



Arcontech Corporation

(incorporated in the Cayman Islands with limited liability)

Third 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.

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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.

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 nine months and three months ended 31st December 2000, together with the comparative unaudited figures for the corresponding periods in 1999 (the “Relevant Periods”) as follows:

	Note	Nine months ended 31st December		Three months ended 31st December	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	332,946	111,781	116,781	40,923
Cost of sales		(220,187)	(82,512)	(75,067)	(30,988)
Gross profit		112,759	29,269	41,714	9,935
Other revenues	2	2,962	163	881	94
Selling and distribution expenses		(2,043)	(1,681)	(724)	(636)
General and administrative expenses		(14,607)	(6,884)	(6,956)	(2,485)
Operating profit		99,071	20,867	34,915	6,908
Finance costs	3	(3,167)	(3,702)	(658)	(1,545)
Profit before taxation		95,904	17,165	34,257	5,363
Taxation	4	(15,476)	(2,746)	(5,576)	(858)
Profit attributable to shareholders		80,428	14,419	28,681	4,505
Interim dividend per share		1.00 cent	—	1.00 cent	—
Earnings per share — basic	5	12.44 cents	2.52 cents	3.98 cents	0.79 cents

Note:

1. Group reorganization 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 share 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 consolidation/combination.

2. Turnover and revenue

The Group 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:

	Nine months ended 31st December		Three months ended 31st December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	313,375	111,781	108,759	40,923
Royalty income	19,571	—	8,022	—
	<u>332,946</u>	<u>111,781</u>	<u>116,781</u>	<u>40,923</u>
Other revenues				
Interest income	1,264	163	793	94
Internet service income	1,698	—	88	—
	<u>2,962</u>	<u>163</u>	<u>881</u>	<u>94</u>
Total revenues	<u>335,908</u>	<u>111,944</u>	<u>117,662</u>	<u>41,017</u>

3. Finance costs

	Nine months ended		Three months ended	
	31st December		31st December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	3,106	3,702	636	1,545
Interest element of finance leases	61	—	22	—
	<u>3,167</u>	<u>3,702</u>	<u>658</u>	<u>1,545</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 nine months ended 31st December 2000 is based on the Group's profit attributable to shareholders of approximately HK\$80,428,000 (1999: HK\$14,419,000) and the weighted average number of 646,269,091 shares (1999: 572,000,000 shares) in issue during the period.

The calculation of basic earnings per share for the three months ended 31st December 2000 is based on the Group's profit attributable to shareholders of approximately HK\$28,681,000 (1999: HK\$4,505,000) and 720,000,000 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 in connection with the Reorganization 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 recommends the payment of an interim dividend of HK\$0.01 per share for the nine months ended 31st December 2000 (1999: HK\$Nil). The dividend will be payable on Friday, 9th March 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 28th February 2001.

CLOSURE OF REGISTERS OF MEMBERS AND TRANSFERS

The Registers of Members and Transfers of the Company will be closed from Monday, 26th February 2001 to Wednesday, 28th February 2001, both days inclusive, during which period no share transfers will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by relevant share certificates must be lodged with the Company's Share Registrar, Central Registration Hong Kong Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 23th February 2001.

BUSINESS REVIEW AND PROSPECTS

Financial Performance

The Directors are pleased to announce the Group's third quarter results for the nine months ended 31st December 2000 which showed a continuous strong growth in business and profits. The Group's unaudited consolidated turnover and profit attributable to shareholders for the nine months ended 31st December 2000 amounted to approximately HK\$332,946,000 and HK\$80,428,000 respectively, representing an increase of 198% and 458% over the corresponding period in 1999. Earnings per share amounted to HK12.44 cents compared to HK2.52 cents over the corresponding period in 1999, an increase of 394%.

The Directors believe that the growth experienced in both the turnover and profit indicate that the Group has successfully implemented most of its plans, and been following its roadmap. In addition to the increasing sales from embedded software solutions as well as from the sales and royalty income from turnkey device solutions, the Global Positioning System ("GPS") devices and related products have commenced to contribute to the Group's turnover and profit. The Group's business in connection with GPS devices and related products is operated by Satellite Devices Limited, a wholly owned subsidiary of the Company. The Directors also believe that Satellite Devices Limited has, with the Group's strong semiconductor expertise and system-level product knowledge, successfully captured the future product trends and market potential for the GPS devices and related products.

PROSPECTS

Product launches, sales and marketing

During the period, the Group has started to generate revenue by launching embedded software solutions based on SOC implementation for various products, and turnkey device solutions for PDA products and 15 inches high resolution TFT monitor/TV.

For the GPS devices and applications, although revenue was earned during the period, the Group has already commenced the further development for the GPS devices, Geographical Information System (“GIS”) products and auto-navigation systems. The Group expects to launch the new generation of these products to the market in the middle of this year.

Business developments

A number of turnkey device solutions transactions are under negotiation and are expected to be finalised in the middle of this year. For the GPS business, the SMS center of Satellite Devices Limited has been in partial operation since December 2000 after signed up with a local mobile network operator for provision of SMS. The center is expected to be fully operated before the end of this year. Also, Satellite Devices Limited has become a major sub-contractor for a French company in respect of a number of contracts with the HKSAR Government. The Group will supply digital maps for Government departments in traffic aids application, and the contracts are expected to last to 2002. In addition, the Group has, since December 2000, been providing software solutions, on a trail run basis, for traffic flow and environmental control to the HKSAR Government’s Transport Department through the French company.

Research & development

For the nine months ended 31st December 2000, the Group has developed additionally 80 embedded software solutions and included these IP designs into its IP design library. The Group expects to have more than 100 new embedded software solutions developed by the end of this financial year.

The Group is modifying its solutions for home appliances with voice recognition features and expects to market these products by the middle of this year. The research and development of Internet-based m-commerce platform is continuing and generally in line with the Group’s schedule.

For GPS devices and applications, a new generation of GPS devices and applications are being developed with modifications which incorporate advanced GIS tools. In addition, GIS products are being further fine-tuned to enhance its features and applications.

The development of Bluetooth modules is progressing smoothly and the Group is awaiting the delivery of certain equipment early this year. With the arrival of the equipment and successful recruitment of additional engineers with Bluetooth expertise, the Directors believe the Group will have a promising prospect in this area.

Strategic acquisitions and alliances

The Group has signed a Memorandum of Understanding with a PRC company to set up a joint venture in the Yangtze River Delta of the PRC to support the research and development activities of the Group and is also currently considering the feasibility of establishing a sale and marketing presence there.

In addition, 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. However, as at the end of this period, nothing concrete has been concluded. The Company will make an appropriate announcement of the progress of such establishments or acquisitions as and when necessary, in compliance with the requirements of the GEM Listing Rules.

The Group is optimistic of its future prospects, in achieving its objective to be the leading provider of the 3C product solutions in Asia. Also, with the huge business potential and rapidly growing market for the GPS devices and related products, Satellite Devices Limited has advanced at a much faster pace than the Group primarily expected, especially in the area of GIS. The Group is anticipating a greater contribution from this subsidiary in the coming year and, possibly, a further funding requirement for Satellite Devices Limited. The Group will continue to monitor Satellite Devices Limited's funding requirements in the context of expanding its business in GPS. To the extent appropriate and in compliance with the requirements of the GEM Listing Rules, further announcements will be made in this regard.

In addition, with the success of the technology spun-off of the GPS division, the Group is also confident in the bluetooth and future-home systems by developing linux-based devices and systems. The Directors believe that these are potential technology spin-offs in the future.

DIRECTORS' INTEREST IN SHARES AND OPTIONS

As at 31st December 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 of Directors	Type of interest	Number of shares	Percentage issued of 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 of Directors	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: These deferred shares carry rights with regards to distribution of capital and voting as summarized in paragraph (j) under the subsection headed "Corporate reorganization" in Appendix V to 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 adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 19th July 2000. As at 31st December 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 & 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 31st December 2000, none of these options has been exercised and neither have they 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:

Name	Pre-IPO Share Option Plan Number of underlying shares	Share Option Scheme
<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 31st December 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:

Name	Number of shares	Percentage of issued share capital
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

As confirmed by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 31st December 2000, an associate of the Sponsor held 24,836,000 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 nine months ended 31st December 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 19th July 2000. The audit committee comprises three members namely 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, 8 February 2001