

ARCONTECH CORPORATION : ON PAPER IT LOOKS GOOD, BUT ...

The listing, today, of Arcontech Corporation (Code: 8097) on The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd marks the first time that a company, specialising in providing embedded software solutions for semiconductor applications, has come to the marketplace of the Hongkong Special Administrative Region (HKSAR) with a fairly reasonable profit record -- for the past 32 months, that is.

At least, that has been the case for The GEM -- because most of the software companies, which found their way to this speculative market, are not much more than concept companies, with many of them, never having earned a penny in their short histories.

Arcontech first saw the light of day in November 1992. It is the brainchild of Mr Leo Tsoi Siu Chung who, today, holds about 65.61 percent of the Issued and Fully Paid-Up Share Capital of the Company.

From its humble beginnings as a sourcing and distribution agent of semiconductors and related products, it branched out into being a provider of embedded software solutions for semiconductor applications: Logic Integrated Circuits (IC) and Application Specific Standard Product (ASSP).

Arcontech launched itself onto The GEM by Placing 148 million, 10-cent shares at a Premium of not more than \$HK1.25 per share.

The money, raised from this exercise, amounting to about \$HK165 million, net of expenses, is earmarked for the following purposes:

1. \$HK55 million to be applied to establishing a Short Message Service (SMS) -- a store and forward service;
2. \$HK50 million to be applied to the establishing of a research and development facility with regard to 'Bluetooth' devices -- Bluetooth is a standard for wireless technology;
3. \$HK15 million to upgrade the Company's existing research and development facilities;
4. \$HK10 million to be applied to product development of Global Positioning Satellite System (GPS) and communication devices;
5. \$HK10 million to be applied to product development of digital healthcare devices;
6. \$HK5 million to be applied to sales and marketing of the Company and its products; and,
7. \$HK20 million to be applied to acquiring strategic investments, if found, or, alternatively, used as General Working Capital.

As may be evident from the above wish-list, Management of Arcontech believes that it can achieve, with its present Establishment of 100 workers, what tens of thousands of researchers, engineers and software experts in other parts of the world, working in other, much larger entities than Arcontech, have been achieving, continuing to improve their existing products, and inventing new and improved devices, for a much longer period of time than the entire corporation history of this Company.

Whether or not Management of Arcontech can pull it off remains to be seen.

However, what is not disputed is that this Company is doing very nicely, as far as its short history is concerned.

The following table is lifted from the Company's Prospectus at Page 52:

| | Financial Year ended March 31 | |
|---|--|-----------|
| | 1999 | 2000 |
| | All Figures are Denominated in \$HK'000 | |
| Turnover | 136,968 | 154,699 |
| Cost of Sales | (122,227) | (112,080) |
| Gross Profit | 14,741 | 42,619 |
| Other Revenue | 1,544 | 7,432 |
| Selling and Distribution Expenses | (2,305) | (2,537) |
| General and Administrative Expenses | (3,939) | (10,058) |
| Deficit arising from Revaluation of Property | Nil | (2,865) |
| Operating Profit | 10,041 | 34,591 |
| Financing Costs | (3,162) | (5,006) |
| Profit before Taxation | 6,879 | 29,585 |
| Taxation | (1,080) | (5,208) |
| Profit Attributable to Shareholders | 5,799 | 24,377 |

What is interesting about the above table is that the Gross Operating Profit Margin rose from 10.76 percent in the 1999 Year to 27.55 percent in the 2000 Year.

While the Turnovers only rose about 12.95 percent, Year-on-Year, the Gross Operating Profit Margin rose 156 percentile points between 1999 and 2000.

For the Current Financial Year, ending March 31, 2001, the Company is forecasting a Profit Attributable to Shareholders, before Extraordinary items, of \$HK90 million.

For the first 2 months of the Current Year, Management claims that it has booked an Unaudited Profit Attributable to Shareholders of about \$HK12,885,000.

The Debts

As at May 31, 2000, Page 48 of the Prospectus states that the Group had ... [CLICK TO ORDER FULL ARTICLE](#)

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