



ARCONTECH CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8097)

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 Stock Exchange takes no responsibility for the contents of this announcement, 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 announcement.

This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FIRST QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Arcontech Corporation (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2004, together with the comparative unaudited figures for the corresponding period in 2003 (the “Relevant Periods”) as follows:

		Three months ended	
		30 June	
	Note	2004	2003
		HK\$'000	HK\$'000
Turnover	2	1,352	58,207
Cost of sales		<u>(969)</u>	<u>(52,694)</u>
Gross profit		383	5,513
Other revenues	2	125	57
Selling and distribution expenses		(149)	(248)
General and administrative expenses		(2,390)	(12,573)
Depreciation		(7,227)	(7,483)
Loss on deemed disposal of Subsidiary		<u>-</u>	<u>(20)</u>
Operating loss		(9,258)	(14,754)
Finance costs	3	<u>(2,357)</u>	<u>(2,472)</u>
Loss before taxation		(11,615)	(17,226)
Taxation	4	<u>-</u>	<u>-</u>
Loss after taxation		(11,615)	(17,226)
Minority interests		<u>1,172</u>	<u>1,567</u>
Loss attributable to shareholders		<u><u>(10,443)</u></u>	<u><u>(15,659)</u></u>
Interim dividend per share		<u><u>nil</u></u>	<u><u>nil</u></u>
Loss per share – basic	5	<u><u>1.27 cents</u></u>	<u><u>1.91 cents</u></u>

Notes to condensed accounts:

1. Basis of preparation 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 (“HKSA”). They have been prepared under the historical cost convention as modified by the revaluation of investment properties.

2. Turnover and revenue

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

	Three months ended	
	30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of goods at invoiced value, net of returns and discounts	<u>1,352</u>	<u>58,207</u>
Other revenues		
Interest income	-	2
Rental income	44	44
Sundry income	<u>81</u>	<u>11</u>
	<u>125</u>	<u>57</u>
Total revenues	<u><u>1,477</u></u>	<u><u>58,264</u></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 For the three months ended 30 June 2004 HK\$'000	Sales of software and engineering solutions excluding GPS For the three months ended 30 June 2003 HK\$'000	Sales of GPS For the three months ended 30 June 2004 HK\$'000	Sales of GPS For the three months ended 30 June 2003 HK\$'000	Group For the three months ended 30 June 2004 HK\$'000	Group For the three months ended 30 June 2003 HK\$'000
Turnover	<u>1,026</u>	<u>44,459</u>	<u>326</u>	<u>13,748</u>	<u>1,352</u>	<u>58,207</u>
Segment results	<u>(5,847)</u>	<u>(10,151)</u>	<u>(3,411)</u>	<u>(4,603)</u>	<u>(9,258)</u>	<u>(14,754)</u>
Finance costs					<u>(2,357)</u>	<u>(2,472)</u>
Loss before taxation					<u>(11,615)</u>	<u>(17,226)</u>
Taxation					<u>-</u>	<u>-</u>
Loss after taxation					<u>(11,615)</u>	<u>(17,226)</u>
Minority interests					<u>1,172</u>	<u>1,567</u>
Loss attributable to shareholders					<u>(10,443)</u>	<u>(15,659)</u>

3 Finance costs

	Three months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	<u>2,357</u>	<u>2,453</u>
Interest element of finance leases	<u>-</u>	<u>19</u>
	<u>2,357</u>	<u>2,472</u>

4 Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the period ended 30 June 2004 (2003: nil).

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.

5. Loss per share

The calculation of basic loss per share for the three months ended 30 June 2004 is based on the Group's loss attributable to shareholders of approximately HK\$10,443,000 (2003: HK\$15,659,000) and weighted average number of 820,000,000 ordinary shares (2003: 820,000,000 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 period.

6. Movement of reserves

	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	183,387	20,943	(230)	(267,504)	(63,404)
Loss attributable to shareholders	–	–	–	(15,659)	(15,659)
Exchange differences	–	–	(2)	–	(2)
At 30 June 2003	<u>183,387</u>	<u>20,943</u>	<u>(232)</u>	<u>(283,163)</u>	<u>(79,065)</u>
At 1 April 2004	183,387	20,943	(235)	(360,378)	(156,283)
Loss attributable to shareholders	–	–	–	(10,443)	(10,443)
Exchange differences	–	–	(2)	–	(2)
At 30 June 2004	<u>183,387</u>	<u>20,943</u>	<u>(237)</u>	<u>(370,821)</u>	<u>(166,728)</u>

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the three months ended 30 June 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the three months ended 30 June 2004, the Group has recorded a turnover of HK\$1.4 million and recorded a loss attributable to shareholders of HK\$10.4 million. This represents a decrease of 97.7% in sales turnover and a drop of loss attributable to shareholders from HK\$15.7 million to a loss of HK\$10.4 million as compared with those in the corresponding period last year. The loss per share for the three months ended 30 June 2004 was HK1.27 cents.

Business Review

During the past three months, the operations of the Group was still severely affected by the winding up proceedings against the Company and some of its customers by one of the bank creditors of the Group, which the Group is pleased to report has been lifted during the period under review. The Group therefore during this period turned its attention on continuing its internal restructure on streamlining operation expense in order to address the 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.

During the period under review, the Group's unaudited consolidated turnover and loss attributable to shareholders are HK\$1.4 million (2003: HK\$58.2 million) and HK\$10.4 million (2003: HK\$15.7 million) respectively. There is a 97.7% decrease in turnover with a 33.3% decline in loss attributable to shareholders over the corresponding period last year.

Gross profit increased from 9.5% to 28.3% for the three months period under review. The increase in gross profit is mainly due to the maintenance fee received from GPS services.

General and administrative expenses decreased by 81.0% because of the adoption of the new operation plan, which streamlined the operations and efficiently allocated resources.

The winding up petition was finally lifted on 26 April 2004 and the Group has been in negotiation with its Bank creditors for the restructuring of its debts. The lifting of the petition has allowed the Group to revisit its strategies with regards to resuming normal operations going forward.

PROSPECTS

The market sentiment has picked up significantly and the Group's products are in demand by industry players. The Group has the know how to develop solutions which can replace expensive features often executed through hardware with a much cheaper alternative in software solutions, and this ability of Group continues to attract customer interest.

With the lifting of the winding up petition and the continuing negotiation with its bank creditors regarding a restructuring in its bank debts, the Group expects to be able to gradually resume its operations. The focus of the business, given a weak financial base will be on its design strength in developing new products and to diversify its revenue structure by looking to charge design fees and reduce exposure on trading of embedded chips.

Since the lifting of the petition the Group has secured orders from some customers whose orders have a lead time that extends beyond the period under review and are expected to be reflected in the coming months.

Directors' and executive's interests and short positions in shares and underlying shares

As at 30 June 2004 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 31 March 2004	At the date of this report
Mr. Tsoi Siu Ching, Leo	Corporate (Note 1)	472,384,000	57.61%	–%
		234,584,000	–	28.61%

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 (Notes 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 summarized in paragraph (j) under the subsection headed "Corporate reorganization" in the Company's prospectus dated 8 August 2000.

Note 4: As at 30 June 2004, 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, as at 30 June 2004, 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 2004, 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 2004 and up to the date of this report, the register of substantial shareholders maintained pursuant to Section 336 of 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 31 March 2004	At the date of this report
Oaktree Capital Management LLC	Interest of a controlled corporation	Corporate	99,910,000	12.18%	12.18%
OCM Emerging Market Fund, L. P.	Beneficial owner	Corporate	99,910,000	12.18%	12.18%
Chinese Star Limited	Trustee	Corporate	237,800,000	–	29%
Fair Sharp Investments Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
GZ Trust Corporation	Trustee	Corporate	237,800,000	–	29%
Honour Sky International Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
Kung Ching	Beneficial of trust	Personal	237,800,000	–	29%
Restart International Investment Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
Sino Breakthrough Limited	Beneficial owner	Corporate	237,800,000	–	29%
Smarty Fortune Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
Xiang Xin	Founder of a discretionary trust	Personal	237,800,000	–	29%
HSBC International Trustee Limited	Trustee	Corporate	237,800,000	–	29%

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 2004.

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 2004, 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 with written terms of reference in compliance with Rules 5.23 to 5.25 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.

By Order of the Board
Tsoi Siu Ching, Leo
Chairman

Hong Kong, 11 August 2004

As at the date of this announcement, the board of directors of the Company comprises two executive directors, namely Messrs. Tsoi Siu Ching, Leo and Yip Ho Bun, Edwin; and two independent non-executive directors, namely Messrs. Lo Chi Ko and Ho Yung San.

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and will also remain on the Company's website at "www.arcon.com.hk" for the same date.