



# 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.**

**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](http://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.*

## **CHAIRMAN'S STATEMENT**

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

### **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 the winding up petition by a bank creditor of the Group in July 2003. 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 also affected significantly by the winding up petition. As a result, turnover declined to HK\$80.6 million from HK\$388.5 million compared to the same period last year, a decline of 79.3%. The Group suffered a net loss of HK\$16.7 million for the period (2002: Profit of HK\$24.9 million).

The directors do not recommend the payment of interim dividend for the six months ended 30 September 2003 (2002: HK0.85 cent).

### **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 Group has exercised 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.

### **Business Outlook**

While the Group has decreased its business activities heavily as a measure to combat the 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.

## 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 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

	Note	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	2	80,573	388,473	22,366	269,328
Cost of sales		(65,430)	(311,862)	(12,736)	(225,757)
		<u>15,143</u>	<u>76,611</u>	<u>9,630</u>	<u>43,571</u>
Other revenues	2	143	440	86	211
Selling and distribution costs		(479)	(5,924)	(231)	(3,934)
General and administrative expenses		(18,225)	(26,412)	(5,652)	(20,024)
Loss on deemed disposal of interest in a subsidiary		(20)	—	—	—
Depreciation		(10,333)	(10,358)	(2,850)	—
		<u>(13,771)</u>	<u>34,357</u>	<u>983</u>	<u>19,824</u>
Operating (loss) /profit before extraordinary items		(13,771)	34,357	983	19,824
Loss on disposal of fixed assets		(1,766)	—	(1,766)	—
		<u>(15,537)</u>	<u>34,357</u>	<u>(783)</u>	<u>19,824</u>
Operating (loss) /profit	3	(15,537)	34,357	(783)	19,824
Finance costs	5	(4,530)	(2,812)	(2,058)	(1,351)
		<u>(20,067)</u>	<u>31,545</u>	<u>(2,841)</u>	<u>18,473</u>
(Loss)/profit before taxation		(20,067)	31,545	(2,841)	18,473
Taxation	6	—	(5,810)	—	(3,590)
		<u>(20,067)</u>	<u>25,735</u>	<u>(2,841)</u>	<u>14,883</u>
(Loss)/profit after taxation		(20,067)	25,735	(2,841)	14,883
Minority interests		3,405	(863)	1,838	(16)
		<u>(16,662)</u>	<u>24,872</u>	<u>(1,003)</u>	<u>14,867</u>
(Loss)/profit attributable to shareholders		(16,662)	24,872	(1,003)	14,867
Interim dividend per share		Nil	0.85 cent	Nil	0.50 cent
		<u>Nil</u>	<u>0.85 cent</u>	<u>Nil</u>	<u>0.50 cent</u>
(Loss)/earnings per share — basic	7	(2.03) cents	3.09 cents	(0.12) cent	1.81 cents
		<u>(2.03) cents</u>	<u>3.09 cents</u>	<u>(0.12) cent</u>	<u>1.81 cents</u>

## Consolidated Balance Sheet

		<b>As at 30 September 2003</b>	<b>As at 31 March 2003</b>
	<i>Note</i>	<i>HK\$'000 (Unaudited)</i>	<i>HK\$'000 (Audited)</i>
Fixed assets		72,231	84,500
Interests in associated companies		4	4
Current assets			
Inventories		55,648	90,831
Trade receivables	8	65,692	107,537
Deposits, prepayments and other receivables		55,950	57,386
Tax recoverable		7,129	6,728
Cash and bank balances		4,033	3,621
		<u>188,452</u>	<u>266,103</u>
Current liabilities			
Trade payables	9	29,070	114,682
Other payables and accruals		5,901	8,463
Amount due to a director		1,008	168
Current portion of long term liabilities	10	21,470	21,814
Trust receipts and factoring loans		155,766	143,012
Bank overdraft		25,111	21,758
		<u>238,326</u>	<u>309,897</u>
Net current liabilities		<u>(49,874)</u>	<u>(43,794)</u>
		<u>22,361</u>	<u>40,710</u>
Financed by:			
Share capital	11	82,000	82,000
Reserves		(80,068)	(63,404)
Shareholders' funds		1,932	18,596
Minority interests	10	20,429	22,114
		<u>22,361</u>	<u>40,710</u>

## Condensed Consolidated Cash Flow Statement

	<b>For the six months ended 30 September 2003 <i>HK\$'000</i> (Unaudited)</b>	<b>For the six months ended 30 September 2002 <i>HK\$'000</i> (Unaudited)</b>
Net cash outflow from operating activities	(19,156)	(165,920)
Net cash outflow from investing activities	(2)	(1,021)
Net cash outflow before financing	(19,158)	(166,941)
Net cash inflow from financing	16,271	239,562
(Decrease)/increase in cash and cash equivalents	(2,887)	72,621
Effect of foreign exchange rate changes	(54)	(449)
Cash and cash equivalents at beginning of the period	(18,137)	(29,192)
Cash and cash equivalents at the end of the period	<u>(21,078)</u>	<u>42,980</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	4,033	59,941
Bank overdrafts	(25,111)	(16,961)
	<u>(21,078)</u>	<u>42,980</u>

## Consolidated Statement of Changes in Equity (Unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Proposed interim dividend HK\$'000	Total HK\$'000
As at 1 April 2003	82,000	183,387	20,943	(230)	(267,504)	—	18,596
Loss for the period	—	—	—	—	(16,662)	—	(16,662)
Exchange differences	—	—	—	(2)	—	—	(2)
As at 30 September 2003	<u>82,000</u>	<u>183,387</u>	<u>20,943</u>	<u>(232)</u>	<u>(284,166)</u>	<u>—</u>	<u>1,932</u>
As at 1 April 2002	72,000	74,242	20,943	(122)	170,413	—	337,476
Issue of shares pursuant to placing	10,000	113,000	—	—	—	—	123,000
Share issuing expenses	—	(3,855)	—	—	—	—	(3,855)
Profit attributable to shareholders	—	—	—	—	24,872	—	24,872
2002 Final dividend	—	—	—	—	(8,200)	—	(8,200)
2003 Interim dividend	—	—	—	—	(2,870)	—	(2,870)
2003 Proposed interim dividend	—	—	—	—	(4,100)	4,100	0
Exchange differences	—	—	—	(449)	—	—	(449)
As at 30 September 2002	<u>82,000</u>	<u>183,387</u>	<u>20,943</u>	<u>(571)</u>	<u>180,115</u>	<u>4,100</u>	<u>469,974</u>

### 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 Society of Accountants ("HKSA").

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.

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

In the current period, the Group has adopted, for the first time, the new and revised Statement of Standard 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 Group is principally engaged in the design, development of software and engineering solutions including sales of semiconductors, and the location-based technology devices and applications (“GPS”) in Hong Kong. Revenues recognized during the Relevant Period are as follows:

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover				
Sale of goods at invoiced value, net of returns and discounts	80,573	379,437	22,366	267,297
Royalty income	—	9,036	—	2,031
	<u>80,573</u>	<u>388,473</u>	<u>22,366</u>	<u>269,328</u>
Other revenues				
Operating lease rental income from investment property	97	—	52	—
Interest income	2	367	2	190
Software and internet service income	—	73	—	21
Sundry income	44	—	32	—
	<u>143</u>	<u>440</u>	<u>86</u>	<u>211</u>
Total revenues	<u>80,716</u>	<u>388,913</u>	<u>22,452</u>	<u>269,539</u>



## 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 six months ended 30 September 2003 HK\$'000	For the six months ended 30 September 2002 HK\$'000	For the six months ended 30 September 2003 HK\$'000	For the six months ended 30 September 2002 HK\$'000	For the six months ended 30 September 2003 HK\$'000	For the six months ended 30 September 2002 HK\$'000
Turnover	<u>66,217</u>	<u>334,447</u>	<u>14,356</u>	<u>54,026</u>	<u>80,573</u>	<u>388,473</u>
Segment results	<u>(5,584)</u>	<u>31,226</u>	<u>(9,953)</u>	<u>3,131</u>	<u>(15,537)</u>	<u>34,357</u>
Finance costs					<u>(4,530)</u>	<u>(2,812)</u>
(Loss)/profit before taxation					<u>(20,067)</u>	<u>31,545</u>
Taxation					<u>—</u>	<u>(5,810)</u>
(Loss)/profit after taxation					<u>(20,067)</u>	<u>25,735</u>
Minority interests					<u>3,405</u>	<u>(863)</u>
(Loss)/profit attributable to shareholders					<u>(16,662)</u>	<u>24,872</u>

### 3. Operating (loss)/profit

Operating (loss)/profit is stated after charging the following:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation:		
Owned fixed assets	10,143	10,168
Leased fixed assets	190	190
	<u>10,333</u>	<u>10,358</u>

### 4. Staff costs

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	8,584	15,458
Retirement scheme contributions	134	342
	<u>8,718</u>	<u>15,800</u>

### 5. Finance costs

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	4,511	2,774	2,040	1,332
Interest element of finance leases	19	38	18	19
	<u>4,530</u>	<u>2,812</u>	<u>2,058</u>	<u>1,351</u>

## 6. 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.

Hong Kong profits tax has been calculated at 16% on the estimated assessable profits of the Group for the six months ended 30 September 2002 and three months ended 30 September 2002.

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.

## 7. (Loss)/earnings per share

The calculation of basic loss per share for the six months ended 30 September 2003 is based on the Group's loss attributable to shareholders of approximately HK\$16,662,000 (2002: Profit of HK\$24,872,000) and the weighted average number of 820,000,000 ordinary shares (2002: 804,699,454 ordinary shares) in issue during the period.

The calculation of basic loss per share for the three months ended 30 September 2003 is based on the Group's loss attributable to shareholders of approximately HK\$1,003,000 (2002: Profit of HK\$14,867,000) and 820,000,000 ordinary shares (2002: 820,000,000 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.

## 8. Capital expenditures

	<b>Fixed assets</b>
	<i>HK\$'000</i>
6 months ended 30 September 2003	
Opening net book amount	84,500
Additions	2
Disposal	(1,938)
Depreciation	(10,333)
	<hr/>
Closing net book amount	<u>72,231</u>

## 9. Trade receivables

Details of ageing analysis of trade receivables were as follows:

	<b>As at 30 September 2003</b>	<b>As at 31 March 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	444	20,636
31-60 days	257	30,389
61-90 days	15,347	28,577
Over 90 days	398,868	377,159
	<hr/>	<hr/>
	414,916	456,761
Less: Provision for doubtful debts	(349,224)	(349,224)
	<hr/>	<hr/>
	65,692	107,537
	<hr/> <hr/>	<hr/> <hr/>

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

## 10. Trade payables

Details of ageing analysis of trade payables were as follows:

	<b>As at 30 September 2003</b>	<b>As at 31 March 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	7	69,465
31-60 days	274	2,987
61-90 days	52	11,136
Over 90 days	28,737	31,094
	<hr/>	<hr/>
	29,070	114,682
	<hr/> <hr/>	<hr/> <hr/>

## 11. Long term liabilities

	<b>As at 30 September 2003</b> <i>HK\$'000</i>	<b>As at 31 March 2003</b> <i>HK\$'000</i>
Bank loans	21,307	21,505
Obligations under finance leases	200	309
	<u>21,507</u>	<u>21,814</u>
Current portion of long term liabilities	(21,507)	(21,814)
	<u>—</u>	<u>—</u>

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

	<b>As at 30 September 2003</b> <i>HK\$'000</i>	<b>As at 31 March 2003</b> <i>HK\$'000</i>
Within one year	231	362
Future finance charges on finance leases	(31)	(53)
	<u>200</u>	<u>309</u>

The present value of finance lease liabilities is as follows:

Within one year	<u>200</u>	<u>309</u>
-----------------	------------	------------

## 12. Share capital

Details of ageing analysis of trade receivables were as follows:

	<b>As at 30 September 2003</b> <i>HK\$'000</i>	<b>As at 31 March 2003</b> <i>HK\$'000</i>
Authorised:		
30,000,000,000 ordinary shares of HK\$0.10 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid:		
820,000,000 ordinary shares of HK\$0.10 each	<u>82,000</u>	<u>82,000</u>

### 13. 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:

	<b>As at 30 September 2003</b>	<b>As at 31 March 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	418	2,873
In the second to fifth year	264	2,001
	<u>682</u>	<u>2,874</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:

	<b>As at 30 September 2003</b>	<b>As at 31 March 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 Performance**

For the six months ended 30 September 2003, the Group has recorded a turnover of HK\$80.6 million and recorded a loss attributable to shareholders of HK\$16.7 million. This represents a decrease of 79.3% in sales turnover and a drop of profit attributable to shareholders from HK\$24.9 million to a loss of HK\$16.7 million as compared with those in the corresponding period last year. The loss per share for the six months ended 30 September 2003 was HK2.03 cents.

### **Business Review**

During this quarter, the Group faced extreme challenges as one of the bank creditors of the Group commenced winding up proceedings against the Company and its principal subsidiary, Arcon Technology Limited. The operations of the Group was severely affected, and the Group faced difficulties in securing sales and supplies. The Group therefore during this period turned its attention on internal restructure on streamlining operation expense in order to address the extremely difficult operating environment. The Group has exercised 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.

### **Financial Resources and Liquidity**

As at 30 September 2003, the Group has the total assets of HK\$261 million, which was mainly financed by current liabilities of HK\$238 million approximately and shareholders' funds amounting to HK\$2 million approximately.

Current assets amounted to HK\$188 million which mainly comprised of HK\$66 million accounts receivable and HK\$4 million cash and bank deposits. The Group had a working capital ratio of approximately 0.79. Fixed assets of the Group amounted to approximately HK\$72 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 banking facilities of the group previously obtained were not available as at 30 September 2003 due to the winding up petition by a bank creditor.

## **Employees**

As at 30 September 2003, the Group had a total of 76 full-time employees, who are engaged in the following operations:

Engineering and R&D	55
Sales and marketing (including field application engineers)	9
Finance, accounting, operation and administration	12
	<hr/>
Total headcount	76
	<hr/> <hr/>

The Group has undergone a restructure and achieved to reduce its total staff from 153 as at 31 March 2003 to 76 as at 30 September 2003.

## **Business Outlook**

Given the positive signs of recovery of the global economy, the Group's products, particularly those used in consumer electronics industry continue to be in demand. The extreme measures taken by the Group in its internal restructure and cost control measures has given the Group a platform to take advantage of the recovery in the market.



## 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

	Type of interest	Number of shares	Percentage of issued share capital
<i>Name of director:</i>			
Mr. Tsoi Siu Ching, Leo	Corporate (Note 1)	472,384,000	57.61%
<i>Name of ex-director:</i>			
Mr. Mak Kam Wah	Personal	3,814,000	0.47%

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

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

<b>Name</b>	<b>Corporate Interests</b>	<b>Total Interests</b>
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 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 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 September 2003, no other options has been granted under the Scheme and none of the options has been exercised. However, options to subscribe for 25,200,000 shares 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. Particulars of the outstanding options granted to the Directors, the senior managers and certain employees of the Group are set out below:

<b>Name</b>	<b>Pre-IPO Share Option Plan Number of underlying shares</b>	<b>Share Option Scheme</b>
<i>Ex-director:</i>		
Mr. Mak Kam Wah	—	3,600,000
<i>Senior Management:</i>		
The estate of late Mr. Tien Chang Lin	14,400,000	—
Mr. Cheng Lee Lung	7,200,000	—
Ms. Ho Kwan Yin	—	14,400,000

## **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:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Upgrade Technology Limited ( <i>Note 1</i> )	472,384,000	57.61%
Oaktree Capital Management LLC	92,020,000	11.22%

*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.

## **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. LO Chi Ko, HO Yung San and YIP Ho Bun, Edwin. Mr. LO Chi Ko 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, 31 December 2003