



**Satellite  
Devices**  
*An Arcotech Company*

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

**2003-2004**

**First 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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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*This report, 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FIRST QUARTER 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 three months ended 30 June 2003, together with the comparative unaudited figures for the corresponding period in 2002 (the “Relevant Periods”) as follows:

	Note	Three months ended 30 June	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	<b>13,748</b>	22,094
Cost of location-based technology devices and applications		<b>(12,721)</b>	(13,058)
		<b>1,027</b>	9,036
Interest income		—	12
Advertising and promotion costs		<b>(264)</b>	(368)
Staff costs		<b>(1,475)</b>	(2,426)
Depreciation		<b>(2,941)</b>	(1,807)
Other operating expenses		<b>(950)</b>	(1,353)
(Loss)/profit before taxation		<b>(4,603)</b>	3,094
Taxation	3	—	(500)
(Loss)/profit attributable to shareholders		<b>(4,603)</b>	2,594
Interim dividend per share (cents)		<b>Nil</b>	Nil
(Loss)/earnings per share — basic (cents)	4	<b>(0.78) cents</b>	0.45 cents

Notes:

1. **Basis of presentation**

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current period, the Group has adopted, for the first time, the new and revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The adoption of the above new and revised SSAP has no material impact on the accounts of the company for the current and prior accounting periods. Accordingly, no prior period adjustment is required.

2. **Turnover and revenue**

The company is 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 Relevant Periods 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. **Taxation**

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the period ended 30 June 2003 and 2002.

No overseas taxation has been provided as the Group's overseas subsidiary did not have any taxable profits for the period ended 30 June 2003 and 2002.

The taxation charge in the profit and loss account for the 3 months ended 30 June 2002 represented the deferred tax charge arising from the net timing differences in respect of accelerated depreciation allowances and tax losses.

4. **(Loss)/earnings per share**

The calculation of basic (loss)/earnings per share for the three months ended 30 June 2003 is based on the Group's loss attributable to shareholders of approximately HK\$4,603,000 (2002: profit of HK\$2,594,000) and weighted average number of 588,129,495 ordinary shares (2002: 576,000,000 ordinary shares) in issue during the period.

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

## 5. Reserves

Other than the increase in the accumulated losses of HK\$4,603,000 (2002: profit of HK\$2,594,000) for the 3 months ended 30 June 2003 and the increase of the exchange difference of HK\$7,000 for the 3 months ended 30 June 2002, there was no other movement to and from reserves during the Relevant Periods.

## INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the three months ended 30 June 2003 (2002: HK\$Nil).

## BUSINESS OVERVIEW AND PROSPECTS

### Business Overview

For the period ended 30 June 2003, the epidemic of SARS (Severe Acute Respiratory Syndrome) has severely damaged the overall business environment of Hong Kong and China. A few of our potential deals were postponed due to the unwillingness of our customers to travel. This has, in turn, significantly affected our sales activity, the turnover dropped to HK\$13.7 million from HK\$22.1 million of the same period of last year, a year-on-year decline of 38% and with a net loss of HK\$4.6 million. Under this exceptional period of time, the Group decided to lowered the selling prices of its product temporarily to keep the turnovers of our inventories and working capital. As the result, the gross profit margin for the period dropped significantly to 7.5%, comparing with the first quarter of last year's 41%.

In order to weather this difficult business environment and the uncertainties of the global economy, the Group has undergone an internal restructure and undertaken a new strategy. With the lessons that the Group learned last fiscal year, we have significantly slowed down our business expansion in order to minimize the investment and thus, cash flow. Instead, we will focus purely on high value-added products and services to our selective customers. This has further allowed us to reduce our headcount and various overhead expenses. As a result, our cash flow, though still negative, has significantly improved comparing with the first quarter of last year.

In terms of business development, during the period, we continue to deepen our discussion with a major telecom company. We are very positive and confident towards the outcome of our effort but we do expect that the discussion and negotiation can last longer than we originally expected.

As at 10 March 2003, the Group was granted by The Chinese University of Hong Kong (the "University") an exclusive license to use the software with the right to grant sub-licenses to develop, manufacture, use and sell or supply projects developed by using the software for a term of 20 years at a consideration of HK\$2.3 million. The acquisition of such exclusive license was included in the addition of fixed assets for the year ended 31 March 2003. Among the consideration, HK\$600,000 had been paid by cash and the balance of HK\$1,700,000 was settled by the issue and allotment of 14,916,000 consideration shares of the Company at HK\$0.114 to the University as at 17 April 2003.

In terms of technology development, the Group has completed its new version of mobile location device with GPRS function. We expect that we will launch this product within the immediate near future. The Group has also commenced in the study of incorporating various third generation mobile technology within our existing products and services to further expand our future revenue sources.

### Future Prospect

Despite the fact that the Group has slowed down its business activities and the uncertainties of global economy, the Group continues to maintain a close watch over the global development of location-based technology and services where the location and mobile-based computing and communication products continue to receive wide market attentions with increasing number of applications in different industries.

In addition, with more and more mobile communication service providers commence the third generation mobile operation through huge investment to upgrade their existing facilities, the wireless bandwidth available to mobile subscribers increased significantly. However, in order to fully utilize this bandwidth and recover the large investment, these service providers are also desperately seeking for value-added applications that the bandwidth can be utilized and additional income can be generated. In other words, we continue to be very optimistic about the overall future prospect of this industry and the Group's business.

As the case of many accomplished high technology companies, there are often many issues and complexities which may impede their route to success. The management team of the Group continues to devote many efforts in solving the Group's current issues and we believe that these issues will be resolved in the foreseeable future where the Group's business will commence to prosper again.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 June 2003, 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	65.64%
Mr. PUN Wai	Personal	426,000	0.07%

The 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 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 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 June 2003, no option has been granted or agreed to be granted by the Company under the Scheme.

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.

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 June 2003, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the following person is interested in 5% or more of the Company's issued share capital:

Name	Number of shares	Percentage of issued share capital
Arcon Solutions (BVI) Limited ( <i>Note 1</i> )	387,888,000	65.64%

*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 "ICEA"), as at 30 June 2003, neither ICEA 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 ICEA, ICEA received, and will receive sponsorship fees for acting as the Company's retained sponsor until 31 March 2004. As at 8 August 2003, ICEA and the Company mutually agree to terminate the sponsorship agreement. The Company appointed South China Capital Limited as the replacement sponsor since 13 August 2003.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 30 June 2003, 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.

By Order of the Board  
**Tsoi Siu Ching, Leo**  
*Chairman*

Hong Kong, 14 August 2003