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Characteristics of the Growth Enterprise Market (“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 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 (the “Directors”) of Arcotech 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") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2004, together with the comparative unaudited figures for the corresponding periods in 2003 (the "Relevant Period") as follows:

CONDENSED PROFIT AND LOSS ACCOUNTS

	Note	Six months ended 30 September		Three months ended 30 September	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	2	5,178	80,573	3,826	22,336
Cost of sales		(1,555)	(65,430)	(586)	(12,736)
		3,623	15,143	3,240	9,630
Other revenues	2	194	143	69	86
Selling and distribution expenses		(385)	(479)	(236)	(231)
General and administrative expenses		(4,817)	(18,225)	(2,532)	(5,652)
Loss on deemed disposal of interest in a subsidiary		-	(20)	-	-
Depreciation		(14,493)	(10,333)	(7,266)	(2,850)
Operating loss before extraordinary items		(15,878)	(13,771)	(6,725)	983
Loss on disposal of fixed assets		(105)	(1,766)	-	(1,766)
Operating loss	4	(15,983)	(15,537)	(6,725)	(783)
Finance costs	5	(4,887)	(4,530)	(2,530)	(2,058)
Operating loss before taxation		(20,870)	(20,067)	(9,255)	(2,841)
Taxation	6	(14)	-	-	-
Operating loss after taxation		(20,884)	(20,067)	(9,255)	(2,841)
Minority Interests		2,838	3,405	1,666	1,838
Loss attributable to shareholders		(18,046)	(16,662)	(7,589)	(1,003)
Interim dividend per share		-	-	-	-
Loss per share – basic	7	(2.20) cents	(2.03) cents	(0.09) cents	(0.12) cents

CONSOLIDATED BALANCE SHEET

	Note	As at	
		30 September 2004 HK\$'000 (unaudited)	31 March 2004 HK\$'000 (audited)
Fixed assets		35,758	52,529
Interest in associated companies		4	4
Current assets			
Inventories		53,877	54,380
Trade receivable	9	20,055	20,258
Deposits, prepayments and other receivables		43,550	43,004
Tax recoverable		–	7,115
Cash and bank balances		2,718	2,843
		120,200	127,600
Current liabilities			
Trade payable	10	23,813	28,063
Other payables and accruals		4,554	8,262
Amount due to a director		4,887	4,766
Current portion of long term liabilities	11	36	21,366
Tax payable		4	–
Trust receipts and factoring loans	11	176,872	155,076
Bank overdraft	11	33,603	29,218
		243,769	246,751
Net current liabilities		(123,569)	(119,151)
		(87,807)	(66,618)
Financed by:			
Share capital		82,000	82,000
Reserves		(174,632)	(156,283)
Capital Deficiency		(92,632)	(74,283)
Minority Interests		4,825	7,665
		(87,807)	(66,618)

STATEMENT OF CHANGES IN EQUITY

Six months ended 30 September 2004

	Share capital	Share premium	Merger reserve	Exchange Reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 difference	-	-	-	(2)	-	(2)
As at 30 September 2003	82,000	183,387	20,943	(232)	(284,166)	1,932
As at 1 April 2004	82,000	183,387	20,943	(235)	(360,378)	(74,283)
Loss for the period	-	-	-	-	(18,046)	(18,046)
Exchange difference	-	-	-	(303)	-	(303)
As at 30 September 2004	82,000	183,387	20,943	(538)	(378,424)	(92,632)

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	For the six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(9,036)	(19,156)
Net cash outflow investing activities	(2)	(2)
Net cash outflow before financing	(9,038)	(19,158)
Net cash inflow from financing	4,831	16,271
Decrease in cash and cash equivalents	(4,207)	(2,887)
Effect of foreign exchange rate changes	(303)	(54)
Cash and cash equivalents at beginning of period	(26,375)	(18,137)
Cash and cash equivalents at end of period	(30,885)	(21,078)
Analysis for balance of cash and cash equivalents		
Cash and bank balance	2,718	4,033
Bank overdrafts	(33,603)	(25,111)
	(30,885)	(21,078)

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:

	Six months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover				
Sale of goods at invoiced value, net of returns and discounts	5,178	80,573	3,826	22,366
Total revenues	5,178	80,573	3,826	22,366
Other revenues				
Operating lease rental income from investment property	128	97	64	52
Interest income	6	2	3	2
Sundry income	60	44	30	32
	194	143	97	86
Total Revenue	5,372	80,716	3,923	22,452

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 six months ended 30 September 2004	For the six months ended 30 September 2003	For the six months ended 30 September 2004	For the six months ended 30 September 2003	For the six months ended 30 September 2004	For the six months ended 30 September 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	4,557	66,217	621	14,356	5,178	80,573
Segment results	(8,899)	(5,584)	(7,084)	(9,953)	(15,983)	(15,537)
Finance costs					(4,887)	(4,530)
Loss after taxation					(20,870)	(20,067)
Minority interests					2,838	3,405
Loss attributable to shareholders					(18,032)	(16,662)

4. Operating loss

The operating loss is stated after charging the following:–

	Six months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation of fixed assets				
Owned fixed assets	14,295	10,143	7,179	5,837
Leased fixed assets	198	190	87	88
	14,493	10,333	7,266	5,925
Staff cost				
basic salaries, allowances and other benefits in kind	2,345	8,484	1,173	3,956
retirement scheme contributions	138	134	69	67
	2,483	134	1,242	4,023

5. Finance costs

	Six months ended		Three months ended	
	30 September		30 September	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on bank loans and overdraft	4,887	4,511	2,798	2,040
Interest element of finance lease	25	19	13	18
	4,912	4,530	2,811	2,058

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 30 September 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. Loss per share

The calculation of the basic loss per share for the six months ended 30 September 2004 is based on the Group's loss attributable to shareholders of approximately HK\$18,046,000 (2003: HK\$16,662,000) 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 30 September 2004 is based on the Group's loss attributable to shareholders of approximately HK\$7,589,000 (2003: HK\$1,003,000) 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.

8. Capital expenditure

	Fixed assets
	<i>HK\$'000</i>
6 months ended 30 September 2004	
Open net book amount	52,529
Additions	–
Disposals	(2,278)
Depreciation	(14,493)
	<hr/>
Closing net book amount	35,758
	<hr/> <hr/>

9. Trade receivables

Detailed of ageing analysis of trade receivables were as follows:

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
0 – 30 days	1,033	254
31 – 60 days	24	96
61 – 90 days	–	19
Over 90 days	372,595	373,486
	373,652	373,855
Less: provision for doubtful debts	(353,597)	(353,597)
	20,055	20,258

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

10. Trade payables

Detailed of ageing analysis of trade payables were as follows:

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
0 – 30 days	601	33
31 – 60 days	16	11
61 – 90 days	6	27
Over 90 days	23,190	27,992
	23,813	28,063

II. Long term liabilities

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
Bank loans	210,475	205,602
Obligations under finance lease	36	58
	210,511	205,660
Current portion of long term liabilities	(210,511)	(205,660)
	-	-

As at 30 September 2004, the Group's obligation under finance leases were payable as follows:

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
Within one year	30	60
Future finance charges on finance leases	(1)	(2)
Present value of finance lease liabilities	29	58
The present value of finance lease liabilities is as follows:		
Within one year	29	58

12. Share capital

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
<i>Authorised:</i>		
30,000,000,000 ordinary shares of HK\$0.01 each	3,000,000	3,000,000
<i>Issued and fully paid:</i>		
820,000,000 ordinary shares of HK\$0.01 each	82,000	82,000

13. Commitments

(a) *Commitments under operating leases*

As at 30 September 2004 and 31 March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
Within one year	234	654
In the second to fifth year	137	334
	371	988

(b) *Capital commitments*

As at 30 September 2004 and 31 March 2004, the Group had commitments in respect of acquisition of fixed assets as follows:

	As at 30 September 2004 HK\$'000	As At 31 March 2004 HK\$'000
Contracted but not provided for	–	540
Authorised but not contracted for	–	–
	–	540

INTERIM DIVIDENDS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 September 2004, the Group has recorded a turnover of approximately HK\$5 million and recorded a loss attributable to shareholders of approximately HK\$18 million. This represents a decrease of 94% in sales turnover and a increase of loss attributable to shareholders from approximately HK\$17 million to approximately HK\$18 million as compared with those in the corresponding period last year. The loss per share for the six months ended 30 September 2004 was HK\$2.2 cents.

Business Review

For the period ended 30 September 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.

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.

Gross profits increased drastically because the Group has successfully sold some of its products, the cost of which have been provided for by our auditors in the past years accounts. This reflects the fact that the Group's product is still very marketable and attractive.

General and administrative expenses decreased by 74% 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 in the last quarter on 26 April 2004. The Group is working 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.

Financial Resources And Liquidity

As at 30 September 2004, the Group has the total assets of approximately HK\$159 million which was mainly financed by current liabilities of approximately HK\$243 million.

Current assets amounted to approximately HK\$120 million which mainly comprised of approximately HK\$20 million accounts receivable, approximately HK\$13 million inventories and approximately HK\$3 million cash and bank deposits. The Group had a working capital ratio of approximately 47% net current liabilities. Fixed assets of the Group amounted to approximately HK\$36 million, net of accumulated depreciation.

The revenues of the Group are denominated 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 will be reconstructed according to the debt restructuring arrangement which is still in progress as at 30 September 2004.

Employees

As at 30 September 2004, the Group had a total of 55 full-time employees, who are engaged in the following operations:

Engineering and R&D	40
Sales and marketing (including field application engineers)	4
Finance, accounting, operation and administration	11
	55

The Group believes that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. Employees are remunerated according to their performance and work experience. In addition to basic salaries, staff benefits include medical scheme, share options and performance bonus.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND DEBENTURES

As at 30 September 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 (Notes 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 30 September 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 30 September 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 30 September 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 September 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%
Arcontech Corporation				

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 September 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 six months ended 30 September 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, 12 November 2004

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.