



**Arcontech Corporation**

(incorporated in the Cayman Islands with limited liability)

Interim 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.**

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*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 GEM 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.*

## INTERIM RESULTS (UNAUDITED)

The Board of Directors ("Board") of Arcontech Corporation (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30th September 2000, together with the comparative unaudited figures for the corresponding periods in 1999 (the "Relevant Periods") as follows:

		<b>Six months ended</b>		<b>Three months ended</b>	
		<b>30th September</b>		<b>30th September</b>	
		<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	216,165	70,858	108,375	45,969
Cost of sales		<u>(145,120)</u>	<u>(51,524)</u>	<u>(76,057)</u>	<u>(34,173)</u>
Gross profit		71,045	19,334	32,318	11,796
Other revenues	2	2,081	69	1,997	24
Selling and distribution expenses		(1,319)	(1,045)	(565)	(641)
General and administrative expenses		<u>(7,651)</u>	<u>(4,399)</u>	<u>(3,901)</u>	<u>(2,543)</u>
Operating profit		64,156	13,959	29,849	8,636
Finance costs	3	<u>(2,509)</u>	<u>(2,157)</u>	<u>(1,113)</u>	<u>(1,404)</u>
Profit before taxation		61,647	11,802	28,736	7,232
Taxation	4	<u>(9,900)</u>	<u>(1,888)</u>	<u>(4,500)</u>	<u>(1,158)</u>
Profit attributable to shareholders		<u>51,747</u>	<u>9,914</u>	<u>24,236</u>	<u>6,074</u>
Earnings per share					
- basic (cents)	5	<u>8.49</u>	<u>1.73</u>	<u>3.75</u>	<u>1.06</u>

*Note:*

### 1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 5th 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 21st July 2000. Further details of the Reorganisation are set out in the prospectus of the Company dated 8th August 2000 (the "Prospectus"). The Company's shares were listed on GEM of the Stock Exchange on 16th August 2000.

The unaudited combined results of the Group for the corresponding periods in 1999 include the results of companies now comprising the Group as if the current group structure had been in existence throughout the corresponding periods in 1999, 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:

	Six months ended 30th September		Three months ended 30th September	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	204,616	70,858	102,060	45,969
Royalty income	11,549	—	6,315	—
	<u>216,165</u>	<u>70,858</u>	<u>108,375</u>	<u>45,969</u>
Other revenues				
Interest income	471	69	387	24
Internet service income	1,610	—	1,610	—
	<u>2,081</u>	<u>69</u>	<u>1,997</u>	<u>24</u>
Total revenues	<u>218,246</u>	<u>70,927</u>	<u>110,372</u>	<u>45,993</u>

## 3. Finance costs

	Six months ended 30th September		Three months ended 30th September	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	2,470	2,157	1,090	1,404
Interest element of finance leases	39	—	23	—
	<u>2,509</u>	<u>2,157</u>	<u>1,113</u>	<u>1,404</u>

#### **4. Taxation**

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

#### **5. Earnings per share**

The calculation of basic earnings per share for the six months ended 30th September 2000 is based on the Group's profit attributable to shareholders of approximately HK\$ 51,747,000 (1999: HK\$9,914,000) and the weighted average number of 609,202,185 shares (1999: 572,000,000 shares) in issue during the period.

The calculation of basic earnings per share for the three months ended 30th September 2000 is based on the Group's profit attributable to shareholders of approximately HK\$ 24,236,000 (1999: HK\$6,074,000) and the weighted average number of 646,000,000 shares (1999: 572,000,000 shares) in issue during the period.

In determining the weighted average number of shares in issue, a total of 572,000,000 shares issued on the establishment of the Company and on the Reorganisation of the Group is deemed to have been in issue since 1st April 2000.

Diluted earnings per share is not presented because there were no dilutive potential ordinary shares outstanding during the Relevant Periods.

### **INTERIM DIVIDENDS**

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

### **BUSINESS REVIEW**

The Group recorded another satisfactory performance in the second quarter which resulted mainly from the increasing market acceptance of its high value-added proprietary embedded software solutions and self developed turnkey product solutions for 3C products.

For the six months ended 30th September 2000, the unaudited turnover of the Group was approximately HK\$216,165,000, representing an increase of 205% over the corresponding period in 1999, while the profit attributable to shareholders was approximately HK\$51,747,000 as compared to a profit of HK\$9,914,000 over the corresponding period in 1999, representing an increase of 422%. The results showed a strong growth in business and in profits.

The Directors are extremely pleased with the performance of the Group during the six months ended 30th September 2000. The Directors believe that the growth experienced in both turnover and profit indicates that the Group has successfully captured the future product trends and market potential for 3C products with its strong semiconductor expertise and system-level product knowledge.

## **FUTURE PROSPECTS**

With the growing demand for 3C products and increasing intelligent content of these 3C products, the needs for customised solutions for semiconductor chips are increasing. The Directors consider that there is significant room for expansion in the 3C products industry globally, and believe that the Group has the ability to integrate and implement the latest technologies by offering high value-added proprietary product solutions to cater for the growth.

As performance has increased and size and cost have decreased, applications for semiconductors have expanded from computer systems to applications such as telecommunication products, consumer electronics, video and audio products and industrial systems. The Group is continuing to build up its IP design library of proprietary solutions to widen the scope of application.

In view of the increasing popularity of GPS, the Directors consider that there is a huge potential of GPS related devices and applications. The Group's wholly-owned subsidiary, Satellite Devices Limited, has successfully tapped the GPS market and it is expected that GPS related business will have a significant contribution to the Group's performance in the coming years.

The Group is actively pursuing opportunities to establish or acquire technological alliance/ventures in both Hong Kong and the PRC which are able to compliment the future business development of the Group. The Group is also currently studying the feasibility of setting up another research and development supporting base in the Yangtze River Delta of the PRC. The Company will make an appropriate report regarding such establishments or acquisitions as and when necessary in order to comply with the requirements of the GEM Listing Rules.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress up to 30th September 2000 and its business objectives as set out in the Prospectus.

**Business objectives as set out in the Prospectus dated 8th August 2000:**

**Actual business progress up to 30th September 2000:**

### ***Revenue***

- begin generating sales and royalty income from turnkey device solutions in respect of GPS devices and applications and PDA products
- the Group has entered into licensing agreements with a number of customers for turnkey devices solutions of GPS devices and applications and PDA products during the period. For the six months ended 30th September 2000, sales and royalty income from turnkey devices solutions accounted for more than 20% of the total turnover.

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

- launch embedded software solutions based on SOC implementation
- the Group has successfully launched embedded software solutions based on SOC implementation for various products, like digital answering machine. The Group is expecting to launch a number of embedded software solutions based on RISC architecture semiconductor for applications in information appliances in the coming months.

**Business objectives as set out in the Prospectus dated 8th August 2000:**

- launch turnkey device solutions for GPS devices and applications and PDA products

**Actual business progress up to 30th September 2000:**

- the Group has launched turnkey device solutions for GPS devices and applications and PDA products (mainly walking PCs) during the period. These turnkey device solutions sales accounted for more than 15% of the Group's turnover for the six months ended 30th September 2000 and it is expected to increase in the coming months. For the GPS devices and applications, the Group is carrying out further development for the GPS devices, GIS products and auto-navigation systems. The Group expects to launch these products to the market in the fourth quarter of this year.

***Business developments***

- identify sales opportunities for GPS devices and applications targeted to public and private sector users in Hong Kong
- for the private sector, the Group is negotiating with an European marketer, a PRC insurance company and transportation companies for business opportunities of its GPS devices and applications in Hong Kong, PRC as well as Europe.
- for the public sector, the Group has 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 result of the tender is expected to be announced in the fourth quarter of the year.



**Business objectives as set out in the Prospectus dated 8th August 2000:**

- prepare the bid for the tender of GPS applications by the Hong Kong Fire Services Department
- negotiate the commercial alliance with a mobile service operator in Hong Kong in respect of provision of SMS for GPS application

***Research & development***

- develop additional embedded software solutions to enhance its IP design library
- complete R&D of TFT LCD controllers and home appliances with voice recognition
- continue R&D of GPS devices and applications

**Actual business progress up to 30th September 2000:**

- the Group is currently studying the tender document of the Fire Services Department's Third Generation Mobilizing System and reviewing the Group's possible role within the tender.
- the negotiation of the commercial alliance has commenced during the period and expects to be finalised in the fourth quarter. Also deposits for the equipment for SMS centre of approximately HK\$ 11.7 million has been paid.
- up to the end of September 2000, the Group has developed an additional 70 embedded software solutions and included these IP designs into its IP design library. It is expected to have more than 100 new embedded software solutions developed for this year.
- the Group has started its sales in solutions for TFT LCD controllers during the period, and is modifying the solutions for home appliances with voice recognition.
- the first generation GPS devices and applications are selling during the period, and new generation of GPS devices and applications are developing with modification incorporating advanced GIS.

**Business objectives as set out in the Prospectus dated 8th August 2000:**

- commence trial run and fine-tuning of geographical information system and fleet management system for GPS applications, and of GPS clocks, watches, antenna and compasses
- commence R&D of Internet-based m-commerce platform for use in PDA products and GPS applications
- commence R&D of Bluetooth modules

**Actual business progress up to 30th September 2000:**

- the Group has received pilot orders from an Italian company for the fleet management system during the period. Development of the geographical information system is in the final stage and will be launched to the market in the next quarter. Orders for solutions of GPS clocks, watches and antenna have received during the period while the solutions for GPS compass is ready and expects to have sales in the coming quarter.
- the research and development of Internet-based m-commerce platform is continuing and is generally in line with the schedule.
- the Bluetooth modules is under development and additional engineers with Bluetooth expertise have been recruited. During the period, approximately HK\$ 27.3 million deposits for related equipment have been paid and is awaiting the delivery of the equipment in the fourth quarter of this year.

***Human resources, operations and administration***

- recruit additional development engineers and dedicated sales staff
- up to 30th September 2000, 9 additional engineers and 2 additional sales staff have been recruited to cope with the expansion of the Group during the period.

**Business objectives as set out in the Prospectus dated 8th August 2000:**

- implement and obtain ISO 9002 quality certification

***Strategic acquisitions and alliances***

- explore opportunities to acquire or form alliance with companies providing synergies and technological supports

**Actual business progress up to 30th September 2000:**

- the Group has successfully implemented and obtained ISO 9002 quality certification during the period.

- the Group is actively pursuing opportunities to establish or acquire technological alliance/ventures which are able to compliment the future business development of the Group. However, up to the end of this period, nothing concrete has been concluded.

The Group raised net proceeds of approximately HK\$ 156 million upon listing of the Company's shares on GEM of the Stock Exchange. For the six months ended 30th September 2000, the Group applied approximately HK\$ 40 million to achieve the business objectives as stated above and in the manner as set out in the Prospectus. Currently, the Directors consider there is no material modification over the use of proceeds as disclosed in the Prospectus. The remaining net proceeds of HK\$ 116 million will be applied according as the usage disclosed in the Prospectus.

**DIRECTORS' INTEREST IN SHARES AND OPTIONS**

As at 30th September 2000, 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 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\$0.1 each of the Company

Name	Type of interest	Number of share	Percentage of issued share capital
Mr. Tsoi Siu Ching, Leo	Corporate (Note 1)	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%

The Director's interest in Arcon Technology Limited, a subsidiary of the Group are as follows:

Name	Personal Interests	Corporate Interests	Total Interests
	10,250,000	5,000,000	15,250,000
Mr. Tsoi Siu Ching, Leo	Deferred Shares (Note 3)	Deferred Shares (Note 2 and 3)	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: These deferred shares carry rights with regards to distribution of capital and voting as summarised in paragraph (j) under the subsection headed "Corporate reorganization" in the Prospectus.

Save as disclosed above, 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 19th July 2000. As at 30th September 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 20th July 2000 under the Plan and the 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 and the Scheme if the relevant grantee ceases to be employed by the Group. As at 30th September 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:

<i>Name</i>	<b>Option Plan Pre-IPO Share Number of underlying shares</b>	<b>Share Option Scheme</b>
<i>Directors:</i>		
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	—
<i>Senior Management:</i>		
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 30th September 2000, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the following person is interested in 10% or more of the Company's issued share capital:

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

*Note 1: Mr. Tsoi Siu Ching, Leo holds 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**

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 30th September 2000, an associate of the Sponsor held 23,586,000 shares in the Company.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 7th August 2000 entered into between the Company and the Sponsor, the Sponsor will receive sponsorship fees for acting as the Company's retained sponsor until 31st March 2003.

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

During the six months ended 30th September 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 report, the Board is not aware of the Group encountering any major system failures or significant operating difficulties relating to the Year 2000 issue.

## **AUDIT COMMITTEE**

The Company established an audit committee on 19th 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, 1st November 2000