



Satellite Devices Corporation
(Incorporated in the Cayman Islands with limited liability)

2003-2004

Interim Report



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.

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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.

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This report, for which the directors of Satellite Devices 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 Satellite Devices 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.

FINANCIAL PERFORMANCE

The Group has achieved an encouraging operational result for the six months ended 30 September 2003. For the six months ended 30 September 2003, the Group has recorded a turnover of HK\$15 million and recorded a loss attributable to shareholders of HK\$9.95 million. This represents a decrease of 73.4% in sales turnover and a drop of profit attributable to shareholders from HK\$2.64 million to a loss of HK\$9.95 million as compared with those in the corresponding period. The loss per share for the six months ended 30 September 2003 was HK1.69 cents.

Set out below are the results of Satellite Devices Corporation (“SDC” or the “Company”) and its subsidiaries (collectively referred to as (the “Group”) for the second quarter and the six months ended 30 September 2003.

INTERIM RESULTS (UNAUDITED)

The Board of Directors (“Board”) of Satellite Devices Corporation (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2003, together with the comparative unaudited figures for the corresponding periods in 2002 (the “Relevant Periods”) as follows:

Condensed Consolidated Profit and Loss Account

	Six months ended 30 September		Three months ended 30 September	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	14,356	54,047	608	31,953
Cost of location-based technology devices and applications	(12,899)	(36,862)	(178)	(23,804)
	1,457	17,185	430	8,149
Interest income	—	22	—	10
Advertising and promotion costs	(534)	(1,616)	(270)	(1,248)
Staff cost	(2,369)	(5,421)	(894)	(2,995)
Depreciation	(5,835)	(3,617)	(2,894)	(1,810)
Other operating expenses	(1,583)	(3,402)	(633)	(2,049)
Loss on disposal of fixed assets	(1,089)	—	(1,089)	—
(Loss)/profit before taxation	(9,953)	3,151	(5,350)	57
Taxation	—	(510)	—	(10)
(Loss)/profit attributable to shareholders	(9,953)	2,641	(5,350)	47
Interim dividend	Nil	Nil	Nil	Nil
(Loss)/earnings per share — basic (cents)	(1.69) cents	0.46 cents	(0.09) cents	0.01 cents

Consolidated Balance Sheet

	<i>Note</i>	As at 30 September 2003 HK\$'000 (Unaudited)	As at 31 March 2003 HK\$'000 (Audited)
Fixed assets		34,870	41,795
Interests in associated companies		4	4
Current assets			
Inventories		4,745	5,229
Trade receivables	8	16,362	41,018
Deposits, prepayments and other receivables		10,220	10,695
Cash and bank balances		93	289
		31,420	57,231
Current liabilities			
Trade payables	9	3,871	27,111
Other payables and accruals		1,930	4,005
Amount due to a director		1,008	168
Current portion of long term liabilities	10	15	15
		6,824	31,299
Net current assets		24,596	25,932
		59,470	67,731
Financed by:			
Share capital	11	59,091	57,600
Reserves		365	10,108
Shareholders' funds		59,456	67,708
Long-term liabilities	10	14	23
		59,470	67,731

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 September 2003 HK\$'000 (Unaudited)	For the six months ended 30 September 2002 HK\$'000 (Unaudited)
Net cash outflow from operating activities	(186)	(33,896)
Net cash outflow from investing activities	(2)	(180)
	<hr/>	<hr/>
Net cash outflow before financing	(188)	(34,076)
Net cash outflow from financing	(8)	(7)
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(196)	(34,083)
Effect of foreign exchange rate changes	—	(4)
Cash and cash equivalents at beginning of the period	289	39,641
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	93	5,554
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	93	5,554
	<hr/> <hr/>	<hr/> <hr/>

Consolidated Statement of Changes in Equity (Unaudited)

	Share capital	Share premium	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2002	57,600	34,489	—	4,200	96,289
Exchange differences	—	—	(4)	—	(4)
Profit for the period	—	—	—	2,641	2,641
As at 30 September 2002	<u>57,600</u>	<u>34,489</u>	<u>(4)</u>	<u>6,841</u>	<u>98,926</u>
As at 1 April 2003	57,600	34,489	(10)	(24,371)	67,708
Issue of shares	1,491	210	—	—	1,701
Exchange differences	—	—	—	—	—
Loss for the period	—	—	—	(9,953)	(9,953)
As at 30 September 2003	<u>59,091</u>	<u>34,699</u>	<u>(10)</u>	<u>(34,324)</u>	<u>59,456</u>

1. Group reorganization and basis of presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the corporate reorganisation (the "Reorganisation"), as described in Appendix IV of the prospectus of the Company dated 12 March 2002, to rationalize the group structure in preparation for a 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 became the holding company of the Group on 6 March 2002. The shares of the Company were listed on the GEM on 26 March 2002.

The Reorganisation is accounted for using merger accounting as permitted by Hong Kong Statement of Standard Practice ("SSAP") 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). The unaudited consolidated accounts of the Group 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.

These unaudited consolidated accounts have been prepared under the historic cost convention and prepared in accordance with SSAP 25, Interim Financial Reporting, issued by HKSA and the disclosures requirements in chapter 18 of the GEM Listing Rules.

These unaudited consolidated accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the consolidated accounts are consistent with those used in the annual accounts for the year ended 31 March 2003.

In the current period, the Group has adopted, for the first time, the new and revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The adoption of the above new and revised SSAP has no material impact on the accounts of the Company for the current and prior accounting periods. Accordingly, no prior period adjustment is required.

2. Turnover

The Company is engaged in the design, development and sales of location-based technology devices and applications. Revenues recognized during the Relevant Period are as follows:

	Six months ended 30 September		Three months ended 30 September	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover				
Mobile positioning units and fleet management systems	14,356	53,927	608	31,953
GIS/digital maps	—	120	—	—
	14,356	54,047	608	31,953

No activity analysis and geographical analysis have been presented for the six months and three months periods ended 30 September 2003 and 2002 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

3. **Operating profit**

Operating profit is stated after charging the following:

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Depreciation:		
Owned fixed assets	5,827	3,609
Leased fixed assets	8	8
	<u>5,835</u>	<u>3,617</u>

4. **Staff costs**

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	2,347	5,279
Retirement scheme contributions	22	142
	<u>2,369</u>	<u>5,421</u>

5. **Taxation**

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the period ended 30 September 2003 and 2002.

No overseas taxation has been provided as the Group's overseas subsidiary did not have any taxable profits for the period ended 30 September 2003 and 2002.

The taxation charge in the profit and loss account for the 3 months ended 30 September 2002 represented the deferred tax charge arising from the net timing differences in respect of accelerated depreciation allowances and tax losses.

6. **(Loss)/earnings per share**

The calculation of basic (loss)/earnings per share for the six months ended 30 September 2003 is based on the Group's loss attributable to shareholders of approximately HK\$9,953,000 (2002: profit of HK\$2,641,000) and weighted average number of 588,129,495 ordinary shares (2002: 576,000,000 ordinary shares) in issue during the period.

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

7. **Capital expenditures**

	Fixed assets
	HK\$'000
6 months ended 30 September 2003	
Opening net book amount	41,795
Additions	2
Disposal	(1,092)
Depreciation	(5,835)
	<u>34,870</u>
Closing net book amount	<u>34,870</u>

8. **Trade receivables**

Details of ageing analysis of trade receivables were as follows:

	As at	As at
	30 September	31 March
	2003	2003
	HK\$'000	HK\$'000
0-30 days	178	228
31-60 days	55	71
61-90 days	61	207
Over 90 days	28,305	52,749
	<u>28,599</u>	<u>53,255</u>
Less: Provision for doubtful debts	(12,237)	(12,237)
	<u>16,362</u>	<u>41,018</u>

Customers are generally granted with credit terms of 60 to 90 days.

9. **Trade payables**

Details of ageing analysis of trade payables were as follows:

	As at 30 September 2003 HK\$'000	As at 31 March 2003 HK\$'000
0-30 days	2	16
31-60 days	—	—
61-90 days	—	4
Over 90 days	3,869	27,091
	3,871	27,111

10. **Long term liabilities**

	As at 30 September 2003 HK\$'000	As at 31 March 2003 HK\$'000
Obligations under finance leases	29	38
Current portion of long-term liabilities	(14)	(15)
	15	23

As at 30 September 2003, the Group's obligations under finance leases were repayable as follows:

	As at 30 September 2003 HK\$'000	As at 31 March 2003 HK\$'000
Within one year	16	16
In the second year	15	16
In the third to fifth year	—	9
	<u>31</u>	<u>41</u>
Future finance charges on finance leases	(2)	(3)
	<u>29</u>	<u>38</u>

The present value of finance lease liabilities is as follows:

Within one year	15	15
In the second year	14	15
In the third to fifth year	—	8
	<u>29</u>	<u>38</u>

11. Share capital

	As at 30 September 2003 HK\$'000	As at 31 March 2003 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
590,920,000 ordinary shares		
(31 March 2003: 576,000,000 ordinary shares)		
of HK\$0.10 each	<u>59,920</u>	<u>57,600</u>

12. **Commitments**

(a) *Commitments under operating leases*

As at 30 September 2003 and 31 March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30 September 2003 HK\$'000	As at 31 March 2003 HK\$'000
Within one year	172	910
In the second to fifth year	164	864
	<u>336</u>	<u>1,774</u>

(b) *Capital commitments in respect of acquisition of fixed assets*

As at 30 September 2003 and 31 March 2003, the Group had commitments in respect of acquisition of fixed assets as follows:

	As at 30 September 2003 HK\$'000	As at 31 March 2003 HK\$'000
Contracted but not provided for	—	540
Authorised but not contracted for	2,500	3,000
	<u>2,500</u>	<u>3,540</u>

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

For the period ended 30 September 2003, the Group continued to operate under extremely difficult market conditions in Hong Kong and China which was made worse by the epidemic of SARS (Severe Acute Respiratory Syndrome) and the effects of which continue to be reflected in this quarter. Many of the potential deals which were postponed during the SARS epidemic were not recovered by the Group during this quarter, and the sales activity were affected significantly. As a result, turnover declined to HK\$14.35 million from HK\$54.05 million compared to the same period last year, a year on year decline of 73.4%. The Group suffered a net loss of HK\$9.95 million for the period.

Business Review

During this quarter, the Group focused on its internal restructure on streamlining operation expense in order to address the overall difficult operating environment. The continuous slowdown in the global economy and the follow on effects of the SARS epidemic have affected the confidence of the industry players in Hong Kong and the PRC and their reluctance to commit spending in technology related investments have cost the Group may potential deals. The Group had to exercise stringent measures to reduce operating costs, and has been selective in its focus on products and customers so as to minimize requirements on cash flow. The Group's overall operating expenses has continued to decline as a result of such measures. As part of the Group's internal restructure, the Group relocated its offices and certain fixed assets were disposed in the process of the relocation, the resulting loss of which was reflected in the results for this period.

With regards to business development, the Group entered into a memorandum of understanding with a telecommunications operator in Macau under which the operator will exclusively use the location based technology solutions of the Group. The Group will continue to explore business opportunities in the PRC in the application of its location based technology solutions.

The Group entered into discussions with some of the major mobile communication service providers to explore possibilities of introducing the Group's solutions for location based services to the products provided by those mobile communication service providers. The initial discussions during this period have been positive, and the Group will focus on developing solutions in order to secure this line of business.

Financial Resources And Liquidity

As at 30 September 2003, the Group had the total assets of HK\$66 million, which was mainly financed by current liabilities of approximately HK\$7 million and shareholders' funds amounting to HK\$59 million approximately.

Current assets amounted to HK\$31 million which mainly comprised of HK\$16 million accounts receivable and HK\$0.1 million cash and bank deposits. The Group had a working capital ratio of approximately 4.6. Fixed assets of the Group amounted to approximately HK\$35 million.

The revenues of the Group are denominated mostly in Hong Kong Dollars and U.S. Dollars. The Group has minimal exposure to foreign exchange fluctuations and seldom needs to make use of financial instruments for hedging purposes.

The Group has no banking facilities available or any bank loans outstanding as at 30 September 2003.

Employees

As at 30 September 2003, the Group had a total of 26 full-time employees, who are engaged in the following operations:

Engineering and R&D	19
Sales and marketing (including field application engineers)	4
Finance, accounting, operation and administration	3
	<hr/>
Total headcount	26
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The Group has undergone an internal restructure and has reduced its total staff from 52 as at 31 March 2003 to 26 as at 30 September 2003.

Business Outlook

While the Group has decreased its business activities heavily as a measure to combat the current difficult operating environment and the follow on effects of the SARS epidemic, the Group does not expect this strategy to continue as the market conditions recover. Going forward, the Group expects to finalise its internal restructuring and streamlining plans in the near future.

The Group continue to be optimistic regarding the future prospects of the application of the Group's location based technology in various markets and segments, and in particular in the market for mobile communication service providers. The Group will continue to focus on expanding its customer base for the application of its location based technology in the PRC.

BUSINESS OBJECTIVES REVIEW

An analysis comparing the business objectives as stated in the Prospectus dated 12 March 2002 with the Group's actual business progress up to 30 September 2003 is set out below:

Business Objectives:

Sales proceeds

- begin generating sales from both Hong Kong and The People's Republic of China excluding Hong Kong (the "PRC") customers, and diversify sales source to include hardware and software as well as service income

Product launches

- launch location-based advertising systems for public transportation companies in Hong Kong and the PRC
- launch auto-navigation systems for customers vehicle markets in Hong Kong and the PRC

Actual Business Progress:

- GPS devices and applications with location-based technology continue to contribute to the Group's turnover for the year. The Group expects to have sales from PRC customer in the coming year

- due to the economic downturn of the last year, the Group delayed the launch of the location-based advertising systems and the launch of the product is expected to be further delayed in coming periods

- the Group has successfully launched the auto-navigation systems with the GIS of full Hong Kong mapping, RoadPilot in December 2002. Further versions with maps of major China cities are under development and are expected to be launched in the coming year.

Sales and marketing

- initiate promotional campaigns and programs for the Group's location-based technology products and applications and expand sales and promotional efforts with the Group's existing business partners in Hong Kong and the PRC
- explore opportunities for the provision of location-based advertising systems on handheld communication devices and with bus operators in Hong Kong
- initiate sales effort and conclude additional sales for GIS/digital maps
- a number of promotional campaigns and programs has been organized during the year. The Group has also participated in various shows in Hong Kong and the PRC in previous periods. It is expected to place more emphasis on promotions in the PRC
- the Group is continuing its review of the potential and opportunities of location-based advertising systems on handheld communication devices in Hong Kong and has made progress in discussing cooperation with telecommunication service providers
- the Group has put in place sales efforts for GIS/digital maps in the PRC

Business developments

- commence feasibility study of establishing a research base in Shanghai or Shenzhen, the PRC
- initiate business opportunities and identify business partners in other countries, particularly in the US, Europe and Southeast Asia
- the Group has established a research and development center in Shenzhen, the PRC in August 2002. The Group is considering setting up another office in Shanghai, the PRC depending on the market response of the products in the PRC in coming year
- the Group has identified a number of business partners from various countries and regions like Malaysia and the US and has commenced negotiation with them for business opportunities in various areas and the Group has successfully aligned itself with one of the telecommunications providers in Macau

- initiate major technical development projects with academic institutions in Hong Kong and in the PRC
- initiate discussions with Internet services providers and content providers in Hong Kong and the PRC for provision of location-based technology services via the Internet
- the Group has finalized a co-operation project with a university in Hong Kong, and is exploring academic institutions in the PRC for potential development projects
- the Group has continued its negotiations with Internet services providers and content providers for provision of location-based technology services via the Internet

Research & development

- finalise development of auto-navigation systems & PDA solutions, and GPRS powered and Internet-enabled portable personal tracking system
- the development of auto-navigation systems & PDA solutions has been finalized and was launched into the market under the brand-name of "RoadPilot" during the year. For the GPRS powered and Internet-enabled portable personal tracking system, the development is progressing and generally in line with the schedule
- continue development of GIS for major cities in the PRC and Southeast Asia
- the Group is continuing the development of GIS for major cities in the PRC. It is expected that GIS for the major cities in the central and northern part of the PRC will be completed later of the coming year.

- commence development of:
 - portable personal tracking devices and integration with 2.5G/3G wireless communication network and voice recognition
 - integration of location-based technology products and services with multimedia features and other information contents
 - public transportation information platform as a part of the intelligent transportation system
 - 3-dimensional GIS
- the Group has commenced development of portable personal tracking devices and integration with 2.5G/3G wireless communication network and voice recognition, and public transportation information platform as a part of the intelligent transportation system. The development is progressing has continued during the period
- the Group is studying the potential of integration of location-based technology products and services with multimedia features and other information contents
- the three-dimensional GIS is under development. In March 2003, the Group acquired the 3-dimensional GeoVisualisation technology from the Chinese University of Hong Kong which marked a milestone in the 3D GIS development of the Group. More results are expected to be obtained in future periods

Human resources, operations and administration

- recruit additional development engineers and dedicated sales staff to cover Hong Kong and the PRC
- due to the overall economic situation and for costs saving purposes, the number of engineers and sales staff have been reduced during the period. As at 30 September 2003, the total headcount of the Group had been reduced to 26
- implement and obtain ISO 9002 certification
- the Group has successfully implemented and obtained ISO 9002 quality certification during the year

Use of Proceeds

The Group raised net proceeds of approximately HK\$23 million upon listing of the Company's shares on GEM of the Stock Exchange on 26 March 2002. As at 30 September 2003, the Group has used up all proceeds from the listing to achieve its business objectives.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 September 2003, the interests and short position of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 Laws of Hong Kong) ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.04 to 5.58 of the GEM Listing Rules were as follows:

A. Ordinary shares of HK\$0.10 each of the company

Name of Director	Type of interest	Number of shares	Percentage of issued share capital
Mr. TSOI Siu Ching, Leo	Corporate (Note 1)	387,888,000	67.34%
Mr. PUN Wai	Personal	426,000	0.07%

The Director's interests in Arcontech Corporation, an intermediate holding company of the Group and Arcon Solutions (BVI) Limited, an immediate holding company of the Group are as follows:

Name of Director	Name of Company	Type of interest	Number of shares
Mr. TSOI Siu Ching, Leo	Arcontech Corporation	Corporate (Note 1)	472,384,000
Mr. TSOI Siu Ching, Leo	Arcon Solutions (BVI) Limited	Corporate (Note 1)	3,250 shares of US\$1.00 each

Note 1: Mr. TSOI Siu Ching, Leo is the beneficial owner of Upgrade Technology Limited which in turn holds 472,384,000 shares in the issued share capital of Arcontech Corporation. Arcontech Corporation is in turn deemed to be interested in 387,888,000 shares in the issued share capital of the Company by virtue of its interests in its wholly owned subsidiary Arcon Solutions (BVI) Limited.

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.

B. Share options

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company may, at their discretion, invite any employees, directors of the Company and/or any of its subsidiaries, any adviser or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group 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 Scheme may not exceed 30% of the issued share capital of the Company. Upon acceptance of the option, the grantee must pay HK\$1.00 to the Company by way of consideration for the grant.

As at 30 September 2003, no option has been granted or agreed to be granted by the Company under the Scheme.

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 period.

Save as disclosed above, at no time during the period 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the interests and short positions or persons, other than a director of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Number of shares	Percentage of issued share capital
Arcon Solutions (BVI) Limited (<i>Note 1</i>)	387,888,000	67.34%

Note 1: Arcontech Corporation is interested in these shares held by its wholly owned subsidiary Arcon Solutions (BVI) Limited. Upgrade Technology Limited is also interested in these shares by virtue of its holding of 472,384,000 shares in the issued capital of Arcontech Corporation. Mr. TSOI Siu Ching, Leo is in turn interested in 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, South China Capital Limited (the "South China"), as at 30 September 2003, neither South China 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 11 March 2002 entered into between the Company and ICEA Capital Limited (the "ICEA"), ICEA received, and will receive sponsorship fees for acting as the Company's retained sponsor until 31 March 2004. As at 8 August 2003, ICEA and the Company mutually agreed to terminate the sponsorship agreement. The Company has appointed South China Capital Limited as its replacement sponsor since 13 August 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2003, 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 6 March 2002. The audit committee has three members comprising Messrs. LIU Kwong Sang, CHAN Chi Tong and PUN Wai. Mr. LIU Kwong Sang 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.

By Order of the Board
Tsoi Siu Ching, Leo
Chairman

Hong Kong, 14 November 2003