



An Arcontech Company

Satellite Devices Corporation

(incorporated in the Cayman Islands with limited liability)

The background features a blue globe with a grid of latitude and longitude lines. Red plus signs are scattered across the globe. On the left, there is a map of the Cayman Islands with labels for "HOME", "POINT", "ROCK", and "TRUCK". A yellow orbital path curves around the globe. In the bottom left, there is a blue crosshair graphic with a red dot in the center.

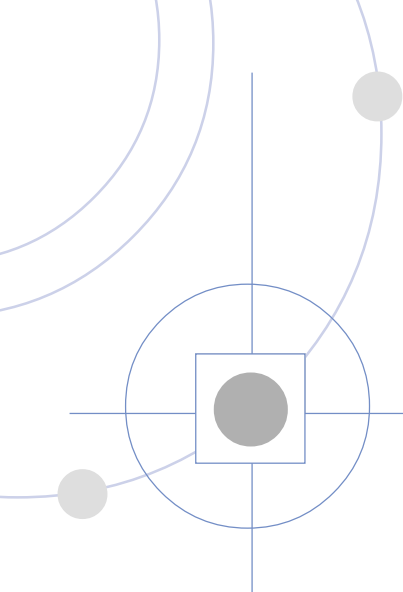
2001 / 2002 Annual Report

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.



Satellite Devices Corporation

C O N T E N T S

CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	3
CHAIRMAN'S STATEMENT	4
BUSINESS OBJECTIVES REVIEW	6
PROFILES OF DIRECTORS AND SENIOR MANAGEMENT	9
REPORT OF THE DIRECTORS	11
AUDITORS' REPORT	17
CONSOLIDATED PROFIT AND LOSS ACCOUNT	18
CONSOLIDATED BALANCE SHEET	19
BALANCE SHEET	20
CONSOLIDATED CASH FLOW STATEMENT	21
NOTES TO THE ACCOUNTS	22
FINANCIAL SUMMARY	40

Corporate Information

Executive Directors

TSOI Siu Ching, Leo
KOU Zhi Hui
PUN Wai

Independent Non-executive Directors

LIU Kwong Sang
CHAN Chi Tong

Company Secretary

PUN Wai, AHKSA

Qualified Accountants

PUN Wai, AHKSA

Compliance Officer

PUN Wai, AHKSA

Principal Bankers

Hang Seng Bank Limited
Bank of China (Hong Kong)
Citibank N. A.

Joint Auditors

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

Audit Committee

LIU Kwong Sang
(*Chairman of the Audit Committee*)
CHAN Chi Tong
PUN Wai

Authorised Representatives

TSOI Siu Ching, Leo
PUN Wai

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

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Cayman Islands

Head Office and Principal Place of Business

Rooms 3512
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	28,704	17,530	64
Profitability			
Gross profit	18,023	17,245	5
(Loss)/profit before taxation	(5,896)	10,918	N/A
(Loss)/profit attributable to shareholders	(4,925)	9,172	N/A
Net worth			
Shareholders' fund	96,289	9,125	955
Per share			
(Loss)/earnings per share	(0.99) cents	1.84 cents	N/A
Net assets per share	19.28 cents	1.83 cents	954
Turnover period			
Inventory turnover period	54 days	N/A	N/A
Trade receivable turnover period	91 days	264 days	N/A

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am very pleased to present the first annual report of Satellite Devices Corporation (the "Company") and its subsidiaries (collectively the "Group"), which is for the year ended 31 March 2002, following the listing of the Company's shares on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 March 2002.

Financial Results

For the financial year ended 31 March 2002, the Group recorded a turnover of approximately HK\$28.7 million and a net loss attributable to shareholders of approximately HK\$4.9 million.

Dividends

The Board does not recommend the payment of any final dividend for the year ended 31 March 2002 (2001: HK\$Nil).

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.

Business Review

During the year, the Group experienced a satisfactory growth in turnover. Sales has reached approximately HK\$28.7 million which translates to a year-on-year growth of 64%. The growth in turnover indicates the Group's successful implementation of its strategic plans according to its roadmap. The growth in turnover resulted from increasing market acceptance of our high value-added solutions for location-based technology and the expansion in areas of application of this technology. It indicates that the Group has successfully captured the future trends and market potential of the location-based technology market and has improved capabilities to deliver innovative and technology-intensive solutions customized to our customers' needs in an increasingly knowledge-based global economy.

However, the Group recorded a net loss of approximately HK\$4.9 million during the year ended 31 March 2002 compared to a net profit of approximately HK\$9 million last year. The Group has experienced a big increase in operating expenses due to its rapid expansion during the year. The increase was mainly in depreciation of equipment and advertising and promotion costs. The Group expanded quickly during the year in order to position for capturing the huge business opportunities in the location-based technology market and to secure its leading position in this competitive environment.

I am extremely pleased to see those emerging technologies and product areas the Group has identified to have good market potential and we expect the new generation of our products to generate demand in the market in the future.

Financial Resources And Liquidity

As at 31 March 2002, shareholders' funds of the Group amounted to approximately HK\$96.3 million. Current assets amounted to approximately HK\$50.9 million, of which approximately HK\$39.6 million were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$4.0 million and it had no banking facilities available. The total liabilities over the shareholders' fund of the Group is 0.05 as at 31 March 2002.

The revenue of the Group are denominated mostly in Hong Kong Dollars and U.S. Dollars. The Group has minimal exposure to foreign exchange fluctuations and does not need to make use of any financial instruments. The directors believe that the Group has a healthy financial position through its internally generated funds and the proceeds raised through its placing on 26 March 2002.

On 26 March 2002, the Company's shares were listed on GEM of the Stock Exchange and the Group obtained net proceeds of approximately HK\$22 million from the placing of 77,760,000 new shares. The proceeds will be used, mainly for capital assets, as disclosed in the prospectus of the Company dated 12 March 2002 (the "Prospectus").

Employees

As at 31 March 2002, the Group had 31 employees (2001: 28 employees). 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

With the expected rapidly increasing popularity of location-based technology and the widening of its applications, the directors consider that there is huge business potential of GPS devices and applications with location-based technology. The Group has successfully tapped the GPS market in Hong Kong this year and expects the PRC market to make a good contribution to the Group's performance in the coming years.

China is launching its "Tenth Five-Year" Plan and has joined the WTO. With WTO membership, China will enter into a more global economy and will face severe international competition. I believe the Group will have a promising prospect in this area. With our proximity to the PRC, I believe the GIS products, GPS devices and applications of the Group with enhanced product feature and functionality, will be able to capture the enormous business opportunities opened by the "Tenth Five-Year" Plan and China's accession to the WTO.

The Group's objective is to become one of the leading developers, providers and innovators in location-based technology. Given the rapid development in the location-based technology industry, I believe that there is enormous market potential for the industry, especially for the Group's business. The Group will constantly strive to capture the latest location-based technology solutions trends and to develop innovative solutions and applications for a wide range of customers and end-users.

Acknowledgement

I would like to extend my thanks to my fellow directors and staff for their support, effort and contribution to the success of the Group and to our shareholders for their support which made the listing of the Company's shares on GEM a success.

Tsoi Siu Ching, Leo
Chairman

Hong Kong, 21 June 2002

Business Objectives Review

An analysis comparing of business objectives as stated in the Prospectus dated 12 March 2002 with the Group's actual business progress up to 31 March 2002 is set out below:

Business Objectives:

Sales proceeds

- begin generating sales from both Hong Kong and PRC customers, and diversify sales source to include hardware and software as well as service income

Product launches

- launch location-based advertising systems for public transportation companies in Hong Kong and the PRC
- launch auto-navigation systems for customers vehicle markets in Hong Kong and the PRC

Sales and marketing

- initiate promotional campaigns and programs for the Group's location-based technology products and applications and expand sales and promotional efforts with the Group's existing business partners in Hong Kong and the PRC
- explore opportunities for the provision of location-based advertising systems on handheld communication devices and with bus operators in Hong Kong
- initiate sales effort and conclude additional sales for GIS/digital maps

Actual Business Progress:

- GPS devices and applications with location-based technology continue to contribute to the Group's turnover for the year. The Group expects to have sales from PRC in the coming year

- the Group is expecting to launch the location-based advertising systems next year. The Group is now negotiating with a number of transportation companies on these systems

- the Group has tested, commissioned and demonstrated auto-navigation systems to the customers vehicle markets during the year. It is expected that contribution from these will be increased in next year when more sales efforts are put into them

- a number of promotional campaigns and programs has been organized during the year. The Group has also participated in various shows in Hong Kong and the PRC. It is expected to increase the promotional efforts in the coming year, and may extend the efforts geographically to northern China

- the Group is currently studying the potential and opportunities of location-based advertising systems on handheld communication devices in Hong Kong

- the Group has commenced the sales and marketing schedule for GIS/digital maps in the PRC and will increase such efforts in the coming year

Business Objectives:

Business developments

- commence feasibility study of establishing a research base in Shanghai or Shenzhen, the PRC
- initiate business opportunities and identify business partners in other countries, particularly in the US, Europe and Southeast Asia
- initiate major technical development projects with academic institutions in Hong Kong and in the PRC
- initiate discussions with Internet services providers and content providers in Hong Kong and the PRC for provision of location-based technology services via the Internet

Research & development

- finalize development of auto-navigation systems and PDA solutions, and GPRS powered and Internet-enabled portable personal tracking system
- continue development of GIS for major cities in the PRC and Southeast Asia

Actual Business Progress:

- the Group has decided to establish a research and supporting base in Shenzhen, the PRC and is preparing the necessary documents for the application to the relevant PRC authorities
- the Group has identified a number of business partners from various countries and has commenced negotiation with them for business opportunities in various areas
- the Group has finalized a co-operation project with a university in Hong Kong, and is exploring academic institutions in the PRC for potential development projects
- the Group has identified and commenced negotiation with a number of Internet services providers and content providers for provision of location-based technology services via the Internet
- the development of auto-navigation systems and PDA solutions has been finalized and is ready for product launch in the near future after testing and fine-tuning. For the GPRS powered and Internet-enabled portable personal tracking system, the development is progressing and generally in line with the schedule
- the Group is continuing the development of GIS for major cities in the PRC. It is expected that GIS for the major cities in the central and northern part of the PRC will be completed later this year

Business Objectives Review

Business Objectives:

Research & development *(Continued)*

- commence development of:
 - portable personal tracking devices and integration with 2.5G/3G wireless communication network and voice recognition
 - integration of location-based technology products and services with multimedia features and other information contents
 - public transportation information platform as a part of the intelligent transportation system
 - three-dimensional GIS

Actual Business Progress:

- the Group has commenced development of portable personal tracking devices and integration with 2.5G/3G wireless communication network and voice recognition, and public transportation information platform as a part of the intelligent transportation system. The development is progressing and generally in line with the schedule
- the Group is studying the potential of integration of location-based technology products and services with multimedia features and other information contents
- the three-dimensional GIS is under development and further results are expected to be obtained later this year

Human resources, operations and administration

- recruit additional development engineers and dedicated sales staff to cover Hong Kong and the PRC
- implement and obtain ISO 9002 certification
- additional engineers 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 reached 31 and there were 16 engineers within the Group
- the Group has successfully implemented and obtained ISO 9002 quality certification during the year

The Group raised net proceeds of approximately HK\$22 million upon listing of the Company's shares on GEM of the Stock Exchange on 26 March 2002. As the listing date was very close to the year end date 31 March 2002, the Group did not apply much of the proceeds to achieve the business objectives as stated above as at 31 March 2002. The proceeds were kept as bank deposits as at 31 March 2002 and currently, the Directors consider there is no material modification over the use of proceeds as disclosed in the Prospectus and the Group has sufficient funds for the completion of the above plans.

Profiles of Directors and Senior Management

Directors

Name	Age	Position	Year joining the Group	Business experience
TSOI Siu Ching, Leo	41	Chairman Chief Executive Officer	1992	Over 19 years' experience in semiconductor and electronics industry
KOU Zhi Hui	32	Executive director	March 2000	Over 8 years' experience in semiconductor and electronics industry
PUN Wai	30	Executive director	March 2001	Over 7 years' experience in auditing, accounting and financial management
LIU Kwong Sang	40	Independent non-executive director	November 2001	Over 10 years' experience in auditing and accounting
CHAN Chi Tong	42	Independent non-executive director	November 2001	Over 15 years' experience in engineering

Profiles of Directors and Senior Management

Senior Management

Name	Age	Position	Year joining the Group	Business experience
WONG Chi Hong	27	Chief Technology Officer	July 1998	Over 3 years' experience in IT industry
LIU Chia Yao, Joseph	34	Chief Operating Officer	February 2001	Over 8 years' experience in venture capital and investment banking
LAM Yuen Kong, Jonathan	39	Chief Marketing Officer	January 2002	Over 8 years' experience in semiconductor and electronics industry
WONG Chun Pong	32	Senior Development Engineer and Project Manager	June 2001	Over 4 years' experience in engineering
FOO Wan Lam	37	Senior Development Engineer and Project Manager	December 1999	Over 5 years' experience in engineering
MOK Chi Hong, John	26	Manager in engineering development	November 2000	Over 5 years' experience in engineering development for GPS related products
CHAN Man Kit	27	Manager in digital map production	April 2000	Over 3 years' experience in electronics industry
LOO Wing Keung	26	Manager in GIS software development	April 2000	Over 4 years' experience in engineering
TSUI Chi Kit	36	Project Manager	August 2000	Over 10 years' experience in engineering and communications

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

Group reorganisation and basis of preparation of the accounts

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganisation (the "Reorganisation"), as described in Appendix IV of the prospectus of the Company dated 12 March 2002 (the "Prospectus") to rationalise the group structure in preparation for a listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the principal subsidiaries listed in note 11 to the accounts (collectively known as the "Group") on 6 March 2002. The spin-off of the Group from Arcontech Corporation ("Arcontech"), the intermediate holding company, was completed on 26 March 2002 and the shares of the Company were listed on the GEM on the same day.

The Reorganisation has been reflected in accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

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 and sale of location-based technology devices and applications. All of the Group's turnover was derived in 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 18.

The directors do not recommend the payment of a dividend for the year.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 17 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 10 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 16 to the accounts.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2002 are set out in note 11 to the accounts.

Report of the Directors

Distributable reserves

Distributable reserves of the Company as at 31 March 2002 amounted to HK\$34,489,000. 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.

Financial summary

The summary of the results and of the assets and liabilities of the Group for the last three financial years, prepared under the basis set out in note 1 to the accounts, is set out on page 40.

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	(appointed on 4 July 2001)
Ms. KOU Zhi Hui	(appointed on 26 November 2001)
Mr. PUN Wai	(appointed on 26 November 2001)
Mr. LIU Kwong Sang*	(appointed on 26 November 2001)
Mr. CHAN Chi Tong*	(appointed on 26 November 2001)

* *Independent Non-executive Directors*

Mr. TSOI Siu Ching, Leo will retire by rotation at the forthcoming annual general meeting in accordance with Article 87 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 9 and page 10.

Directors' service contracts

Each of Mr. TSOI Siu Ching, Leo, Ms. KOU Zhi Hui and Mr. PUN Wai, the Executive Directors, has entered into a service contract with the Company for a term of two years from 6 March 2002, which may be terminated by either party thereto giving to the other not less than three 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 as disclosed in Appendix IV of the Prospectus under the paragraph "Disclosure of interests" in the section headed "Further Information About Directors, Management, Staff and Experts", no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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 adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, invite any employees, directors of the Company and/or any of its subsidiaries, any adviser or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group 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 Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (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 offer of the options. 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 the listing of the Company's shares on GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK\$1.00 to the Company by way of consideration for the grant.

As at 31 March 2002, no option has been granted or agreed to be granted by the Company under the Scheme.

Ms. KOU Zhi Hui, a director of the Company does, however, have options to subscribe for 3,600,000 shares in Arcotech, one of the Company's associated corporations (as such terms is defined in the SDI Ordinance referred to below). No such options were 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.

Report of the Directors

Directors' interests 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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Type of interests	Number of shares	Percentage of issued share capital
Mr. TSOI Siu Ching, Leo	Corporate (Note 1)	387,888,000	67.34%
Ms KOU Zhi Hui	Personal	2,130,000	0.37%
Mr. PUN Wai	Personal	426,000	0.07%

Ms. KOU Zhi Hui's interests in options over shares in Arcontech are referred to above.

The Director's interests in Arcontech and Arcon Solutions (BVI) Limited ("Arcon (BVI)"), an immediate holding company of the Group are as follows:

Name of Director	Name of Company	Type of interests	Number of shares
Mr. TSOI Siu Ching, Leo	Arcontech Corporation	Corporate (Note 1)	472,384,000
Mr. TSOI Siu Ching, Leo	Arcon (BVI)	Corporate (Note 1)	3,250 shares of US\$1.00 each

Note 1: Mr. TSOI Siu Ching, Leo is the beneficial owner of Upgrade Technology Limited which in turn holds 472,384,000 shares in the issued share capital of Arcontech. Arcontech is in turn deemed to be interested in 387,888,000 shares in the issued share capital of the Company by virtue of its interests in its wholly owned subsidiary Arcon (BVI).

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
Arcon (BVI) (Note 1)	387,888,000	67.34%

Note 1: Arcontech is interested in these shares held by its wholly owned subsidiary Arcon (BVI). Upgrade Technology Limited is also interested in these shares by virtue of its holding of 472,384,000 shares in the issued capital of Arcontech. Mr. TSOI Siu Ching, Leo is in turn interested in 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	39%
- five largest customers combined	98%
Purchases	
- the largest supplier	43%
- five largest suppliers combined	93%

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 6 March 2002. The audit committee has three members comprising Messrs. LIU Kwong Sang, CHAN Chi Tong and PUN Wai. Mr. LIU Kwong Sang 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. The audit committee has met once since its establishment 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 Group has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, since listed on the GEM of the Stock Exchange.

Report of the Directors

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 associate of the Sponsor held 109,629 shares in the Company and an employee of the Sponsor not involved in providing advice to the Company held 3,000 shares in the Company.

Save as disclosed above, neither the Sponsor nor any of 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 member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 11 March 2002 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 2004.

Retirement scheme

Details of the retirement scheme are set out in note 8 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.

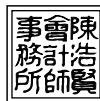
On behalf of the Board

TSOI Siu Ching, Leo
Chairman

Hong Kong, 21 June 2002

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所



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

Auditors' Report to the Shareholders of Satellite Devices Corporation

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 18 to 39 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 loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 June 2002

Graham H.Y. Chan & Co.

Certified Public Accountants

Hong Kong, 21 June 2002

Consolidated Profit and Loss Account

For the year ended 31 March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	3	28,704	17,530
Cost of location-based technology devices and applications		(10,681)	(285)
		18,023	17,245
Interest income		206	—
Advertising and promotion costs		(3,896)	(242)
Staff costs		(7,523)	(2,304)
Depreciation		(7,011)	(827)
Other operating expenses		(5,695)	(2,954)
(Loss)/profit before taxation	4	(5,896)	10,918
Taxation credit/(charges)	5	971	(1,746)
(Loss)/profit attributable to shareholders	6, 17	(4,925)	9,172
Basic (loss)/earnings per share	7	(0.99) cents	1.84 cents

No statement of recognised gains and losses is prepared as loss attributable to shareholders of HK\$4,925,000 (2001: profit of HK\$9,172,000) shown above is the only component.

Consolidated Balance Sheet

31 March 2002

19

Satellite Devices Corporation

	Note	2002 HK\$'000	2001 HK\$'000
Fixed assets	10	50,157	32,440
Investments in associated companies	12	4	—
Current assets			
Inventories	13	1,567	—
Trade receivables	14	7,154	12,660
Deposits, prepayments and other receivables		2,555	22,509
Cash and bank balances		39,641	14,502
		50,917	49,671
Current liabilities			
Trade payables	15	45	—
Other payables and accruals		3,916	463
Current portion of long-term liabilities	18	15	15
		3,976	478
Net current assets		46,941	49,193
		97,102	81,633
Financed by:			
Share capital	16	57,600	—
Reserves	17	38,689	9,125
Shareholders' funds		96,289	9,125
Long-term liabilities	18	38	70,762
Deferred taxation	19	775	1,746
		97,102	81,633

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Pun Wai
Director

Balance Sheet

31 March 2002

	Note	2002 HK\$'000
Investments in subsidiaries	11	<u>67,211</u>
Current assets		
Other receivables		1,751
Bank balances		<u>26,173</u>
		<u>27,924</u>
Current liabilities		
Accruals		<u>3,046</u>
Net current assets		<u>24,878</u>
		<u>92,089</u>
Financed by:		
Share capital	16	57,600
Reserves	17	<u>34,489</u>
Shareholders' funds		<u>92,089</u>

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Pun Wai
Director

Consolidated Cash Flow Statement

For the year ended 31 March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash inflow/(outflow) from operating activities	20(a)	28,300	(23,017)
Returns on investments and servicing of finance			
Interest received		206	—
Investing activities			
Purchase of fixed assets		(24,728)	(33,190)
Investment in an associated company		(4)	—
Net cash outflow from investing activities		(24,732)	(33,190)
Net cash inflow/(outflow) before financing		3,774	(56,207)
Financing	20(b)		
(Repayment to)/advance from an intermediate holding company		(709)	70,709
Repayment of capital element of finance leases		(15)	(9)
Net proceeds from issue of shares by the Company		22,089	—
Net cash inflow from financing		21,365	70,700
Increase in cash and cash equivalents		25,139	14,493
Cash and cash equivalents at beginning of the year		14,502	9
Cash and cash equivalents at the end of the year		39,641	14,502
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		39,641	14,502

Notes to the Accounts

1 Group reorganisation and basis of preparation

- (a) The Company was incorporated in the Cayman Islands on 11 June 2001 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
- (b) On 6 March 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Satellite Devices (BVI) Limited ("SD (BVI)") through a share swap and became the holding company of SD (BVI) and its subsidiaries. Details of the Reorganisation are set out in Appendix IV of the prospectus of the Company dated 12 March 2002 (the "Prospectus"). The spin-off of the Group from Arcontech Corporation ("Arcontech"), the intermediate holding company, was completed on 26 March 2002 and the shares of the Company were listed on the GEM of the Stock Exchange on the same day.
- (c) The Reorganisation is accounted for using merger accounting as permitted by Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). The consolidated accounts of the Group for the year ended 31 March 2002, including the comparative figures, are prepared as if the Company had been the holding company of the companies comprising the Group from the beginning of the earliest period presented.
- (d) The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA.

In the current year, the Group adopted the following SSAPs issued by the HKSA which are effective for accounting period commencing on or after 1 January 2001:

SSAP 14 (revised)	:	Leases (effective for period 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

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

(a) Group accounting

(i) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as the holding company of the Group from the beginning of the earliest period presented. The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

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

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.

2 Principal accounting policies *(Continued)*

(a) *Group accounting (Continued)*

(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.

(b) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of 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%-33.3%
Motor vehicles	25%
Moulds	50%

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 to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

Notes to the Accounts

2 Principal accounting policies *(Continued)*

(c) *Assets held 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 the 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. Payments 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.

(d) *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.

(e) *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.

(f) *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 and deposits held at call with banks.

(g) *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)*

(h) 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.

(i) 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.

(j) Retirement benefit costs

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

(k) 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.

(l) 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 the goods are delivered to customers and title has passed.

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

3 Turnover

The Group is principally engaged in the design, development and sales of location-based technology devices and applications. Turnover represents sales at invoiced value to customers.

No activity analysis and geographical analysis are presented for the years ended 31 March 2002 and 2001 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

Notes to the Accounts

4 (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging the following:

	Group	
	2002 HK\$'000	2001 HK\$'000
Auditors' remuneration	600	60
Depreciation of fixed assets		
- owned assets	6,996	819
- assets held under finance leases	15	8
Operating lease rental in respect of land and buildings	553	351
Research and development costs (note (a))	4,125	2,507
Retirement benefits costs (note 8)	259	48
Exchange loss	44	1
	<u> </u>	<u> </u>

(a) Included in the research and development costs were staff costs of HK\$3,126,000 (2001: HK\$1,329,000) which had also been included in staff costs set out in the consolidated profit and loss account.

5 Taxation credit/(charges)

	Group	
	2002 HK\$'000	2001 HK\$'000
Deferred taxation (note 19)	971	(1,746)
	<u> </u>	<u> </u>

No provision for Hong Kong profits tax has been made as the Group has available tax losses carried forward as at 31 March 2002 and 2001.

6 (Loss)/profit attributable to shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$100.

7 Basic (loss)/earnings per share

The calculation of basic loss per share for the year ended 31 March 2002 is based on the Group's loss attributable to shareholders of approximately HK\$ 4,925,000 (2001: profit of HK\$9,172,000) and the weighted average number of 499,518,247 ordinary shares (2001: 498,240,000 ordinary shares) in issue during the year.

In determining the weighted average number of shares in issue, the 100,000 shares issued on incorporation of the Company and as consideration of the acquisition by the Company of the issued capital of SD (BVI), and the capitalisation issue of 498,140,000 shares upon listing on GEM of the Stock Exchange on 26 March 2002 were also deemed to have been in issue on 1 April 2000 for the purpose of the calculation of basic (loss)/earnings per share.

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

8 Retirement benefit costs

The Group did not provide retirement benefits for its employees 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.

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\$69,000 (2001: HK\$14,000) were payable to the MPF Scheme at the year end and are included in other payables.

Notes to the Accounts

9 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	—	—
Other emoluments		
- Basis salaries, allowances and other benefits in kind	680	11
- Retirement scheme contributions	18	1
	<u>698</u>	<u>12</u>

The independent non-executive directors did not receive any directors' fees (2001: Nil) during the year.

During the year, each of the executive directors of the Company received emoluments from the Group of HK\$454,000 (2001: HK\$3,000), HK\$148,000 (2001: HK\$9,000) and HK\$96,000 (2001: Nil) respectively.

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

(b) Five highest paid individuals

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries, allowances and other benefits in kind	2,103	1,113
Retirement scheme contributions	51	18
	<u>2,154</u>	<u>1,131</u>

The emoluments of the five highest paid individuals during the years ended 31 March 2002 and 2001 fell in the band from Nil to HK\$1,000,000.

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.

10 Fixed assets - Group

	Computer equipment HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost					
At 1 April 2001	31,816	1,238	213	—	33,267
Additions	24,506	35	—	187	24,728
At 31 March 2002	<u>56,322</u>	<u>1,273</u>	<u>213</u>	<u>187</u>	<u>57,995</u>
Accumulated depreciation					
At 1 April 2001	584	215	28	—	827
Charge for the year	6,630	253	53	75	7,011
At 31 March 2002	<u>7,214</u>	<u>468</u>	<u>81</u>	<u>75</u>	<u>7,838</u>
Net book value					
At 31 March 2002	<u>49,108</u>	<u>805</u>	<u>132</u>	<u>112</u>	<u>50,157</u>
At 31 March 2001	<u>31,232</u>	<u>1,023</u>	<u>185</u>	<u>—</u>	<u>32,440</u>

At 31 March 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK\$54,000 (2001: HK\$69,000).

Notes to the Accounts

11 Investments in subsidiaries - Company

	HK\$'000
Amount due from a subsidiary (note (b))	69,990
Amount due to a subsidiary (note (b))	(2,779)
	<u>67,211</u>

(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	Principal activities and place of operation	Issued and fully paid up share capital	Interest held
Shares held directly:				
Satellite Devices (BVI) Limited	The British Virgin Islands 15 March 2000	Investment holding in Hong Kong	Ordinary US\$3	100%
Shares held indirectly:				
Satellite Devices Limited	Hong Kong 14 July 1999	Design, development and sale of location-based technology devices and applications in Hong Kong	Ordinary HK\$5,000,000	100%
Predominate Technology Limited	The British Virgin Islands 5 July 2000	Investment holding in Hong Kong	Ordinary US\$1	100%

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

12 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)	—
	<u>4</u>	<u>—</u>

(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	40%
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 People's Republic of China excluding Hong Kong (the "PRC")	Ordinary shares of HK\$3,000,000	49%

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.

13 Inventories

Inventories comprise electronic components and parts. As at 31 March 2002, all inventories were carried at cost.

Notes to the Accounts

14 Trade receivables

Details of ageing analysis of trade receivables are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 - 30 days	5,895	2,730
31 - 60 days	19	3,200
61 - 90 days	57	5,130
Over 90 days	1,183	1,600
	<u>7,154</u>	<u>12,660</u>

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

15 Trade payables

Details of ageing analysis of the trade payables are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 - 30 days	37	—
31 - 60 days	7	—
Over 60 days	1	—
	<u>45</u>	<u>—</u>

16 Share capital

	2002 HK\$'000
Authorised:	
10,000,000,000 (2001: Nil) ordinary shares of HK\$0.10 each	<u>1,000,000</u>
Issued and fully paid:	
576,000,000 (2001: Nil) ordinary shares of HK\$0.10 each	<u>57,600</u>

- (a) The Company was incorporated in the Cayman Islands on 11 June 2001 with an authorised capital of HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each, of which 1 share was issued at par for cash on 11 June 2001.
- (b) In preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the following changes in issued share capital of the Company took place on 6 March 2002:
- (i) as consideration for the acquisition by the Company of the entire issued share capital of SD (BVI), the holding company of the Group prior to the Reorganisation, an aggregate of 3 shares of the Company were allotted, issued at par and credited as fully paid to the then shareholders of SD (BVI).
 - (ii) as consideration for the assignment by Arcotech of a debt due from SD (BVI) to Arcotech in the principal amount of HK\$70,000,000 to the Company, an aggregate of 99,996 shares of the Company were allotted, issued and credited as fully paid at the direction of Arcotech.
- (c) On 26 March 2002, 77,760,000 shares of HK\$0.1 each issued by way of placing at a price of HK\$0.4 per share (the "Placing") for a total cash consideration of HK\$31,104,000. The excess over the par value of the shares issued was credited to the share premium account. At the same date, 426,140,000 shares and 72,000,000 shares of HK\$0.1 each were allotted, issued at par and fully paid to the shareholders whose names appeared on the register of members of the Company on 6 March 2002 and 7 March 2002 respectively by way of the capitalisation of a total sum of HK\$49,814,000 out of the share premium account of the Company arising from the Placing.
- (d) The share capital of HK\$23 as at 31 March 2001 represents the combined share capital of the Company, arising on incorporation, and SD (BVI).
- (e) The Company has adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Details of the Scheme are set out under the "Directors' Benefits from Rights to Acquire Shares or Debentures" section in the Report of the Directors.

No option has been granted or agreed to be granted under the Scheme up to the date of this report.

Notes to the Accounts

17 Reserves

(a) Group

	Share premium HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
At 1 April 2000	—	(47)	(47)
Profit for the year	—	9,172	9,172
At 31 March 2001	—	9,125	9,125
Allotment of shares (note 16(b)(ii))	69,990	—	69,990
Placing of shares (note 16(c))	23,328	—	23,328
Placing and listing expenses	(9,015)	—	(9,015)
Capitalisation issue (note 16(c))	(49,814)	—	(49,814)
Loss for the year	—	(4,925)	(4,925)
At 31 March 2002	<u>34,489</u>	<u>4,200</u>	<u>38,689</u>

(b) Company

	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Allotment of shares (note 16(b)(ii))	69,990	—	69,990
Placing of shares (note 16(c))	23,328	—	23,328
Placing and listing expenses	(9,015)	—	(9,015)
Capitalisation issue (note 16(c))	(49,814)	—	(49,814)
Loss for the year (note (ii))	—	—	—
At 31 March 2002	<u>34,489</u>	<u>—</u>	<u>34,489</u>

- (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.
- (ii) The Company was incorporated on 11 June 2001 and no profit or loss was derived for year ended 31 March 2001. The loss of the Company for the year ended 31 March 2002 amounted to HK\$100.

18 Long-term liabilities

	Group	
	2002 HK\$'000	2001 HK\$'000
Amount due to an intermediate holding company	—	70,709
Obligations under finance leases	<u>53</u>	<u>68</u>
	53	70,777
Current portion of long-term liabilities	<u>(15)</u>	<u>(15)</u>
	<u>38</u>	<u>70,762</u>

As at 31 March 2002, the Group's obligations under finance leases were repayable as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	16	16
In the second year	16	16
In the third to fifth year	<u>26</u>	<u>42</u>
	58	74
Future finance charges on finance leases	<u>(5)</u>	<u>(6)</u>
Present value of finance lease liabilities	<u>53</u>	<u>68</u>
The present value of finance lease liabilities is as follows:		
Within one year	15	15
In the second year	15	15
In the third to fifth year	<u>23</u>	<u>38</u>
	<u>53</u>	<u>68</u>

Notes to the Accounts

19 Deferred taxation

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1 April	1,746	—
Transfer (to)/from profit and loss account (note 5)	(971)	1,746
	<u>775</u>	<u>1,746</u>
At 31 March		
Timing differences in respect of:		
Accelerated depreciation allowances	4,341	5,034
Tax losses	(3,566)	(3,288)
	<u>775</u>	<u>1,746</u>

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

20 Notes to the consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to net cash inflow/(outflow) from operating activities

	Group	
	2002 HK\$'000	2001 HK\$'000
(Loss)/profit before taxation	(5,896)	10,918
Interest income	(206)	—
Depreciation of owned fixed assets	6,996	819
Depreciation of fixed assets held under finance leases	15	8
Increase in inventories	(1,567)	—
Decrease/(increase) in trade receivables	5,506	(12,660)
Decrease/(increase) in deposits, prepayments and other receivables	19,954	(22,504)
Increase in trade payables, other payables and accruals	3,498	402
	<u>28,300</u>	<u>(23,017)</u>
Net cash inflow/(outflow) from operating activities		

20 Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Obligations under finance leases		Amount due to an intermediate holding company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 April	—	—	68	—	70,709	—
Inception of finance leases	—	—	—	77	—	—
Allotment of shares to Arcontech by capitalisation of loan due from SD (BVI) (note 16(b)(ii))	70,000	—	—	—	(70,000)	—
Net proceeds from issue of shares by the Company	22,089	—	—	—	—	—
Net cash (outflow)/inflow from financing	—	—	(15)	(9)	(709)	70,709
At 31 March	<u>92,089</u>	<u>—</u>	<u>53</u>	<u>68</u>	<u>—</u>	<u>70,709</u>

(c) Major non-cash transactions

- (i) During the year ended 31 March 2001, the Group entered into finance leases arrangements in respect of assets with a total capital value at the inception of such arrangements of HK\$77,000
- (ii) During the year, an aggregate of 99,996 shares of the Company were allotted, issued and credited as fully paid at the direction of Arcontech as consideration for the assignment of a loan due from SD (BVI) to Arcontech in the principal amount of HK\$70,000,000 to the Company.

Notes to the Accounts

21 Commitments

(a) Commitments 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
Within one year	374	293
In the second to fifth years inclusive	225	141
	<u>599</u>	<u>434</u>

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

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	877	—
Authorised but not contracted for	21,500	9,115
	<u>22,377</u>	<u>9,115</u>

22 Related party transactions

Significant related party transactions which were carried out in the normal course of the Group's business are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Expenses reimbursed to a fellow subsidiary, Arcon Management Services Limited (note (a))	877	465
Fund advance to a fellow subsidiary, Arcon Technology Limited (note (b))	<u>7,805</u>	<u>—</u>

- (a) These expenses comprise staff costs and related overheads which were charged on an actual reimbursement basis. The above transaction was discontinued subsequent to the listing of the shares of the Company on the GEM.
- (b) The fund was advanced to Arcon Technology Limited during the year and the amount has been fully repaid prior to the listing of the shares of the Company on the GEM.

23 Ultimate holding company

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

24 Approval of accounts

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

Financial Summary

	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000
Results			
Profit/(loss) attributable to shareholders	<u>(4,925)</u>	<u>9,172</u>	<u>(880)</u>
Assets and liabilities			
Total assets	101,078	82,111	14
Total liabilities	<u>(4,789)</u>	<u>(72,986)</u>	<u>(61)</u>
Shareholders' funds/(deficit)	<u>96,289</u>	<u>9,125</u>	<u>(47)</u>

Note:

The results, assets and liabilities of the Group for three years ended 31 March 2002 have been prepared on the basis set out in note 1 to the accounts. The Financial Summary had been prepared as if the group structure, at the time when the Reorganisation was completed, had been in existence throughout the years concerned.

The Financial Summary of the Group for the years ended 31 March 2001 and 2000 have been extracted from the Company's prospectus dated 12 March 2002.