



Arcontech Corporation

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8097)

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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 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 (the “Directors”) of Arcontech Corporation (the “Company”) 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. 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 (the "Board") of Arcontech Corporation (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 June 2005, together with the comparative unaudited figures for the corresponding periods in 2004 (the "Relevant Period") as follows:

Condensed Profit and Loss Accounts

	Note	Three months ended 30 June	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover	2	439	1,352
Cost of sales		(190)	(969)
Gross Profit		249	383
Other revenues	2	—	125
Selling and distribution expenses		(20)	(149)
General and administrative expenses		(1,317)	(2,390)
Depreciation		(38)	(7,227)
Operating (loss)/profit		(1,126)	(9,258)
Finance costs	4	(365)	(2,357)
Loss before taxation		(1,491)	(11,615)
Taxation	5	—	—
Loss after taxation		(1,491)	(11,615)
Minority Interests		1,172	1,172
(Loss)/profit attributable to shareholders		(319)	(10,443)
Interim dividend per share		nil	nil
(Loss)/earnings per share — basic	6	(0.39) cents	(1.27) cents

Statement of Changes in Equity

three months ended 30 June 2005

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange Reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
As at 1 April 2004	82,000	183,387	20,943	(230)	(360,378)	(156,283)
Loss for the period	—	—	—	—	(10,443)	(10,443)
Exchange difference	—	—	—	(2)	—	(2)
As at 30 June 2004	<u>82,000</u>	<u>183,387</u>	<u>20,943</u>	<u>(232)</u>	<u>(283,163)</u>	<u>(79,065)</u>
As at 1 April 2005	82,000	183,387	20,943	(235)	(360,378)	(74,283)
Loss for the period	—	—	—	—	(319)	(319)
Exchange difference	—	—	—	—	—	—
As at 30 June 2005	<u>82,000</u>	<u>183,387</u>	<u>20,943</u>	<u>(235)</u>	<u>(360,697)</u>	<u>(74,602)</u>

Notes to Financial Statements

1. Basis of presentation and accounting policies

These unaudited consolidated condensed accounts have been prepared under the historic cost convention and prepared in accordance with SSAP 25, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

These unaudited consolidated accounts should be read in conjunction with the 2005 annual accounts.

The accounting policies and basis of presentation used in interpreting of these unaudited interim financial statements are consistent with those used in the Group's annual accounts for the year ended 31 March 2005.

Certain prior periods' comparative figures have been reclassified to conform with the current period's presentation.

2. Turnover

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

	Three months ended 30 June	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover		
Sale of goods at invoiced value, net of returns and discounts	439	1,352
Total revenues	439	1,352
Other revenues		
Rental income	—	44
Sundry income	—	81
	—	117
Total Revenue	439	1,477

3. Segment information

As the Group's operations are principally located in Hong Kong, no geographical segmental analysis is presented. An analysis of the Group's revenue and segment results by principal business segment is as follows:

	Sales of software and engineering solutions excluding GPS	Sales of software and engineering solutions excluding GPS	Sales of GPS	Sales of GPS	Group	Group
	For the three months ended 30 June 2005	For the three months ended 30 June 2004	For the three months ended 30 June 2005	For the three months ended 30 June 2004	For the three months ended 30 June 2005	For the three months ended 30 June 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>200</u>	1,026	<u>239</u>	326	<u>(439)</u>	1,352
Segment results	<u>(157)</u>	<u>(5,847)</u>	<u>(969)</u>	(3,411)	<u>(1,126)</u>	(9,258)
Finance costs					<u>(365)</u>	<u>(2,357)</u>
Profit/(loss) after taxation					<u>(1,491)</u>	(11,615)
Minority interests					<u>1,172</u>	<u>1,172</u>
Profit/(loss) attributable to shareholders					<u>(319)</u>	<u>(10,443)</u>

4. Finance costs

	Three months ended 30 June	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Interest on bank loans and overdraft	<u>365</u>	<u>2,357</u>
	<u>365</u>	<u>2,357</u>

5. Taxation

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the period ended 30 June 2005 and the corresponding period in 2004.

Taxation on profits of subsidiaries 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

No deferred tax assets have been recorded in the accounts as it is uncertain whether any such amounts will crystallise in the foreseeable future.

6. Earnings/(loss) per share

The calculation of the basic loss per share for the three months ended 30 June 2005 is based on the Group's loss attributable to shareholders of approximately HK\$319,000 (2004: HK\$10,443,000) and the weighted average number of 820,000,000 (2004: 820,000,000) ordinary shares in issued during the period.

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

Interim Dividends

The Board does not recommend the payment of interim dividend for the nine months ended 30 June 2005 (2003: nil).

Management's Discussion and Analysis

Financial Performance

For the three months ended 30 June 2005, the Group has recorded a turnover of approximately HK\$439,000 and recorded a loss attributable to shareholders of approximately HK\$319,000. This represents a decrease of 68% in sales turnover and a decrease of loss attributable to shareholders from approximately HK\$319,000 to approximately HK\$10 million as compared with those in the corresponding period last year. The loss per share for the three months ended 30 June 2005 was HK\$0.39 cents.

Business Review

Despite the lifting of the winding petition in April 2004, the Group's operations were adversely affected while the Company was making a tremendous effort to negotiate with the Bank creditors and an investor trying to finalise a debt restructuring arrangement in the past two years.

For the three months ended 30 June 2005, the Group has successfully controlled and maintained its low operating costs and has been very selective in its focus on products and customers so as to minimize requirements on cash flow and credit risk. The Group's operating expenses have been kept to an minimal level. General and administrative expenses decreased by 81% as compared with last year.

Business Outlook

The debt restructuring agreement was completed followed by execution of a third Supplement Deed to the Compromise Deed among the Group, the Bank creditors and an investor on 16 August 2005. We expect that the Group will return to its normal operation shortly.

The Group has the knowledge to develop client solutions, which serves as a much better alternative to those expensive and extensive hardware-based solutions previously launched. From the past experience, those hardware-based solutions are cost ineffectively and involve a lot of hardware maintenance. Hardware are being phasing out very quickly in the present technology environment and it is a cost burden to keep up with such hardware solutions.

The Directors consider that client solutions are more viable to the Group's core business. The Group will focus on developing new solution-based products and diversify its revenue structure by looking to charge design fees and reduce exposure as well as the financial burden in trading embedded chips.

Directors' Interests and Short Positions in Shares and Debentures

As at 30 June 2005 and up to the date of this report, the interest, deemed interests, long position, short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") as recorded in register required to be kept under the Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

The Directors' interest in the Company:

Name	Type of interest	Number of shares	Percentage of issued share capital	
			As at 30 June 2005	As at the date of this report
Mr. Tsoi Siu Ching, Leo	Corporate (Note 1)	234,584,000	28.61%	—
		4,984,000	—	0.61%

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

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)

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 Ordinary Shares (Note 4)	387,888,000 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 summarised in paragraph (j) under the subsection headed "Corporate reorganisation" in the Company's prospectus dated 8 August 2000.*
- Note 4: As at 31 March 2005, Mr. Tsoi Siu Ching, Leo held 20.61% 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, as at 30 June 2005, none of the Directors, chief executive of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Listing Rules relating to Securities Transactions by Directors to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this document pursuant to the requirement of the Takeovers Code.

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 of 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 2005, no other options has been granted under the Scheme and none of the options has been exercised and all the options have lapsed as certain grantees have ceased to be employees of the Group. All options under the Plan & Scheme have been granted to each grantee in consideration for the payment of HK\$1.00.

Substantial Shareholders

As at 30 June 2005 and up to the date of this report, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than interest disclosed in "Directors' and chief executive's Interests and Short Positions in Shares and Underlying Shares", the following shareholders had notified the Company of their relevant interests or deemed interests in the issued capital of the Company:

Name	Capacity	Type of interest	Number of shares		Percentage of issued share capital	
			As at 30 June 2005	As at the date or this report	As at 30 June 2005	As at the date of this report
Oaktree Capital Management LLC	Interest of a controlled corporation	Corporate	99,910,000	99,910,000	12.18%	12.18%
OCM Emerging Market Fund L.P.	Beneficial Owner	Corporate	99,910,000	99,910,000	12.18%	12.18%
Chinese Star Limited	Trustee	Corporate	238,800,000	238,800,000	29%	29%
Honour Sky International	Interest of a controlled corporation	Corporate	238,800,000	238,800,000	29%	29%
Kung Ching	Beneficial of Trust	Personal	238,800,000	238,800,000	29%	29%
Sino Breakthrough Limited	Beneficial Owner	Corporate	238,800,000	238,800,000	29%	29%
Smarty Fortune Limited	Interest of a controlled corporation	Corporate	238,800,000	238,800,000	29%	29%
Xiang Xin	Founder of discretionary trust	Personal	238,800,000	238,800,000	29%	29%
HSBC International Trustee Limited	Trustee	Corporate	238,800,000	238,800,000	29%	29%
Hercules Capital Limited		Corporate	—	65,600,000	—	8%
Moonbo Limited	Trustee	Corporate	—	106,660,000	—	13%

Save as disclosed above, the Directors are not aware of any person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2005.

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.

Purchase, Sale or Redemption of Listed Securities

During the three months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The audit committee has three members comprising Messrs. Lo Chi Ko, Ho Yung Sang and Zhang Jin Fu. Mr. Lo Chi Ko has been appointed chairman of the audit committee. The terms of reference of the audit committee has been established with regard to Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group.

Corporate Governance

The Directors are of the opinion that the Company has compiled with the board practice and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 March 2005.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquires of all the Directors, the Directors have compiled with the required standard of dealings and code of conduct regarding directors' securities transactions for the period review.

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rule 5.09 of the GEM Listings. The Company considers all of the independent non-executive directors are independent.

By order of the Board
Tsoi Siu Ching, Leo
Chairman

Hong Kong, 17 September 2005

As at the date of this report, the board of directors of the Company comprising two executive directors, namely Messrs. Tsoi Siu Ching, Leo and Chan Kwok Choi; and three independent non-executive directors namely Messrs. Lo Chi Ko, Ho Yung San and Zhang Jin Fu.