



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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This announcement, 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 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.

THIRD QUARTER RESULTS (UNAUDITED)

The board of Directors (the “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 nine months ended 31 December 2004, together with the comparative unaudited figures for the corresponding periods in 2003 (the “Relevant Period”) as follows:

CONDENSED PROFIT AND LOSS ACCOUNTS

	Note	Nine months ended 31 December		Three months ended 31 December	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	2	12,036	100,810	6,858	20,237
Cost of sales		(4,797)	(66,279)	(3,242)	(849)
Gross Profit		7,239	34,531	3,616	19,388
Other revenues	2	5,255	260	5,061	117
Selling and distribution expenses		(517)	(3,093)	(132)	(2,614)
General and administrative expenses	4	(6,953)	(21,220)	(2,082)	(2,995)
Loss on deemed disposal of interest in a subsidiary		–	(20)	–	–
Depreciation		(21,642)	(22,200)	(7,149)	(11,867)
Disposal of fixed assets		(105)	(1,766)	–	–
Operating (loss)/profit		(16,723)	(13,508)	(686)	2,029
Finance costs	5	(7,607)	(7,040)	(2,720)	(2,510)
Loss before taxation		(24,330)	(20,548)	(3,406)	(481)
Taxation	6	(14)	–	–	–
Loss after taxation		(24,344)	(20,548)	(3,406)	(481)
Minority Interests		3,515	4,903	677	1,498
(Loss)/profit attributable to shareholders		<u>(20,829)</u>	<u>(15,645)</u>	<u>(2,729)</u>	<u>1,017</u>
Interim dividend per share		<u>nil</u>	<u>nil</u>	<u>nil</u>	<u>nil</u>
(Loss)/earnings per share – basic	7	<u>(2.54) cents</u>	<u>(1.91) cents</u>	<u>(0.33) cents</u>	<u>0.12 cents</u>

STATEMENT OF CHANGES IN EQUITY*nine months ended 31 December 2004*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2003	82,000	183,387	20,943	(230)	(267,504)	18,596
Loss for the period	-	-	-	-	(15,659)	(15,659)
Exchange difference	-	-	-	(2)	-	(2)
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As at 31 December 2003	<u>82,000</u>	<u>183,387</u>	<u>20,943</u>	<u>(232)</u>	<u>(283,163)</u>	<u>2,935</u>
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As at 1 April 2004	82,000	183,387	20,943	(235)	(360,378)	(74,283)
Loss for the period	-	-	-	-	(20,829)	(20,829)
Exchange difference	-	-	-	(529)	-	(529)
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As at 31 December 2004	<u>82,000</u>	<u>183,387</u>	<u>20,943</u>	<u>(764)</u>	<u>(381,207)</u>	<u>(95,661)</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 Society of Accountants (“HKSA”) and the applicable disclosure requirements of the GEM Listing Rules.

These unaudited consolidated accounts should be read in conjunction with the 2004 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 2004.

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:

	Nine months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover				
Sale of goods at invoiced value, net of returns and discounts	<u>12,036</u>	<u>100,810</u>	<u>6,858</u>	<u>20,237</u>
Total revenues	<u>12,036</u>	<u>100,810</u>	<u>6,858</u>	<u>20,237</u>
Other revenues				
Operating lease rental income from investment property	146	133	18	36
Bad debts recovery	5,043	–	5,043	–
Interest income	6	2	–	–
Sundry income	60	125	–	81
	<u>5,255</u>	<u>260</u>	<u>5,061</u>	<u>117</u>
Total Revenue	<u>17,291</u>	<u>101,070</u>	<u>11,919</u>	<u>20,354</u>

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 excluding excluding GPS For the nine months ended 31 December 2004 <i>HK\$'000</i>	Sales of software and engineering solutions excluding GPS For the nine months ended 31 December 2003 <i>HK\$'000</i>	Sales of GPS For the nine months ended 31 December 2004 <i>HK\$'000</i>	Sales of GPS For the nine months ended 31 December 2003 <i>HK\$'000</i>	Group For the nine months ended 31 December 2004 <i>HK\$'000</i>	Group For the nine months ended 31 December 2003 <i>HK\$'000</i>
Turnover	<u>11,056</u>	<u>86,513</u>	<u>980</u>	<u>14,657</u>	<u>12,036</u>	<u>100,810</u>
Segment results	<u>(5,413)</u>	<u>803</u>	<u>(11,108)</u>	<u>(14,311)</u>	<u>(16,723)</u>	<u>(13,508)</u>
Finance costs					(7,607)	(7,040)
Taxation					<u>(14)</u>	<u>-</u>
Profit/(loss) after taxation					<u>(24,344)</u>	<u>(20,548)</u>
Minority interests					<u>3,515</u>	<u>4,903</u>
Profit/(loss) attributable to shareholders					<u>(20,829)</u>	<u>(15,645)</u>

4. Operating (loss)/profit

The operating profit/(loss) is stated after charging the following:–

	Nine months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation of fixed assets				
Owned fixed assets	21,345	21,915	7,050	10,062
Leased fixed assets	297	285	99	190
Loss on disposal of fixed assets	105	1,766	–	–
	<u>21,537</u>	<u>23,966</u>	<u>7,149</u>	<u>10,252</u>
Staff cost				
basic salaries, allowances and other benefits in kind	3,346	11,403	1,001	14,868
retirement scheme contributions	153	(11)	15	316
	<u>3,499</u>	<u>11,392</u>	<u>1,106</u>	<u>15,184</u>

5. Finance costs

	Nine months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on bank loans and overdraft	7,533	7,021	2,646	2,510
Interest element of finance lease	38	19	13	–
	<u>7,571</u>	<u>7,040</u>	<u>2,659</u>	<u>2,510</u>

6. 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 31 December 2004 and the corresponding period in 2003.

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.

7. Earnings/(loss) per share

The calculation of the basic loss per share for the nine months ended 31 December 2004 is based on the Group's loss attributable to shareholders of approximately HK\$20,829,000 (2003: HK\$15,645,000) and the weighted average number of 820,000,000 (2003: 820,000,000) ordinary shares in issued during the period.

The calculation of the basic loss per share for the three months ended 31 December 2004 is based on the Group's loss attributable to shareholders of approximately HK\$2,729,000 (2003: HK\$1,017,000) and the weighted average number of 820,000,000 (2003: 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 31 December 2004 (2003: nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Performance

For the nine months ended 31 December 2004, the Group has recorded a turnover of approximately HK\$12 million and recorded a loss attributable to shareholders of approximately HK\$20 million. This represents a decrease of 88% in sales turnover and a increase of loss attributable to shareholders from approximately HK\$15 million to approximately HK\$20 million as compared with those in the corresponding period last year. The loss per share for the nine months ended 31 December 2004 was HK\$2.54 cents.

Business Review

For the period ended 31 December 2004, the Group's operations are still affected by the winding proceedings against the Company, though the petition is already lifted by virtue of the stand still agreement signed on 1 April 2004.

Sales volume in this quarter increase significantly at approximately 80% as compared with last quarter due to the fact that the Group's sales are started to pick up following the release of the winding up petition. Our relationship with customers are still very close and the Group's product is still very marketable. It is expected that sales volume will continue to grow in the forthcoming quarter.

In this quarter, the Group continued to exercise stringent measures to reduce the operating costs and have been selective in its focus on products and customers so as to minimize requirements on cash flow. The Group's operating expenses have been controlled tightly, and have kept to an acceptable minimal level. As a result, general and administrative expenses decreased by 70% as a results of the implementation of the Group's cost reduction plan, which streamlined the operations and efficiently allocated resources.

The winding up petition had already been lifted on 26 April 2004. The Group is working closely with its Bank creditors for the debt restructuring which is currently in the final stage. A detailed announcement on the debt restructuring plan will be released as soon as it is once finalized.

Business Outlook

Following the finalization of the debt restructuring arrangement, it is expected that the Group will resume to its full scale normal operations as soon as practicable. The Group has the know how to develop client solutions, which serves as a much better alternative to those expensive hardware-based solutions previously launched. As noted in the last quarter, the Group will focus on developing new products and to diversify its revenue structure by looking to charge design fees and reduce exposure on trading of embedded chips.

The Group has secured orders from customers, and is to be reflected gradually throughout the period under review. It is expected that more customers orders will be finalized and launched.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND DEBENTURES

As at 31 December 2004 and up to the date of this report, the interests, deemed interests, long position, short positions of the Directors and chief executives of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under 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 Transition 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
Mr. Tsoi Siu Ching, Leo	Corporate (Note 1)	234,584,000	28.61%

The Directors' interests 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 Directors' interests 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 nominees of Mr. Tsoi Chiu 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 31 December 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 subsidiary Arcon Solutions (BVI) Limited.

Saved as disclosed above, as at 31 December 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 Takeover 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 31 December 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 31 December 2004, 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
Oaktree Capital Management LLC	Interest of a controlled corporation	Corporate	99,910,000	12.18%
OCM Emerging Market Fund L.P.	Beneficial Owner	Corporate	99,910,000	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 31 December 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 nine months ended 31 December 2004, 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.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

For the period under review, 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 complied with the required standard of dealings and code of conduct regarding directors' securities transactions for the period under review.

CODE OF BOARD PRACTICE

The Directors are of the opinion that the Company has compiled with the Code of Best Practice as set out in Rules 5.35 to 5.45 of the GEM Listing Rules since the Company's listing on GEM in August 2000.

By order of the Board
Tsoi Siu Ching, Leo
Chairman

Hong Kong, 4 February 2005

As at the date of this announcement, 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.

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.