ARCONTECH CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8097)

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This announcement, for which the directors of Arcontech Corporation (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of the Stock Exchange ("GEM") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) 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.

RESULTS

The board of Directors (the "Board") of Arcontech Corporation (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2005, together with the comparative figures for the year ended 31 March 2004 as follows:

	Note	**2005** *HK$'000*	2004 *HK$'000*
Turnover	*2*	**26,497**	100,459
Cost of sales		**(27,457)**	(68,182)
Gross (loss)/profit		**(960)**	32,277
Other revenues	*2*	**202**	348
Selling and distribution expenses		**(456)**	(6,368)
General and administrative expenses		**(39,761)**	(55,357)
Goods returned in respect of sales in prior year		**—**	(41,990)
Loss on disposal/deemed disposal of interests in subsidiaries		**(23)**	(20)
Loss on disposal of fixed assets		**(540)**	(2,085)
Write off of inventories		**(46,205)**	—
Impairment loss recognised in respect of fixed assets		**(21,346)**	—
Reversal of provision/(provision) for inventories		**9,041**	(1,253)
Reversal of provision/(provision) for bad and doubtful debts		**6,924**	(12,287)
Write off of prepayment		**(42,640)**	—
Bad debt written off		**—**	(12,920)
Gain on waiver of amount due to a director		**9,028**	—
Operating loss	*4*	**(126,736)**	(99,655)
Finance costs	*5*	**(10,327)**	(9,387)
Loss before taxation		**(137,063)**	(109,042)
Taxation	*6*	**—**	—
Loss after taxation		**(137,063)**	(109,042)
Minority interests		**7,669**	16,168
Loss attributable to shareholders		**(129,394)**	(92,874)
Basic loss per share	*7*	**15.78 cents**	11.33 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2005

	Share capital *HK$'000*	**Share premium** *HK$'000*	**Merger reserve** *HK$'000*	**Exchange reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 April 2003	82,000	183,387	20,943	(230)	(267,504)	18,596
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	—	—	—	(5)	—	(5)
Loss attributable to shareholders	—	—	—	—	(92,874)	(92,874)
At 31 March 2004	82,000	183,387	20,943	(235)	(360,378)	(74,283)
At 1 April 2004	82,000	183,387	20,943	(235)	(360,378)	(74,283)
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	—	—	—	(49)	—	(49)
Loss on disposal of subsidiaries	—	—	—	23	—	23
Loss attributable to shareholders	—	—	—	—	(129,394)	(129,394)
At 31 March 2005	**82,000**	**183,387**	**20,943**	**(261)**	**(489,772)**	**(203,703)**

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation took place in 2001 and the nominal value of the Company's shares issued in exchange thereof.

1. Basis of presentation and accounting policies

The accounts have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. The assumption is dependent upon the successful completion of the restructuring of the Group's debts, the continuing financial support of the Group's bankers and other external funds being available.

The Group has currently undergone a debt restructure arrangement with its bank creditors. On 27 September 2004, 6 January 2005, 13 April 2005 and 16 August 2005, the Company entered into Debt Assignment and Compromise Deed, Supplemental Deed, Second Supplemental Deed and Third Supplemental Deed respectively with the bank creditors of the Group and an investor in respect of the restructure of indebtedness owed to the bank creditors. With the debt restructuring arrangement, the bank indebtedness including interest will be discharged in consideration of a combination of cash payments, transfer of shares of the Company by a substantial shareholder, new loans and partial waiver of the indebtedness.

After taking the above circumstances into consideration, the Directors prepared the accounts of the Group on the basis that the Group would continue to operate as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets. The effects of these adjustments have not been reflected in the accounts.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has considered the potential impact of these new HKFRSs and concluded that the adoption of these standards would not have a significant impact on its results of operation and financial position.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA. They have been prepared under the historical cost convention as modified by the revaluation of investment properties.

2. Turnover

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

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**26,497**	100,459
Other revenues		
Commission income	**—**	6
Operating lease rental income from investment property	**44**	177
Interest income	**—**	2
Sundry income	**158**	163
	202	348
Total revenues	**26,699**	100,807

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, segment results and segment assets by principal business segment is as follows:

	Sales of software and engineering solutions excluding GPS 2005 *HK$'000*	**Sales of GPS 2005** *HK$'000*	**Group 2005** *HK$'000*	Sales of software and engineering solutions excluding GPS 2004 *HK$'000*	Sales of GPS 2004 *HK$'000*	Group 2004 *HK$'000*
Turnover	**25,055**	**1,442**	**26,497**	85,780	14,679	100,459
Segment results	**(98,656)**	**(28,057)**	**(126,713)**	(52,437)	(47,198)	(99,635)
Loss on disposal/deemed disposal of interests in subsidiaries			**(23)**			(20)
Operating loss			**(126,736)**			(99,655)
Finance costs			**(10,327)**			(9,387)
Loss before taxation			**(137,063)**			(109,042)
Taxation			**—**			—
Loss after taxation			**(137,063)**			(109,042)
Minority interests			**7,669**			16,168
Loss attributable to shareholders			**(129,394)**			(92,874)
Segment assets	**21,024**	**826**	**21,850**	149,067	31,062	180,129
Investments in associated companies			**4**			4
Total assets			**21,854**			180,133
Segment liabilities	**218,975**	**6,582**	**225,557**	238,487	15,929	254,416

	Sales of software and engineering solutions excluding GPS	**Sales of GPS**	**Group**	Sales of software and engineering solutions excluding GPS	Sales of GPS	Group
	2005	**2005**	**2005**	2004	2004	2004
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Other information						
Capital expenditure	**—**	**39**	**39**	20	5	25
Depreciation	**16,059**	**11,772**	**27,831**	17,904	11,966	29,870
Revaluation surplus arising from revaluation of property	**—**	**—**	**—**	(200)	—	(200)
Loss on disposal of fixed assets	**540**	**—**	**540**	998	1,087	2,085
Write off of inventories	**46,205**	**—**	**46,205**	—	—	—
Impairment loss recognised in respect of fixed assets	**4,344**	**17,002**	**21,346**	—	—	—
(Reversal of provision)/ provision for inventories	**(10,419)**	**1,378**	**(9,041)**	(1,556)	2,809	1,253
Write off of bad debt	**42,640**	**—**	**42,640**	—	12,920	12,920
(Reversal of provision)/ provision for bad and doubtful debts	**(6,924)**	**—**	**(6,924)**	3,026	9,261	12,287
Waiver of amount due to a director	**(2,919)**	**(6,109)**	**(9,028)**	—	—	—

4. Operating loss

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

	2005	2004
	HK$'000	*HK$'000*
Auditors' remuneration		
— current year provision	**600**	700
— underprovision in previous years	**200**	439
Depreciation of fixed assets		
— owned assets	**27,816**	29,855
— assets held under finance leases	**15**	15
Operating lease rentals in respect of land and buildings	**1,441**	2,395
Research and development costs *(note (a))*	**2,633**	4,822
Staff costs excluding directors' emoluments		
— salaries, bonus, allowances and benefits in kind	**4,961**	9,282
— retirement benefits scheme contributions	**(15)**	(236)
Revaluation surplus arising from revaluation of property	**—**	(200)
Net exchange loss	**22**	63

(a) Included in the research and development costs were staff costs of HK$2,428,000 (2004: HK$3,221,000) which had also been included in staff costs disclosed above.

5. Finance Cost

	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**10,327**	9,368
Interest element of finance leases	**—**	19
	10,327	9,387

6. Taxation

(a) No Hong Kong profits tax has been provided in the accounts as the Group had no assessable profits for the year. No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

(b) The charge for the year can be reconciled to the loss per the consolidated profit and loss account as follow:

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(137,063)**	(109,042)
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	**(23,986)**	(19,082)
Tax effect of expenses that are not deductible	**9,869**	380
Tax effect of income that are not taxable	**(115)**	—
Reversal of deferred tax assets previously not recognised	**(234)**	—
Effect on different tax rates of subsidiaries operating in other jurisdictions	**49**	219
Deferred tax assets not recognised	**14,417**	18,483
	—	—

7. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately HK$129,394,000 (2004: HK$92,874,000) and the weighted average number of 820,000,000 ordinary shares (2004: 820,000,000 ordinary shares) in issue during the year.

Diluted loss per share for both years has not been presented as there were no dilutive potential ordinary shares outstanding as at the balance sheet dates.

EXTRACT OF AUDITORS' REPORT

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the basis adopted in the preparation of the Group's accounts. The Group incurred a loss attributable to shareholders of HK$129,394,000 for the year ended 31 March 2005 and had net current liabilities and net liabilities of HK$204,452,000 and HK$203,703,000, respectively, as at that date. At present, the banks have suspended all trade lines and overdraft facilities. As detailed in note 2 to the accounts, the Group has undergone a debt restructure arrangement with its bank creditors. During and after the year ended 31 March 2005, Debt Assignment, Compromise Deed and Supplemental Deeds were entered into between the Company, its bank creditors and an investor in respect of the restructure of indebtedness owed to the bank creditors. With the debt restructuring arrangement, the bank indebtedness including interest will be discharged in consideration of a combination of cash payments, transfer of shares of the Company by a substantial shareholder, new loans and partial waiver of the indebtedness. The accounts have been prepared on a going concern basis, the validity of which depends upon the continuing financial supports from its bank creditors and other external funding being available. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

Qualified opinion arising from disagreement about accounting treatment

Included in trade receivables in the consolidated balance sheet as at 31 March 2005, there were total amount of approximately HK$19,335,000 being trade debts due from three debtors. The debts have been outstanding for periods ranging from one month to over one year and have no subsequent settlement up to the date of this report. The Group has been discussing with these debtors regarding the settlement schedule of their debts. Up to the date of this report, no formal agreement for such settlement schedule was reached. In our opinion, the recoverability of the full amount is in doubt and provision should have been made, increasing the consolidated loss for the year ended 31 March 2005 and the net liabilities of the Group as at that date by the amount of provision. However, due to the unavailability of sufficient information, we could not quantify the effect of the provision at the moment.

Except for the failure to provide for doubtful debt as mentioned in the above paragraphs, in our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 March 2005 (2004: nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Performance

For the year ended 31 March 2005, the Group still operated under difficult financial position because of the adverse impact of the winding up petition filed against the Company in July 2003.

With the continuing effort of the Company to negotiate with the Bank creditors regarding the debt restructuring of the Company, a Standstill Agreement was signed on 1 April 2004 and the winding up petition was dismissed on 26 April 2004. The debt restructuring scheme was already finalised by virtue of a Compromise Deed and three Supplemental Deeds signed during the period from September 2004 to August 2005. An announcement on the details of the final debt restructuring will be made shortly.

The turnover of the Company decreased from HK$100,459,000 to HK$26,497,000. The loss attributable to shareholders was approximately HK$129,394,000.

The gross profit margin decreased from 32.1% in last year to a gross loss of 3.67% in the current year mainly because of the substantial decreased selling price for those slow moving inventories.

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 year ended 31 March 2005, the Group continued 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 operating expenses have been controlled very tightly, and have kept to a minimal level. As a result, general and administrative expenses decreased by approximately 28% 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. The Directors 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 on trading embedded chips.

Financial Resources And Liquidity

As at 31 March 2005, the Group had total assets of approximately HK$22 million, which were financed by current liabilities of approximately HK$225 million, and shareholders' deficit of approximately HK$203 million.

Current assets amounted to approximately HK$21 million, of which approximately HK$667,000 were cash and bank deposits. The Group had a working capital ratio of approximately 0.09.

Charges on Group Assets and Contingent Liabilities

The charge on the Group assets and contingent liabilities are detailed in note 31 to the audited financial statements.

Foreign Exchange Exposure

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

Employees

As at 31 March 2005, the Group had 49 full time employees who were engaged in the following operations:

Engineering and R&D	34
Sales and marketing (including field application engineers)	5
Finance, accounting, operating and administration	10
	49

Significant Investments/Material Acquisitions and Disposals of Subsidiaries

During the year, the Group had no significant investments and no material acquisitions or disposal of subsidiaries.

ADVANCES TO ENTITIES

In accordance with rule 17.15 to 17.17 of the GEM Listing Rules, the Company makes the following disclosures in relation to the details of advances to entities:

Name of entities	**Outstanding balance as at 31 March 2005 (before provision)** *HK$'000*
Windsor Technology Limited	88,885
Mighty Treasure Trading Limited	67,954
He Mu Economy Development Co. Ltd.	62,383
Shanghai Chuen Tian Electronic Company	53,616
SVA Information Industry Company Limited	24,041
Shenzhen He Si Rui Electrical Ltd.	19,733

The above entities are independent third party customers of the Group and the amounts represented trade receivable balances for sales made to the respective customers as at 31 March 2005. The amounts are unsecured, interest-free and repayable in accordance with the credit terms as agreed with respective customers. Full provisions for bad and doubtful debts have been made on all the above amounts in the accounts for the year ended 31 March 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 year ended 31 March 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 Yun Sang and Zhang Jiu Fu. All of them are independent non-executive directors of the Company. The terms of reference of the audit committee have 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. The audit committee met four times during the year to review and supervise the group's financial reporting process and internal control system.

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.