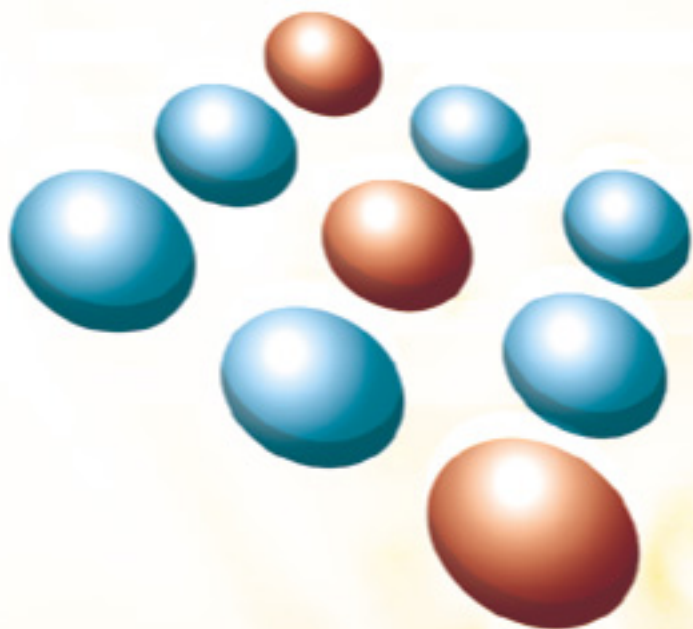


Arcontech Corporation

(incorporated in the Cayman Islands with limited liability)



IP

RISC

TFT LCD

3C

GPS

WIRELESS



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED:

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 further 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 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 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 in order to obtain up-to-date information on GEM-listed issuers.

Contents

	Pages
Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Business Objectives Review	7
Profiles of Directors and Senior Management	10
Report of the Directors	12
Auditors' Report	20
Consolidated Profit and Loss Account	21
Consolidated Balance Sheet	22
Balance Sheet	23
Consolidated Cash Flow Statement	24
Consolidated Statement of Recognised Gains and Losses	25
Notes to the accounts	26
Financial Summary	44



CORPORATION INFORMATION

EXECUTIVE DIRECTORS

TSOI Siu Ching, Leo
MAK Kam Wah
TONG Ka Ming, Patrick

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHU Ho Hwa, Howard
WANG Wei Hung

COMPANY SECRETARY

TONG Ka Ming, Patrick, *AHKSA*

QUALIFIED ACCOUNTANTS

TONG Ka Ming, Patrick, *AHKSA*
CHAN Wai Wong, *AHKSA*

COMPLIANCE OFFICER

TONG Ka Ming, Patrick, *AHKSA*

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

JOINT AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

Graham H.Y. Chan & Co.
Certified Public Accountants

AUDIT COMMITTEE

CHU Ho Hwa, Howard
(Chairman of the Audit Committee)
WANG Wei Hung
TONG Ka Ming, Patrick

AUTHORISED REPRESENTATIVES

TSOI Siu Ching, Leo
TONG Ka Ming, Patrick

SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 3711-12
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong



	Year ended 31 March		
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	%
Revenue			
Turnover	430,381	154,699	178
Profitability			
Gross Profit	150,545	42,619	253
Operating profit	124,833	34,591	261
Profit before taxation	121,134	29,585	309
Profit attributable to shareholders	101,491	24,377	316
Net worth			
Shareholders' fund	294,782	54,710	439
Per share			
Earnings per share	15.27 cents	4.26 cents	258
Net assets per share	44.36 cents	9.56 cents	364
Dividend per share	2.50 cents	—	N/A
Turnover period			
Inventory turnover period	5 days	17 days	N/A
Trade receivable turnover period	124 days	211 days	N/A



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am very pleased to present the first annual report of Arcontech Corporation (the "Company") and its subsidiaries (collectively the "Group"), for the year ended 31 March 2001, following the listing of the Company's shares on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited on 16 August 2000.

FINANCIAL RESULTS

For the financial year ended 31 March 2001, the Group recorded a turnover of HK\$430,381,000 and a net profit attributable to shareholders of HK\$101,491,000, which exceeded the profit forecast of not less than HK\$90 million as set out in the prospectus of the Company dated 8 August 2000. Earnings per share was HK15.27cents per share.

DIVIDENDS

The Board recommends the payment of a final dividend of HK1.50 cents per share for the year ended 31 March 2001 (2000: HK\$Nil). The dividend will be payable on Thursday, 12 July 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 3 July 2001. Together with an interim dividend of HK1.00 cent per share for the nine months ended 31 December 2000 paid to the shareholders on 9 March 2001, total dividends for the year ended 31 March 2001 amounted HK2.50 cents per share.

The Registers of Members of the Company will be closed from Friday, 22 June 2001 to Tuesday, 3 July 2001, both days inclusive, during which period no share transfers will be registered.

BUSINESS REVIEW

During the year, the Group experienced impressive growth in both turnover and profit. Sales reached HK\$430,381,000 which translates to a year-on-year growth of 178%. Meanwhile, net earning reached HK\$101,491,000 or a year-on-year growth of 316%. The gross profit margin also increased to 35%. The strong growth in turnover and profit indicates the Group's successful implementation of its strategic plans according to its roadmap. The strong growth in turnover resulted from increasing market acceptance of our high value-added proprietary embedded software solutions and self-developed turnkey product solutions for 3C products (Computer peripherals, communication and consumer electronics). The improvement on the gross profit margin indicates that the Group has successfully captured the future trends and market potential of the global 3C market and improved its capability in delivering innovative and technology-intensive solutions customized to the Group's customers' needs in an increasingly knowledge-based global economy.

I am extremely pleased to see that emerging technologies and product areas identified by the Group, such as GPS devices and Bluetooth devices, have proven to have good market potential with increasing market demand. The Group has successfully spun-off its engineering and R&D efforts to develop the complete turnkey devices solutions for GPS devices and applications. As the first step in expanding into system level technology products, the Group has signed a Memorandum of Understanding with TCL Communication (International) Limited to supply 30,000 sets of engineering solutions to TCL Communication (International) Limited for manufacturing GPS devices. TCL Communication (International) Limited will market the GPS devices in the PRC market.

FUTURE PROSPECTS

Growth of the semiconductor industry has been driven by the demand for PCs. Demand in the PC market has slowed down in line with the general increase in consumer preference for mobile and handheld devices with Internet accessibility. The trend in the new software products development is also becoming less focused on the operational functions of high performance PCs. I expect the growth in the semiconductor industry to become increasingly end-user specific. The trend in the convergence of the 3C products and embedded computer applications is also driving the creation of a new generation of 3C devices. I believe the growth drivers for semiconductors industry has shifted from PCs to consumer electronic and communication related products. The fall in semiconductor price will encourage wider applications of semiconductors in 3C devices. The 3C products industry is still technology driven and the industry is in the infancy of its adoption cycle for most consumer electronic and communication products.

While global competition in the 3C products industry is forcing companies to increase intelligent content of their products and reduce life cycles, I see increasing demand for innovative and technology-intensive solutions customized to customers' needs. The Directors believe that there is significant room for expansion in high value-added proprietary embedded software solutions and turnkey device solutions for the 3C products industry globally, and more importantly, believe that the Group has the capability and competence to integrate and implement the latest technologies to offer innovative and high value-added proprietary product solutions to cater for such growing demand.

With the expected rapidly increasing popularity of Location Technology Based System, the Directors believe that there is huge potential in GPS devices and applications. The Group's wholly-owned subsidiary and the first technology spun-off of the Group, Satellite Devices Limited, has successfully tapped the GPS market. I am pleased to note that Satellite Devices Limited has commenced to contribute to the Group's turnover and profit and I expect that Satellite Devices Limited will make a significant contribution to the Group's performance in the coming years. The Directors 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.

The research and development of Bluetooth devices is progressing smoothly. With the installation and commissioning of the shielded laboratories and the recruitment of additional engineers with radio frequency device expertise, I expect a new generation of 3C products incorporated with Bluetooth modules and applications to be developed in early 2002. I believe the Group will have promising prospect in this area.

China is launching its "Tenth Five-Year" Plan and is on the way to joining the WTO. With WTO membership, China will enter into a more global economy and technology as well as severe international competition. At the same time, there will be many opportunities and urgency for the PRC 3C products manufacturers to enhance their product features and functionality. I believe the 3C products industry in Mainland China involves challenges as well as opportunities. The Group has signed a Memorandum of Understanding with a PRC company to set up a joint venture in the Yangtze River Delta area of the PRC to support the research and development activities of the Group and to establish a sales and marketing presence there. I believe that the Yangtze River Delta, as one of the most important hubs for research and development of technologies, will actively develop its 3C products industries. The establishment of such joint venture will enable the Group to explore and capitalise on the enormous business opportunities open to it in the "Tenth Five-Year" Plan and China's accession to the WTO.

CHAIRMAN'S STATEMENT

Together with the successful technology spun-off of the Location Technology Based System, the Group will diversify its existing embedded software solution business and turnkey device solution business into the "system-level" technology provider business.

The Group's objective is to become the leading provider of solutions and innovations for semiconductor applications in a broad range of 3C products. The Group will continue to develop into a highly innovative solution provider with the abilities to deliver technology-intensive solutions customized to the customers' needs for the knowledge-based global economy. Our core strategy is to build competitive advantage through semiconductor expertise, system-level product knowledge, extensive and diversified IP design library, design flexibility and quick time-to-market and corporate culture that fosters innovation.

ACKNOWLEDGEMENT

I would like to extend my thanks to my fellow directors and staff for their support, effort and contribution to the success of the Group and to our shareholders for their support which make the listing of the Company's share on the GEM a success.

Tsoi Siu Ching, Leo

Chairman

Hong Kong, 1 June 2001



An analysis comparing of business objectives as stated in the Prospectus dated 8 August 2000 with the Group's actual business progress up to 31 March 2001 is set out below:

Business Objectives:

Actual Business Progress:

Revenue

- | | |
|---|--|
| <ul style="list-style-type: none"> • begin generating sales and royalty income from turnkey device solutions in respect of GPS devices and applications and PDA products | <ul style="list-style-type: none"> • the GPS devices and applications has commenced to contribute to the Group's turnover and profit for the year through the wholly owned subsidiary, Satellite Devices Limited. Also, the Group started to have sales and royalty income from turnkey devices solutions during the year and they accounted for more than 20% of the total turnover. |
|---|--|

Product launches, sales and marketing

- | | |
|---|--|
| <ul style="list-style-type: none"> • launch embedded software solutions based on SOC implementation | <ul style="list-style-type: none"> • 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 next year. |
| <ul style="list-style-type: none"> • launch turnkey device solutions for GPS devices and applications and PDA products | <ul style="list-style-type: none"> • the Group has launched turnkey device solutions for GPS devices and applications and PDA products (mainly walking PCs) during the year. The turnkey device solutions sales accounted for more than 15% of the Group's turnover for the year and it is expected to increase in next year. |

BUSINESS OBJECTIVES REVIEW

Business developments

- identify sales opportunities for GPS devices and applications targeted to private and public sector users in Hong Kong
- for private sector, the Group is negotiating with European marketers, Asian and U.S. technology companies for business opportunities of its GPS devices and applications outside Hong Kong.
- for PRC market, a MOU has been signed with TCL Communication (International) Limited which will take care the marketing work there.
- in Hong Kong, a series of discussion has been carried out with a few local conglomerates for commercial application of the GPS devices.
- for public sector, the Group has been working as a sub-consultant to main contractors of various Government projects. Also, the Group plans to place bids for a number of Government tenders in the coming year.
- prepare the bid for the tender of GPS applications by the Hong Kong Fire Services Department
- the Group is currently studying the possibility of providing technical services as sub-consultant to the main contractor of the tender of the Fire Services Department's Third Generation Mobilizing System.
- negotiate the commercial alliance with a mobile service operator in Hong Kong in respect of provision of SMS for GPS application
- the Group has commenced the partial operation of its SMS Centre during the year with the provision of SMS from one of the mobile service operators in Hong Kong.

Research & development

- develop additional embedded software solutions to enhance its IP design library
- up to the end of March 2001, the Group has developed additionally about 100 embedded software solutions and included these IP designs into its IP design library.
- complete R&D of TFT LCD controllers and home appliances with voice recognition
- the Group has started its sales in solutions for TFT LCD controllers during the year, and is modifying the solutions for home appliances with voice recognition.
- continue R&D of GPS devices and applications
- the sale of the first generation GPS devices and applications have commenced during the year, and new generation of GPS devices and applications are developing with modification incorporating advanced GIS.

- 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
- development of the geographical information system has been finished and will be fully launched to the market in next year. Orders for solutions of GPS clocks, watches and antenna have received during the year while the solutions for GPS compass is ready and expects to have sales in the coming year.
- the research and development of Internet-based m-commerce platform is continuing and generally in line with the schedule. The Group is undergoing negotiation with local transportation group for m-commerce with GPS applications.
- the Bluetooth modules is under development and additional engineers with Bluetooth expertise are recruiting.
- the Group has also started a discussion with an U.S. technology company for possible co-operation in this area.

Human resources, operations and administration

- recruit additional development engineers and dedicated sales staff
- implement and obtain ISO 9002 quality certification
- additional engineers and sales staff have been recruited to cope with the expansion of the Group during the year. As at 31 March 2001, the total headcount of the Group had exceeded 150 and there were more than 100 engineers within the Group.
- the Group has successfully implemented and obtained ISO 9002 quality certification during the year.

Strategic acquisitions and alliances

- explore opportunities to acquire or form alliance with companies providing synergies and technological supports
- 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 the year, 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 year ended 31 March 2001, the Group applied approximately HK\$100 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 and the Group has sufficient funds for the completion of the above plans.



PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Name	Age	Position	Year joining the Group	Business experience
Tsoi Siu Ching Leo	41	Chairman Chief Executive Officer Chief Technology Officer	1992	Over 18 years' experience in semiconductor and electronics industry
Mak Kam Wah	32	Executive director	April 1997	Over 8 years' experience in semiconductor industry
Tong Ka Ming Patrick	35	Executive director	January 2000	Over 8 years' experience in accounting and financial management
Chu Ho Hwa, Howard	37	Independent non-executive director	May 2000	Over 10 years' experience in direct investment and investment banking
Wang Wei Hung	45	Independent non-executive director	May 2000	Practising solicitor for over 15 years

SENIOR MANAGEMENT

Name	Age	Position	Year joining the Group	Business experience
Ching Man Leuk	40	Chief Operating Officer	April 2000	Over 17 years' experience in business development and general administration
Kou Zhi Hui	31	Vice President of Business Development of Satellite Devices Limited	December 1999	Over 8 years' experience in semiconductor and electronics industry
Chan Wai Wong	36	Vice President of Finance	March 2000	Over 10 years' experience in accounting and financial management
Lee Lai Shing	30	Vice President of Engineering	November 1996	Over 8 years' experience in semiconductor and electronics industry
Tang Ho Cheung	26	Vice President of Information Technology	July 1997	Over 3 years' experience in IT and GPS industry
Chau Shi Chiu	29	Vice President of Marketing	March 1998	Over 5 years' experience in semiconductor and electronics industry
Ching Fung Ki (Spouse of Tsoi Siu Ching Leo)	36	Vice President of Administration	October 1996	Over 15 years' experience in administration and resource management
Wong Chi Hong	26	Chief Technology Officer of Satellite Devices Limited	July 1998	Over 2 years' experience in IT and GPS industry
Liu Chia Yao Joseph	33	Chief Operating Officer of Satellite Devices Limited	February 2001	Over 8 years' experience in venture capital and investment banking
Pun Wai	29	Chief Financial Officer of Satellite Devices Limited	March 2001	Over 6 years' experience in auditing, accounting and financial management



REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2001.

GROUP REORGANISATION AND BASIS OF PREPARATION OF THE ACCOUNTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 5 April 2000 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a corporate reorganisation (the "Reorganisation"), as described in Appendix V of the Prospectus of the Company dated 8 August 2000, to rationalise the group structure in preparation for a listing of the Company's shares on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the group (collectively known as the "Group") on 21 July 2000. The shares of the Company were listed on the GEM on 16 August 2000.

The Reorganisation has been reflected in accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group are design, development of software and engineering solutions, including the sales of semiconductors. All of the Group's turnover was derived from Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 21.

The details of dividends declared and paid during the year are set out in note 8 to the accounts.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2001 amounted to HK\$85,183,000. Under section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital are set out in note 17 to the accounts.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 March 2001 are set out in note 13 to the accounts.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2001 are set out in note 19 to the accounts.

FINANCIAL SUMMARY

The summary of the published results and of the assets and liabilities of the Group for the last three financial years is set out on page 44.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Mr. Tsoi Siu Ching, Leo	(appointed on 24 May 2000)
Mr. Mak Kam Wah	(appointed on 24 May 2000)
Mr. Tong Ka Ming, Patrick	(appointed on 24 May 2000)
Mr. Chu Ho Hwa, Howard *	(appointed on 24 May 2000)
Mr. Wang Wei Hung *	(appointed on 24 May 2000)

* *Independent non-executive directors*

Mr. Tsoi Siu Ching, Leo retire by rotation, at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Tsoi Siu Ching, Leo, Mr. Mak Kam Wah and Mr. Tong Ka Ming, Patrick, the executive Directors, has entered into a service contract with the Company for a term of two years from 19 July 2000, which may be terminated by either party thereto giving to the other not less than six calendar months prior notice in writing, or otherwise in accordance with its terms.

Save as disclosed herein, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its holding company was a party and in which a director of the Company had a material interest. Whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 19 July 2000. Under the terms of the Plan and Scheme, the Board of Directors ("Board") of the Company may, at their discretion, invite any employees or executive directors of the Company and/or any of its subsidiaries to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the Plan and Scheme may not exceed 30% of the issued share capital of the Company.

As at 31 March 2001, 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 and Scheme. The options granted under the Scheme are exercisable at any time within three years from 16 August 2000 while the options granted under the Plan are exercisable at any time within three years after the expiry of 6 months from 16 August 2000. Each of these shall lapse in accordance with the Plan and Scheme if the relevant grantee ceases to be employed by the Group. As at 31 March 2001, none of these options has been exercised or has lapsed. All options under the Plan and 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 of the Group are set out below:

Name	Pre-IPO Share Option Plan	Share Option Scheme
	Number of underlying shares	
Directors:		
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	—

No options were waived or exercised up to the date of this report.

Save as disclosed above, none of the Directors or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any right during the year and up to the date of this report.

Save as disclosed above, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN EQUITY

As at 31 March 2001 and up to the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as required to be recorded in the register maintained under Section 29 of the SDI Ordinance of the Company or which required, pursuant to Rules 5.40 to 5.49 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

The Directors' interest in 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%

The Director's 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 (<i>Note 3</i>)	5,000,000 Deferred Shares (<i>Notes 2 and 3</i>)	15,250,000 Deferred Shares (<i>Note 3</i>)

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 the Prospectus dated 8 August 2000.

Save as disclosed above, as at the date of this report, none of the directors or their associates had any interests in the share capital of the Company and its associated corporations as defined in the SDI Ordinance.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The profiles of Directors and senior management are set out on pages 10 and 11.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, 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</i>)	472,384,000	65.61%

Note: 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, initial management shareholders and their respective associates of the Company has an interest in a business which competes or may compete with the business of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	23%
— five largest customers combined	66%
Purchases	
— the largest supplier	50%
— five largest suppliers combined	87%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has established an audit committee on 19 July 2000. The audit committee has three members comprising Messrs. Chu Ho Hwa, Howard, Wang Wei Hung and Tong Ka Ming, Patrick. Mr. Chu Ho Hwa, Howard has been appointed chairman of the audit committee. The terms of reference of the audit committee have been established with regard to Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the Board, and (iii) to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has met 4 times since its establishment with the management to discuss and review the Group's various issues with a view to further improve the Group's corporate governance.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, since listed on the GEM of the Stock Exchange.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 31 March 2001, an associate of the Sponsor held 31,562,000 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 company in the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any company in the Group.

Pursuant to the sponsorship agreement dated 7 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 31 March 2003.

RETIREMENT SCHEME

Details of the retirement scheme are set out in note 10 to the accounts.

AUDITORS

The accounts have been jointly audited by PricewaterhouseCoopers and Graham H.Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tsoi Siu Ching, Leo

Chairman

Hong Kong, 1 June 2001



AUDITORS' REPORT

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所



GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

AUDITORS' REPORT TO THE SHAREHOLDERS OF ARCONTECH CORPORATION

(incorporated in Cayman Islands with limited liability)

We have audited the accounts on pages 21 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 June 2001

Graham H.Y. Chan & Co.
Certified Public Accountants

Hong Kong, 1 June 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2001



	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Turnover	3	430,381	154,699
Cost of sales		(279,836)	(112,080)
Gross profit		150,545	42,619
Other revenues	3	4,492	7,432
Selling and distribution expenses		(3,376)	(2,537)
General and administrative expenses		(26,828)	(10,058)
Deficit arising from revaluation of property		—	(2,865)
Operating profit	4	124,833	34,591
Finance costs	5	(3,699)	(5,006)
Profit before taxation		121,134	29,585
Taxation	6	(19,643)	(5,208)
Profit attributable to shareholders	7	101,491	24,377
Dividends	8	(18,000)	—
Profit for the year retained		83,491	24,377
Basic earnings per share	9	15.27 cents	4.26 cents



CONSOLIDATED BALANCE SHEET

as at 31 March 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Fixed assets	12	62,713	3,206
Current assets			
Inventories	14	3,731	5,095
Accounts receivable		146,087	89,484
Deposits and prepayments		80,342	3,269
Amount due from a director	15	—	6,178
Deposits with banks	23	—	6,827
Cash and bank balances		66,891	21,503
		297,051	132,356
Current liabilities			
Accounts payable and accruals		16,033	29,045
Trust receipt and factoring loans	23	13,977	36,962
Amount due to a director	16	2,733	—
Taxation		9,620	5,954
Proposed dividend		10,800	—
Current portion of long-term liabilities	19	782	3,101
Bank overdrafts	23	5,055	360
		59,000	75,422
Net current assets		238,051	56,934
		300,764	60,140
Financed by:			
Share capital	17	72,000	57
Reserves	18(a)	222,782	54,653
Shareholders' funds		294,782	54,710
Long-term liabilities	19	1,295	5,430
Deferred taxation	20	4,687	—
		300,764	60,140

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Tong Ka Ming, Patrick
Director

BALANCE SHEET

as at 31 March 2001



	<i>Note</i>	HK\$'000
Investments in subsidiaries	13	167,566
Current assets		
Deposits and prepayments		50
Bank balance		624
		<u>674</u>
Current liabilities		
Accruals		257
Proposed dividend		10,800
		<u>11,057</u>
Net current liabilities		<u>(10,383)</u>
		<u>157,183</u>
Financed by:		
Share capital	17	72,000
Reserves	18(b)	85,183
Shareholders' funds		<u>157,183</u>
On behalf of the Board		

Tsoi Siu Ching, Leo

Director

Tong Ka Ming, Patrick

Director



CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Net cash (outflow)/inflow from operating activities	21(a)	<u>(12,255)</u>	<u>193</u>
Returns on investments and servicing of finance			
Interest received		2,704	261
Interest on bank loans and overdrafts paid		(3,619)	(5,002)
Finance lease charges		(80)	(4)
Dividend paid		<u>(7,200)</u>	<u>—</u>
Net cash outflow from returns on investments and servicing of finance		<u>(8,195)</u>	<u>(4,745)</u>
Taxation			
Hong Kong profits tax paid		<u>(11,290)</u>	<u>(485)</u>
Investing activities			
Purchase of fixed assets		<u>(60,170)</u>	<u>(288)</u>
Net cash outflow before financing		<u>(91,910)</u>	<u>(5,325)</u>
Financing	21(b)		
New bank loans raised		—	5,994
Bank loans repaid		(7,325)	(1,757)
Repayment of capital element of finance leases		(495)	(58)
Net proceeds from issue of shares by the Company		156,680	—
Net proceeds from issue of shares by a subsidiary to the then shareholders before the Reorganisation		—	14,000
Decrease/(increase) in deposits with banks		<u>6,827</u>	<u>(3,278)</u>
Net cash inflow from financing		<u>155,687</u>	<u>14,901</u>
Increase in cash and cash equivalents		63,777	9,576
Effect of foreign exchange rate changes		(99)	—
Cash and cash equivalents at beginning of the year		<u>(15,819)</u>	<u>(25,395)</u>
Cash and cash equivalents at the end of the year		<u><u>47,859</u></u>	<u><u>(15,819)</u></u>
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		66,891	21,503
Bank overdrafts		(5,055)	(360)
Trust receipt loans and factoring loans		<u>(13,977)</u>	<u>(36,962)</u>
		<u><u>47,859</u></u>	<u><u>(15,819)</u></u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2001



	2001	2000
	HK\$'000	HK\$'000
Net loss not recognised in the profit and loss account		
Exchange differences arising on translation of a subsidiary (<i>note 18</i>)	(99)	—
Profit for the year	101,491	24,377
Total recognised gains	101,392	24,377



NOTES TO THE ACCOUNTS

1 GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) 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.
- (b) On 21 July 2000, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Arcon Solutions (BVI) Limited ("ASL (BVI)") through a share swap and became the holding company of ASL (BVI) and its subsidiaries. Details of the Reorganisation are set out in Appendix V of the Prospectus of the Company dated 8 August 2000. The shares of the Company were listed on the GEM of the Stock Exchange on 16 August 2000.
- (c) The Reorganisation is accounted for using merger accounting as permitted by Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.127 "Accounting for group reconstructions." The consolidated accounts of the Group for the year ended 31 March 2001, including the comparative figures, are prepared as if the Company had been the holding company of the companies comprising the Group from the beginning of the earliest period presented.
- (d) The accounts have been prepared under the historical cost convention, as modified by the revaluation of property, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as the holding company of the Group from the beginning of the earliest period presented. The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation, being the fair value at the date of revaluation, less subsequent accumulated depreciation or amortisation. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and is determined on the basis of existing use. Increases in valuation are credited to the properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from revaluation reserve to retained earnings.

(ii) Amortisation of leasehold land

Amortisation of leasehold land is calculated to write off its valuation over the unexpired period of the lease on a straight-line basis. The principal annual rate for the purpose is 2%.

(iii) Depreciation of leasehold buildings

Depreciation of leasehold buildings is calculated to write off their valuation over the expected useful lives to the Group on a straight-line basis. The principal annual rate used for this purpose is 4%.

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation. Depreciation of other fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Furniture, fixtures and office equipment and computer equipment	20%
Motor vehicles	25%

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

(f) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(h) Retirement benefit costs

The Group's contributions to the retirement schemes are expensed as incurred.

(i) Research and development costs

Costs incurred in the research and development of products of the Group are expensed as incurred unless the costs of development satisfy the criteria for the recognition of such costs as assets. During the year, all research and development costs have been expensed.

(j) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except for those borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, which are capitalised as part of the cost of that asset. During the year, all borrowing costs have been expensed.

(k) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title has passed.

Royalty income and commission income on sales referral is recognised when the right to receive payment is established.

Internet service income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

NOTES TO THE ACCOUNTS

3 TURNOVER AND REVENUES

The Group is principally engaged in the design, development of software and engineering solutions including the sales of semiconductors. Revenues recognised during the year are as follows :

	Group	
	2001	2000
	HK\$'000	HK\$'000
Turnover		
Sale of goods	403,775	154,699
Royalty income	26,606	—
	<hr/> 430,381 <hr/>	<hr/> 154,699 <hr/>
Other revenues		
Commission income	—	5,671
Internet service income	1,788	1,500
Interest income	2,704	261
	<hr/> 4,492 <hr/>	<hr/> 7,432 <hr/>
Total revenues	<hr/> 434,873 <hr/>	<hr/> 162,131 <hr/>

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2001 HK\$'000	2000 HK\$'000
<u>Crediting</u>		
Surplus arising from revaluation of property	81	—
<u>Charging</u>		
Auditors' remuneration	950	300
Depreciation of fixed assets		
– owned assets	1,760	273
– assets held under finance leases	350	71
Operating lease rental in respect of land and buildings	986	90
Research and development costs (<i>note</i>)	4,648	1,051
Staff costs excluding Directors' emoluments	9,999	3,056

Note: Included in the research and development costs were staff emoluments of HK\$3,246,000 (2000: HK\$648,000) which had also been included in staff costs disclosed above.

5 FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts	3,619	5,002
Interest element of finance leases	80	4
	3,699	5,006

NOTES TO THE ACCOUNTS

6 TAXATION

The taxation charge comprises:

	Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	14,875	5,175
Underprovision in prior year	81	33
Deferred taxation (<i>note 20</i>)	4,687	—
	<u>19,643</u>	<u>5,208</u>

Hong Kong profits tax has been calculated at 16% (2000: 16%) on the estimated assessable profit of the Group for the year.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$18,446,000.

8 DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim, paid of HK1.00 cent per ordinary share	7,200	—
Final, proposed of HK1.50 cents per ordinary share	10,800	—
	<u>18,000</u>	<u>—</u>

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$101,491,000 (2000: HK\$24,377,000) and the weighted average number of 664,449,315 shares (2000: 572,000,000 shares) in issue during the year. In determining the weighted average number of shares in issue, a total of 572,000,000 shares represents the share issued on the establishment of the Company and the shares issued pursuant to the Reorganisation, including capitalisation issue as referred in note 17(c) to the accounts, were deemed to have been in issue on 1 April 2000.

For comparison purposes, both the 571,998 shares issued as consideration of the acquisition by the Company of the issued capital of ASL(BVI) and the capitalisation issue of 571,428,000 shares mentioned above were also deemed to have been in issue on 1 April 1999 for the purpose of the calculation of basic earnings per share.

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

10 RETIREMENT BENEFIT COSTS

The Group did not provide retirement benefits for its employees in Hong Kong before 1 December 2000. With effect from 1 December 2000, a mandatory provident fund scheme ("MPF Scheme") has been set up for all the eligible employees of the Group in Hong Kong.

The Group's contributions are at 5% of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's contribution to the MPF scheme charged to the profit and loss account during the year amounted to HK\$146,000 (2000: HK\$Nil).

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to the Directors of the Company during the year are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees	230	—
Other emoluments		
– Basic salaries, allowances and other benefits in kind	4,191	3,150
– Bonus	2,000	—
– Retirement scheme contributions	12	—
	6,433	3,150

Directors' fees of HK\$230,000 (2000: Nil) were paid to independent non-executive directors during the year.

During the year, the executive directors received individual emoluments of HK\$4,907,000 (2000: HK\$2,600,000), HK\$672,000 (2000: HK\$105,000) and HK\$624,000 (2000: HK\$445,000) respectively.

In addition to the Directors' emoluments disclosed above, during the year, 14,400,000 options were granted to the independent non-executive directors and two executive directors under the share option schemes as stated in note 17(e) to the accounts. During the year, no options had been exercised by the Directors.

No Directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2001 and 2000.

NOTES TO THE ACCOUNTS

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2000: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2000: three) individuals during the year are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, allowances and other benefits in kind	2,424	919
Retirement scheme contributions	12	—
	<hr/> 2,436 <hr/>	<hr/> 919 <hr/>

The emoluments fell within the following band:

	Number of individuals	
	2001	2000
Nil to HK\$1,000,000	3	3
	<hr/> 3 <hr/>	<hr/> 3 <hr/>

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

12 FIXED ASSETS - GROUP

	Land and building	Furniture, fixtures and office equipment	Motor vehicles	Computer equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At 1 April 2000	2,500	965	583	—	4,048
Additions	—	26,722	1,533	33,281	61,536
At 31 March 2001	<u>2,500</u>	<u>27,687</u>	<u>2,116</u>	<u>33,281</u>	<u>65,584</u>
Accumulated depreciation					
At 1 April 2000	—	471	371	—	842
Charge for the year	81	883	429	717	2,110
Revaluation	(81)	—	—	—	(81)
At 31 March 2001	<u>—</u>	<u>1,354</u>	<u>800</u>	<u>717</u>	<u>2,871</u>
Net book value					
At 31 March 2001	<u>2,500</u>	<u>26,333</u>	<u>1,316</u>	<u>32,564</u>	<u>62,713</u>
At 31 March 2000	<u>2,500</u>	<u>494</u>	<u>212</u>	<u>—</u>	<u>3,206</u>

The analysis of the cost or valuation of the above assets at 31 March 2001 is as follows:

	Land and building	Furniture, fixtures and office equipment	Motor vehicles	Computer equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	27,687	2,116	33,281	63,084
At 2001 valuation (<i>note (b)</i>)	2,500	—	—	—	2,500
	<u>2,500</u>	<u>27,687</u>	<u>2,116</u>	<u>33,281</u>	<u>65,584</u>

The analysis of the cost or valuation of the above assets at 31 March 2000 is as follows:

At cost	—	965	583	—	1,548
At 2000 valuation	2,500	—	—	—	2,500
	<u>2,500</u>	<u>965</u>	<u>583</u>	<u>—</u>	<u>4,048</u>

NOTES TO THE ACCOUNTS

12 FIXED ASSETS - GROUP (Cont'd)

- (a) The Group's leasehold land and building is situated in Hong Kong and is held under lease between 10 to 50 years.
- (b) The leasehold land and building was revalued on the basis of open market value in its existing state as at 31 March 2001 by Sallmanns (Far East) Limited, an independent firm of professional valuers.
- (c) At 1 April 2000, the leasehold land and building of the Group with a carrying value of HK\$2,500,000 has been pledged to secure a bank loan granted to the Group. The charge on the property was released during this financial year.
- (d) The carrying amount of the leasehold land and building would have been HK\$5,192,000 (2000: HK\$5,365,000) had it been stated at cost less accumulated depreciation.
- (e) At 31 March 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK\$1,213,000 (2000: HK\$212,000).

13 INVESTMENT IN SUBSIDIARIES - COMPANY

Unlisted shares, at cost

Amounts due from subsidiaries (note (b))

Amounts due to subsidiaries (note (b))

2001

HK\$'000

57

170,357

(2,848)

167,509

167,566

13 INVESTMENT IN SUBSIDIARIES - COMPANY (Cont'd)

(a) The following is a list of the principal subsidiaries of the Company as at 31 March 2001:

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interest %	Principal activities
<i>Shares held directly:-</i>				
Arcon Solutions (BVI) Limited	The British Virgin Islands 15 March 2000	US\$3,250	100	Investment holding
<i>Shares held indirectly:-</i>				
Arcon Technology Limited	Hong Kong 17 March 1992	Non-voting deferred shares HK\$16,250,000 Ordinary HK\$10	100	Sale of semiconductor products and design, development of software and engineering solutions
Satellite Devices Limited	Hong Kong 14 July 1999	Ordinary HK\$5,000,000	100	Sale of Global Positioning Satellite System
亨兴伟信息科技(深圳)有限公司 f t > > / % ¥ q ("Heng Xing Wei Information Technologies (Shenzhen) Limited")	The People's Republic of China excluding Hong Kong (the "PRC") 23 March 2000	Registered capital HK\$1,000,000	100	Provision of technical support services
Arcon Management Services Limited	Hong Kong 24 March 2000	Ordinary HK\$2	100	Provision of management services

Heng Xing Wei Information Technologies (Shenzhen) Limited has adopted 31 December as its financial year end date in order to comply with the Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment.

The above includes the subsidiaries of the Company, which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE ACCOUNTS

14 INVENTORIES - GROUP

As at 31 March 2001 and 2000, no inventories were carried at net realisable value.

15 AMOUNT DUE FROM A DIRECTOR - GROUP

Name of the director	As at	As at	Maximum amount
	31 March 2001	31 March 2000	outstanding
	HK\$'000	HK\$'000	during the year
			HK\$'000
Mr. Tsoi Siu Ching, Leo	—	6,178	6,178

The amount was unsecured, interest free and repayable on demand.

16 AMOUNT DUE TO A DIRECTOR - GROUP

The amount represents expenses temporary paid by a director on behalf of the Group during the year. The amount is unsecured, interest free and has no fixed terms of repayment.

17 SHARE CAPITAL

	Company
	2001
	HK\$'000
Authorised	
3,000,000,000 (2000: Nil) ordinary shares of HK\$0.10 each	<u>300,000</u>
Issued and fully paid	
720,000,000 (2000: Nil) ordinary shares of HK\$0.10 each	<u>72,000</u>

- (a) The Company was incorporated in the Cayman Islands on 5 April 2000 with an authorised capital of HK\$350,000 divided into 3,500,000 shares of HK\$0.10 each, of which 2 shares were issued at par for cash on 5 April 2000.
- (b) In preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the following changes in authorised and issued share capital of the Company took place on 21 July 2000:
- (i) the authorised share capital of the Company was increased to HK\$300,000,000 by the creation of an additional 2,996,500,000 shares of HK\$0.10 each,
 - (ii) as consideration for the acquisition by the Company of the entire issued share capital of ASL (BVI), the holding company of the Group prior to the Reorganisation, an aggregate of 571,998 shares of the Company were allotted, issued at par and credited as fully paid to the then shareholders of ASL (BVI).

17 SHARE CAPITAL (Cont'd)

- (c) On 16 August 2000, 148,000,000 shares of HK\$0.1 each were issued by way of placing at a price of HK\$1.18 per share (the "Placing") for cash consideration of HK\$174,640,000. The excess over the par value of the shares issued was credited to the share premium account. At the same date, 571,428,000 shares of HK\$0.1 each were allotted, issued at par and fully paid to the shareholders whose names appeared on the register of members of the Company on 24 July 2000 by way of the capitalisation of a sum of HK\$57,142,800 out of the share premium account of the Company arising from the Placing.
- (d) The share capital presented in the consolidated balance sheet as at 31 March 2000 represents the share capital of the Company, arising on incorporation and from the share swap transaction described in notes (a) and (b)(ii) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1(c) to the accounts. The difference between the nominal value of these shares and the nominal value of shares acquired together with the share premium of a subsidiary pursuant to the Reorganisation is accounted as merger reserve throughout the accounting periods presented.
- (e) The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 19 July 2000. Under the terms of the Plan and Scheme, the board of directors of the Company may, at their discretion, invite any employees or executive directors of the Company and/or any of its subsidiaries to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the Plan and Scheme may not exceed 30% of the issued share capital of the Company.

As at 31 March 2001, 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 and Scheme. The options granted under the Scheme are exercisable at any time within three years from 16 August 2000 while the options granted under the Plan are exercisable at any time within three years after the expiry of 6 months from 16 August 2000. Each of these shall lapse in accordance with the Plan and Scheme if the relevant grantee ceases to be employed by the Group. As at 31 March 2001, none of these options has been exercised or has lapsed.

No options were waived or exercised up to the date of this report.

18 RESERVES

(a) Group

	Share premium HK\$'000	Retained earnings HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
At 1 April 1999	—	9,333	20,943	—	30,276
Profit attributable to shareholders	—	24,377	—	—	24,377
At 31 March 2000	—	33,710	20,943	—	54,653
Placing of shares (<i>note 17(c)</i>)	159,840	—	—	—	159,840
Placing and listing expenses	(17,960)	—	—	—	(17,960)
Capitalisation issue (<i>note 17(c)</i>)	(57,143)	—	—	—	(57,143)
Profit attributable to shareholders	—	101,491	—	—	101,491
Dividends	—	(18,000)	—	—	(18,000)
Exchange differences	—	—	—	(99)	(99)
At 31 March 2001	84,737	117,201	20,943	(99)	222,782

The merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefor. For 2000 comparatives, please see note 17(d) to the accounts.

(b) Company

	Share premium <i>(note (i))</i> HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Placing of shares (<i>note 17(c)</i>)	159,840	—	159,840
Placing and listing expenses	(17,960)	—	(17,960)
Capitalisation issue (<i>note 17(c)</i>)	(57,143)	—	(57,143)
Profit for the year	—	18,446	18,446
Dividends	—	(18,000)	(18,000)
At 31 March 2001	84,737	446	85,183

- (i) Under section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

19 LONG-TERM LIABILITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank loans (<i>notes 12(c) and 23</i>)	1,033	8,359
Obligations under finance leases	1,044	172
	<u>2,077</u>	<u>8,531</u>
Current portion of long-term liabilities	(782)	(3,101)
	<u>1,295</u>	<u>5,430</u>

At 31 March 2001, the Group's bank loans and obligations under finance leases were repayable as follows:

	Bank loans		Obligations under finance leases	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	401	2,929	381	172
In the second year	401	929	381	—
In the third to fifth year	231	2,220	282	—
After the fifth year	—	2,281	—	—
	<u>1,033</u>	<u>8,359</u>	<u>1,044</u>	<u>172</u>

20 DEFERRED TAXATION

	Group	
	2001 HK\$'000	2000 HK\$'000
Timing difference in respect of		
– Accelerated depreciation allowances	7,975	—
– Tax losses	(3,288)	—
	<u>4,687</u>	<u>—</u>
Transfer from profit and loss account (<i>note 6</i>)		

The Group had no material unprovided deferred tax (2000: HK\$44,000) as at 31 March 2001.

NOTES TO THE ACCOUNTS

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Operating profit	124,833	34,591
Interest income	(2,704)	(261)
Depreciation of owned fixed assets	1,760	273
Depreciation of fixed assets held under finance leases	350	71
(Surplus)/deficit arising from revaluation of property	(81)	2,865
Decrease/(increase) in inventories	1,364	(1,301)
Increase in accounts receivable, deposits and prepayments, including amounts due from a director	(127,498)	(39,935)
(Decrease)/increase in accounts payable and accruals, including amounts due to a director	(10,279)	3,890
Net cash (outflow)/inflow from operating activities	<u>(12,255)</u>	<u>193</u>

(b) Analysis of changes in financing during the year

	Share capital including premium		Bank loans and finance leases	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year	57	57	8,531	4,122
Inception of finance leases	—	—	1,366	230
Net proceeds from issue of shares by the Company	156,680	—	—	—
Net cash (outflow)/inflow from financing	<u>—</u>	<u>—</u>	<u>(7,820)</u>	<u>4,179</u>
At the end of the year	<u>156,737</u>	<u>57</u>	<u>2,077</u>	<u>8,531</u>

(c) Major non-cash transactions

During the year, the Group entered into finance leases arrangements in respect of assets with a total capital value at the inception of such arrangements of HK\$1,366,000 (2000: HK\$230,000).

22 COMMITMENTS

- (i) Commitment under operating leases

As at 31 March 2001, the Group had commitments under operating leases in respect of land and buildings to make payments in the next twelve months which expire as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	225	—
In the second to fifth years inclusive	1,089	465
	<hr/>	<hr/>
	1,314	465
	<hr/> <hr/>	<hr/> <hr/>

- (ii) As at 31 March 2001, the Group had capital commitments in respect of acquisition of fixed assets:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for	—	1,122
Authorised but not contracted for	46,840	—
	<hr/>	<hr/>
	46,840	1,122
	<hr/> <hr/>	<hr/> <hr/>

23 BANKING FACILITIES

As at 31 March 2001, the Group's banking facilities were secured by corporate guarantee given by the Company. The Group's banking facilities as at 31 March 2000 were secured by :

- (i) pledge of fixed deposits of HK\$6,827,000;
- (ii) certain properties of a director of the Company and his spouse, who is also a director of certain companies now within the Group; and
- (iii) personal guarantees given by a director of the Company and his spouse, who is also a director of certain companies now within the Group.

The above securities had been released upon the listing of the Company's shares on GEM of the Stock Exchange.

24 ULTIMATE HOLDING COMPANY

The directors regard Upgrade Technology Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

25 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 1 June 2001.



FINANCIAL SUMMARY

	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000
Results			
Profit attributable to shareholders	101,491	24,377	5,799
Assets and liabilities			
Total assets	359,764	135,562	72,331
Total liabilities	(64,982)	(80,852)	(55,997)
Shareholders' funds	294,782	54,710	16,334

Note:

The results, assets and liabilities of the Group for three years ended 31 March 2001 have been prepared on the basis set out in note 1 to the accounts. The Financial Summary had been prepared as if the group structure, at the time when the Reorganisation was completed, had been in existence throughout the years concerned.

The Financial Summary of the Group for the years ended 31 March 2000 and 1999 have been extracted from the Company's prospectus dated 8 August 2000.