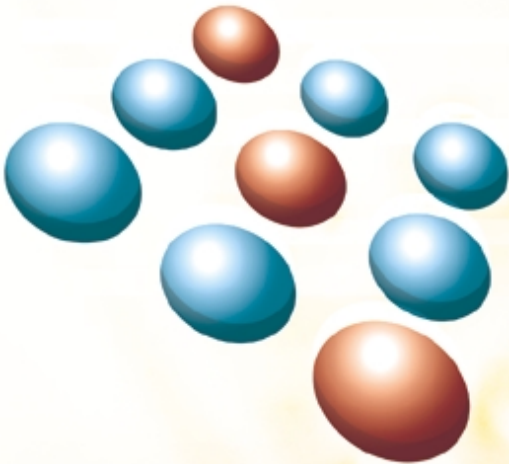


# Arcontech Corporation

(incorporated in the Cayman Islands with limited liability)



IP

RISC

TFT LCD

3C

GP

WIRELESS

## **Characteristics of The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the " Stock Exchange")**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of Arcontech Corporation collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Arcontech Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FIRST QUARTER RESULTS (UNAUDITED)

The Board of Directors (“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 three months ended 30 June 2001, together with the comparative unaudited figures for the corresponding period in 2000 as follows:

		<b>Three months ended 30 June</b>	
		<b>2001</b>	<b>2000</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	118,195	107,790
Cost of sales		<u>(76,230)</u>	<u>(69,063)</u>
Gross profit		41,965	38,727
Other revenue	2	207	84
Selling and distribution expenses		(2,376)	(754)
General and administrative expenses		<u>(11,322)</u>	<u>(3,750)</u>
Operating profit		28,474	34,307
Finance costs	3	<u>(490)</u>	<u>(1,396)</u>
Profit before taxation		27,984	32,911
Taxation	4	<u>(4,643)</u>	<u>(5,400)</u>
Profit attributable to shareholders		<u>23,341</u>	<u>27,511</u>
Interim dividend per share (cents)		<u>1.00</u>	<u>—</u>
Earnings per share - basic (cents)	5	<u>3.24</u>	<u>4.81</u>

*Note:*

### 1. **Group reorganisation and basis of presentation**

The Company was incorporated in the Cayman Islands on 5 April 2000 as an exempted company with limited liability under the Companies Law 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 21 July 2000. Further details of the

Reorganisation are set out in the prospectus of the Company dated 8 August 2000 (the "Prospectus"). The Company's shares were listed on GEM of the Stock Exchange on 16 August 2000.

The unaudited consolidated results of the Group for the three months ended 30 June 2000 include the results of companies now comprising the Group as if the current group structure had been in existence throughout the period, 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.

## 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 period are as follows:

	<b>Three months ended 30 June</b>	
	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Turnover		
Sale of goods at invoiced value, net of returns and discounts	108,657	102,556
Royalty income	9,538	5,234
	<u>118,195</u>	<u>107,790</u>
Other revenue		
Interest income	207	84
	<u>118,402</u>	<u>107,874</u>

## 3 Finance costs

	<b>Three months ended 30 June</b>	
	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Interest on bank loans and overdrafts	468	1,380
Interest element of finance leases	22	16
	<u>490</u>	<u>1,396</u>

#### **4 Taxation**

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

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

The calculation of basic earnings per share for the three months ended 30 June 2001 is based on the Group's profit attributable to shareholders of approximately HK\$23,341,000 (2000: HK\$27,511,000) and 720,000,000 shares (2000: 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 1 April 2000.

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

### **INTERIM DIVIDENDS**

The Board recommends the payment of an interim dividend of HK1.00 cent per share for the three months ended 30 June 2001 (2000: HK\$Nil). The dividend will be payable on Thursday, 23 August 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 17 August 2001.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 15 August 2001 to Friday, 17 August 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 Tuesday, 14 August 2001.

### **BUSINESS OVERVIEW AND PROSPECTS**

#### **Financial Performance**

Following a record year which saw increase in consumer spending on technology devices, the Group expects such consumer spending to slow down this year as it hits a "virtual wall" and this is in line with a slow down in the global economy. We are pleased to see that the Group continued to achieve good results in the first quarter of the new financial year. The Group's unaudited

consolidated turnover and profit attributable to shareholders for the three months ended 30 June 2001 are HK\$118,195,000 (2000: HK\$107,790,000) and HK\$23,341,000 (2000: HK\$27,511,000), respectively. There is an increase in turnover of 10% with a 15% decline in profit attributable to shareholders over the corresponding period last year.

Compared to the corresponding period last year, the increase in turnover was mainly attributable to the Group's increased marketing efforts targeting the ODMs and OEMs in the PRC which resulted in the Group successfully capturing more customers during the period. Gross profit increased in line with the turnover, and gross profit margin, compared to the previous corresponding period were maintained. However, as the Group continues to implement its core strategy of diversifying research and development efforts into system-level technologies such as Bluetooth and new digital devices, the relevant expenditures incurred in research and development was increased. The drop in profit attributable to shareholders was mainly due to the relevant expenditures incurred in the research and development of the Group. The depreciation expenses also increased and became one of the major costs during the period as a lot of equipment was purchased for the research and development purposes in line with plans stated in the Prospectus. Also, additional engineers had been recruited for the increased research and development activities, although it would take at least 6 to 12 months for their work to mature and be commercialized to such an extent that they would begin to contribute to the Group. The Group continued to adopt a conservative approach by not capitalising any research and development expenditure.

In addition, the Group went through a rather difficult quarter during which the market was affected by the weakness across the global technology devices industry and the gloom in the new economy sector, especially in the communications sector. However, the Group continued to benefit from its expansion in marketing efforts to ODMs and OEMs in the PRC which served to offset the slowdown in the new economy sector. We are optimistic that the new and upgraded products to be launched in the market in the coming quarters will also reduce the pressure on margins and improve the Group's overall performance.

## **Prospects**

The 3C products and/or the technology devices industry's outlook is still very poor, probably one of the "worst winters" in the industry. However, we believe the winter will soon be over and the trend will turn, and possibly soon. The ODMs are taking a very conservative approach in launching new products as well as increasing their stock level. As an innovative solution provider, it is

dangerous to underestimate the consumer appetite for new technology devices. As such, we will continue to increase our investment on research and development in order to position to exceed the 3C products industry growth rate by a strategic focus on new and emerging technologies. We believe this strategy will continue to provide significant opportunities for expanded sales and earnings growth. At the same time, we also expect that as global economy stabilize and begin to grow, OBMs will all be enthusiastically launching new products that excite the consumers. When OBMs begin to launch new products with our new solutions, we trust our profit margin will pick up again. We anticipate a rebound in the global 3C products industry's growth which we are confident that will see our profit margins improve.

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

During the period, the Group launched more embedded software solutions based on SOC implementations. Also, the Group has increased its customer base and successfully begun relationships with a number of ODMs and OEMs in Hong Kong and the PRC. For the turnkey devices solutions, their contribution to the total turnover is increasing.

For location based technology solutions utilizing GPS devices and applications, they have already contributed revenue to the Group. To further tap the potential of the location based technology solutions market, the Group continues to develop the market with the next generation of location based technology solutions for both commercial and consumer applications, namely, Geographic Information System ("GIS") products, auto-navigation systems, fleet management solutions and location based advertising solutions. The Group expects to launch new generation of these products to the market in the next few months.

### **Business developments**

The Group is preparing to participate in a number of tenders for GPS applications to public and private sector users in Hong Kong. The Group has been approached by enterprises and organisations from Hong Kong and the PRC for business opportunities in relation to location based technology solutions. In addition, the Group is in negotiation with a major security services company for the provision of operation service and the setting up of SMS and fleet management centers in Hong Kong and the PRC.

## **Research and development**

During the period, the Group had completed the development of additional embedded software solutions to enrich the IP design library. The Group will continue to further develop embedded software solutions for home appliances with voice recognition features. The research and development of devices for Internet-based m-commerce platform is continuing and the Group expects this to be ready for market together with the upgraded location based technology solutions before the end of this year.

For location based technology solutions, new generation of GPS devices and applications are being developed with modifications incorporating advanced GIS tools. At the same time, GIS products are further fine-tuned to enhance its features and applications to enhance the Group's overall lineup of location based technology solutions.

The development of Bluetooth modules is progressing smoothly. With additional equipment and newly recruited engineers with Bluetooth expertise, the Directors believe the Group will have a promising prospect in this area.

## **Strategic alliances and developments**

### *Joint ventures and alliances*

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, up to the end of this period, the Group is still in the stage of conducting feasibility studies and nothing concrete has been concluded. The Company will make an appropriate announcement of the progress of such establishments or acquisitions as and when necessary and in compliance with the requirements of the GEM Listing Rules.

### *Expansion opportunities*

With the huge business potential and rapidly growing market for location based technology products and applications (which include GPS devices and related products), Satellite Devices Limited, a wholly-owned subsidiary of the Group for the location based technology business, has advanced at a much faster pace than the Group had originally expected, especially in the area of fleet management, GIS and location based advertising solutions. The Group is anticipating a greater contribution from its location based technology business this year and a further requirement for expansion may also arise. The Company



will consider, when the situation arises and if the conditions permit, expansion and additional funding of its location based technology business solutions in a number of ways, including the introduction of strategic shareholder(s) and the separate listing for its location based technology business. The Company has appointed professionals to further study the feasibility of such plans and will make an appropriate announcement as and when appropriate and in compliance with the requirements of the GEM Listing Rules.

### *Prospects*

The Group is optimistic of its future prospects, in achieving its objective to be the leading provider of the 3C product solutions in Asia. With the additional resources input and the strength built on the research and development, it is expected the Group will continue to achieve satisfactory results in the forthcoming quarter.

### **DIRECTORS' INTEREST IN SHARES AND OPTIONS**

As at 30 June 2001, 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\$0.10 each of the Company**

<b>Name</b>	<b>Type of interest</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
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:**

<b>Name</b>	<b>Personal Interests</b>	<b>Corporate Interests</b>	<b>Total Interests</b>
Mr. Tsoi Siu Ching, Leo	10,250,000 Deferred Shares (Note 3)	5,000,000 <sup>1</sup> Deferred Shares (Note 2 and 3)	5,250,000 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 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 19 July 2000. As at 30 June 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 & Scheme. The Options granted under the Scheme are exercisable at any time within 3 years from 16 August 2000 while the options granted under the Plan are exercisable at any time within 3 years after the expiry of 6 months from 16 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 30 June 2000, none of these options has been exercised or has lapsed. All options under the Plan & Scheme have been granted to each grantee in consideration for the payment of HK\$1.00. Particulars of the outstanding options granted to the Directors, the senior managers and certain employees of the Group are set out below:

<b>Name</b>	<b>Pre-IPO Share Option Plan Number of underlying 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 30 June 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:

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

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

## **COMPETING INTERESTS**

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

## **SPONSOR'S INTERESTS**

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 30 June 2000, an associate of the Sponsor held 700,000 shares in the Company.

Saved 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 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.

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

During the three months ended 30 June 2001, 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 has established an audit committee on 19 July 2000. The audit committee has three members comprising an Executive Director, Mr. Tong Ka Ming, Patrick and the two Independent Non-Executive Directors, Mr. Chu Ho Hwa, Howard and Mr. Wang Wei Hung. Mr. Chu Ho Hwa, Howard was appointed as the chairman of this committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group.

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

Hong Kong, 31 July 2001