



SMS

PDA

AV PRODUCTS

WIRELESS PRODUCTS

TFT TV

LCD

annual report **2002**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED :

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 further 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 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 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 in order to obtain up-to-date information on GEM-listed issuers.

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EXECUTIVE DIRECTORS

TSOI Siu Ching, Leo
 MAK Kam Wah
 TONG Ka Ming, Patrick

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHU Ho Hwa, Howard
 WANG Wei Hung

COMPANY SECRETARY

TONG Ka Ming, Patrick, *AHKSA*

QUALIFIED ACCOUNTANT

TONG Ka Ming, Patrick, *AHKSA*

COMPLIANCE OFFICER

TONG Ka Ming, Patrick, *AHKSA*

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
 Hang Seng Bank Limited

JOINT AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
 Graham H.Y. Chan & Co.
Certified Public Accountants

AUDIT COMMITTEE

CHU Ho Hwa, Howard
(Chairman of the Audit Committee)
 WANG Wei Hung
 TONG Ka Ming, Patrick

AUTHORISED REPRESENTATIVES

TSOI Siu Ching, Leo
 TONG Ka Ming, Patrick

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
 Rooms 1901-1905, 19th Floor
 Hopewell Centre
 183 Queen's Road East
 Hong Kong

REGISTERED OFFICE

Ugland House
 P.O. Box 309
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 3711-12
 Cable TV Tower
 9 Hoi Shing Road
 Tsuen Wan
 New Territories
 Hong Kong

	Year ended 31 March		
	2002 HK\$'000	2001 HK\$'000	Change %
Revenue			
Turnover	472,395	430,381	10
Profitability			
Gross Profit	150,596	150,545	—
Operating profit	84,946	124,833	(32)
Profit before taxation	81,032	121,134	(33)
Profit attributable to shareholders	67,612	101,491	(33)
Net worth			
Shareholders' fund	337,476	305,582	10
Per share			
Earning per share	9.39 cents	15.27 cents	(39)
Net assets per share	46.87 cents	44.36 cents	6
Dividend per share (excluding special interim dividend in specie)	3.00 cents	2.50 cents	20
Turnover period			
Inventory turnover period	15 days	5 days	N/A
Trade receivable turnover period	252 days	124 days	N/A

On behalf of the Board of Directors (the "Board"), I am pleased to present to shareholders the annual report of Arcotech Corporation (the "Company") and its subsidiaries (collectively the "Group"), for the year ended 31 March 2002.

FINANCIAL RESULTS

For the financial year ended 31 March 2002, the Group recorded a turnover of approximately HK\$472 million and a net profit attributable to shareholders of approximately HK\$68 million. The net profit of the Group showed a decrease of 33% from that reported in the previous financial year. The turnover of the Group showed an increase of 10% from that of the previous financial year. Gross profit margin for the year was approximately 32% which is a decrease of 3% from that of the previous financial year. Earning per share was HK9.39 cents per share.

DIVIDENDS

The Board recommends the payment of a final dividend of HK1 cent per share for the year ended 31 March 2002 (2001: HK1.5 cents). The dividend will be payable on Friday, 26 July 2002 to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 18 July 2002.

Together with the interim dividend of HK1.00 cent per share for the three months ended 30 June 2001 paid to shareholders on 23 August 2001, the interim dividend of HK0.50 cents per share for the three months ended 30 September 2001 paid to shareholders on 21 November 2001 and the interim dividend of HK0.50 cents per share for the three months ended 31 December 2001 paid on 6 March 2002, total dividends for the year ended 31 March 2002 will amount to HK3 cents per share.

The Register of Members of the Company will be closed from Friday, 12 July 2002 to Thursday, 18 July 2002, both days inclusive, during which period no share transfers will be registered.

DIVIDEND IN SPECIE

In connection with the spin-off of Satellite Devices Corporation and its subsidiaries from the Group and the separate listing of the shares of HK\$0.10 each in the capital of Satellite Devices Corporation on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Board had on 6 February 2002 declared a conditional special interim dividend which was satisfied wholly by a distribution in specie of one share of HK\$0.10 each in the capital of Satellite Devices Corporation for every ten shares of HK\$0.10 each in the share capital of the Company held by shareholders of the Company whose names appeared on the Register of Members on 4 March 2002, on and subject to the terms and conditions described in the circular of the Company dated 15 February 2002. After the spin-off as mentioned above, Satellite Devices Corporation became a non-wholly owned subsidiary of the Group.

BUSINESS REVIEW

Despite the global economic downturn, the Group was able to continue its record of revenue growth in each of the four quarters in the past financial year.

The past year has been challenging for the 3C products (computer peripherals, communication and consumer electronics) and the semiconductor industry. The continued global economic downturn caused a slow down in global consumer spending in 3C products and technology devices. In the second half, the 911 incident took its toll on an already slowing global economy. Asia's export-driven rebound from the serious economic crisis of 1997-98 was impeded further by the global slowdown. The market for consumer electronics was paralyzed until a change in mood around Christmas time.

During the year, the Group operated under increasingly difficult market conditions. Despite adverse market conditions, I am pleased to report an impressive growth in turnover of the Group. Sales reached approximately HK\$472 million which translates to a year-on-year growth of 10%. Meanwhile, net earnings reduced to HK\$68 million representing a year-on-year reduction of 33%. The gross profit margin also reduced to 32%. The growth in turnover indicates the Group's timely adjustment in its marketing and development strategies to capture more ODM customers in the PRC and introduce innovative solutions in line with market trends. The reduction in the gross profit margin indicates the fierce competition in the global 3C products market and reluctance of marketers to launch new products in adverse market conditions. The reduction in profit attributable to shareholders was primarily due to the decrease in gross profit margin and the increase in general and administrative expenses as a result of the enlargement in the Group's operations and the increase in depreciation expenses.

I am extremely pleased to report the successful spin-off and separate listing of Satellite Devices Corporation's shares on the GEM of the Stock Exchange. Satellite Devices Corporation is a subsidiary of the Group specializing in location-based technology applications and solutions. With the expected rapidly increasing popularity of location-based technology in commercial applications, I believe there is huge business potential in GPS devices and applications. I expect Satellite Devices Corporation will make a significant contribution to the Group's performance in the coming years.

In September 2001, the Group established a marketing office and research and development center in Shanghai, the PRC to capture expertise and business opportunities in Central and Northern China. I believe the Yangtze River Delta area of the PRC is emerging into another major manufacturing platform for 3C products. The establishment of the Shanghai marketing office and research and development center is enabling the Group to explore and capitalize on the enormous business opportunities open to it in the "Tenth Five-Year" Plan and accession of the PRC to the WTO.

On 12 April 2002 the Group entered into an agreement with Shanghai Hong Sheng (Norcent) Technology Co., Ltd, a limited liability company established in Shanghai, the PRC relating to supply of solutions and electronic components for audio visual products. On 29 April 2002, the Group raised approximately HK\$119 million by way of issuing 100,000,000 new shares through a top-up placement for the purpose of funding requirements under the said agreement and for general working capital purposes. The Group is therefore in a strong financial position to cope with the requirements of the anticipated sales under the agreement.

The Group went through a rather difficult year during which the market conditions for 3C products deteriorated rapidly as the result of the global economic downturn. Sales in the second quarter was impacted by the severe typhoons hitting Taiwan during early September 2001. The 911 incident and resultant impact in the U.S. took its toll on the already deteriorating market conditions. However, the Group will continue to stand firm as a knowledge-based company with high earning resilience.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 March 2002, the Group had total assets of approximately HK\$544 million, which were financed by current liabilities of approximately HK\$145 million, non-current liabilities of approximately HK\$62 million and shareholders' equity of approximately HK\$337 million.

Current assets amounted to approximately HK\$434 million, of which approximately HK\$76 million were cash and bank deposits. The Group had a working capital ratio of approximately 2.99.

Fixed assets of the Group increased from approximately HK\$63 million to approximately HK\$110 million by the end of the year. The increase in fixed assets were mainly for research and development equipment. This capital expenditure was funded primarily by proceeds raised during the listing of the Company's shares on GEM and internally generated cash.

The Group's banking facilities were secured by corporate guarantees given by the Company and there were approximately HK\$133 million utilized banking facilities, mainly trade financing, as at 31 March 2002. Bank borrowing to equity ratio was 0.39.

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.

Subsequent to the financial year ended 31 March 2002, the Group, on 29 April 2002, raised approximately HK\$119 million by way of issuing 100,000,000 new shares through a top-up placement for the purpose of funding requirements under a supply agreement and for general working capital purposes.

The directors believe that the Group has a strong financial position through the continuously profitable operation of the Group and the top-up placement. The Group is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

EMPLOYEES

As at 31 March 2002, the Group had 216 full-time employees who were engaged in the following operations:

Engineering and R&D	150
Sales and marketing (including field application engineers)	21
Finance, accounting, operation and administration	45
<hr/>	
Total headcount	216

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.

FUTURE PROSPECTS

Although there are still a lot of economic uncertainties around the world, I am cautiously optimistic for worldwide economic recovery. When the global economy recovers, 3C products industry will recover and so will the semiconductor industry. The current financial year is, therefore, expected to be another volatile and perhaps more challenging year than the past financial year.

In light of a very challenging medium-term future, the Group will continue to refine its strategic direction, intensify its cost control measures, focusing even more on the core competencies and operations with growth potential, in particular, in development of the PRC market.

Deteriorating market conditions have caused our customers to delay plans in launching new products, especially market technology devices such as wireless gadgets on 3G and/or GPRS platform, Bluetooth devices and handheld entertainment devices...etc. However, I believe when market sentiment improve, global competition will force our customers to launch new products aggressively. I expect the introduction of these new products with innovative design, technological advancement and applications will help to boost the Group's turnover as well as profitability.

In terms of geographic expansion, the Group is focusing on the PRC market, and I expect it is becoming an increasingly important contributor to the Group's future turnover and profits. To capture opportunities arising from the further development of the Pearl River Delta area and Yangtze River Delta area, being the country's emerging manufacturing platforms for 3C products and technology devices, the Group has plans to recruit additional development engineers and dedicated sale staff to strengthen the PRC business units. I am confident that there will be strong demand from the PRC customers for turnkey device solutions in the field of digital camera, plasma display, HDTV and TFT-LCD TV and monitor for both the export and the domestic market. The Group will continue to produce turnkey device solutions focusing in innovative design, technology advancement and applications, usefulness of functions and marketability.

During the past two decades, Hong Kong has had a very successful business being the prime window of opportunities for businesses wishing to access China, which is one of the fastest growing economies in the world. But as China opens itself to the world, I believe the Group is well positioned to develop itself into a knowledge partner for China and my ambition is to showcase the specific advantages of such partnership with companies in the Pearl River Delta and Yangtze River Delta in this era of globalization.

In today's knowledge-based economy, the Group, as a knowledge-based group, is applying its knowledge to create wealth. Knowledge can be created and regenerated. Knowledge is different from other factors of production such as equipment and plant and natural resources that are subject to depreciation and technological changes. I believe knowledge increases with use and is more valued when shared. Knowledge resides in the minds of people and not so much in machineries or equipment. As such, the Group will continue to strengthen and leverage on its engineering and management team, knowledge library, research and development capabilities, semiconductor expertise and maintain a corporate culture that fosters innovation to position itself for capturing the growing trend of the global 3C products industry and move up the value chain. I am convinced that the Group's business model and strategic direction are and will create value for our shareholders.

ACKNOWLEDGEMENT

In closing, let me thank my fellow directors and management team for their relentless dedication and hard work in overcoming many challenges over the past financial year.

Tsoi Siu Ching Leo

Chairman

Hong Kong, 21 June 2002

An analysis comparing the Group's business objectives as stated in the Company's prospectus dated 8 August 2000 with the Group's actual business progress up to 31 March 2002 is set out below:

Business Objectives:

Actual Business Progress:

Revenue

- | | |
|--|--|
| <ul style="list-style-type: none"> • expand the proportion of sales generated from ASSPs out of the sales from embedded software solutions • expand the proportion of sales from turnkey device solutions out of total turnover • begin generating sales from turnkey device solutions in respect of TFT LCD controllers, digital healthcare devices and home appliances with voice recognition | <ul style="list-style-type: none"> • the sales generated from ASSPs has increased to account for over 50% of the total turnover • the sales turnkey devices solutions has increased to account for over 30% of the total turnover • the Group has commenced selling solutions for TFT LCD controllers. For digital healthcare devices and home appliances with voice recognition, the solutions have been launched in the market and it is expected that orders will be received in the coming few months |
|--|--|

Product launches, sales and marketing

- | | |
|--|--|
| <ul style="list-style-type: none"> • launch embedded software solutions based on SOC implementation • launch turnkey device solutions for TFT LCD controllers, digital healthcare devices and home appliances with voice recognition | <ul style="list-style-type: none"> • the Group has successfully launched embedded software solutions based on SOC implementation for various products, like digital answering machine. The Group will launch a few more embedded software solutions based on RISC architecture semiconductor for applications in information appliances in the coming year • the Group has launched turnkey device solutions for TFT LCD controllers, digital healthcare devices and home appliances with voice recognition during the year. It is expected that they will make contribution to the Group's sales in the coming year |
|--|--|

Business developments

- identify sales opportunities for GPS devices and applications targeted to public and private sector users overseas
- initiate marketing efforts for GPS applications targeted to general consumers and secure endorsement for GPS applications by a car manufacturer
- apply for approvals by relevant overseas medical authorities for digital healthcare products
- set up the SMS and City Band operating centre in Hong Kong to support use of GPS devices and m-commerce applications
- set up the shielded laboratory in Hong Kong for Bluetooth-related R&D
- the Group, through its subsidiary, Satellite Device Corporation, is negotiating with a few companies for business opportunities of its GPS devices and applications in the PRC, U.S. as well as Europe. Also, the Group is planning to exhibit its products in a number of exhibitions and shows overseas to enhance sales opportunities
- the Group has appointed an installation agent for marketing its GPS products to general consumers in Hong Kong and has commenced selling of these products
- the Group is in the process of identifying a car manufacturer's endorsement for its GPS devices
- the Group is finalizing its digital healthcare products with overseas requirements for overseas medical authorities, and is expected to put into test in the coming year
- the Group has entered into an agreement with a security consulting company for operation of SMS and City Band centre in Hong Kong
- the Group has set up the initial stage of the shielded laboratory in Hong Kong for Bluetooth-related R&D and certain purchases for the equipment have been made

Research & development

- commence R&D of embedded software solutions for applications utilizing micro-pressure sensors and pattern recognition technologies, and of turnkey device solutions for walking PCs speech-to-text features
- commence trial run and fine-tuning of auto-navigation system, electronic road pricing and diagnostic rescue system for GPS applications
- complete R&D of Internet-based m-commerce platform for use in PDA products and GPS applications
- complete R&D of digital healthcare products and testing of first Bluetooth module
- commence R&D and integration of Bluetooth technologies, voice recognition and environment control features for applications in intelligent home appliances and other consumer electronics
- the Group is finalizing its development plans for products utilizing micro-pressure sensors and pattern recognition technologies, and has started the research on solutions for walking PCs speech-to-text features
- the Group is fine-tuning its auto-navigation system while testing running by a number of potential customers. For electronic road pricing and diagnostic rescue system for GPS applications, the Group is still studying the market potential for these products before increasing the resources in such research
- the research and development of Internet-based m-commerce platform is continuing and subject to some final adjustments
- for Bluetooth modules and digital healthcare products, they are in the final stage and are expected to be ready for testing in the coming year
- the Group is studying the market potential for products with integration of Bluetooth technologies, voice recognition and environment control features for applications in intelligent home appliances and other consumer electronics

Human resources, operations and administration

- recruit additional operational and engineering staff, and dedicated sales staff for the Group's expansion
- additional operational and engineering staff, and sales staff have been recruited to cope with the expansion of the Group during the year. As at 31 March 2002, the total headcount of the Group had exceeded 210 and there were more than 150 engineers within the Group

Strategic acquisitions and alliances

- explore opportunities to acquire or form alliance with companies providing synergies and technological supports
- the Group is actively pursuing opportunities to establish or acquire technological alliance/ventures which are able to compliment the future business development of the Group. However, up to the end of the year, nothing concrete has been concluded

USE OF PROCEEDS

The Group raised net proceeds of approximately HK\$156 million upon listing of the Company's shares on GEM of the Stock Exchange. By 31 March 2002, the Group had, for the most part, used up all the proceeds from the listing to achieve the business objectives as stated above and substantially in the manner as set out in the Company's prospectus dated 8 August 2000. The proceeds have been applied as follows:

	According to the use of proceeds as stated in the Company's prospectus dated 8 August 2000 HK\$'million	Amount utilized up to 31 March 2002 HK\$'million
Setting up SMS and City Band operating centre to facilitate sales of GPS and m-commerce applications	55	55
Setting up a shielded laboratory dedicated to the R&D of Bluetooth devices and purchase of related equipment (<i>note 1</i>)	50	47
Upgrading the existing R&D facilities and equipment	15	15
On-going product development of GPS and m-commerce applications	10	10
On-going product development of digital healthcare devices (<i>note 2</i>)	10	6
Enhancing sales and marketing efforts to further promote the Group's business	5	5
General working capital purposes	11	11
Total	156	149

Notes :

1. Due to the overall market conditions, Bluetooth products may take longer to fully penetrate into customer products market. The Group has taken a more cautious step in applying funds in this area, thus the application of the proceeds is a little bit slower than expected.
2. The development and testing of digital healthcare devices are slightly behind schedule, thus proceeds applied in this area is less than expected. The balance is expected to be used in the coming year when the products are expected to be ready for the market.

DIRECTORS

Name	Age	Position	Year joining the Group	Business experience
Tsoi Siu Ching Leo	41	Chairman Chief Executive Officer Chief Technology Officer	1992	Over 19 years' experience in semiconductor and electronics industry
Mak Kam Wah	33	Executive director	April 1997	Over 9 years' experience in semiconductor industry
Tong Ka Ming Patrick	36	Executive director	January 2000	Over 9 years' experience in accounting and financial management
Chu Ho Hwa, Howard	38	Independent non-executive director	May 2000	Over 10 years' experience in direct investment and investment banking
Wang Wei Hung	46	Independent non-executive director	May 2000	Practising solicitor for over 15 years

SENIOR MANAGEMENT

Name	Age	Position	Year joining the Group	Business experience
Lee Lai Shing	32	Vice President of Engineering	November 1996	Over 9 years' experience in semiconductor and electronics industry
Tang Ho Cheung	27	Vice President of Information Technology	July 1997	Over 4 years' experience in IT industry
Chau Shi Chiu	30	Vice President of Marketing	March 1998	Over 6 years' experience in semiconductor and electronics industry
Ching Fung Ki	37	Vice President of Administration	October 1996	Over 16 years' experience in daily administration and resource management
Ching Man Leuk	41	Chief Operating Officer	April 2000	Over 18 years' experience in business development and general administration

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group are design, development of software and engineering solutions, including the sales of semiconductors, and the location-based technology devices and applications ("GPS"). All of the Group's turnover was derived from Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 22.

The details of proposed dividends, dividends declared and paid during the year are set out in note 8 to the accounts.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

DONATIONS

The Group did not make any charitable donations during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, and details of the Company's share option scheme are set out in note 19 to the accounts.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 March 2002 are set out in note 13 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2002 amounted to HK\$81,307,000. Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit before taxation by principal activity and geographical market for the year ended 31 March 2002 are set out in note 3 to the accounts.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2002 are set out in note 21 to the accounts.

FINANCIAL SUMMARY

The summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on page 56.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors during the year were:

Mr. TSOI Siu Ching, Leo

Mr. MAK Kam Wah

Mr. TONG Ka Ming, Patrick

Mr. CHU Ho Hwa, Howard *

Mr. WANG Wei Hung *

* Independent Non-executive Directors

Mr. Tong Ka Ming, Patrick will retire by rotation, at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and, being eligible, offers himself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 12.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Tsoi Siu Ching, Leo, Mr. Mak Kam Wah and Mr. Tong Ka Ming, Patrick, the Executive Directors, has entered into a service contract with the Company for a term of two years from 19 July 2000. The two years terms expire on 19 July 2002 and, thereafter, the contracts may be terminated by either party thereto giving to the other not less than six calendar months prior notice in writing, or otherwise in accordance with its terms.

Save as disclosed herein, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save for those contracts in connection with the reorganisation of the Group in connection with the listing of Satellite Devices Corporation, a subsidiary of the Group, and which are disclosed in Satellite Devices Corporation's prospectus dated 12 March 2002, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries, its subsidiaries, its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 19 July 2000. Under the terms of the Plan and the Scheme, the Board of Directors of the Company (the "Board") may, at their discretion, invite any employees or Executive Directors of the Company and/or any of its subsidiaries to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the Plan and the Scheme may not exceed 30% of the issued share capital of the Company.

For the Scheme, the subscription price will be determined by the Board, save for the following: (1) in respect of any option granted prior to the listing of the shares of the Company on GEM, such price will be the issue price of the listing; and (2) for all other option granted upon listing of the shares of the Company on GEM, such price will not be less than the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of grant of the options. With effect from 1 October 2001 with the amendments to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") in share option scheme, the total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant.

The Scheme is valid and effective for a period of ten years from 19 July 2000. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee, such period of time shall not be less than three years from the date on which the option is granted in accordance with the terms of the Scheme and not more than the date falling on the expiry of ten years from the date of grant of the option or the date falling on the expiry of the Scheme, whichever date is later. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

For the Plan, the principal terms are the same as the terms of the Scheme except that : (a) the subscription price for the shares granted under the Plan is the issue price of the listing; (b) the total number of shares subject to the Plan is 28,800,000; (c) the grantee can be Non-executive Directors and employees of the Company and its subsidiaries who are not in full time employment of the Group and consultants and advisers to the Group; and (d) the Plan was terminated on 4 August 2000, being the day immediate prior to the day when bulk printing of the Company's prospectus took place.

As at 31 March 2002, options to subscribe for an aggregate of 64,800,000 shares at an exercise price HK\$1.18 have conditionally been granted by the Company on 20 July 2000 under the Plan and the Scheme. The options granted under the Scheme are exercisable at any time within three years from 16 August 2000 while the options granted under the Plan are exercisable at any time within three years after the expiry of 6 months from 16 August 2000. Each of these shall lapse in accordance with the Plan and the Scheme if the relevant grantee ceases to be employed by the Group. As at 31 March 2002, none of these options has been exercised or has lapsed. All options under the Plan and the 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 of the Company are set out below :

Name	Pre-IPO Share Option Plan	Share Option Scheme
	Number of underlying shares	
<i>Directors :</i>		
Mr. Mak Kam Wah	—	3,600,000
Mr. Tong Ka Ming, Patrick	—	3,600,000
Mr. Chu Ho Hwa, Howard	3,600,000	—
Mr. Wang Wei Hung	3,600,000	—

No options were waived or exercised up to the date of this report.

Save as disclosed above, none of the Directors or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any right during the year and up to the date of this report.

Save as disclosed above, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN EQUITY

As at 31 March 2002 and up to the date of this report, the interests of the Directors and their associates in the share capital of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as required to be recorded in the register maintained under Section 29 of the SDI Ordinance of the Company or which required, pursuant to Rules 5.40 to 5.49 of the GEM Listing Rules to be notified to the Company and the Stock Exchange 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)	472,384,000	57.61%
Mr. Mak Kam Wah	Personal	3,814,000	0.47%
Mr. Tong Ka Ming, Patrick	Personal	3,000,000	0.37%

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: 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 the date of this report, none of the Directors or their associates had any interests in the share capital of the Company and its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the following person is interested in 10% or more of the Company's issued share capital:

Name	Number of shares	Percentage of issued share capital
Upgrade Technology Limited (<i>Note</i>)	472,384,000	57.61%

Note : 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, initial management shareholders and their respective associates of the Company has an interest in a business which competes or may compete with the business of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales		
— the largest customer		22%
— five largest customers combined		69%
Purchases		
— the largest supplier		21%
— five largest suppliers combined		70%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

AUDIT COMMITTEE

The Company established an audit committee on 19 July 2000. The audit committee has three members comprising Messrs. Chu Ho Hwa, Howard, Wang Wei Hung and Tong Ka Ming, Patrick. Mr. Chu Ho Hwa, Howard 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. During the year the audit committee has met 4 times with the management to discuss and review the Group's various issues with a view to further improve the Group's corporate governance.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 31 March 2002, an employee of the Sponsor not involved in providing advice to the Company held 30,000 shares in the Company. In addition, an associate of the Sponsor held 109,629 shares in Satellite Devices Corporation, and an employee of the Sponsor not involved in providing advice to the Company held 3,000 shares in Satellite Devices Corporation.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any company in the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any company in the Group.

Pursuant to the sponsorship agreement dated 7 August 2000 entered into between the Company and the Sponsor, the Sponsor will receive sponsorship fees for acting as the Company's retained sponsor until 31 March 2003.

RETIREMENT SCHEME

Details of the retirement scheme are set out in note 10 to the accounts.

SUBSEQUENT EVENTS

Details of the post balance sheet events which have been taken place subsequent to the balance sheet date are set out in note 26 to the accounts.

AUDITORS

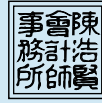
The accounts have been jointly audited by PricewaterhouseCoopers and Graham H.Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tsoi Siu Ching, Leo

Chairman

Hong Kong, 21 June 2002



GRAHAM H.Y. CHAN & CO.
 CERTIFIED PUBLIC ACCOUNTANTS
 HONG KONG

AUDITORS' REPORT TO THE SHAREHOLDERS OF ARCONTECH CORPORATION

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 22 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

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 2002 and of the Group's profit 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 June 2002

Graham H. Y. Chan & Co.

Certified Public Accountants

Hong Kong, 21 June 2002

	Note	2002 HK\$'000	2001 HK\$'000 (restated)
Turnover	3	472,395	430,381
Cost of sales		(321,799)	(279,836)
Gross profit		150,596	150,545
Other revenues	3	691	4,492
Selling and distribution expenses		(10,270)	(3,376)
General and administrative expenses		(63,313)	(26,828)
Gain on deemed disposal of interests in a subsidiary	1	7,242	—
Operating profit	3, 4	84,946	124,833
Finance costs	5	(3,914)	(3,699)
Profit before taxation		81,032	121,134
Taxation	6	(12,906)	(19,643)
Profit after taxation		68,126	101,491
Minority interests		(514)	—
Profit attributable to shareholders	7, 20	67,612	101,491
Dividends	8	35,695	7,200
Basic earnings per share	9	9.39 cents	15.27 cents

	Note	2002 HK\$'000	2001 HK\$'000 (restated)
Fixed assets	12	110,107	62,713
Investments in associated companies	14	4	—
Current assets			
Inventories	15	13,311	3,731
Trade receivables	16	325,925	146,087
Deposits and prepayments		18,596	80,342
Cash and bank balances		76,036	66,891
		433,868	297,051
Current liabilities			
Trade payables	17	6,707	11,171
Other payables and accruals		6,920	4,862
Amount due to a director	18	2,182	2,733
Current portion of long-term liabilities	21	7,607	782
Trust receipt and factoring loans		91,219	13,977
Taxation		16,680	9,620
Bank overdrafts		14,009	5,055
		145,324	48,200
Net current assets		288,544	248,851
		398,655	311,564
Financed by:			
Share capital	19	72,000	72,000
Reserves	20(a)	265,476	233,582
Shareholders' funds		337,476	305,582
Minority interests		31,448	—
Long-term liabilities	21	20,988	1,295
Deferred taxation	22	8,743	4,687
		398,655	311,564

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Tong Ka Ming, Patrick
Director

	Note	2002 HK\$'000	2001 HK\$'000 (restated)
Investments in subsidiaries	13	153,751	156,766
<hr/>			
Current assets			
Deposits and prepayments		49	50
Bank balances		65	624
		114	674
Current liabilities			
Accruals		558	257
Net current (liabilities)/assets		(444)	417
		153,307	157,183
<hr/>			
Financed by:			
Share capital	19	72,000	72,000
Reserves	20(b)	81,307	85,183
Shareholders' funds		153,307	157,183

On behalf of the Board

Tsoi Siu Ching, Leo

Director

Tong Ka Ming, Patrick

Director

	Note	2002 HK\$'000	2001 HK\$'000
Net cash outflow from operating activities	23(a)	(33,617)	(12,255)
Returns on investments and servicing of finance			
Interest received		448	2,704
Interest on bank loans and overdrafts paid		(3,839)	(3,619)
Finance lease charges		(75)	(80)
Dividend paid		(25,200)	(7,200)
Net cash outflow from returns on investments and servicing of finance		(28,666)	(8,195)
Taxation			
Hong Kong profits tax paid		(1,790)	(11,290)
Investing activities			
Purchase of fixed assets		(61,558)	(60,170)
Investment in an associated company		(4)	—
Net cash outflow from investing activities		(61,562)	(60,170)
Net cash outflow before financing		(125,635)	(91,910)
Financing	23(b)		
New bank loans raised		27,300	—
Bank loans repaid		(401)	(7,325)
Repayment of capital element of finance leases		(381)	(495)
Net proceeds from issue of shares by the Company		—	156,680
Net proceeds from issue of shares by a subsidiary to the minority shareholders		22,089	—
Decrease in deposits with banks		—	6,827
Net cash inflow from financing		48,607	155,687
(Decrease)/increase in cash and cash equivalents		(77,028)	63,777
Effect of foreign exchange rate changes		(23)	(99)
Cash and cash equivalents at beginning of the year		47,859	(15,819)
Cash and cash equivalents at the end of the year		(29,192)	47,859
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		76,036	66,891
Bank overdrafts		(14,009)	(5,055)
Trust receipt loans and factoring loans		(91,219)	(13,977)
		(29,192)	47,859

	2002 HK\$'000	2001 HK\$'000
Net loss not recognised in the profit and loss account		
Exchange differences arising on translation of a subsidiary (<i>note 20(a)</i>)	(23)	(99)
Profit attributable to shareholders	67,612	101,491
Total recognised gains and losses	67,589	101,392

1 GROUP RECONSTRUCTION

Arcotech Corporation (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") underwent a group reconstruction in preparation for the separate listing, on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), of its location-based technology solutions and innovations business (the "Group Reconstruction"). The location-based technology solutions and innovations business is operated by a subsidiary of the Group, namely Satellite Devices Limited. Upon completion of the Group Reconstruction, Satellite Devices Corporation ("SDC") became the holding company of Satellite Devices Limited.

As part of the Group Reconstruction, a total of 38,361,600 shares in SDC with an attributable net asset value of HK\$5,592,000 at the date of issue, were issued to the Group's staff at the direction of the Company. In addition, a special interim dividend of HK\$10,495,000 was declared and paid to the then shareholders of the Company by way of a distribution in specie of 72,000,000 shares in SDC.

The spin-off of SDC was completed during the year and SDC's shares were listed on GEM of the Stock Exchange on 26 March 2002. SDC has issued 77,760,000 shares of HK\$0.1 each by way of placing in connection with the spin-off which has diluted the Group's interest to an effective interest of 67.34% in the issued shares of SDC. Gain on deemed disposal of interests in a subsidiary amounting to HK\$7,242,000 represents the difference between the Group's share in SDC's net asset values prior to and after placement of SDC shares in connection with the spin-off of SDC and its subsidiaries on 26 March 2002.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

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 the leasehold land and buildings.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases (effective for periods commencing on or after 1 July 2000)
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, except for some of the subsidiaries which were accounted for using merger accounting as a result of the group reorganisation took place in 2001.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation, being the fair value of the date of revaluation, less subsequent accumulated depreciation or amortisation. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and is determined on the basis of existing use. Increases in valuation are credited to the properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from revaluation reserve to retained earnings.

(ii) Amortisation of leasehold land

Amortisation of leasehold land is calculated to write off its valuation over the unexpired period of the lease on a straight-line basis. The principal annual rate for the purpose is 2%.

(iii) Depreciation of leasehold buildings

Depreciation of leasehold buildings is calculated to write off their valuation over the expected useful lives to the Group on a straight-line basis. The principal annual rate used for this purpose is 4%.

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of other fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Furniture, fixtures and office equipment, and computer equipment	20% - 33 $\frac{1}{3}$ %
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payment made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision, if any.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment, bank loans due within three months and bank overdrafts.

(h) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(j) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balances of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(k) Retirement benefit costs

The Group's contributions to the retirement schemes are expensed as incurred.

(l) Research and development costs

Costs incurred in the research and development of products of the Group are expensed as incurred unless the costs of development satisfy the criteria for the recognition of such costs as assets. During the year, all research and development costs have been expensed.

(m) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title has passed.

Royalty income and commission income on sales referral is recognised when the right to receive payment is established.

Software and internet service income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except for those borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, which are capitalised as part of the cost of that asset. During the year, all borrowing costs have been expensed.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and exclude investments in associated companies. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (note 12).

(p) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 20, this change has resulted in an increase in opening retained earnings at 1 April 2001 by HK\$10,800,000 (1 April 2000: Nil) which is the reversal of the provision for 2001 proposed final dividend previously recorded as a liability as at 31 March 2001 although not declared until after the balance sheet date.

Dividend income is recognised when the right to receive the dividend is established. The Company's profit for the year ended 31 March 2001 were reduced by HK\$10,800,000 (note 20) as a result of the changed policy.

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of goods	445,656	403,775
Royalty income	26,739	26,606
	472,395	430,381
Other revenues		
Commission income	124	—
Software and internet service income	119	1,788
Interest income	448	2,704
	691	4,492
Total revenues	473,086	434,873

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

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		Group 2002 HK\$'000
	excluding GPS	Sales of GPS	
	2002 HK\$'000	2002 HK\$'000	
Turnover	443,835	28,560	472,395
Segment results	82,967	(5,263)	77,704
Gain on deemed disposal of interests in a subsidiary			7,242
Operating profit			84,946
Finance costs			(3,914)
Profit before taxation			81,032
Taxation			(12,906)
Profit after taxation			68,126
Minority interests			(514)
Profit attributable to shareholders			67,612
Segment assets	450,706	93,269	543,975
Investments in associated companies			4
Total assets			543,979
Segment liabilities	170,325	36,178	206,503
Capital expenditure	36,830	24,728	61,558
Depreciation	7,080	7,011	14,091

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

	Sales of software and engineering solutions		Group 2001 HK\$'000
	excluding GPS	Sales of GPS	
	2001 HK\$'000	2001 HK\$'000	
Turnover	412,851	17,530	430,381
Segment results	113,408	11,425	124,833
Finance costs			(3,699)
Profit before taxation			121,134
Taxation			(19,643)
Profit attributable to shareholders			101,491
Segment assets	277,653	82,111	359,764
Segment liabilities	51,905	2,277	54,182
Capital expenditure	28,269	33,267	61,536
Depreciation	1,283	827	2,110

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2002 HK\$'000	2001 HK\$'000
Crediting		
Surplus arising from revaluation of property	—	81
Charging		
Auditors' remuneration	1,500	950
Depreciation of fixed assets		
- owned assets	13,712	1,760
- assets held under finance leases	379	350
Operating lease rental in respect of land and buildings	2,110	986
Research and development costs (note (a))	11,296	4,648
Staff costs excluding directors' emoluments	27,435	9,999
Deficit arising from revaluation of property	73	—
Retirement benefits costs (note 10)	635	146

(a) Included in the research and development costs were staff costs of HK\$10,757,000 (2001: HK\$3,246,000) which had also been included in staff costs disclosed above.

5 FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	3,839	3,619
Interest element of finance leases	75	80
	3,914	3,699

6 TAXATION

The taxation charge comprises:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax (<i>note (a)</i>)	8,973	14,875
Overseas taxation (<i>note (b)</i>)	37	—
(Over)/under provision in prior year	(160)	81
Deferred taxation (<i>note 22</i>)	4,056	4,687
	12,906	19,643

Notes:

- (a) Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) on the estimated assessable profits of the Group for the year.
- (b) Overseas taxation represented tax charge on the estimated assessable profits of a PRC subsidiary calculated at rates prevailing in the PRC.

One subsidiary which operates in the PRC is subject to a preferential income tax rate of 15% on its taxable profit. The subsidiary has been granted full exemption from the enterprises income tax for two years from its first profit-making year, for tax purposes, (being the year ended 31 December 2000) followed by a 50% reduction in tax rate for the following three years.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$31,819,000 (2001: HK\$7,646,000).

8 DIVIDENDS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000 (restated)	2002 HK\$'000	2001 HK\$'000 (restated)
Ordinary cash dividend				
Interims, paid, of HK2 cents in respect of 2002 (2001: HK1 cent) per ordinary share	14,400	7,200	14,400	7,200
Final, paid, of HK1.5 cents in respect of 2001 (2000: Nil) per ordinary share (note (a))	10,800	—	10,800	—
	25,200	7,200	25,200	7,200
Distribution in specie				
Special interim dividend of SDC's shares (note (b))	10,495	—	10,495	—
	35,695	7,200	35,695	7,200

Notes:

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31 March 2001 was HK\$10,800,000. Under the Group's new accounting policy as described in note 2(p), these have been written back against opening reserves as at 1 April 2001 in note 20 and are now charged in the year in which they were proposed.

At a meeting held on 21 June 2002 the directors declared a final dividend of HK1 cent per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2003.

- (b) Pursuant to the ordinary resolution passed in the extraordinary general meeting on 6 March 2002, the Company declared and paid to the then shareholders a special interim dividend in the form of 72,000,000 shares in SDC, representing 14.45% of its then issued share capital, on the basis that one SDC's share was distributed for every 10 ordinary shares of the Company then held.

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$67,612,000 (2001: HK\$101,491,000) and the weighted average number of 720,000,000 ordinary shares (2001: 664,449,315 ordinary shares) in issue during the year.

Diluted earnings per share is not presented because there were no dilutive potential ordinary shares outstanding during the two years ended 31 March 2002.

10 RETIREMENT BENEFIT COSTS

The Group did not provide retirement benefits for its employees in Hong Kong before 1 December 2000. With effect from 1 December 2000, a mandatory provident fund scheme ("MPF Scheme") has been set up for all the eligible employees of the Group in Hong Kong.

The Group's contributions are at 5% of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Contributions totalling HK\$102,000 (2001: HK\$43,000) were payable to the MPF Scheme at the year end and are included in other payables.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	307	230
Other emoluments		
- Basic salaries, allowances and other benefits in kind	4,414	4,191
- Bonus	—	2,000
- Retirement scheme contributions	36	12
	4,757	6,433

Directors' fees disclosed above include HK\$307,000 (2001: HK\$230,000) paid to independent non-executive directors.

During the year, each of the executive directors of the Company received individual emoluments of HK\$3,368,000 (2001: HK\$4,907,000), HK\$541,000 (2001: HK\$672,000) and HK\$541,000 (2001: HK\$624,000) respectively.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2002 and 2001.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include one (2001: two) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2001: three) individuals during the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Basic salaries, allowances and other benefits in kind	5,735	2,424
Retirement scheme contributions	50	12
	5,785	2,436

The emoluments fell within the following band:

	Number of individuals	
	2002	2001
Nil to HK\$1,000,000	—	3
HK\$1,000,001 to HK\$1,500,000	2	—
HK\$1,500,001 to HK\$2,000,000	2	—

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement upon joining the Group, or as compensation for loss of office.

12 FIXED ASSETS - GROUP

	Leasehold land and buildings HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
Cost or valuation					
At 1 April 2001	2,500	27,687	2,116	33,281	65,584
Additions	—	1,913	—	59,645	61,558
Revaluation	(150)	—	—	—	(150)
At 31 March 2002	2,350	29,600	2,116	92,926	126,992
Accumulated depreciation					
At 1 April 2001	—	1,354	800	717	2,871
Charge for the year	77	5,939	454	7,621	14,091
Revaluation	(77)	—	—	—	(77)
At 31 March 2002	—	7,293	1,254	8,338	16,885
Net book value					
At 31 March 2002	2,350	22,307	862	84,588	110,107
At 31 March 2001	2,500	26,333	1,316	32,564	62,713

12 FIXED ASSETS - GROUP (continued)

The analysis of the cost or valuation of the above assets at 31 March 2002 is as follows:

	Leasehold land and buildings HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
At cost	—	29,600	2,116	92,926	124,642
At 2002 valuation (note (b))	2,350	—	—	—	2,350
	2,350	29,600	2,116	92,926	126,992

The analysis of the cost or valuation of the above assets at 31 March 2001 is as follows:

At cost	—	27,687	2,116	33,281	63,084
At 2001 valuation (note (b))	2,500	—	—	—	2,500
	2,500	27,687	2,116	33,281	65,584

- (a) The Group's leasehold land and building is situated in Hong Kong and is held under lease of between 10 to 50 years.
- (b) The leasehold land and building was revalued on the basis of open market value in existing state as at 31 March 2002 by Midland Surveyors Limited, an independent firm of professional valuers.
- (c) The carrying amount of the leasehold land and building would have been HK\$5,020,000 (2001: HK\$5,192,000) had it been stated at cost less accumulated depreciation.
- (d) At 31 March 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK\$834,000 (2001: HK\$1,213,000).

13 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2002 HK\$'000	2001 HK\$'000 (restated)
Unlisted shares, at cost	57	57
Amounts due from subsidiaries (note (b))	160,282	159,557
Amounts due to subsidiaries (note (b))	(3,625)	(2,848)
	156,657	156,709
Less: Provision for impairment loss	(2,963)	—
	153,751	156,766

(a) The following is a list of the principal subsidiaries of the Company as at 31 March 2002:

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interest %	Principal activities and place of operation
<i>Shares held directly:-</i>				
Arcon Solutions (BVI) Limited	The British Virgin Islands 15 March 2000	US\$3,250	100	Investment holding in Hong Kong
<i>Shares held indirectly:-</i>				
Arcon Technology Limited	Hong Kong 17 March 1992	Non-voting deferred shares HK\$16,250,000 Ordinary HK\$10	100	Sale of semiconductor products and design, development of software and engineering solutions in Hong Kong
Satellite Devices Corporation	The Cayman Islands 11 June 2001 (listed on GEM of the Stock Exchange in HK)	Ordinary HK\$57,600,000	67.34	Investment holding in Hong Kong

13 INVESTMENTS IN SUBSIDIARIES - COMPANY (continued)

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interest %	Principal activities and place of operation
Satellite Devices (BVI) Limited	The British Virgin Islands 15 March 2000	Ordinary US\$3	67.34	Investment holding in Hong Kong
Satellite Devices Limited	Hong Kong 14 July 1999	Ordinary HK\$5,000,000	67.34	Design, development and sales of location-based technology devices and applications in Hong Kong
恆星威資訊技術 (深圳) 有限公司 ("Heng Xing Wei Information Technologies (Shenzhen) Limited")	The People's Republic of China excluding Hong Kong (the "PRC") 23 March 2000	Registered capital HK\$1,000,000	100	Provision of technical support services in the PRC
Arcon Management Services Limited	Hong Kong 24 March 2000	Ordinary HK\$2	100	Provision of management services in Hong Kong
Arcon Smartdisplay Limited	Hong Kong 6 July 2001	Ordinary HK\$2	100	Sale of integrated circuits and display panels in Hong Kong

Heng Xing Wei Information Technologies (Shenzhen) Limited has adopted 31 December as its financial year end date in order to comply with the Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment.

The above includes the subsidiaries of the Company, which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

- (b) The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

14 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	1,474	
Amount due to an associated company (note (b))	(1,470)	—
	4	—

(a) The following is a list of the principal associated companies at 31 March 2002:

Company	Place and date of incorporation	Principal activities and place of operation	Issued share capital	Interest held indirectly
Telematics Systems Limited	Hong Kong 22 June 2001	Sales of vehicle positioning systems and in-vehicle telematics units in Hong Kong	Ordinary shares of HK\$10,000	26.94%
New Era Telematics Limited (formerly known as Lions Development Limited)	Hong Kong 5 September 2001	Development and distribution of in-vehicle and ancillary products and provision for ancillary services in the PRC	Ordinary shares of HK\$3,000,000	33.0%

Telematics Systems Limited and New Era Telematics Limited have adopted 31 December as their financial year end date.

(b) The amount due to an associated company is unsecured, interest free and has no fixed terms of repayment.

15 INVENTORIES - GROUP

As at 31 March 2002 and 2001, all inventories were carried at cost.

16 TRADE RECEIVABLES - GROUP

The Group normally grants credit period ranging from 30 days to 120 days to its trade debtors. As at 31 March 2002, the ageing analysis of trade receivables was as follows:

	2002	2001
	HK\$'000	HK\$'000
0-30 days	62,904	34,607
31-60 days	20,166	23,598
61-90 days	30,256	22,516
Over 90 days	212,599	65,366
	325,925	146,087

17 TRADE PAYABLES - GROUP

At 31 March 2002, the ageing analysis of the trade payables was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0-30 days	4,216	1,724
31-60 days	700	149
61-90 days	134	58
Over 90 days	1,657	9,240
	6,707	11,171

18 AMOUNT DUE TO A DIRECTOR - GROUP

The amount represents expenses temporarily paid by a director on behalf of the Group during the year. The amount is unsecured, interest free and has been subsequently repaid after the year end.

19 SHARE CAPITAL

	2002		2001	
	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000	Number of ordinary shares of HK\$0.10 each	Nominal Value HK\$'000
<i>Authorised:</i>				
At 1 April	3,000,000,000	300,000	—	—
At date of incorporation	—	—	3,500,000	350
Increase in authorised ordinary share capital	—	—	2,996,500,000	299,650
At 31 March	3,000,000,000	300,000	3,000,000,000	300,000
<i>Issued and fully paid:</i>				
At 1 April	720,000,000	72,000	—	—
At date of incorporation	—	—	2	—
Shares issued upon Reorganisation	—	—	571,998	57
Shares issued pursuant to the initial public offering of the Company	—	—	148,000,000	14,800
Capitalisation issue	—	—	571,428,000	57,143
At 31 March	720,000,000	72,000	720,000,000	72,000

- (a) Details of the Pre-IPO Share Option Plan (the "Plan") and the Share Option Scheme (the "Scheme"), and the outstanding options granted under the Plan and the Scheme are set out under the "Directors' Benefits from Rights to Acquire Shares or Debentures" in the Report of the Directors.

No options were waived or exercised up to the date of this report.

20 RESERVES**(a) Group**

	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2000	—	20,943	—	33,710	54,653
Placing of shares	159,840	—	—	—	159,840
Placing and listing expenses	(17,960)	—	—	—	(17,960)
Capitalisation issue	(57,143)	—	—	—	(57,143)
Profit attributable to shareholders	—	—	—	101,491	101,491
2001 Interim dividend (note 8)	—	—	—	(7,200)	(7,200)
Exchange differences	—	—	(99)	—	(99)
At 31 March 2001	84,737	20,943	(99)	128,001	233,582

20 RESERVES (continued)**(a) Group** (continued)

	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2001, as previously reported	84,737	20,943	(99)	117,201	222,782
Effect of adopting SSAP 9 (Revised) (note 2(p))	—	—	—	10,800	10,800
At 1 April 2001, as restated	84,737	20,943	(99)	128,001	233,582
Profit attributable to shareholders	—	—	—	67,612	67,612
Dividends:					
Special interim dividends in specie of shares in a subsidiary (note 8)	(10,495)	—	—	—	(10,495)
2001 Final dividend (note 8)	—	—	—	(10,800)	(10,800)
2002 Interim dividend (note 8)	—	—	—	(14,400)	(14,400)
Exchange differences	—	—	(23)	—	(23)
At 31 March 2002	74,242	20,943	(122)	170,413	265,476

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 therefore.

20 RESERVES (continued)**(b) Company**

	Share premium (note (i)) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Placing of shares	159,840	—	159,840
Placing and listing expenses	(17,960)	—	(17,960)
Capitalisation issue	(57,143)	—	(57,143)
Profit for the year	—	7,646	7,646
2001 Interim dividend (note 8)	—	(7,200)	(7,200)
At 31 March 2001	84,737	446	85,183
At 1 April 2001, as previously reported	84,737	446	85,183
Effect of adopting SSAP 9 (Revised) (note 2(p))			
- dividend proposed	—	10,800	10,800
- dividend income	—	(10,800)	(10,800)
At 1 April 2001, as restated	84,737	446	85,183
Profit for the year	—	31,819	31,819
Dividends:			
Special interim dividends in specie of shares in a subsidiary (note 8)	(10,495)	—	(10,495)
2001 Final dividend (note 8)	—	(10,800)	(10,800)
2002 Interim dividend (note 8)	—	(14,400)	(14,400)
At 31 March 2002	74,242	7,065	81,307

- (i) Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

21 LONG-TERM LIABILITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans	27,932	1,033
Obligations under finance leases	663	1,044
	28,595	2,077
Current portion of long-term liabilities	(7,607)	(782)
	20,988	1,295

The bank loans and the obligations under finance leases are wholly repayable within five years.

At 31 March 2002, the Group's bank loans were repayable as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	7,226	401
In the second year	13,881	401
In the third to fifth year	6,825	231
	27,932	1,033

21 LONG-TERM LIABILITIES (continued)

At 31 March 2002, the Group's obligations under finance lease were repayable as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	457	457
In the second year	277	457
In the third to fifth year	52	329
	786	1,243
Future finance charges on finance leases	(123)	(199)
Present value of finance lease liabilities	663	1,044
	2002	2001
	HK\$'000	HK\$'000
The present value of finance lease liabilities is as follows:		
Within one year	381	381
In the second year	233	381
In the third to fifth year	49	282
	663	1,044

22 DEFERRED TAXATION

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1 April	4,687	—
Transfer from profit and loss account (<i>note 6</i>)	4,056	4,687
At 31 March	8,743	4,687
Timing differences in respect of		
- Accelerated depreciation allowances	12,309	7,975
- Tax losses	(3,566)	(3,288)
	8,743	4,687

The Group had no material unprovided deferred tax as at 31 March 2002 and 2001.

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash outflow from operating activities**

	Group	
	2002 HK\$'000	2001 HK\$'000
Operating profit	84,946	124,833
Interest income	(448)	(2,704)
Depreciation of owned fixed assets	13,712	1,760
Depreciation of fixed assets held under finance leases	379	350
Gain on deemed disposal of interests in a subsidiary (<i>note 1</i>)	(7,242)	—
Shares in a subsidiary issued to staff as part of the Group Reconstruction (<i>note 1</i>)	5,592	—
Deficit/(surplus) arising from revaluation of property	73	(81)
(Increase)/decrease in inventories	(9,580)	1,364
Increase in trade receivables, deposits and prepayments	(118,092)	(127,498)
Decrease in trade payables, other payables and accruals, including amount due to a director	(2,957)	(10,279)
Net cash outflow from operating activities	(33,617)	(12,255)

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Analysis of changes in financing during the year**

	Share capital including premium		Minority interests		Bank loans and finance leases	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 April	156,737	57	—	—	2,077	8,531
Inception of finance leases	—	—	—	—	—	1,366
Net proceeds from issue of shares by the Company	—	156,680	—	—	—	—
Net cash inflow/(outflow) from financing	—	—	—	—	26,518	(7,820)
Placement of shares and bonus shares in SDC issued	—	—	20,439	—	—	—
Minority interests' share of profit for the year	—	—	514	—	—	—
Special interim dividend in specie of shares in a subsidiary (note 8)	(10,495)	—	10,495	—	—	—
At 31 March	146,242	156,737	31,448	—	28,595	2,077

(c) Major non-cash transactions

	2002 HK\$'000	2001 HK\$'000
Special interim dividends in specie of shares in a subsidiary (note 8)	10,495	—
Shares in a subsidiary issued to staff as part of the Group Reconstruction (note 1)	5,592	—
Inception of finance leases	—	1,366

24 COMMITMENTS

(a) Commitment under operating leases

As at 31 March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000 (restated)
Not later than one year	1,884	1,314
Later than one year but not later than five years	1,043	684
	2,927	1,998

(b) Capital commitments in respect of acquisition of fixed assets

As at 31 March 2002, the Group had capital commitments in respect of acquisition of fixed assets:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	877	—
Authorised but not contracted for	28,106	46,840
	28,983	46,840

25 BANKING FACILITIES

The Group's banking facilities were secured by corporate guarantees given by the Company.

26 SUBSEQUENT EVENT

On 17 April 2002, the Company entered into a placement agreement and a subscription agreement (the "Agreements") with SBI E2-Capital Securities Limited ("SBI E2") and Upgrade Technology Limited ("Upgrade") pursuant to which SBI E2 will procure purchasers to purchase from Upgrade and Upgrade, in return, will subscribe from the Company for 100,000,000 new shares of HK\$0.10 each in the share capital of the Company at the price of HK\$1.23 per share.

On 29 April 2002, the Agreements were completed and the Company raised approximately HK\$119 million by way of issuing 100,000,000 new shares through this top-up placement.

Further details of the above are set out in the circular of the Company dated 3 May 2002.

27 ULTIMATE HOLDING COMPANY

The directors regard Upgrade Technology Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 21 June 2002.

	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		
Results				
Profit attributable to shareholders	67,612	101,491	24,377	5,799
Assets and liabilities				
Total assets	543,979	359,764	135,562	72,331
Total liabilities	(175,055)	(54,182)	(80,852)	(55,997)
Minority interests	(31,448)	—	—	—
Shareholders' funds	337,476	305,582	54,710	16,334

Note: The results, assets and liabilities of the Group for three years ended 31 March 2001 have been prepared on a combined basis as if the group structure, at the time when the Company's shares were listed on the GEM, had been in existence throughout the years concerned.