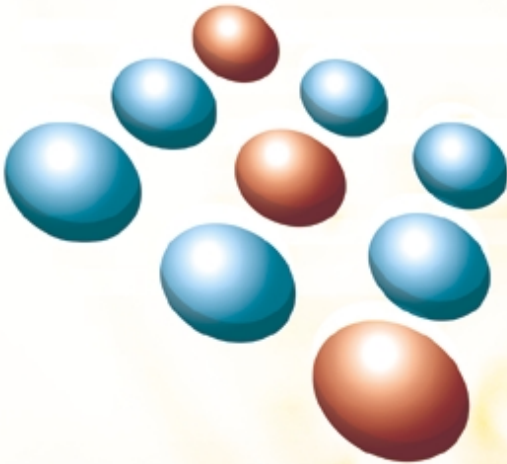


Arcontech Corporation

(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 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.

INTERIM RESULTS (UNAUDITED)

The Board of Directors (“Board”) of Arcontech Corporation (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30 September 2001, together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Note	Six months ended 30 September		Three months ended 30 September	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	234,968	216,165	116,773	108,375
Cost of sales		<u>(155,733)</u>	<u>(145,120)</u>	<u>(79,503)</u>	<u>(76,057)</u>
Gross profit		79,235	71,045	37,270	32,318
Other revenues	2	390	2,081	183	1,997
Selling and distribution expenses		(5,488)	(1,319)	(3,112)	(565)
General and administrative expenses		<u>(24,111)</u>	<u>(7,651)</u>	<u>(12,789)</u>	<u>(3,901)</u>
Operating profit		50,026	64,156	21,552	29,849
Finance costs	3	<u>(1,234)</u>	<u>(2,509)</u>	<u>(744)</u>	<u>(1,113)</u>
Profit before taxation		48,792	61,647	20,808	28,736
Taxation	4	<u>(8,121)</u>	<u>(9,900)</u>	<u>(3,478)</u>	<u>(4,500)</u>
Profit attributable to shareholders		<u>40,671</u>	<u>51,747</u>	<u>17,330</u>	<u>24,236</u>
Interim dividend per share		<u>1.50 cents</u>	<u>—</u>	<u>0.50 cents</u>	<u>—</u>
Earnings per share - basic	5	<u>5.65 cents</u>	<u>8.49 cents</u>	<u>2.41 cents</u>	<u>3.75 cents</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 shares on GEM of the Stock Exchange, the Company became the holding company of the Group on 21 July 2000. Further details of the Reorganisation are set out in the prospectus of the Company dated 8 August 2000 (the “Prospectus”). The Company’s shares were listed on GEM of the Stock Exchange on 16 August 2000.

The unaudited consolidated results of the Group for the six months and three months ended 30 September 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:

	Six months ended 30 September		Three months ended 30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	224,380	204,616	115,723	102,060
Royalty income	10,588	11,549	1,050	6,315
	<u>234,968</u>	<u>216,165</u>	<u>116,773</u>	<u>108,375</u>
Other revenues				
Interest income	226	471	19	387
Internet service income	164	1,610	164	1,610
	<u>390</u>	<u>2,081</u>	<u>183</u>	<u>1,997</u>
Total revenues	<u><u>235,358</u></u>	<u><u>218,246</u></u>	<u><u>116,956</u></u>	<u><u>110,372</u></u>

3. Finance costs

	Six months ended 30 September		Three months ended 30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	1,197	2,470	729	1,090
Interest element of finance leases	37	39	15	23
	<u>1,234</u>	<u>2,509</u>	<u>744</u>	<u>1,113</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 six months ended 30 September 2001 is based on the Group's profit attributable to shareholders of approximately HK\$40,671,000 (2000: HK\$51,747,000) and 720,000,000 shares (2000: 609,202,185 shares) in issue during the period.

The calculation of basic earnings per share for the three months ended 30 September 2001 is based on the Group's profit attributable to shareholders of approximately HK\$17,330,000 (2000: HK\$24,236,000) and 720,000,000 shares (2000: 646,000,000 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 HK0.50 cents per share for the three months ended 30 September 2001 (2000: HK\$Nil). The dividend will be payable on Wednesday, 21 November 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 16 November 2001. Together with an interim dividend of HK1.00 cent per share for the three months ended 30 June 2001 paid to the shareholders on 23 August 2001, total dividends for the six months ended 30 September 2001 amounted to HK1.50 cents per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 14 November 2001 to Friday, 16 November 2001, both days inclusive, during which period no share transfers will be registered. In order to qualify for the interim dividend for the three months ended 30 September 2001, 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, 13 November 2001.

BUSINESS REVIEW

For the six months ended 30 September 2001, the unaudited consolidated turnover of the Group was HK\$235 million, representing an increase of 9% from HK\$216 million over the corresponding period in 2000, while the profit attributable to shareholders was HK\$40.7 million as compared to a profit of HK\$51.7 million over the corresponding period in 2000, representing a decrease of 21%. As a result, the earnings per share of the Group for the period was approximately HK5.65 cents (2000: approximately HK\$8.49 cents per share).

Compared to the corresponding period last year, the Group was successful in capturing more ODMs and OEMs customers in the PRC as a result of timely adjustment made in the development and marketing strategy of solutions which led to a slight increase in turnover during the period, despite the negative effects on the PRC domestic market by the slowdown of the global economic growth. However, the global slowdown did affect the growth in the Group's turnover and the Group achieved a less optimistic growth than what was expected last year for this period.

On the other hand, the Group incurred more expenditure in research and development in order to enhance its IP library and to implement its core strategy of diversifying research and development efforts into system-level technologies such as Bluetooth and the next generation of digital devices. The Directors consider that the decrease in profit attributable to shareholders was primarily due to the increase in general and administrative expenses and certain non-cash accounting charges of the Group, particularly research and development related expenses. The increase in general and administrative expenses was mainly due to: (1) additional general expenses as a result of the enlargement of the Group's operations; (2) an increase in payroll for additional engineers; and (3) an increase in depreciation expenses. During the period, additional engineers had been recruited for the increased research and development activities, but the cycle between initiating research and development and the commercialization, that is the shipping of the end products, generally takes some 6 to 12 months before the Group realises revenues from these research and development activities. Moreover, equipment were purchased for research and development purposes in line with plans stated in the Prospectus, which led to increased the depreciation expenses and became one of the major costs during the period. However, in view of a weak economic condition, the Group continued to adopt a conservative approach by not capitalizing any research and development expenditure.

The Group went through a rather difficult quarter during which the market became very volatile and was affected by the weakness across the global technology devices industry. In particular, the sales for the period was impacted by the severity of typhoons hitting Taiwan during early September and the subsequent incidents in the U.S.. However, the Group will continue its expansion in marketing efforts to ODMs and OEMs in the PRC which is expected to offset the slowdown in the global economy. We are optimistic that the new and upgraded products to be launched in the market in the coming quarters will improve the Group's overall performance.

FUTURE PROSPECTS

The business outlook for the second half of the year remains uncertain, especially after the incidents in U.S. in mid September, while the sales of these 6 months were slightly hit by the slowdown of the global economy. The global economic slowdown appears to be widespread and is affecting different industries. The industries in which the Group operates are no exception and face sluggish demand from the US and European markets. The Directors anticipate that the consumer market will be moving slowly. The customers are taking a very conservative approach in launching new products as well as increasing their stock level. To this end, the Group will speed up its efforts in developing new products, launching aggressive sales and marketing campaigns in development for emerging markets, especially in the PRC, while actively control the overheads in order to enhance overall performance of the Group's business in the current sluggish market conditions.

As an innovative solution provider, it is dangerous to underestimate the consumer appetite for new technology devices. As such, the Group has acted, responsibly to the changes in the market and over the past several months defined a more conservative and technology-focused roadmap for our business and will leverage on the enhanced research and development facilities to focus on research and development and continue to strengthening the competitiveness by enhancing the IP library, and be ready to launch new products that excite the consumers in order to position itself to exceed the 3C products industry growth rate by a strategic focus on new and emerging technologies. The Directors believe that this strategy will continue to provide significant opportunities for expanded sales and earnings growth.

Despite the global business environment, the Group is still ready to face any challenges ahead. Taking advantage of the PRC's imminent entry into the WTO, the Directors expect more business opportunities to emerge and see tremendous upside potential in the PRC over the long term. The Directors consider that these new opportunities will generate a stable revenue growth for the business of the Group. With this in mind, the Group will actively seek out greater market opportunities and focus on developing solutions suitable for the PRC market.

With the huge business potential and rapidly growing market for location based technology solutions utilizing the GPS devices and related products, Satellite Devices Limited, a wholly-owned subsidiary of the Group, 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 will continuously launch various new products and applications which are equipped with and utilizing the location based technology solutions. The Group is anticipating a greater contribution from this subsidiary this year and a further requirement for funding may also arise. The Company will consider the situation when it arises and if the conditions permit, expansion in the area of location based technology solutions could be funded in a number of ways, including a separate listing for Satellite Devices Limited. As stated in the Company's announcement dated 29 October 2001, the Company has applied to the Stock Exchange for a separate listing of Satellite Devices Corporation which will effectively hold the Group's location based technology solutions.

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. During the period, the Group has established another research and development supporting base in Shanghai, and is also currently studying the feasibility of making direct sales in the PRC. The Company will make an appropriate announcement of the progress of such establishments or acquisitions as and when necessary in order to comply with the requirements of the GEM Listing Rules.

Prospects

Today's technology industry is boundless and new demand never ceases. With the expertise in cutting-edge technology development, extensive IP library and savvy market-focused strategies, the Directors believe the Group can capture new business opportunities in this most challenging time and achieve its objective to be the leading provider of the 3C product solutions in Asia. The Directors strongly believe that with such firm commitment and dedication, the Group will continue to achieve satisfactory results in the forthcoming quarters.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress up to 30 September 2001 and its business objectives as set out in the Prospectus.

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

Actual business progress up to 30 September 2001:

Revenue

- expand the proportion of sales generated from ASSPs out of the sales from embedded software solutions
- expand the proportion of sales from turnkey devices solutions out of total turnover
- begin generating sales from turnkey device solutions in respect of TFT LCD controllers, digital healthcare devices and home appliances with voice recognition
- the sales generated from ASSPs has increased to account for over 50% of the sales from embedded software solutions
- the sales of turnkey devices solutions has increased to account for over 30% of the total turnover
- the Group has commenced selling solutions for TFT LCD controllers. For digital healthcare devices and home appliances with voice recognition, these solutions are in their final stages and are expected to generate sales in the coming quarters.

Product launches, sales and marketing

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

- launch turnkey device solutions for TFT LCD controllers, digital healthcare devices and home appliances with voice recognition
- the Group has launched turnkey device solutions for TFT LCD controllers and home appliances with voice recognition during the period. These turnkey device solutions are expected to increase in the coming months. For digital healthcare devices, the solution is in its final stage and is expected to launch to the market in the coming quarters.

Business developments

- identify sales opportunities for GPS devices and applications targeted to public and private sector users overseas
- the Group is negotiating with a few companies for business opportunities of its GPS devices and applications in PRC, U.S. as well as Europe. Also the Group is planning to exhibit its products in a number of exhibitions and shows overseas to enhance sales opportunities.
- initiate marketing efforts for GPS applications targeted to general consumers and secure endorsement for GPS applications by a car manufacturer
- the Group has appointed an installation agent for marketing its GPS products to general consumers in Hong Kong
- the Group is in the process of identifying a car manufacturer's endorsement for its GPS devices.
- apply for approvals by relevant overseas medical authorities for digital healthcare products
- the Group is still finalizing its digital healthcare products, and is expected to put into test in later quarters.
- set up the SMS and City Band operating centre in Hong Kong to support use of GPS devices and m-commerce applications
- the Group has entered into agreement with a security consulting company for operation of SMS and City Band centre in Hong Kong.

- set up the shielded laboratory in Hong Kong for Bluetooth-related R&D
- the Group is planning the set up of the shielded laboratory in Hong Kong for Bluetooth-related R&D and certain purchases for the equipment have been arranged.

Research & development

- commence R&D of embedded software solutions for applications utilizing micro-pressure sensors and pattern recognition technologies, and of turnkey device solutions for walking PCs speech-to-text features
- the Group is studying the market potential for products utilizing micro-pressure sensors and pattern recognition technologies, and has initiated the research on solutions for walking PCs speech-to-text features.
- commence trial run and fine-tuning of auto-navigation system, electronic road pricing and diagnostic rescue system for GPS applications
- the Group is fine-tuning its auto-navigation system while test running by a number of potential customers. For electronic road pricing and diagnostic rescue system for GPS applications, the Group is still studying the market potential for these products before increasing the resources in these researches.
- complete R&D of Internet-based m-commerce platform for use in PDA products and GPS applications
- the research and development of Internet-based m-commerce platform is continuing and subject to its final adjustment.
- complete R&D of digital healthcare products and testing of first Bluetooth module
- the Bluetooth modules is under development and additional engineers with Bluetooth expertise have been recruited. For digital healthcare products, it is in the final stage and expects to be ready in the coming quarters.

Human resources, operations and administration

- recruit additional operational and engineering staff, and dedicated sales staff for the Group's expansion
- up to 30 September 2001, 45 additional engineers and 8 additional sales staff have been recruited to cope with the expansion of the Group during the period.

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 this period, nothing concrete has been concluded.

The Group raised net proceeds of approximately HK\$ 156 million upon listing of the Company's shares on GEM of the Stock Exchange. Up to 30 September 2001, the Group has applied approximately HK\$ 110 million to achieve the business objectives as stated above and in the manner as set out in the Prospectus. Currently, the Directors consider there is no material modification over the use of proceeds as disclosed in the Prospectus. The remaining net proceeds of HK\$ 46 million will be applied according as the usage disclosed in the Prospectus.

DIRECTORS' INTEREST IN SHARES AND OPTIONS

As at 30 September 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

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

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

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

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

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

Note 3: These deferred shares carry rights with regards to distribution of capital and voting as summarized in paragraph (j) under the subsection headed "Corporate reorganization" in 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 September 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 September 2001, 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:

Name	Pre-IPO Share Option Plan	Share Option Scheme
	Number of underlying shares	
<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 September 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 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 September 2001, an associate of the Sponsor held 1,622,000 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 interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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

By Order of the Board
Tsoi Siu Ching, Leo
Chairman

Hong Kong, 30 October 2001