognised during the Relevant Periods are as follows:

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale of goods at invoiced value, net of returns and discounts	102,556	24,889
Royalty income	5,234	—
	<u>107,790</u>	<u>24,889</u>
Other revenue		
Interest income	84	45
Total revenues	<u><u>107,874</u></u>	<u><u>24,934</u></u>

## 3. Finance costs

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	1,380	753
Interest element of finance leases	16	—
	<u>1,396</u>	<u>753</u>

## 4. Taxation

Hong Kong profits tax has been calculated at 16% (1999: 16%) on the estimated assessable profits of the Group for the Relevant Periods.

## **5. Earnings per share**

The computation of earnings per share is based on the Group's profit attributable to shareholders for the Relevant Periods and on the assumption that 572,000,000 had been in issue throughout that period.

## **INTERIM DIVIDENDS**

The Board does not recommend the payment of interim dividend for the three months ended 30th June 2000 (1999: HK\$Nil).

## **BUSINESS OVERVIEW AND PROSPECTS**

### **Financial Performance**

The Group recorded an unaudited combined turnover of HK\$107.8 million and an unaudited combined profit attributable to shareholders of HK\$27.5 million for the three months ended 30 June 2000. The results showed a strong growth in business and in profits.

The increase in unaudited combined turnover of about 333% for the three months ended 30 June 2000 as compared to the corresponding period in 1999 is mainly due to the increase in the proportion of sales generated by ASSPs, as part of sales from embedded software solutions as well as from the sales and royalty income from turnkey device solutions.

The Directors are extremely pleased with the performance of the Group during the three months ended 30 June 2000. The unaudited combined profit attributable to shareholders increased by approximately 616% to HK\$27.5 million as compared to the corresponding period in 1999.

### **Prospects**

#### **Product launches, sales and marketing**

During the period, the Group launched more embedded software solutions based on SOC implementation by ASSPs, mainly in cordless phones, television set-top boxes and other 3C products. The Group will launch a number of embedded software solutions based on RISC architecture semiconductor for applications in information appliances such as hand-held internet access devices. The Group also started the launching of turnkey device solutions for GPS devices and applications, PDA products and entered into licencing agreements with various customers. The directors believe that the turnkey device solutions will have an increasing importance in the total turnover.

## Business developments

The Group is preparing to participate in a number of tenders of GPS applications to public and private sector users in Hong Kong. The Group had placed a bid for the tender with the Transport Department of HKSAR for the provision of digitization service for traffic aids drawings in the Transport Department CAD system. The Group has also been approached by enterprises and organizations from Hong Kong and the PRC for business opportunities in relation to the GPS devices and applications.

## Research and development

During the period, the Group had completed the development of additional embedded software solutions to enrich the IP design library. The Group will continue to develop solutions on the TFT LCD controllers and intelligent home appliances, and has commenced the trial run and fine-tuning of geographical information system and fleet management system for GPS and m-commerce applications.

The Group became a Corporate Research Affiliate of Berkeley APEC Study Center and a Bluetooth Adopter of Bluetooth Special Interest Group and has commenced the R&D of the applications of Bluetooth technology in intelligent appliances and intelligent homes during the period.

## DIRECTORS' INTEREST IN SHARES AND OPTIONS

As at 16 August 2000 (the dealing commencement date of the Company's shares on GEM), the interests of the Directors and their associates in the share capital of the Company and its associated corporations as required to be recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company or which is required, pursuant to rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and the Exchange were as follows:

### A. Ordinary shares of HK\$0.10 each of the Company

Name	Type of interest	Number of shares	Percentage of issued share capital
Mr. Tsoi Siu Ching, Leo	Corporate ( <i>Note 1</i> )	472,384,000	65.61%
Mr. Mak Kam Wah	Personal	3,814,000	0.53%
Mr. Tong Ka Ming, Patrick	Personal	5,720,000	0.79%

## Interest in Arcon Technology Limited, a subsidiary of the Group

Name	Personal Interests	Corporate Interests	Total Interests
Mr. Tsoi Siu Ching, Leo	10,250,000 Deferred Shares (Note 3)	5,000,000 Deferred Shares (Note 2 and 3)	15,250,000 Deferred Shares (Note 3)

*Note 1:* Mr. Tsoi Siu Ching, Leo held these shares through Upgrade Technology Limited, a company in which Mr. Tsoi Siu Ching, Leo holds 100% of its issued share capital.

*Note 2:* These deferred shares are held by Winland Nominees Limited as nominee of Mr. Tsoi Siu Ching, Leo.

*Note 3:* The rights and restriction attached to these deferred shares with regards to distribution of capital and voting as summarized in paragraph (j) under the subsection headed "Corporate reorganisation" in Appendix V of the Prospectus of the Company dated 8 August 2000.

Save as disclosed above, as far as the Company is aware, none of the Directors or their associates had any interests in the share capital of the Company or its associated corporations.

## B. Share options

The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 19 July 2000. As at 16 August 2000, options to subscribe for an aggregate of 64,800,000 Shares at an exercise price HK\$1.18 have conditionally been granted by the Company on 20 July 2000 under the Plan & Scheme. The Options granted under the Scheme are exercisable at any time within 3 years from 16th August, 2000 while the options granted under the Plan are exercisable at any time within 3 years after the expiry of 6 months from 16th August, 2000. Each of these shall lapse in accordance with the Plan & Scheme if the relevant grantee ceases to be employed by the Group. As at 16 August 2000, none of these options has been exercised or has lapsed. All options under the Plan & Scheme have been granted to each grantee in consideration for the payment of HK\$1.00. Particulars of the

outstanding options granted to the Directors, the senior managers and certain employees of the Group are set out below:

<b>Name</b>	<b>Pre-IPO Share Option Plan Number of underlying share</b>	<b>Share Option Scheme</b>
<b><i>Directors:</i></b>		
Mr. Mak Kam Wah	—	3,600,000
Mr. Tong Ka Ming, Patrick	—	3,600,000
Mr. Chu Ho Hwa, Howard	3,600,000	—
Mr. Wang Wei Hung	3,600,000	—
<b><i>Senior Management:</i></b>		
Mr. Tien Chang Lin	14,400,000	—
Mr. Cheng Lee Lung	7,200,000	—
Ms. Ho Kwan Yin	—	14,400,000
Mr. Ching Man Leuk	—	3,600,000
Ms. Kou Zhi Hui	—	3,600,000
Mr. Chan Wai Wong	—	3,600,000
Mr. Lee Lai Shing	—	3,600,000

## **SUBSTANTIAL SHAREHOLDERS**

As at 16 August 2000 (the dealing commencement date of the Company's shares on GEM), persons interested in 10% or more of the Company's issued share capital as required to be recorded in the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, are as follows:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Upgrade Technology Limited ( <i>Note 1</i> )	472,384,000	65.61%

*Note 1:* Mr. Tsoi Siu Ching, Leo held these shares through Upgrade Technology Limited, a company in which Mr. Tsoi Siu Ching, Leo holds 100% of its issued share capital.



## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

## **SPONSOR'S INTERESTS**

The Sponsor of the Company, ICEA Capital Limited ("ICEA"), its directors, employees and associates, as at 30 June 2000, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

ICEA has agreed to act as the Company's continuing sponsor at an agreed fee for the period up to 31 March 2003.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the three months ended 30 June 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **YEAR 2000 COMPLIANCE**

Based on the work done and assessment made by the Group's Year 2000 internal task force, the Board believes that the Group's internally installed computer systems, products and supplies, where applicable, are Year 2000 compliant. However, due to the complexity of the Year 2000 issue and the interdependence of organisations using computer systems, there can be no assurance that the Group's effort to address this problem, or those of other companies with whom the Group interacts, can completely eliminate the Year 2000 issue. However, up to the date of this announcement, the Board is not aware of the Group encountering any major system failures or facing significant operating difficulties relating to the Year 2000 issue.

## **AUDIT COMMITTEE**

The Company established an audit committee on 19 July 2000. The audit committee has three members comprising an Executive Director, Mr. Tong Ka Ming, Patrick and the two Independent Non-Executive Directors, Mr. Chu Ho Hwa, Howard and Mr. Wang Wei Hung. Mr. Chu Ho Hwa, Howard was appointed as the chairman of this committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group.

By Order of the Board  
**Tsoi Siu Ching, Leo**  
*Chairman*

Hong Kong, 31 August 2000