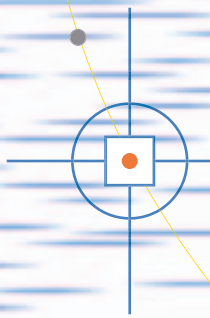




Satellite Devices Corporation
(Incorporated in the Cayman Islands with limited liability)



2002 / 2003 Second Quarterly Report

Characteristics of The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

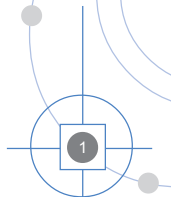
GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of Satellite Devices Corporation collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Satellite Devices Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



Charirman's Statement

I am pleased to announce the results of Satellite Devices Corporation (the "SDC" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the second quarter and the six months ended 30 September 2002.

Financial Review

The continuous slowdown in the economy had adversely affected the recovery in technology spending to materialize. Most industry players in the technology sector has expected a more robust recovery in 2002 than what we had seen and are currently seeing, and the Group had adjusted our business strategies and directions accordingly. The successful launching of the Group's solutions for consumer location-based services ("LBS") electronics devices helped the Group to achieve satisfactory growth in both turnover and profit. During the second quarter the Group's turnover increased by 186 % from HK\$11 million to HK\$32 million compared to the same period in 2001. Net profit attributable to shareholders for the six months ended 30 September 2002 amounted to HK\$2,641,000.

The directors do not recommend the payment of interim dividend for the six months ended 30 September 2002 (2001: HK\$Nil).

Business Review

The Group's operational strength is mainly attributed to its highly flexible structure and timely adjustment of its business strategies and directions. In light of the slowdown in corporate spending in information technology projects, the Group has shifted the focus from long-completion project-based businesses to solutions for consumer LBS electronics items so as to meet the demand from those customers requiring the newest, most up to date consumer electronics items. The move into consumer LBS electronics devices was part of the Group's strategies to enlarge its customer base and tap into a more global market.

Strategic Alliance

The Group continues to build strategic partnerships and business alliances with major industry players and research institutes in order to expand our Group's market presence. We have successfully built a strategic relationship with a Shanghai-based digital mapping and data mining company founded by renowned GIS experts. They will incorporate our GIS technology to be used for distribution of their digital map in China while we will act as a marketing consultant and reseller for their products overseas.

Business Outlook

Going forward, we do not expect the factors that have been preventing a robust recovery in technology spending to last indefinitely. In order to further strengthen SDC's position for growth under the prevailing difficult operating environment, the Group will adopt a revenue-oriented strategy to focus more into developing products/solutions of short-completion cycles rather than over-concentrating in long-completion project-based businesses. In the second half of the year, the Group will focus in packaging the LBS technology and developing innovative consumer LBS products/solutions for various applications to be incorporated in leisure gadgets in the global market. The Group is now conducting advanced testing on auto-navigation system and auto-navigation via PDA with plans to commercially launch such products and solutions during the second half of the financial year. Successful launching of the Group's consumer LBS electronics products/solutions has made the Group's consumer LBS electronics business its primary growth engine in the near term.

Management Appointment

On the management side, Mr. Joseph Liu, the former chief operating officer of the Group, was promoted to the position of deputy chief executive officer in September 2002.

Finally, the second quarter under review is a challenging one. The Group has taken prompt actions in formulating and adopting new business strategies and directions in order to maintain its competitiveness and profitability. The Group has achieved satisfactory results in the tough business environment largely due to the hard work, dedication and understanding of the directors, management and staff. I would like to take this opportunity to thank them.

Tsoi Siu Ching, Leo
Chairman

Hong Kong, 1 November 2002

Interim Results (Unaudited)

The Board of Directors ("Board") of Satellite Devices Corporation (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30 September 2002, together with the comparative unaudited figures for the corresponding periods in 2001 (the "Relevant Periods") as follows:

Condensed Consolidated Profit and Loss Account

	Note	Six months ended 30 September		Three months ended 30 September	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover	2	54,047	22,389	31,953	11,156
Cost of location-based technology devices and applications		(36,862)	(8,637)	(23,804)	(3,298)
		17,185	13,752	8,149	7,858
Interest income		22	169	10	17
Advertising and promotion costs		(1,616)	(2,692)	(1,248)	(1,488)
Staff costs		(5,421)	(3,228)	(2,995)	(1,659)
Depreciation		(3,617)	(3,420)	(1,810)	(1,732)
Other operating expenses		(3,402)	(2,190)	(2,049)	(1,266)
Profit before taxation	3	3,151	2,391	57	1,730
Taxation	5	(510)	(366)	(10)	(272)
Profit attributable to shareholders		2,641	2,025	47	1,458
Interim dividend		Nil	Nil	Nil	Nil
Earnings per share — basic (cents)	6	0.46 cents	0.41 cents	0.01 cents	0.29 cents

Consolidated Balance Sheet

		As at As at 30 September	As at As at 31 March
	Note	2002 HK\$'000 (Unaudited)	2002 HK\$'000 (Audited)
Fixed assets		46,720	50,157
Interests in associated companies		4	4
Current assets			
Inventories		12,003	1,567
Trade receivables	8	51,718	7,154
Deposits, prepayments and other receivables		12,413	2,555
Cash and bank balances		5,554	39,641
		<u>81,688</u>	<u>50,917</u>
Current liabilities			
Trade payables	9	27,096	45
Other payables and accruals		1,059	3,916
Current portion of long-term liabilities	10	15	15
		<u>28,170</u>	<u>3,976</u>
Net current assets		<u>53,518</u>	<u>46,941</u>
		<u>100,242</u>	<u>97,102</u>
Financed by:			
Share capital	11	57,600	57,600
Reserves		41,326	38,689
Shareholders' funds		98,926	96,289
Long-term liabilities	10	31	38
Deferred taxation		1,285	775
		<u>100,242</u>	<u>97,102</u>

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 September	For the six months ended 30 September
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	(33,896)	17,323
Net cash outflow from investing activities	(180)	(24,110)
Net cash outflow before financing	(34,076)	(6,787)
Net cash outflow from financing	(7)	(716)
Decrease in cash and cash equivalents	(34,083)	(7,503)
Effect of foreign exchange rate changes	(4)	—
Cash and cash equivalents at beginning of the period	39,641	14,502
Cash and cash equivalents at the end of the period	5,554	6,999
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	5,554	6,999
	5,554	6,999

Consolidated Statement of Changes in Equity (Unaudited)

	Share capital	Share premium	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2001	49,824	—	—	9,125	58,949
Profit for the period	—	—	—	2,025	2,025
As at 30 September 2001	<u>49,824</u>	<u>—</u>	<u>—</u>	<u>11,150</u>	<u>60,974</u>
As at 1 April 2002	57,600	34,489	—	4,200	96,289
Exchange differences	—	—	(4)	—	(4)
Profit for the period	—	—	—	2,641	2,641
As at 30 September 2002	<u>57,600</u>	<u>34,489</u>	<u>(4)</u>	<u>6,841</u>	<u>98,926</u>

For the purpose of determining the number of shares in issue, a total of 498,240,000 shares issued on the establishment of the Company and on the corporate reorganisation (the "Reorganisation"), as described in Appendix IV of the prospectus of the Company dated 12 March 2002, is deemed to have been in issue since 1 April 2001.

Note to condensed accounts:

1. Group reorganization and basis of presentation

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 the corporate reorganisation (the "Reorganisation"), as described in Appendix IV of the prospectus of the Company dated 12 March 2002, 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 Group on 6 March 2002. The shares of the Company were listed on the GEM on 26 March 2002.

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 unaudited consolidated accounts of the Group 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.

These unaudited consolidated accounts have been prepared under the historical cost convention and prepared in accordance with SSAP 25, Interim Financial Reporting, issued by HKSA and the disclosures requirements in chapter 18 of the GEM Listing Rules.

The unaudited consolidated accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of the consolidated accounts are consistent with those used in the annual accounts for the year ended 31 March 2002 except that the Group has changed certain accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting
SSAP 34:	Employee benefits

2. Turnover

The company is engaged in the design, development and sales of location-based technology devices and applications. Revenues recognized during the Relevant Periods are as follows:

	Six months ended 30 September		Three months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Mobile Positioning units and fleet management systems	53,927	22,259	31,953	11,156
GIS/digital maps	120	130	—	—
	<u>54,047</u>	<u>22,389</u>	<u>31,953</u>	<u>11,156</u>

No activity analysis and geographical analysis have been presented for the six months and three months periods ended 30 September 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.

3. Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Depreciation:		
Owned fixed assets	3,609	3,412
Leased fixed assets	8	8
	<u>3,617</u>	<u>3,420</u>

4. Staff costs

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Wages and salaries	5,279	3,128
Retirement scheme contributions	142	100
	<u>5,421</u>	<u>3,228</u>

5. Taxation

No provision for Hong Kong profits tax has been made as the Group has available tax losses carried forward as at 30 September 2002 and 2001. The taxation charge in the profit and loss account represented the deferred tax charge arising from the net timing differences in respect of accelerated depreciation allowances and tax losses.

6. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2002 is based on the Group's profit attributable to shareholders of approximately HK\$2,641,000 (2001: HK\$2,025,000) and 576,000,000 shares (2001: 498,240,000 shares) in issue during the period.

The calculation of the basic earnings per share for the three months ended 30 September 2002 is based on the Group's profit attributable to shareholders of approximately HK\$47,000 (2001: HK\$1,458,000) and 576,000,000 shares (2001: 498,240,000 shares) in issue during the period.

In determining the number of shares in issue, a total of 498,240,000 shares issued on the establishment of the Company and on the Reorganization of the Group is deemed to have been in issue since 1 April 2001.

Diluted earnings per share is not presented because there were no dilutive potential ordinary shares outstanding during the Relevant Periods.

7. Capital expenditures

	Fixed assets
	HK\$'000
6 months ended 30 September 2002	
Opening net book amount	50,157
Additions	180
Depreciation	3,617
	<hr/>
Closing net book amount	46,720
	<hr/> <hr/>

8. Trade receivables

Details of ageing analysis of trade receivables were as follows:

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
0-30 days	31,541	5,895
31-60 days	21	19
61-90 days	68	57
Over 90 days	20,088	1,183
	<u>51,718</u>	<u>7,154</u>

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

9. Trade payables

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

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
0-30 days	23,405	37
31-60 days	3,243	7
Over 60 days	448	1
	<u>27,096</u>	<u>45</u>

10. Long term liabilities

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
Obligations under finance leases	46	53
Current portion of long-term liabilities	(15)	(15)
	<u>31</u>	<u>38</u>

As at 30 September 2002, the Group's obligations under finance leases were repayable as follows:

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
Within one year	16	16
In the second year	16	16
In the third to fifth year	18	26
	<u>50</u>	<u>58</u>
Future finance charges on finance leases	(4)	(5)
Present value of finance lease liabilities	<u>46</u>	<u>53</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	16	23
	<u>46</u>	<u>53</u>

11. Share capital

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid: 576,000,000 ordinary shares of HK\$0.10 each	<u>57,600</u>	<u>57,600</u>

12. Commitments

(a) Commitments under operating leases

As at 30 September 2002 and 31 March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
Within one year	1,190	374
In the second to fifth years inclusive	1,495	225
	<u>2,685</u>	<u>599</u>

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

As at 30 September 2002 and 31 March 2002, the Group had commitments in respect of acquisition of fixed assets as follows:

	As at 30 September	As at 31 March
	2002 HK\$'000	2002 HK\$'000
Contracted but not provided for	1,761	877
Authorised but not contracted for	6,900	21,500
	<u>8,661</u>	<u>22,377</u>

Interim Dividends

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2002 (2001: HK\$Nil).

Management's Discussion and Analysis

Financial Performance

The Group has achieved an encouraging operational result for the six months ended 30 September 2002. For the six months ended 30 September 2002, the Group has recorded a turnover of HK\$54 million and recorded a profit attributable to shareholders of HK\$2.6 million. This represents an increase of 141% in sales turnover and a surge of 30% in profit attributable to shareholders as compared with those in the corresponding period. The earning per share for the six months ended 30 September 2002 was HK0.46 cents.

Business Review

Despite global and local economic downturn, we are pleased to see the Group continues to achieve satisfactory results in the second quarter seeing promising turnover growth which resulted mainly from the successful launching of the location-based services (the "LBS") devices for installation in automobiles as locator.

LBS System and Integration

The global and local economic downturn has continued to negatively impact corporate spending, particularly in information technologies (the "IT") related capital expenditures. As the result of such slowdown, some of the high-value, long-running projects the Group has been working on, have either been put on hold or are progressing very slowly. These projects include global-positioning system (the "GPS"), fleet management systems, bus tracking and monitoring systems (the "BTMS") and the new location advertising system for multi-media-on-board (the "MMOB") systems which we have been working with the major transportation logistic providers, bus operators and bus advertising companies with new 'Screen on buses' media propositions. It falls short of our expectation that the Group had not concluded any major sales in respect of geographical information system, fleet management and location-based advertising system for MMOB in the second quarter.

LBS Consumer Electronics

In light of the slowdown in corporate IT spending, the Group has adopted a revenue-oriented strategy in the second quarter and shifted the focus back to develop solutions for consumer electronics items targeting the general consumers such as drivers and travelers as end-users. These items include mobile positioning devices and LBS devices. In general, consumer electronics projects have relatively short-run completion cycles and a relatively stable group of customers. Within the second quarter, the Group has attempted, with success, to launch the newly developed LBS devices integrating the latest GSM technology for positioning and locating automobile positions. The Group has concluded a major contract in this category of product lines and has already sold 100,000 sets of solutions and electronic components for LBS car electronics devices within the second quarter. The Group has also commenced the final testing on auto-navigation system and auto-navigation via PDA. In addition, we have already received enquiries from numerous interested parties for this category of product lines.

Geographical Information System

Furthermore, the Group achieved fruitful results in technology development of web-GIS. The final testing and commissioning of the web-GIS not only showed the Group's successful mastering and applying advanced technologies in the integration of Internet, GPS and GIS technologies in order to bring the state-of-the-art LBS to the commercial market, but also indicated that technology related GIS and various key Internet application technology was getting mature. During the research and development process of the web-base GIS, the Group also recognized different Internet application technologies including multimedia features and information content. These will enable the Group to further integrate these technologies to produce different series of web-based solutions/products in the future.

Research and Development

During the second quarter, the Group has also embarked on the research and development of a cost effective solution for embedding LBS in mobile phones and further integration of LBS technologies with GSM technologies generally used in mobile communications. The Group has also finalized the development of an auto-navigation system and PDA solutions and commenced testing on the portable personal tracking devices. These new projects are aiming at developing new PDA, mobile phones and handheld/portable devices aimed at exciting the youth segment.

Strategic Alliance

In addition, the Group continues to build up strategic partnerships and business alliances with major industry players and research institutes in order to expand our market presence and fasten our product development cycle. We have successfully built a strategic relationship with a Shanghai-based digital mapping and data mining company founded by renowned GIS experts. This Shanghai-based strategic partner is one of the very few valued-added resellers and producers of China's digital map authorized by the State Bureau of Surveying and Mapping, China's highest authority in governing domestic GIS industry. They will incorporate our GIS technology to be used for distribution of their digital map in China while we will act as a marketing consultant for expanding their products overseas. Since the establishment of our relationship, we have already received overwhelming enquiries about our products and services from both domestic and foreign corporates.

Currently, we are in the final stage of building a strategic alliance with a major research institute to co-develop Hong Kong's digital map database and three dimensional geovisualization software. Furthermore, the Group is also in discussion with two other international companies for co-operation: one is a major international logistic software company and the other one is a major technology provider. Both companies are interested in incorporating our technologies for reselling their products and services in the Greater China region.

Management Appointment

On the management side, Mr. Joseph Liu, the former chief operating officer of the Group, was promoted to the position of deputy chief executive officer in September 2002.

Financial Resources And Liquidity

As at 30 September 2002, the Group had total assets of approximately HK\$128 million, which were financed by current liabilities of approximately HK\$28 million, non-current liabilities of approximately HK\$1.3 million and shareholders' equity of approximately HK\$99 million.

Current assets amounted to approximately HK\$82 million, of which approximately HK\$5.6 million were cash and bank deposits. The Group had a working capital ratio of approximately 2.9.

Fixed assets at cost of the Group increased from approximately HK\$58.0 million to approximately HK\$58.2 million by the end of the period. The increase in fixed assets were mainly for research and development equipment. This capital expenditure was funded primarily by internally generated cash and proceeds from the listing of the shares of the Company on the GEM.

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.

The Group has no available banking facilities and there are no bank borrowings.

The directors believe that the Group has a strong financial position after the listing of the shares of the Company on the GEM. 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 30 September 2002, the Group had 72 full-time employees who were engaged in the following operations:

Engineering and R&D	54
Sales and marketing (including field application engineers)	6
Finance, accounting, operation and administration	12
	<hr/>
Total headcount	72
	<hr/> <hr/>

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

Outlook

Looking ahead, we see no signs of a near-term recovery in corporate IT spending. It is more likely that a modest recovery scenario will come in the second half of 2003 or later. As such, we expect the global corporate IT spending will remain weak in the second half of the financial year.

In light of the situation, we do not expect to see expeditious conclusions on the major high-value fleet management, location-based advertising system for MMOB and BTMS projects. However, we believe the advanced testing and trial runs for these projects will be completed in the second half of 2003. We are still optimistic that once a recovery to normal IT spending patterns come in, the spending priorities are on information, communication and logistic infrastructures which are related to location based technology hardware and software. In general, the project-base solutions/products are expected to generate remarkably higher profit, particularly, for projects related to GIS and data mining.

Strategies and Directions

Going forward, the Group will continue to adopt a revenue-oriented strategy to stay in profitability and growth in this difficult market environment. The Group in the second half of the financial year will increase its attention on developing new solutions/products of relatively short completion cycles aiming to strengthen the Group's cash-flow and financial positions. With the Group's financial and technology strength, it is strongly positioned for growth when the market environments improve.

On the whole, the Group will continue to seek to establish leadership in its targeted markets by offering differentiated products/solutions through software, hardware, customized user interfaces, and quality service and support. The Group also emphasize flexibility and application specific systems that provide solutions to end-user problems in the targeted markets. We believe that a substantial value of our products/solutions is derived from the embedded software that is embedded into the core chips incorporated with software provided to enable superior performance.

The LBS gadgets hit Japan last December when one of the Japanese telecommunications services provider first launched a service for consumers interested in finding restaurants, weather reports and traffic information over GPS mobile phone. The service will soon be expanded to businesses that need to keep track of staff in the field, such as salesman. In the U.S. LBS devices are finding their ways into leisure gadgets targeting general consumers. For example, auto-makers are offering GPS in new cars as an upgrade feature, handheld personal locators are being introduced to hikers, ski patrols and families, GPS golf assistants are being introduced to golfers, child locators are being introduced to parent, and GPS fish finders are being introduced to professional and amateur fishermen. Price of these new LBS products range from a couple thousand US dollars to just a few hundred US dollars.

The most significant advances, though, are still to come when telecommunication services providers for mobile phones in the U.S. are going to comply with a federal rule that says anyone who calls the emergency assistance via mobile phone is to be located through LBS. This rule will take effect gradually through the end of 2005, and is going to drive the industry players to develop a large number of handheld devices embedded with LBS functions and features.

In the short term, we have particularly high expectations on the opportunities in the LBS consumer electronics and car electronics market. The Group will package the LBS and GPS technologies and put development of LBS consumer electronics and car electronics devices at the forefront of our short-term business plans. We believe that LBS car electronics devices, LBS handsets and related parts will be drivers for the LBS electronics sector in short to medium term. In this regard, the has plans to commercially launch its products and solutions in auto-navigation system and auto-navigation via PDA in the second half of the financial year.

The Group has formed a GIS and digital mapping solutions strategic alliance with a Shanghai-based GIS company aiming at overseas enterprises with logistic operations in the PRC. The Group will become the marketing consultant and reseller of the GIS and digital mapping products and solutions in overseas.

In addition to the GPS, the Group is also incorporating other technologies into many of its new products, such as GSM, wireless communications, information technologies and non-GPS positioning technologies in order to optimize products features for the end-users. Such move, aims at bringing down the solution/product drastically, thereby enabling the Group to produce competitively priced solutions/products in the foreseeable future.

The Group also considers that the broadband Internet and mobile Internet will be the directions in the development of web-based LBS and web-GIS solutions/products. The Group's experience on various information appliances, Internet application and wireless application and its expertise on GIS, information and telecommunication sectors will help the Group to produce innovative products in mobile and web-based LBS.

In long term, the Group will maintain a flexible corporate structure in order to meet the rapidly changing industry environment. The Group will also continue to develop new technology and products based on the latest standards such 2.5G and 3G cellular technologies, 5G display technologies and those emerging technologies that arise in the transition from the current PC-based technology to mobile unit based information technology.

Research and Development

The Group will immediately embark on a new research development project addressing the GPS technology's most glaring short-comings that is the qualified satellite signals are often too weak to penetrate indoors and to spaces near tall buildings and the high power consumption of GPS receiving devices. One objective of this new research and development project is to develop alternative locating methods and/or technologies for LBS devices. At present, handheld GPS devices are pricey; therefore, another objective of the project is to develop cost-effective LBS solutions for mobile phone manufacturers and carriers to provide locator functions in mobile devices.

While the remainder of the financial year will be challenging, we are confident that the Group is well prepared to face constant challenges to diversify and grow its business. We are also confident that the Group's long and short term strategies will continue to achieve success in their respective fields, providing future growth and value to our shareholders.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing of business objectives as stated in the prospectus dated 12 March 2002 with the Group's actual business progress up to 30 September 2002 is set out below:

Business Objectives:

Sales proceeds

- continue to generate sales from both Hong Kong and PRC customers, and start to generate sales from overseas customers, and diversify sales source to include hardware and software as well as service income

Actual Business Progress:

- sales of GPS devices and applications with location-based technology in Hong Kong continue to contribute to the Group's turnover for the period. The Group expects to have sales from the PRC in the coming months. The Group has also commenced discussion for sales to overseas customers.

Product launches

- launch personal tracking devices and GPRS/2.5G-enabled location-based technology solutions
- The Group expects to launch the personal tracking devices later this year. For the GPRS/2.5G-enabled location-based technology solutions, it is in the final stage of its development, and is expected to finalize its launching plan later this year.

- commence pilot-run and testing of PDA-based location tracking and navigation systems, and m-commerce and location-based advertising services for general vehicles and PDA applications
- the Group has tested, commissioned and demonstrated PDA-based location tracking and navigation systems, and m-commerce and location-based advertising services for general vehicles and PDA applications. It is expected that contribution from these new products and services will be increased in the next year when more sales efforts are focused on them

Sales and marketing

- initiate sales efforts of personal tracking systems to consumer electronic and consumer products companies
- a number of promotional campaigns and programs has been planned for the coming months. The Group is studying the possibility of participating in various shows in Hong Kong and the PRC.
- continue to explore sales opportunities for the Group's fleet management/tracking systems and auto-navigation systems
- the Group has enhanced its marketing ability in the PRC in order to explore more sales opportunities
- initiate sales effort and conclude additional sales for GIS/digital maps
- the Group has commenced the sales and marketing schedule for GIS/digital maps in the PRC and other overseas cities and will increase such efforts in the coming months

Business developments

- establish joint venture or branch office outside Hong Kong
- seek strategic partners to incorporate the location-based PDA contents and solutions into cellular phones and partners to incorporate location-specific contents into the Group's location-based technology services
- the Group has established a research and supporting base in Shenzhen, the PRC in August 2002. The Group is also studying the feasibility of setting up another office in Shanghai, the PRC
- the Group has identified a number of business partners and will commence negotiation with them for business opportunities in various areas

Research & development

- finalize development of auto-navigation systems & PDA solutions, and GPRS powered and Internet-enabled portable personal tracking system
- the development of auto-navigation systems & 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 in general in line with the schedule

- continue development of:
 - public transportation information platform as a part of the intelligent transportation system
 - three-dimensional GIS
 - 3G-enabled location-based technology solutions and innovations and other related cross platform
- commence development of:
 - integration of location-based technology products and services with multimedia features and other information contents
 - system-on-chip integration of current location-based technology from multiple chipsets onto a single chip
- the Group is continuing the development of these systems and products. It is expected that certain of them will be finalized later this year and ready to plan for their market launch
- the Group has commenced development of integration of location-based technology products and services with multimedia features and other information contents. The development is progressing and generally in line with the schedule and further results are expected to be obtained later this year
- the Group is studying the potential of developing system-on-chip integration of current location-based technology from multiple chipsets onto a single chip.

Human resources, operations and administration

- recruit additional development engineers and dedicated sales staff to cover Hong Kong and the PRC
- additional engineers and sales staff have been recruited to cope with the expansion of the Group during the period. As at 30 September 2002, the total headcount of the Group reached 72 and there were 54 engineers within the Group

Use of Proceeds

The Group raised net proceeds of approximately HK\$23 million upon listing of the Company's shares on GEM of the Stock Exchange on 26 March 2002. As at 30 September 2002, the Group used part of the proceeds from the listing to achieve the business objectives as stated above and substantially in the manner as set out in the prospectus dated 12 March 2002. The proceeds have been applied as follows:

	According to the use of proceeds as stated in the prospectus dated 12 March 2002	Amount utilized up to 30 September 2002
	HK\$'million	HK\$'million
For development of next generation location-based technology solutions with 3G-enabled multimedia features and interactivity	4.5	4.3
For development of portable personal tracking devices with wireless Internet and voice recognition features	4.5	2.6
For development of intelligent transportation system	4.5	4.0
For development of three-dimensional GIS	1.5	1.2
For upgrading of the existing R&D facilities and engineering equipment	4.5	0.2
For establishment of research base and office in the PRC	2.0	0.5
To enhance sales and marketing efforts covering Greater China and overseas markets	1.5	3.3
	<hr/>	<hr/>
Total	<u>23</u>	<u>16.1</u>

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 September 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as required to be recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("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 Exchange were as follows:

A. Ordinary shares of HK\$0.10 each of the Company

Name of Director	Type of interest	Number of shares	Percentage of issued share capital
Mr. TSOI Siu Ching, Leo	Corporate (Note 1)	387,888,000	67.34%
Mr. PUN Wai	Personal	426,000	0.07%

A Director's interests in Arcontech Corporation, an intermediate holding company of the Group and Arcon Solutions (BVI) Limited, an immediate holding company of the Group were as follows:

Name of Director	Name of Company	Type of interest	Number of shares
Mr. TSOI Siu Ching, Leo	Arcontech Corporation	Corporate (Note 1)	472,384,000
Mr. TSOI Siu Ching, Leo	Arcon Solutions (BVI) Limited	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 Corporation. Arcontech Corporation 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 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.

B. Share options

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 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. Upon acceptance of the option, the grantee must pay HK\$1.00 to the Company by way of consideration for the grant.

As at 30 September 2002, no option has been granted or agreed to be granted by the Company under the Scheme.

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 period.

Save as disclosed above, at no time during the period 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 acquisition of shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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 Solutions (BVI) Limited (Note 1)	387,888,000	67.34%

Note 1: Arcontech Corporation is interested in these shares held by its wholly owned subsidiary Arcon Solutions (BVI) Limited. 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 Corporation. 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 or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 30 September 2002, 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 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

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 the shares of the Group were listed on the GEM of the Stock Exchange.

By Order of the Board
Tsoi Siu Ching, Leo
Chairman

Hong Kong, 1 November 2002