



SMS

PDA

AV PRODUCTS

WIRELESS PRODUCTS

TFT TV

LCD

First Quarterly Report **2002-2003**

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.

FIRST QUARTER RESULTS (UNAUDITED)

The Board of Directors (the “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 2002, together with the comparative unaudited figures for the corresponding period in 2001 (the “Relevant Periods”) as follows:

		Three months ended 30 June	
		2002	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	119,145	118,195
Cost of sales		<u>(86,105)</u>	<u>(76,230)</u>
Gross profit		33,040	41,965
Other revenues	2	229	207
Selling and distribution expenses		(1,990)	(2,376)
General and administrative expenses		<u>(16,746)</u>	<u>(11,322)</u>
Operating profit		14,533	28,474
Finance costs	3	<u>(1,461)</u>	<u>(490)</u>
Profit before taxation		13,072	27,984
Taxation	4	<u>(2,220)</u>	<u>(4,643)</u>
Profit after taxation		10,852	23,341
Minority interests		<u>(847)</u>	<u>—</u>
Profit attributable to shareholders		<u>10,005</u>	<u>23,341</u>
Interim dividend per share		<u>0.35 cent</u>	<u>1.00 cent</u>
Earnings per share - basic	5	<u>1.27 cents</u>	<u>3.24 cents</u>

Notes:

1 Basis of presentation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention as modified by the revaluation of the leasehold land and buildings.

2 Turnover and revenue

The Group is principally engaged in the design, development of software and engineering solutions including the sales of semiconductors, and the location-based technology devices and applications ("GPS") in Hong Kong. Revenues recognized during the Relevant Periods are as follows:

	Three months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale of goods at invoiced value, net of returns and discounts	112,140	108,657
Royalty income	7,005	9,538
	<hr/>	<hr/>
	119,145	118,195
Other revenues		
Interest income	177	207
Software and internet service income	52	—
	<hr/>	<hr/>
	229	207
Total revenues	<hr/> <hr/>	<hr/> <hr/>
	119,374	118,402

3 Finance costs

	Three months ended 30 June	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts	1,442	468
Interest element of finance leases	19	22
	<u>1,461</u>	<u>490</u>

4 Taxation

Hong Kong profits tax has been calculated at 16% (2001: 16%) on the estimated assessable profits of the Group for the Relevant Periods.

Taxation on profits of a subsidiary in the Mainland China has been calculated on the estimated assessable profits for the periods at the rates of taxation prevailing in the Mainland China.

5 Earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2002 is based on the Group's profit attributable to shareholders of approximately HK\$10,005,000 (2001: HK\$23,341,000) and weighted average number of 789,230,769 ordinary shares (2001: 720,000,000 ordinary shares) in issue during the period.

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

6 Movement of reserves

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	84,737	20,943	(99)	128,001	233,582
Profit attributable to shareholders	—	—	—	23,341	23,341
2001 Final dividend	—	—	—	(10,800)	(10,800)
Exchange differences	—	—	(2)	—	(2)
	<u>84,737</u>	<u>20,943</u>	<u>(101)</u>	<u>140,542</u>	<u>246,121</u>
At 30 June 2001	84,737	20,943	(101)	140,542	246,121
At 1 April 2002	74,242	20,943	(122)	170,413	265,476
Issue of shares pursuant to placing	113,000	—	—	—	113,000
Share issuing expenses	(3,855)	—	—	—	(3,855)
Profit attributable to shareholders	—	—	—	10,005	10,005
2002 Final dividend	—	—	—	(8,200)	(8,200)
Exchange differences	—	—	(28)	—	(28)
	<u>183,387</u>	<u>20,943</u>	<u>(150)</u>	<u>172,218</u>	<u>376,398</u>
At 30 June 2002	183,387	20,943	(150)	172,218	376,398

INTERIM DIVIDENDS

The Board recommends the payment of an interim dividend of HK0.35 cent per share for the three months ended 30 June 2002 (2001: HK1 cent). The dividend will be payable on Friday, 23 August 2002 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 16 August 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 15 August 2002 to Friday, 16 August 2002, 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, Computershare Hong Kong Investor Services Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 14 August 2002.

BUSINESS OVERVIEW AND PROSPECTS

Financial Performance

During the first quarter, the Group operated under increasingly difficult market conditions. Faced with an uncertain market outlook and strong pricing pressures, the Group's unaudited consolidated turnover and profit attributable to shareholders for the three months ended 30 June 2002 are HK\$119,145,000 (2001: HK\$118,195,000) and HK\$10,005,000 (2001: HK\$23,341,000), respectively. There is 0.8% increase in turnover with a 57.1% decline in profit attributable to shareholders over the corresponding period last year.

Compared to the corresponding period last year, turnover was maintained, however, the Group had experienced continued pressure on the gross profit margin. Our customers aggressively sold large volumes of products at more competitive prices, which led to our lower profit margins and a drop in the Group's overall net profits.

Business review

The Group is an independent provider of solutions and innovations for semiconductor applications in a board range of 3C products (communication products, consumer electronics and computer peripherals). The Group utilizes a combination of its semiconductor expertise, system-level product knowledge and its extensive IP design libraries to offer embedded software solutions for a wide range of semiconductor chips based on its customers' specification and product ideas. The Group also leverages its expertise, product ideas and innovations to initiate and implement its own product ideas and develops its own turnkey device solutions for intelligent electronic devices.

During the period under review, under the negative effects of a continued general worldwide economic downturn, the global 3C products market was bleak. Competition in the 3C products market was increasingly fierce, coupled with lowered selling price to reduce inventory and old model products. The launching of new 3C products was almost paralyzed by the prevailing market conditions and industry players were adopting a very conservative attitude towards inventories.

On 12 April 2002, the Group entered into an agreement with Shanghai Hong Sheng (Norcent) Technology Co., Ltd., a limited liability company established in Shanghai, the PRC relating to supply of solutions and electronic components for audio visual products.

On 29 April 2002, the Group raised approximately HK\$119 million by way of issuing 100,000,000 new shares of HK\$0.10 each through a top-up placement for the purpose of funding requirements under a supply agreement and for general working capital purposes. The Group is therefore in a strong financial position to cope with the funding requirements of the anticipated sales under the said agreement.

The Group has a healthy financial position. The issue of new shares with the top-up placement provides the Group with a solid financial base, allowing us to seek possible business development opportunities in the future.

Future Prospects

Despite the deteriorating global 3C products market, the Group is still ready to face any challenge ahead. To this end, we have embarked on adjusting the Group's strategic focus and working on a restructuring plan aiming to enhance and refocus its core business, boost sales, streamlining overheads and operational charges to provide a continuing platform for future development.

In overcoming the impact of the global economic downturn which reduced consumer spending on high-end consumer electronics, the Group will adjust its immediate and medium term research and development focus towards fast moving consumer electronics such as DVD players, MP3 players, TFT LCD monitors, TFT LCD TV and digital still cameras...etc. As the Group believes there will be a relatively solid and concentrated customer base in these products, the prospect of these products in the prevailing market conditions is considered more promising. At the same time, the Group will continue its research and development on new and emerging technologies, however, we will be cautious in increasing our investment on such technologies.

Pursuant to the agreement between the Group and Shanghai Hong Sheng (Norcent) Technology Co., Ltd, relating to supply of solutions and electronic components for audio visual products, the Group received a purchase order for 300,000 sets of solutions and electronic components for DVD players in relation to the said agreement in July 2002.

The Group will keep on focusing on the PRC market by strengthening the research and development capabilities for turnkey device solutions suitable for the PRC market. We remain confident that there will be strong demand from the PRC customers for turnkey device solutions in the field of digital audio visual products and TFT-LCD TV and monitors for both the export and domestic market.

Looking ahead, the global 3C products market remains bleak, and medium-term future will be very challenging to the Group. The Group expects continued pressure on the gross margin for this current financial year as the competition in the 3C product is increasingly fierce and there is no apparent sign of aggressive new product launch by marketers. The Group also expects there should be further growth in this fiscal year as the Group has been aggressively expanding the PRC market for past one year. Profit margin, however, could be dragged down by an increase in the PRC sales.

On business development side, the Group has set up a special team to study the feasibility of establishing a new business unit focusing on developing supply-chain management and other logistics skills in order to allow the Group to move up the value chain and claim more international brands as customers. This team is currently discussing with a number of potential customers on appointment of the Group as supply-chain management partner for sourcing and electronic manufacturing services ("EMS").

In terms of geographical expansion, the Group will continue its China-focus strategy. To capture the business opportunities arising from the further development of the Pearl River Delta area and Yangze River Delta area as the country's two emerging manufacturing platforms for the global 3C products industry. We are, in particular, interested in providing our technologies and managerial expertise in turning the manufacturing strengths of these two deltas to greater advantage by working together the OBMs and OEMs to send goods from the PRC worldwide. In addition, the Group is looking for a strategic partner with strong business networking in the PRC to expedite our business development plans for the PRC market. In addition, the Group has commenced an operation in Korea in July 2002 to attempt to capture the technology expertise there which can supplement the Group's development.

Meanwhile, the Group is keeping close watch on other business opportunities that may emerge.

DIRECTORS' INTEREST IN SHARES AND OPTIONS

As at 30 June 2002, 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	57.61%
Mr. Mak Kam Wah	Personal	3,814,000	0.47%
Mr. Tong Ka Ming, Patrick	Personal	3,000,000	0.37%

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	5,000,000	15,250,000
	Deferred Shares (Note 3)	Deferred Shares (Note 2 and 3)	Deferred Shares (Note 3)

The Director's interest in Satellite Devices Corporation, a subsidiary of the Group:

Name	Corporate Interests	Total Interests
Mr. Tsoi Siu Ching, Leo	387,888,000	387,888,000
	Ordinary Shares (Note 4)	Ordinary Shares

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 of the Company dated 8 August 2000.

Note 4: Mr Tsoi Siu Ching, Leo held 57.61% of the issued share capital of the Company through Upgrade Technology Limited, a company which is wholly and beneficially owned by Mr Tsoi Siu Ching, Leo. The Company is interested in 387,888,000 shares of Satellite Devices Corporation held by its wholly owned subsidiary Arcon Solutions (BVI) Limited.

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 as defined in the SDI Ordinance.

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. 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 2002, no other options has been granted under the Scheme and none of the options granted has been exercised. However an option to subscribe for 3,600,000 Shares will lapse on 20 September 2002 under the Scheme as a grantee ceased to be an employee of the Company during the period. All options under the Plan & Scheme have been granted to each grantee in consideration for the payment of HK\$1.00. Particulars of the outstanding options granted to the Directors, the senior managers and certain employees of the Group are set out below:

Name	Pre-IPO Share Option Plan Number of underlying shares	Share Option Scheme
<i>Directors:</i>		
Mr. Mak Kam Wah	—	3,600,000
Mr. Tong Ka Ming, Patrick	—	3,600,000
Mr. Chu Ho Hwa, Howard	3,600,000	—
Mr. Wang Wei Hung	3,600,000	—
<i>Senior Management:</i>		
Mr. Tien Chang Lin	14,400,000	—
Mr. Cheng Lee Lung	7,200,000	—
Ms. Ho Kwan Yin	—	14,400,000
Mr. Ching Man Leuk	—	3,600,000
Ms. Kou Zhi Hui	—	3,600,000
Mr. Lee Lai Shing	—	3,600,000

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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	57.61%

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 2002, an employee of the Sponsor not involved in providing advice to the Company held 30,000 shares in the Company. In addition, an employee of the Sponsor not involved in providing advice to the Company held 3,000 shares in the Satellite Devices Corporation, a subsidiary of the Group.

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

Pursuant to the sponsorship agreement dated 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 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 2002