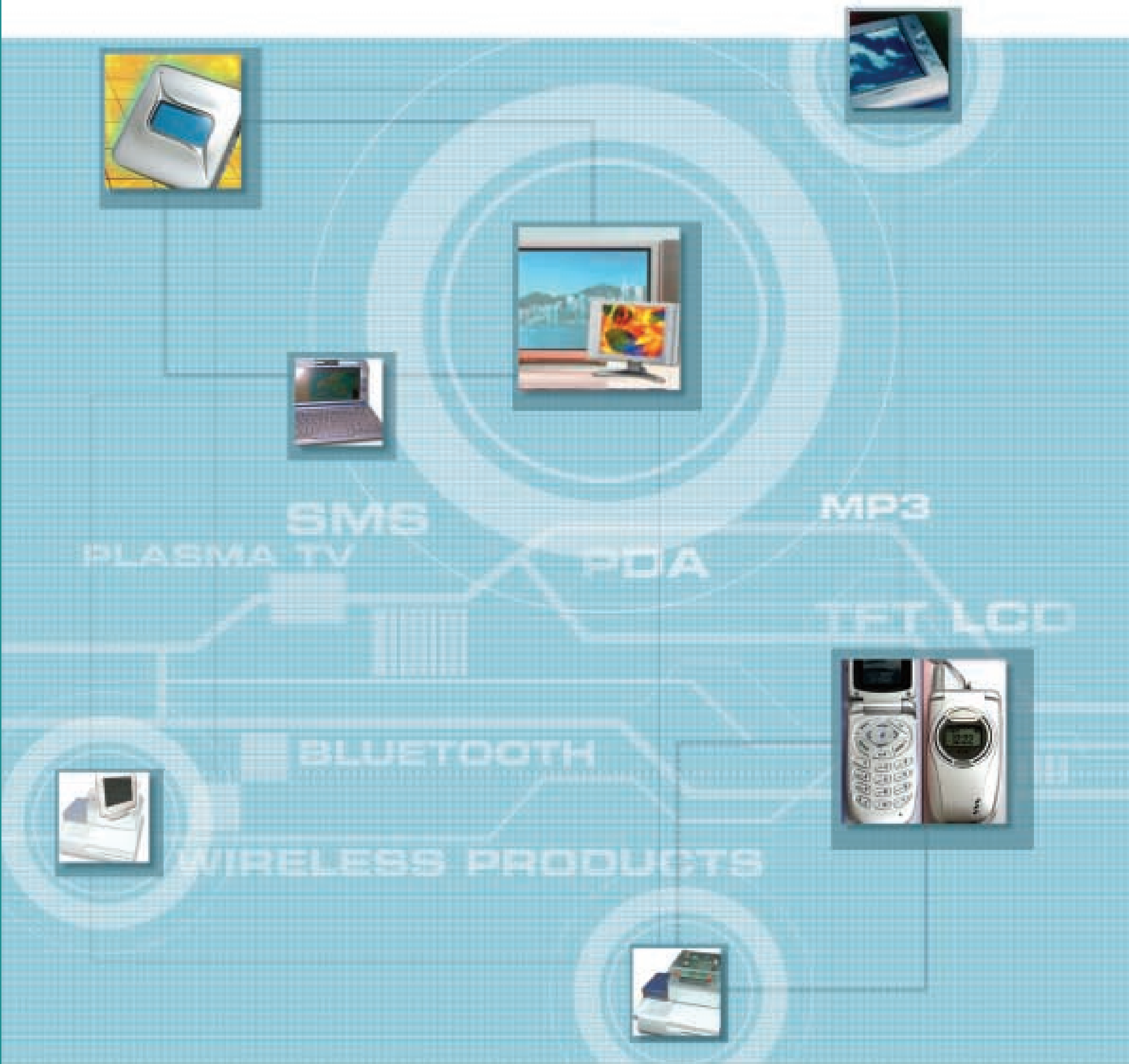
arcontech
The Innovators



Arcontech Corporation

ANNUAL REPORT 2004

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

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

This annual report, for which the directors of Arcontech 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 Arcontech Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

Executive Directors

TSOI Siu Ching, Leo
YIP Ho Bun, Edwin

Independent Non-executive Directors

LO Chi Ko
HO Yung San

Company Secretary

YIP Ho Bun, Edwin, *FHKSA*

Qualified Accountant

YIP Ho Bun, Edwin, *FHKSA*

Compliance Officer

YIP Ho Bun, Edwin, *FHKSA*

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

Auditors

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

Audit Committee

LO Chi Ko
HO Yung San
YIP Ho Bun, Edwin

Authorised Representatives

TSOI Siu Ching, Leo
YIP Ho Bun, Edwin

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

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

Head Office and Principal Place of Business

803A, 8/F., Park Building
476 Castle Peak Road
Kowloon
Hong Kong

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FINANCIAL HIGHLIGHTS

	Year ended 31 March		
	2004	2003	Change
	HK$'000	HK$'000	%
Revenue			
Turnover	**100,459**	540,367	(81)
Profitability			
Gross profit	**32,277**	114,545	(72)
Operating loss	**(99,655)**	(431,939)	(77)
Loss before taxation	**(109,042)**	(439,181)	(75)
Loss attributable to shareholders	**(92,874)**	(421,107)	(78)
Net worth			
Shareholders' (deficit)/fund	**(74,283)**	18,596	(499)
Per share			
Loss per share	**(11.33) cents**	(51.84) cents	(78)
Net (liabilities)/assets per share	**(9.06) cents**	2.27 cents	(499)
Dividend per share	**nil**	1.05 cents	N/A
Turnover period			
Inventory turnover period	**291 days**	78 days	N/A
Trade receivable turnover period	**74 days**	73 days	N/A

On behalf of the Board of Directors (the "Board"), I am pleased to present to shareholders the annual report of Arcontech Corporation (the "Company") and its subsidiaries (collectively the "Group"), for the year ended 31 March 2004.

Financial Results

For the year ended 31 March 2004, the Group operated under difficult financial position which was highlighted by the filing of the winding up proceedings against the Company on 16 July 2003.

Consequently, the turnover of the Group for the year dropped to HK$100 million from HK$540 million for past year. The loss attributable to shareholders was approximately HK$92.8 million.

The gross profit margin increased to 32.1% from 21.2% in the previous year mainly due to the sales of stocks and return of stocks to suppliers in respect of stocks of the previous year amounting to approximately HK$20 million and HK$9 million respectively. Provision has been made in respect of the old stocks.

Products sold in prior year amounting to HK$42 million were returned to the Group during the year ended 31 March 2004 by customers which were waiting for the Group to deliver semi-conductor chips which were essential to form complete chip sets for their products but as a result of unresolved winding up proceedings decided not to wait for such further delivery and products already delivered were consequently returned to the Group.

While the Group was unable to invest any resources into any significant research and development required to dispose of all its stock, the market conditions have generally improved during the period and there is a shortage of supply for semi-conductor chips which have benefited the Group in successfully selling some of its stock.

One of the bank creditors of the Group commenced winding up proceedings against the Company on 16 July 2003. The winding up action coupled with the financial difficulty faced by the Group's customers due to the slow US market conditions during the early part of the year caused many of the Group's customers to stop payment of debts to the Group. The effects of the winding up proceedings spiraled and a broad range of debtors refused or were unable to pay the Group and an amount of HK$12 million were additionally provided for in the accounts for the year ended 31 March 2004 as bad and doubtful debts.

The Group succeeded to reduce the general and administrative expenses from HK$83.6 million for the year ended 31 March 2003 to HK$55 million after making a depreciation charge of HK$30 million for the year ended 31 March 2004.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 March 2004 (2003: nil).

No dividend has been paid for the year ended 31 March 2004. Total dividends for the year ended 31 March 2003 amounted to HK1.05 cents per share, consist of the interim dividend of HK0.35 cent per share for the three months ended 30 June 2002, the interim dividend of HK0.50 cent per share for the three months ended 30 September 2002 and the interim dividend of HK0.20 cent per share for the three months ended 31 December 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 21 July 2004 to Monday, 26 July 2004, both days inclusive, during which period no share transfers will be registered.

Business Review

The Group faced extreme challenges during the period under review due especially to weak global economies, the attack of SARS and a particularly poor consumer spending environment in the US market during the early part of the year. The Group faced even stronger challenges due to the financial difficulties suffered from many of its customers which complied with other factors eventually led to the filing of the winding up petition against the Group by a bank creditor.

The market sentiment, particularly on consumer electronic products, improved gradually during the year to the extent that during the later part of year, there was a worldwide shortage of supply for semi-conductor chips. The Group's financial position did not allow the Group to cash in on such improvement in market conditions.

Consequently, during the year, the Group was focusing on a number of internal policies and restructure to combat the exposure to credit risk, which the Group considered necessary, given the changes in operating environment described above. Such policies include plans to take out insurance policy on new sales, and measures were imposed on managing credit assessment. The Group has also completed its restructuring on its operational plan, focusing on streamlining its operations.

The winding up petition was finally lifted on 26 April 2004 and the Group has been in negotiations with its Bank creditors for the restructuring of its debts. The lifting of the petition has allowed the Group to revisit its strategies with regards to resuming normal operations going forward.

Prior to the difficulties faced by the Group with regards to the winding up proceedings against the Company and the failure of its customers to pay its debts, the Group was successful in adopting a revised operation policy to combat the difficult operating environment. The Group has moved towards focusing on developing solutions for fast moving consumer items such as audio visual products and simple digital devices which command a higher volume. The Group also focused on developing solutions for high end products which have a shorter time to market in order for the Group to benefit from the higher margin available during the early cycles of the product, and allow the Group to move its development focus to the next generation of products relatively quickly. The Group has focused its research and development resources of such operation and product road map and have developed a number of solutions which are in the testing phase.

On the operation side, the Group has completed its organisational restructuring and have now streamlined its operation costs which will allow the Group to resume its operations in a cost effective manner.

On the senior management side, Mr. Mak Kam Wah and Mr. Ho Ping resigned as executive directors in August 2003 and December 2003 respectively. Mr. Raymond Cheung, Mr. Lo Chi Ko and Mr. Ho Yung San were appointed as independent non-executive directors in May 2003 and August 2003 respectively. Mr. Wang Wei Hung, Mr. Chu Ho Hwa, Mr. Raymond Cheung and Mr. Zhang Xiaoming resigned as independent non-executive directors in April, 2003, May 2003, July 2003 and August 2003 respectively. The Board would like to take this opportunity to welcome the new directors and to express its appreciation for the outgoing directors' contributions towards the Group during their terms of service.

Financial Resources And Liquidity

As at 31 March 2004, the Group had total assets of approximately HK$180 million, which were financed by current liabilities of approximately HK$247 million, and shareholders' deficit of approximately HK$74 million and minority interest of approximately HK$7 million.

Current assets amounted to approximately HK$128 million, of which approximately HK$3 million were cash and bank deposits. The Group had a working capital ratio of approximately 0.52.

Charges on Group Assets and Contingent Liabilities

The Group's banking facilities were originally secured by corporate guarantees given by the Company and there were approximately HK$206 million utilised banking facilities, mainly trade financing, as at 31 March 2004.

One of the Group's bank creditors, Hongkong and Shanghai Banking Corporation Limited ("HSBC"), has filed a winding up petition against each of the Company and its principal subsidiary, Arcon Technology Limited ("ATL") on 16 July 2003. Some other major bank creditors have also demanded for immediate payments of the amounts due to them. In the absence of additional funding, the Group cannot meet the demands for immediate payments of its debts. The company has engaged its legal adviser to advise on the petition and prepare its defence.

The Group is currently engaged in negotiations with its bank creditors, on a without prejudice basis, to achieve a debt restructuring agreement. Subsequent to the balance sheet date, on 1 April 2004, the Company entered into a Standstill Agreement with the bank creditors of the Group in respect of the indebtedness owed to the bank creditors. HSBC has withdrawn the winding up petition against the each of the Company on 26 April 2004. The bank creditors have indicated that they are willing to consider, without commitment at this stage, proposals for a debt restructuring of the Group, but formal agreement has not been reached up to the date of this report.

In view of the absence of a formal restructuring agreement, it is more appropriate to classify all borrowings of the Group as current liabilities in the accounts.

The directors believe that the Group's aggressive credit policy contributed significantly to its fast expansion in the market in the past years. Unfortunately, the unexpected US-Iraq War and the attack of SARS in the first half of 2003 had ruined this aggressive business approach. Demand dropped sharply and most of its customers are in financial difficulties. The Group's liquidity is thus affected and its funds are held up by inventory and trade receivables. However, the Group's core business remains profitable.

Foreign Exchange Exposure

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.

Employees

As at 31 March 2004, the Group had 60 full-time employees who were engaged in the following operations:

Engineering and R&D	44
Sales and marketing (including field application engineers)	4
Finance, accounting, operation and administration	12
Total headcount	60

The Group has successfully reduced the total headcounts from 153 to 60 as part of an internal reorganisation and increased operational efficiency. 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

Business Outlook

The market sentiment has picked up significantly since the year under review and the Group's products are in demand by industry players. The Group has the know-how to develop solutions which can replace expensive features often executed through hardware with a much cheaper alternative in software solutions, and this ability of Group continues to attract customer interest.

With the lifting of the winding up petition and the continuing negotiation with its bank regarding a restructuring in its bank debts, the Group expect to be able to graduate to resume its operation. The focus of the business, given a weak financial based, will be on its design strength in developing new products and to diversify its revenue structure by looking to charge design fees and reduce exposure on trading of embedded chips.

ADVANCES TO ENTITIES

In accordance with rules 17.15 to 17.17 of the GEM Listing Rules, the Company makes the following disclosures in relation to the details of advances to entities:

Name of entity	**Outstanding balance as at 31 March 2004 (before provision)** HK$'000
He Mu Economy Development Co., Ltd.	62,383
Mighty Treasure Trading Limited	67,954
Shanghai Chuen Tian Electronic Co.	53,616
Shenzhen He Si Rui Electrical Ltd.	19,733
SVA Information Industry Company Limited	24,041
Windsor Technology Limited	88,885

The above entities are independent third party customers of the Group and the amounts represented trade receivable balances for sales made to the respective customers as at 31 March 2004. The amounts are unsecured, interest-free and repayable in accordance with the credit terms as agreed with respective customers. Adequate provision for bad and doubtful debts have been made on all the above amounts in the accounts for the year ended 31 March 2004.

Acknowledgement

Finally, I would like to thank my fellow directors and staff for the enormous effort and commitment they made in overcoming many challenges and difficulties during the year, and thank our shareholders for their trust and support.

Tsoi Siu Ching, Leo
Chairman

Hong Kong, 28 June 2004

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. TSOI Siu Ching, Leo, aged 43, is the founder, Chairman, Chief Technology Officer and Chief Executive Officer of the Group. He is primarily responsible for the overall management, supervision of the operating unit heads, the formulation of corporate strategy and oversees the direction of the Group. Mr. Tsoi graduated from the Hong Kong Polytechnic University in 1982 and is a member of the Institute of Electrical and Electronics Engineers. Mr. Tsoi has over 20 years of experience in the semi-conductor industry.

Mr. YIP Ho Bun, Edwin, aged 57, is an executive director and the Chief Financial Officer of the Group. He is primarily responsible for the overall financial planning and corporate planning of the Group. He is fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants, and an associate member of the Taxation Institute of Hong Kong. Mr. Yip has over 30 years of experience working in senior finance and accounting position in various companies. He joined the Group in August 2002.

Independent Non-executive Directors

Mr. LO Chi Ko, aged 33, is an independent non-executive director and Chairman of the Audit Committee of the Group. He holds a bachelor degree from the Hong Kong Baptist University and a master degree in business administration from the University of Surrey, United Kingdom. He has over 9 years of experience in corporate finance and accounting sector, particularly in auditing and taxation areas. Mr. Lo is a member of the Hong Kong Society of Accountants and the Australian Society of Certified Public Accountants. He joined the Group in August 2003.

Mr. HO Yung San, aged 41, is an independent non-executive director of the Group. He holds a higher diploma in production and industrial engineering from the Hong Kong Polytechnic University. He has more than 16 years of experience in project management and corporate administration in multinational companies in Hong Kong and in the PRC. He joined the Group in August 2003.

Senior Management

Mr. TANG Ho Cheung, Gary, aged 29, is the Vice President of Engineering of the Group. He is responsible for development of software solutions for the Group. He graduated from the Hong Kong Polytechnic University in 1997 and has over 5 years of experience in the information technology and electronics industry. He joined the Group in 1997.

Mr. SAM Luen Lai, Paul, aged 36, is the Accounting Manager of the Group. He is responsible for the overall treasury and direction of accounting of the Group. He has over 8 years of experience in the field of accounting and financial management. He joined the Group in 2003.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2004.

Principal activities and geographical analysis of operations

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

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The Board does not recommend the payment of any dividend for the year ended 31 March 2004.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 26 and note 26 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 15 to the accounts.

Donations

The Group made charitable donations of HK$10,000 during the year.

Share capital and share options

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, and details of the Company's share option scheme are set out in notes 24 and 25 to the accounts respectively.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2004 are set out in note 16 to the accounts.

Distributable reserves

There are no distributable reserves of the Company as at 31 March 2004.

Segmental information

An analysis of the Group's turnover and contribution to profit before taxation by principal activities for the year ended 31 March 2004 are set out in note 5 to the accounts. No geographical segmental analysis is presented as the Group's operations are principally located in Hong Kong.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 31 March 2004 are set out in note 27 to the accounts.

Financial summary

The summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 61.

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 and up to the date of this report were:

Mr. TSOI Siu Ching, Leo	
Mr. YIP Ho Bun, Edwin	
Mr. HO Ping	(resigned on 13 December 2003)
Mr. MAK Kam Wah	(resigned on 13 August 2003)
Mr. WANG Wei Hung*	(resigned on 30 April 2003)
Mr. CHU Ho Hwa, Howard*	(resigned on 15 May 2003
Mr. ZHANG Xiao Ming*	(resigned on 13 August 2003)
Mr. CHEUNG Kwok Ming*	(appointed on 15 May 2003 and resigned on 22 July 2003)
Mr. LO Chi Ko*	(appointed on 13 August 2003)
Mr. HO Yung San*	(appointed on 13 August 2003)

* *Independent non-executive directors*

Mr. Lo Chi Ko and Mr. Ho Yung San will retire at the forthcoming annual general meeting in accordance with Article 99 of the Company' Articles of Association and, being eligible, offer themselves for re-election at that meeting.

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 10.

Directors' service contracts

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

Mr Yip Ho Bun, Edwin, the Executive Directors had entered into a service contract with the Company for a term of two years from 23 August 2002. The contract may be terminated by either party thereto giving to the other not less than six calendar months prior notice in writing, or otherwise in accordance with its terms.

Save as disclosed herein, none of the directors who has 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

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' benefits from rights to acquire shares or debentures

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

For the Scheme, the subscription price will be determined by Board, and will not be less than the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of grant of the options. 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 10 years from 19 July 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, such period of time shall not be less than 3 years from the date on which the option is granted in accordance with the terms of the Scheme and not more than the date falling on the expiry of 10 years from the date of grant of the option or the date falling on the expiry of the Scheme, whichever date is later. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

For the Plan, the principal terms are the same as the terms of the Scheme except that: (a) the subscription price for the shares granted under the Plan is the issue price of the listing; (b) the total number of shares subject to the Plan 28,800,000; (c) the grantee can be Non-executive Directors and employees of the Company and its subsidiaries who are not in full time employment of the Group and consultants and advisers to the Group; and (d) the Plan was terminated on 4 August 2002, being the day immediate prior to the day when bulk printing of the prospectus took place.

As at 31 March 2004, all options granted were lapsed and there was no option outstanding. Details of movements of options during the year are set out in note 25 to the accounts.

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 was the Company; its fellow subsidiaries, or any of its subsidiaries or its holding company 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 or any other body corporate.

Directors' and executive's interests and short positions in shares and underlying shares

As at 31 March 2004 and up to the date of this report, the interest, deemed interests, long position, short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") as recorded in register required to be kept under the Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows :

The Directors' interest in the Company:

Name	**Type of interest**	**Number of shares**	**Percentage of issued share capital**	
			As at 31 March 2004	At the date of this report
Mr. Tsoi Siu Ching, Leo	Corporate *(Note 1)*	472,384,000	57.61%	–
		234,584,000	–	28.61%

The Director's interest in Arcon Technology Limited, a subsidiary of the Group:

Name	**Personal Interests**	**Corporate Interests**	**Total Interests**
Mr. Tsoi Siu Ching, Leo	10,250,000 Deferred Shares *(Note 3)*	5,000,000 Deferred Shares *(Notes 2 and 3)*	15,250,000 Deferred Shares *(Note 3)*

The Director's interest in Satellite Devices Corporation, a subsidiary of the Group:

Name	**Corporate Interests**	**Total Interests**
Mr. Tsoi Siu Ching, Leo	387,888,000 Ordinary Shares *(Note 4)*	387,888,000 Ordinary Shares

Note 1: Mr. Tsoi Siu Ching, Leo held these shares through Upgrade Technology Limited, a company in which Mr. Tsoi Siu Ching, Leo holds 100% of its issued share capital.

Note 2: These deferred shares are held by Winland Nominees Limited as nominee of Mr. Tsoi Siu Ching, Leo.

Note 3: These deferred shares carry rights with regards to distribution of capital and voting as summarised in paragraph (j) under the subsection headed "Corporate reorganisation" in the Company's prospectus dated 8 August 2000.

Note 4: As at 31 March 2004, Mr. Tsoi Siu Ching, Leo held 57.61% of the issued share capital of the Company through Upgrade Technology Limited, a company which is wholly and beneficially owned by Mr. Tsoi Siu Ching, Leo. The Company is interested in 387,888,000 shares of Satellite Devices Corporation held by its wholly owned subsidiary Arcon Solutions (BVI) Limited.

Save as disclosed above, as at 31 March 2004, none of the Directors, chief executive of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Listing Rules relating to Securities Transactions by Directors to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this document pursuant to the requirement of the Takeovers Code.

Substantial shareholders

As at 31 March 2004 and up to the date of this report, the register of substantial shareholders maintained pursuant to Section 336 of SFO showed that other than interest disclosed in "Directors' and chief executive's Interests and Short Positions in Shares and Underlying Shares", the following shareholders had notified the Company of their relevant interests or deemed interests in the issued capital of the Company :

Name	Capacity	Type of interest	Number of shares	Percentage of issued share capital As at 31 March 2004	Percentage of issued share capital At the date of this report
Oaktree Capital Management LLC	Interest of a controlled corporation	Corporate	99,910,000	12.18%	12.18%
OCM Emerging Market Fund, L. P.	Beneficial owner	Corporate	99,910,000	12.18%	12.18%
Chinese Star Limited	Trustee	Corporate	237,800,000	–	29%
Fair Sharp Investments Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
GZ Trust Corporation	Trustee	Corporate	237,800,000	–	29%
Honour Sky International Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
Kung Ching	Beneficial of trust	Personal	237,800,000	–	29%
Restart International Investment Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
Sino Breakthough Limited	Beneficial owner	Corporate	237,800,000	–	29%
Smarty Fortune Limited	Interest of a controlled corporation	Corporate	237,800,000	–	29%
Xiang Xin	Founder of a discretionary trust	Personal	237,800,000	–	29%
HSBC International Trustee Limited	Trustee	Corporate	237,800,000	–	29%

Save as disclosed above, the Directors are not aware of any person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 March 2004.

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	24%
– five largest customers combined	63%
Purchases	
– the largest supplier	30%
– five largest suppliers combined	80%

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 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. The audit committee met four times during the year to review and supervise the group's financial reporting process and internal control system.

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 throughout the year.

Pre-emptive rights

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

Sponsor's interest

No sponsorship agreement is required and existed as at 31 March 2004.

Retirement scheme

Details of the retirement scheme are set out in note 14 to the accounts.

Subsequent events

Details of the post balance sheet events which have been taken place subsequent to the balance sheet date are set out in note 31 to the accounts.

Auditors

PricewaterhouseCoopers resigned as joint auditors of the Company on 21 May 2003. Graham H.Y. Chan & Co. remained as the Company's auditors from that date. Apart from this, there was no change in auditors of the Company in any of the preceding three years.

The accounts have been audited by 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, 28 June 2004

事務所 陳浩賢會計師

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF ARCONTECH CORPORATION

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 23 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 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. However, the evidence available to us was limited as follows:

1. Included in deposits, prepayments and other receivables in the consolidated balance sheet is prepayment of masking, engineering and tooling charges totalling HK$42,640,000 made to a supplier for developing proprietary mobile phone chipsets. The prepaid masking charge is refundable in terms of rebate on purchases made by the Group in accordance with the agreement signed between Arcon Technology Limited ("ATL"), a wholly-owned subsidiary of the Company, and the supplier, details of which are disclosed in note 20 to the accounts. Up to the date of this report, no purchases of the chipset have been made by ATL. In view of the financial difficulties suffered by the Group as mentioned in the paragraph of "Fundamental uncertainty" below, it is uncertain whether purchases will be made and thus whether the prepaid masking charge will be refunded. There were no other satisfactory audit procedures we could adopt to ascertain that the prepayment was recoverable. Any adjustment to the amount of this asset would increase the loss of the Group for the year ended 31 March 2004 and the Group's net liabilities at that date by that amount.

2. We did not receive a sufficient number of replies to confirmations requested from the Group's suppliers on the amounts of purchases for the year ended 31 March 2004 and of trade payables as at that date. Total sample amounts selected by us for such confirmation purpose amounted to approximately HK$25,962,000 and HK$24,094,000 respectively out of the population of total purchases for the year and the year-end trade payable balance of approximately HK$42,087,000 and HK$28,063,000 respectively. As at the date of this report, replies to confirmations not yet received by us amounted to approximately HK$19,820,000 for purchases and HK$3,996,000 for trade payable balances. There were no other satisfactory audit procedures we could adopt to confirm that all purchases for the year ended 31 March 2004 and all liabilities as at that date were properly recorded.

3. We did not receive a sufficient number of replies to confirmations requested from the Group's customers on amounts of sales for the year ended 31 March 2004 and of receivables as at that date. Total sample amounts selected by us for such confirmation purpose amounted to approximately HK$70,621,000 and HK$352,091,000 respectively out of the population of total sales for the year and the year-end trade receivable balance before provision for bad and doubtful debts of approximately HK$100,459,000 and HK$373,855,000 respectively. As at the date of this report, replies to confirmations not yet received by us amounted to approximately HK$13,889,000 for sales and HK$163,988,000 for trade receivable balances. There were no other satisfactory audit procedures we could adopt to confirm that all sales for the year ended 31 March 2004 and all assets as at that date were properly recorded.

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.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the basis adopted in the preparation of the Group's accounts. The Group incurred a loss attributable to shareholders of HK$92,874,000 for the year ended 31 March 2004 and had net current liabilities of HK$119,151,000 as at 31 March 2004. At present, the banks have suspended all trade lines and overdraft facilities. As mentioned in note 2 to the accounts, the Group is currently engaged in negotiations with its bank creditors to achieve a debt restructuring agreement and on 1 April 2004, a Standstill Agreement was entered into. The bank creditors have indicated that they are willing to consider, without commitment at this stage, proposals for a restructuring of the Group. The directors prepared the accounts of the Group on the basis that the Group would continue to operate as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities, which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the accounts.

Disclaimer on view given by the accounts

Included in fixed assets in the consolidated balance sheet as at 31 March 2004, there were computer equipment with net book value of approximately HK$28,694,000. These assets are the major cash-generating unit for the business segment of sales of GPS of the Group. However, the business segment has been suffering from significant operating loss over the years and it is uncertain whether the operating results will be improved in the near future. In our opinion, the carrying amounts of these assets have exceeded their recoverable amounts and impairment loss should have been recognised, increasing the consolidated loss for the year ended 31 March 2004 and reducing the net assets of the Group as at that date by the amount of impairment loss. However, due to the unavailability of sufficient information, we could not quantify the effect of the impairment loss at the moment.

Because of the significance of the effect on the accounts should the preparation of accounts on a going concern basis become not appropriate, the limitations in evidence available to us in respect of the matters as mentioned in the section of "Basis of opinion", and the failure to recognise impairment loss as mentioned in the preceding paragraph, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the Group's loss and cash flows for the year then ended and as to whether the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the section "Basis of opinion":

(i) we have not obtained all the information and explanations that we considered necessary for the purposes of our audit; and

(ii) we were unable to determine whether proper books of account had been kept.

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

Hong Kong, 28 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	*5*	**100,459**	540,367
Cost of sales		**(68,182)**	(425,822)
Gross profit		**32,277**	114,545
Other revenues	*5*	**348**	3,270
Selling and distribution expenses		**(6,368)**	(9,819)
General and administrative expenses		**(55,357)**	(83,590)
Goods returned in respect of sales in prior year	*6*	**(41,990)**	–
Gain on disposal of subsidiaries		**–**	398
Loss on deemed disposal of interests in subsidiaries		**(20)**	–
Loss on disposal of fixed assets		**(2,085)**	(857)
Write off and write down on value of inventories		**–**	(18,897)
Provision for inventories		**(1,253)**	(85,765)
Provision for bad and doubtful debts		**(12,287)**	(349,224)
Bad debt written off		**(12,920)**	–
Provision for other receivable		**–**	(2,000)
Operating loss	*7*	**(99,655)**	(431,939)
Finance costs	*8*	**(9,387)**	(7,242)
Loss before taxation		**(109,042)**	(439,181)
Taxation credit	*9*	**–**	8,743
Loss after taxation		**(109,042)**	(430,438)
Minority interests		**16,168**	9,331
Loss attributable to shareholders	*10*	**(92,874)**	(421,107)
Dividends	*11*	**–**	16,810
Basic loss per share	*12*	**11.33 cents**	51.84 cents

CONSOLIDATED BALANCE SHEET

As at 31 March 2004

	Note	**2004** **HK$'000**	2003 HK$'000
Fixed assets	*15*	**52,529**	84,500
Investments in associated companies	*17*	**4**	4
Current assets			
Inventories	*18*	**54,380**	90,831
Trade receivables	*19*	**20,258**	107,537
Deposits, prepayments and other receivables	*20*	**43,004**	57,386
Tax recoverable		**7,115**	6,728
Cash and bank balances		**2,843**	3,621
		127,600	266,103
Current liabilities			
Trade payables	*21*	**28,063**	114,682
Other payables and accruals		**8,262**	8,463
Amount due to a director	*22*	**4,766**	168
Borrowings – amount due within one year	*27*	**205,660**	186,584
		246,751	309,897
Net current liabilities		**(119,151)**	(43,794)
Total assets less current liabilities		**(66,618)**	40,710
Capital and reserve			
Share capital	*24*	**82,000**	82,000
Reserves		**(156,283)**	(63,404)
(Capital deficiency)/shareholders' fund		**(74,283)**	18,596
Minority interests		**7,665**	22,114
		(66,618)	40,710

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Yip Ho Bun, Edwin
Director

BALANCE SHEET

As at 31 March 2004

	Note	2004 HK$'000	2003 HK$'000
Investments in subsidiaries	*16*	**17,516**	22,362
Current assets			
Deposits and prepayments		**–**	1,263
Bank balance		**12**	1
		12	1,264
Current liabilities			
Other payables and accruals		**1,486**	678
Net current (liabilities)/assets		**(1,474)**	586
Total assets less current liabilities		**16,042**	22,948
Capital and reserves:			
Share capital	*24*	**82,000**	82,000
Reserve	*26*	**(65,958)**	(59,052)
		16,042	22,948

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Yip Ho Bun, Edwin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2004

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2002	72,000	74,242	20,943	(122)	170,413	337,476
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	–	–	–	(108)	–	(108)
Issue of new shares	10,000	113,000	–	–	–	123,000
Share issuing expenses	–	(3,855)	–	–	–	(3,855)
Loss attributable to shareholders	–	–	–	–	(421,107)	(421,107)
Dividends:						
2002 Final dividend *(note 11)*	–	–	–	–	(8,200)	(8,200)
2003 Interim dividends *(note 11)*	–	–	–	–	(8,610)	(8,610)
At 31 March 2003	82,000	183,387	20,943	(230)	(267,504)	18,596
At 1 April 2003	82,000	183,387	20,943	(230)	(267,504)	18,596
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	–	–	–	(5)	–	(5)
Loss attributable to shareholders	–	–	–	–	(92,874)	(92,874)
At 31 March 2004	82,000	183,387	20,943	(235)	(360,378)	(74,283)

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation took place in 2001 and the nominal value of the Company's shares issued in exchange thereof.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	Note	**2004** **HK$'000**	2003 HK$'000
Cash flows from operating activities			
Cash used in operations	*28(a)*	**(10,290)**	(194,382)
Interests on bank loans and overdrafts paid		**(9,368)**	(7,174)
Interest element of finance leases paid		**(19)**	(68)
Hong Kong profits tax paid		**(390)**	(23,385)
Overseas taxation paid		**–**	(23)
Hong Kong profits tax refund		**3**	–
Net cash used in operating activities		**(20,064)**	(225,032)
Cash flows from investing activities			
Purchase of fixed assets		**(25)**	(3,810)
Proceeds from disposal of fixed assets		**241**	47
Proceeds from disposal of subsidiaries		**–**	341
Interest received		**2**	1,054
Net cash from/(used in) investing activities		**218**	(2,368)
Cash flows from financing activities			
Bank loans repaid		**(197)**	(6,427)
Increase in trust receipt and factoring loans		**12,064**	51,793
Repayment of capital element of finance leases		**(250)**	(354)
Net proceeds from issue of shares by the Company		**–**	119,145
Dividends paid		**–**	(16,810)
Net cash from financing activities		**11,617**	147,347
Net decrease in cash and cash equivalents		**(8,229)**	(80,053)
Effect of foreign exchange rate changes		**(9)**	(111)
Cash and cash equivalents at beginning of year		**(18,137)**	62,027
Cash and cash equivalents at end of year		**(26,375)**	(18,137)
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**2,843**	3,621
Bank overdrafts		**(29,218)**	(21,758)
		(26,375)	(18,137)

1. General information

The Company was incorporated as an exempted company with limited liability in Cayman Islands on 5 April 2000 under the Companies Law of Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 August 2000. The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 16 to the accounts.

2. Basis of preparation

The accounts have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. The assumption is dependent upon the successful completion of the restructuring of the Group's debts, the continuing financial support of the Group's bankers and other external funds being available.

During the year ended 31 March 2004, the Group incurred a loss attributable to the shareholders of approximately HK$92,874,000 and at that date its current liabilities exceeded its current assets by HK$119,151,000 and the net liabilities of the Group amounted to HK$74,283,000. At present, the banks have suspended all trade lines and overdraft facilities.

The Group is currently engaged in negotiations with its bank creditors, on a without prejudice basis, to achieve a debt restructuring agreement. Subsequent to the balance sheet date, on 1 April 2004, the Company entered into a Standstill Agreement with the bank creditors of the Group in respect of the indebtedness owed to the bank creditors. The bank creditors have indicated that they are willing to consider, without commitment at this stage, proposals for a debt restructuring of the Group.

After taking the above circumstances into consideration, the Directors prepared the accounts of the Group on the basis that the Group would continue to operate as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the accounts.

3. Impact of revised Statement of Standard Accounting Practice ("SSAP")

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA") which is effective for accounting periods commencing on or after 1 January 2003.

3. Impact of revised Statement of Standard Accounting Practice ("SSAP") *(Continued)*

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the profit and loss account liability method, i.e. a liability was recognised in respect of timing differences between the taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profits with limited exceptions.

The adoption of the revised accounting standard has had no material impact on the accounts of the Group for the current and prior accounting periods. Accordingly, no prior year adjustment has been required.

4. Principal accounting policies

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention as modified by the revaluation of investment properties.

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital, or by way of having power to govern its financial and operating policies so that the Group obtains benefits from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal.

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

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

4. Principal accounting policies *(Continued)*

(a) Group accounting *(Continued)*

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

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

(ii) Associated companies

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

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

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

(b) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties are stated at valuation on an open market value basis, based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or debited to the investment properties revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment properties revaluation reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

4. Principal accounting policies *(Continued)*

(b) Fixed assets *(Continued)*

(i) Investment properties (Continued)

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Upon the disposal of an investment property, the balance of the investment properties revaluation reserve attributable to the properties disposed of is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Other fixed assets

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

Furniture, fixtures and office equipment, and computer equipment	20% – 33 $^{1}/_{3}$%
Motor vehicles	25%

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

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.

(c) 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 element 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.

4. Principal accounting policies *(Continued)*

(c) Leases *(Continued)*

(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) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4. Principal accounting policies *(Continued)*

(g) Cash and cash equivalents

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

(h) Provisions

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

(i) Taxation

Income tax represents the sum of the tax currently payable and deferred tax.

Current tax is the expected tax payable on the taxable profit for the year. Individual companies within the Group provided for profits tax on the basis of the company's profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes. The Group's liability for current tax is calculated using tax rate enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax base used in computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) of from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. Principal accounting policies *(Continued)*

(j) Translation of foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

On consolidation, the accounts of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are dealt with as a movement in the exchange reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

(k) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the profit and loss account in respect of the value of options granted during the year. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapsed prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

4. Principal accounting policies *(Continued)*

(l) Research and development costs

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

(m) Revenue recognition

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

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

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

Rental income on operating leases is recognised on a straight-line basis over the period of the relevant leases.

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

(n) Borrowing costs

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

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and exclude investments in associated companies. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (note 15).

5. Turnover, revenues and segment information

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

	Group	
	2004	2003
	HK$'000	HK$'000
Turnover		
Sale of goods	**100,459**	526,379
Royalty income	**–**	13,988
	100,459	540,367
Other revenues		
Commission income	**6**	–
Software and internet service income	**–**	256
Operating lease rental income from investment property	**177**	74
Interest income	**2**	1,054
Sundry income	**163**	1,886
	348	3,270
Total revenues	**100,807**	543,637

5. Turnover, revenues and segment information *(Continued)*

As the Group's operations are principally located in Hong Kong, no geographical segmental analysis is presented. An analysis of the Group's revenue, segment results and segment assets by principal business segment is as follows:

	Sales of software and engineering solutions excluding GPS 2004 HK$'000	**Sales of GPS 2004 HK$'000**	**Group 2004 HK$'000**	Sales of software and engineering solutions excluding GPS 2003 HK$'000	Sales of GPS 2003 HK$'000	Group 2003 HK$'000
Turnover	**85,780**	**14,679**	**100,459**	482,917	57,450	540,367
Segment results	**(52,437)**	**(47,198)**	**(99,635)**	(402,970)	(29,367)	(432,337)
Gain on disposal of subsidiaries			**–**			398
Loss on deemed disposal of interests in subsidiaries			**(20)**			–
Operating loss			**(99,655)**			(431,939)
Finance costs			**(9,387)**			(7,242)
Loss before taxation			**(109,042)**			(439,181)
Taxation credit			**–**			8,743
Loss after taxation			**(109,042)**			(430,438)
Minority interests			**16,168**			9,331
Loss attributable to shareholders			**(92,874)**			(421,107)
Segment assets	**149,067**	**31,062**	**180,129**	251,590	99,013	350,603
Investments in associated companies			**4**			4
Total assets			**180,133**			350,607
Segment liabilities	**238,487**	**15,929**	**254,416**	278,575	53,436	332,011
Other information						
Capital expenditure	**20**	**5**	**25**	1,705	3,805	5,510
Depreciation	**17,904**	**11,966**	**29,870**	18,113	11,723	29,836
Revaluation (surplus)/deficit arising from revaluation of property	**(200)**	**–**	**(200)**	263	–	263
Loss on disposal of fixed assets	**998**	**1,087**	**2,085**	413	444	857
Write off and write down on value of inventories	**–**	**–**	**–**	12,859	6,038	18,897
(Reversal)/provision for inventories	**(1,556)**	**2,809**	**1,253**	85,765	–	85,765
Write off of bad debt	**–**	**12,920**	**12,920**	–	–	–
Provision for bad and doubtful debts	**3,026**	**9,261**	**12,287**	336,987	12,237	349,224
Provision for other receivable	**–**	**–**	**–**	2,000	–	2,000

6. Goods returned in respect of sales of prior year

During the year, three customers returned lots of goods which were sold to them in prior year. According to the orders lodged by these customers, the goods delivered in prior year represented only part of the items ordered. However, due to the financial difficulties suffered, the Group was unable to purchase and deliver the remaining items to them. Therefore, the whole lots of goods delivered were returned in this year. The cost for these returned goods amounting to approximately HK$34,207,000 were fully provided in the accounts. On the other hand, full provision had been made in the accounts for the year ended 31 March 2003 for the amounts receivable from them as at that date and remained unsettled at the date of the issue of the accounts for that year. Upon the return of the goods, the relevant provision to the amount of approximately HK$41,990,000 were reversed in the accounts for the year ended 31 March 2004. In order not to distort the gross profit for current year, the amount of goods return was not net off against turnover for the year ended 31 March 2004.

7. Operating loss

Operating loss is stated after charging/(crediting) the following:

	Group	
	2004	2003
	HK$'000	HK$'000
Auditors' remuneration		
– current year provision	**700**	650
– underprovision in prior year	**439**	172
Depreciation of fixed assets		
– owned assets	**29,855**	29,457
– assets held under finance leases	**15**	379
Operating lease rentals in respect of land and buildings	**2,395**	4,335
Research and development costs *(note (a))*	**4,822**	11,815
Staff costs excluding directors' emoluments		
– salaries, bonus, allowances and benefits in kind	**9,282**	23,604
– retirement benefits scheme contributions *(note 14)*	**(236)**	545
(Surplus)/deficit arising from revaluation of property	**(200)**	263
Net exchange loss	**63**	255

(a) Included in the research and development costs were staff costs of HK$3,221,000 (2003: HK$9,950,000) which had also been included in staff costs disclosed above.

8. Finance costs

	Group	
	2004	2003
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**9,368**	7,174
Interest element of finance leases	**19**	68
	9,387	7,242

9. Taxation credit

	Group	
	2004	2003
	HK$'000	HK$'000
Current tax	**–**	–
Deferred taxation *(note 23)*		
– current year	**–**	(8,743)
	–	(8,743)

(a) No Hong Kong profits tax has been provided for the year as the Group had no assessable profits for the year. No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

9. Taxation credit *(Continued)*

(b) The credit for the year can be reconciled to the loss before taxation per the consolidated profit and loss account as follow:

	2004	2003
	HK$'000	HK$'000
Loss before taxation	**(109,042)**	(439,181)
Tax at the domestic income tax rate of 17.5% (2003: 16%)	**(19,082)**	(70,269)
Tax effect of expenses that are not deductible in determining taxable profit	**380**	4,876
Tax effect of income that are not taxable in determining taxable profit	**–**	(3,940)
Utilisation of tax losses previously not recognised	**–**	(271)
Effect on different tax rates of subsidiaries operating in other jurisdictions	**219**	34
Deferred tax assets not recognised	**18,483**	60,827
	–	(8,743)

10. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$6,906,000 (2003: HK$232,694,000).

11. Dividends

	2004	2003
	HK$'000	HK$'000
Ordinary cash dividend		
Interim, paid, of nil in respect of 2004 (2003: HK1.05 cents) per ordinary share	**–**	8,610
Final, paid, of nil in respect of 2003 (2002: HK1 cent) per ordinary share	**–**	8,200
	–	16,810

No dividends had been paid or declared by the Company during the year.

12. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately HK$92,874,000 (2003: HK$421,107,000) and the weighted average number of 820,000,000 ordinary shares (2003: 812,328,767 ordinary shares) in issue during the year.

Diluted loss per share is not presented for the year ended 31 March 2004 as there were no dilutive potential ordinary shares outstanding as at that date. Diluted loss per share for year ended 31 March 2003 had not been presented as the exercise of share options was anti-dilutive.

13. Directors' and senior management's emoluments

(a) Directors' emoluments

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

	Group	
	2004	2003
	HK$'000	HK$'000
Independent non-executive directors		
Fees	**226**	307
Other emoluments of executive directors		
Basic salaries, allowances and other benefits in kind	**5,477**	5,934
Retirement benefits scheme contributions	**36**	50
	5,513	5,984
Total directors' emoluments	**5,739**	6,291

During the year, three independent non-executive directors resigned and received individual emoluments of HK$19,000 (2003: HK$153,000), HK$13,000 (2003: HK$154,000) and HK$nil (2003 : HK$nil) respectively. An independent non-executive director appointed and resigned during the year did not receive any emolument. Two independent non-executive directors appointed during the year received individual emoluments of HK$97,000 and HK$97,000 respectively.

During the year, two executive directors resigned and did not receive any emoluments while during the year ended 31 March 2003, they received individual emoluments of HK$259,000 and HK$nil respectively. Two existing executive directors received individual emoluments from the Group of HK$4,898,000 (2003: HK$4,889,000) and HK$615,000 (2003: HK$304,000) respectively. During the year ended 31 March 2003, a resigned executive director received emoluments of HK$532,000.

13. Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

On 17 May 2004, an executive director signed two letters to the Company and its subsidiary agreeing to waive his salary receivable from the Company and from the subsidiary for the period from 1 September 2003 and 1 May 2003 respectively onwards. The aggregate salary waived amounted to HK$3,481,000 for year ended 31 March 2004 and had been included in the above disclosure. Apart from this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2004 and 2003.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: four) individuals during the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Basic salaries, allowances and other benefits in kind	**1,089**	3,405
Compensation for loss of office	**638**	–
Retirement benefits scheme contributions	**31**	44
	1,758	3,449

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Nil to HK$1,000,000	**2**	3
HK$1,000,001 – HK$1,500,000	**1**	1

During the year, the Group paid an employee amounted to HK$638,000 as the compensation for loss of office. Apart from the above stated, 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.

14. Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the Scheme vest fully with the employees. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Contributions totalling HK$22,000 (2003: HK$45,000) were payable to the MPF Scheme at the year end and are included in other payables and accruals in the consolidated balance sheet.

15. Fixed assets – Group

	Investment property HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
Cost or valuation					
At 1 April 2003	2,050	29,719	2,275	96,200	130,244
Additions	–	15	–	10	25
Disposals	–	(2,777)	(1,320)	(1,474)	(5,571)
Revaluation	200	–	–	–	200
At 31 March 2004	**2,250**	**26,957**	**955**	**94,736**	**124,898**
Accumulated depreciation					
At 1 April 2003	–	12,750	1,464	31,530	45,744
Charge for the year	–	5,759	484	23,627	29,870
Eliminated on disposals	–	(1,166)	(1,320)	(759)	(3,245)
At 31 March 2004	**–**	**17,343**	**628**	**54,398**	**72,369**
Net book value					
At 31 March 2004	**2,250**	**9,614**	**327**	**40,338**	**52,529**
At 31 March 2003	2,050	16,969	811	64,670	84,500

15. Fixed assets – Group *(Continued)*

The analysis of the cost or valuation of the above assets at 31 March 2004 is as follows:

	Investment property HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
At cost	–	26,957	955	94,736	122,648
At 2004 valuation *(note (b))*	2,250	–	–	–	2,250
	2,250	26,957	955	94,736	124,898

The analysis of the cost or valuation of the above assets at 31 March 2003 is as follows:

	Investment property HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
At cost	–	29,719	2,275	96,200	128,194
At 2003 valuation	2,050	–	–	–	2,050
	2,050	29,719	2,275	96,200	130,244

(a) The Group's investment property is situated in Hong Kong and is held under lease of between 10 to 50 years.

(b) The investment property was revalued on the basis of open market value in existing state as at 31 March 2004 by Midland Surveyors Limited, an independent firm of professional valuers.

(c) At 31 March 2004, the net book values of fixed assets held by the Group under finance leases included in the total amounts of furniture, fixtures and office equipment and motor vehicles amounted to HK$23,000 (2003: HK$126,000) and HK$nil (2003: HK$330,000) respectively.

16. Investment in subsidiaries – Company

	2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	**57**	57
Amounts due from subsidiaries *(note (b))*	**269,780**	271,279
Amounts due to subsidiaries *(note (b))*	**(983)**	(4,466)
	268,797	266,813
Less: Provision	**(251,338)**	(244,508)
	17,516	22,362

(a) The following is a list of the principal subsidiaries of the Company as at 31 March 2004:

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interest %	Principal activities and place of operation
Shares held directly:–				
Arcon Solutions (BVI) Limited	The British Virgin Islands 15 March 2000	US$3,250	100	Investment holding in Hong Kong
Shares held indirectly:–				
Arcon Technology Limited	Hong Kong 17 March 1992	Non-voting deferred shares HK$16,250,000, Ordinary HK$10	100	Sale of semiconductor products and DVD components and design, development of software and engineering solutions in Hong Kong

16. Investment in subsidiaries – Company *(Continued)*

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interest %	Principal activities and place of operation
Satellite Devices Corporation	The Cayman Islands 11 June 2001 (listed on the GEM of the Stock Exchange in HK)	Ordinary HK$59,091,600	65.64	Investment holding in Hong Kong
Satellite Devices (BVI) Limited	The British Virgin Islands 15 March 2000	Ordinary US$3	65.64	Investment holding in Hong Kong
Satellite Devices Limited	Hong Kong	Ordinary HK$5,000,000	65.64	Design, development and sales of location-based technology devices and application in Hong Kong
衛科導航技術（深圳）有限公司 (“Satellite Devices Technology (Shenzhen) Company Limited”)	The People’s Republic of China excluding Hong Kong (the “PRC”) 2 August 2002	Registered capital HK$3,000,000	65.64	Provision of technical support services in the PRC
恒星威資訊技術（深圳）有限公司 (“Heng Xing Wei Information Technologies (Shenzhen) Limited”)	The People’s Republic of China excluding Hong Kong (the “PRC”) 23 March 2000	Registered capital HK$3,000,000	100	Provision of technical support services in the PRC
Arcon Management Services Limited	Hong Kong 24 March 2000	Ordinary HK$2	100	Provision of management services in Hong Kong
Arcon Smartdisplay Limited	Hong Kong 6 July 2001	Ordinary HK$2	100	Sales of display panels and audio products and provision of technical support services in Hong Kong

16. Investment in subsidiaries – Company *(Continued)*

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

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

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

17. Investment in associated companies

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**1,474**	1,474
Amount due to an associated company *(note (b))*	**(1,470)**	(1,470)
	4	4

(a) The following is a list of the associated companies as at 31 March 2004:

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	Inactive	Ordinary shares of HK$10,000	26.26%
New Era Telematics Limited	Hong Kong 5 September 2001	Inactive	Ordinary shares of HK$3,000,000	32.16%

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.

18. Inventories

	Group	
	2004	2003
	HK$'000	HK$'000
Amount of inventories before provision	**141,398**	176,596
Less: Provision on Unsold Returned Goods	**(84,209)**	(85,765)
	57,189	90,831
Less: General provision	**(2,809)**	–
	54,380	90,831

As at 31 March 2004, the carrying amount of inventories that were carried at net realisable value amounted to HK$nil (2003: HK$11,650,000).

19. Trade receivables

The Group normally grants credit period ranging from 30 days to 120 days to its trade debtors. As at 31 March 2004, the ageing analysis of trade receivable was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
0 – 30 days	**254**	20,636
31 – 60 days	**96**	30,389
61 – 90 days	**19**	28,577
Over 90 days	**373,486**	377,159
	373,855	456,761
Less: Provision for bad and doubtful debts	**(353,597)**	(349,224)
	20,258	107,537

20. Deposits, prepayments and other receivables

Included in deposits, prepayments and other receivables in the consolidated balance sheet is prepayment of masking, engineering and tooling charges totalling HK$42,640,000 made to a supplier for developing proprietary mobile phone chipsets. According to the sales contract signed by Arcon Technology Limited ("ATL"), a wholly-owned subsidiary of the Company, and the supplier on 15 January 2003, the prepaid masking charge is refundable in the form of 10% rebate on chipset price awarded to ATL by the supplier on all purchases for three subsequent years but ended when purchase rebate reached US$5,000,000. Up to the date of this report, no purchases of the chipset as referred to in the contract have been made by ATL. According to the directors, owing to the financial difficulties currently encountered by the Group, no purchase orders can be made. In the opinion of the directors, after the successful completion of the restructuring of the Group's debts, the Group's business will resume to normal and then the Group will be able to make purchases of the chipset and thus the prepaid masking charge will be refunded to the Group. Hence, no provision has been made for the prepaid amount.

21. Trade payables

At 31 March 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
0 – 30 days	**33**	69,465
31 – 60 days	**11**	2,987
61 – 90 days	**27**	11,136
Over 90 days	**27,992**	31,094
	28,063	114,682

22. Amount due to a director – Group

The amount is unsecured, interest free and has no fixed term of repayment.

23. Deferred taxation – Group

The following are the major deferred tax liabilities and assets recognised and movements thereon during current and prior accounting period:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2002	8,743	–	8,743
Charged/(credited) to consolidated profit and loss account	3,255	(11,998)	(8,743)
At 31 March 2003	11,998	(11,998)	–
At 1 April 2003	11,998	(11,998)	–
Charged/(credited) to consolidated profit and loss account	(3,921)	3,921	–
At 31 March 2004	**8,077**	**(8,077)**	**–**

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 March 2004, the Group had unused tax losses of approximately HK$66,798,000 (2003: approximately HK$45,125,000) available for offset against future profits. A deferred tax asset has been recognised for the year ended 31 March 2004 in respect of HK$8,077,000 (2003: HK$11,998,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

24. Share capital

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 31 March 2003 and 31 March 2004	3,000,000,000	300,000
Issued and fully paid:		
At 1 April 2002	720,000,000	72,000
Shares issued pursuant to a placing agreement	100,000,000	10,000
At 31 March 2003 and at 31 March 2004	820,000,000	82,000

25. Share option scheme

The Company has adopted a Pre-IPO Share Option Plan (the "Plan") and a Share Option Scheme (the "Scheme") on 19 July 2000 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the terms of the Plan and the Scheme, the Board of Directors of the Company (the "Board") may, at their discretion, invite any employees including executive directors of the Company and/or any of its subsidiaries to subscribe for ordinary shares of HK$0.1 each in the Company. The maximum number of shares in respect of which options may be granted under the Plan and the Scheme may not exceed 30% of the issued share capital of the Company.

For the Scheme, the subscription price will be determined by the Board, save for the following: (1) in respect of any option granted prior to the listing of the shares of the Company on GEM, such price will be the issue price of the listing; and (2) for all other option granted upon listing of the shares of the Company on GEM, such price will not be less than the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average closing price of the shares for the five business days immediately preceding the date of grant 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.

25. Share option scheme *(Continued)*

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

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

Details of the share options outstanding as at 31 March 2004 which have been granted under the Scheme are as follows:

	Number of share options		
Category of participants	**Outstanding at 1 April 2003**	**Lapsed during the year**	**Outstanding at 31 March 2004**
Directors	3,600,000	(3,600,000)	–
Senior management	25,200,000	(25,200,000)	–
Total	28,800,000	(28,800,000)	–

25. Share option scheme *(Continued)*

Details of the share options outstanding as at 31 March 2004 which have been granted under the Plan are as follows:

	Number of share options		
Category of participants	**Outstanding at 1 April 2003**	**Lapsed during the year**	**Outstanding at 31 March 2004**
Directors	7,200,000	(7,200,000)	–
Consultants	21,600,000	(21,600,000)	–
Total	28,800,000	(28,800,000)	–

No options granted under the Scheme and Plan have been exercised since its adoption. As at 31 March 2004 there were no options outstanding.

26. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 26 of the accounts.

Company	**Share premium** *(note (i))* **HK$'000**	**Retained earnings/ (accumulated losses) HK$'000**	**Total HK$'000**
At 1 April 2002	74,242	7,065	81,307
Issue of new shares	113,000	–	113,000
Share issuing expenses	(3,855)	–	(3,855)
Loss for the year	–	(232,694)	(232,694)
Dividends:			
2002 Final dividend	–	(8,200)	(8,200)
2003 Interim dividend	–	(8,610)	(8,610)
At 31 March 2003	183,387	(242,439)	(59,052)
At 1 April 2003	183,387	(242,439)	(59,052)
Loss for the year	–	(6,906)	(6,906)
At 31 March 2004	183,387	(249,345)	(65,958)

(i) Under section 34 of the Companies Law (2003 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 of 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) As at 31 March 2004, the Company had no reserve available for distribution.

27. Borrowings

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loans	**21,308**	21,505
Trust receipt and factoring loans	**155,076**	143,012
Bank overdrafts	**29,218**	21,758
Obligations under finance leases	**58**	309
	205,660	186,584
Less: Amount due within one year shown under current liabilities	**(205,660)**	(186,584)
Amount due after one year	**–**	–
Secured	**40,914**	–
Unsecured	**164,746**	186,584
	205,660	186,584

At 31 March 2004, all bank borrowings were repayable within one year and the Group's finance lease liabilities were repayable as follows:

	2004	2003
	HK$'000	HK$'000
Within one year	**60**	362
Future finance charges on finance leases	**(2)**	(53)
Present value of finance lease liabilities	**58**	309
The present value of finance lease liabilities is as follows:		
Within one year	**58**	309

28. Notes to consolidated cash flow statement

(a) Reconciliation of loss before taxation to net cash used in operations

	Group	
	2004	2003
	HK$'000	HK$'000
Loss before taxation	**(109,042)**	(439,181)
Adjustments for:		
Interest income	**(2)**	(1,054)
Interest on bank loans and overdrafts	**9,368**	7,174
Interest element of finance leases	**19**	68
Depreciation	**29,870**	29,836
Loss on deemed disposal of interests in a subsidiary	**20**	–
Provision for bad and doubtful debts	**12,287**	349,224
Provision for other receivable	**–**	2,000
Write off and write down on value of inventories	**–**	18,897
Provision for inventories	**1,253**	85,765
Loss on disposal of fixed assets	**2,085**	857
Gain on disposal of subsidiaries	**–**	(398)
(Surplus)/deficit arising from revaluation of property	**(200)**	263
Operating (loss)/profit before working capital changes	**(54,342)**	53,451
Decrease/(increase) in inventories	**35,198**	(182,182)
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	**89,374**	(173,268)
(Decrease)/increase in trade payables, other payables and accruals, including amount due to a director	**(80,520)**	107,617
Net cash used in operations	**(10,290)**	(194,382)

28. Notes to consolidated cash flow statement *(Continued)*

(b) Major non-cash transactions

In prior year, 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$2,300,000. Among the consideration, HK$600,000 had been paid by cash in last year and the balance of HK$1,700,000 was settled in current year by the issue and allotment of 14,916,000 consideration shares of the Satellite Devices Corporation, a subsidiary of the Company at HK$0.114 to the University.

29. Operating lease commitments

(a) The Group as lessee

Rental payments paid by the Group under operating leases in respect of land and buildings during the year amounted to HK$2,395,000 (2003: HK$4,335,000).

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

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**654**	2,873
In the second to fifth years inclusive	**334**	2,001
	988	4,874

The operating lease payments represent rentals payable by the Group for its office premises in Hong Kong and the Mainland China. Leases are negotiated and rentals are fixed for a period of one to three years.

29. Operating lease commitments *(Continued)*

(b) The Group as lessor

Rental income earned by the Group under an operating lease in respect of its investment property during the year amounted to HK$177,000 (2003: HK$74,000).

As at 31 March 2004, the Group had minimum lease receipts in respect of rentals receivable by the Group for its investment property under a non-cancellable operating lease which falls due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**88**	177
In the second to fifth years inclusive	**–**	88
	88	265

30. Capital commitments

As at 31 March 2004, the Group had capital commitments in respect of acquisition of fixed assets:

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for	**540**	540
Authorised but not contracted for	**–**	3,000
	540	3,540

In addition, as at 31 March 2004, the Group had unprovided capital commitments amounting to HK$1,167,000 (2003: HK$1,837,000) in respect of the investment in a subsidiary, Satellite Devices Technology (Shenzhen) Company Limited, being the balance of the required capital contribution to this subsidiary by the Group as at that date.

31. Subsequent events

On 1 April 2004, the Company entered into a Standstill Agreement with the creditor banks of the Group including the creditor bank which filed a winding up petition against the Company and Arcon Technology Limited ("ATL"), subsidiary of the company, HSBC, Hang Seng Bank Limited, DBS Bank (Hong Kong) Limited and Bank of China (Hong Kong) Limited (collectively as "Bank creditors") in respect of the Indebtedness owed to the Bank creditors. The Bank creditors have indicated that they are willing to consider, without commitment at this stage, proposals for a restructuring of the Group. On 8 April 2004, all the conditions precedent to the standstill period were fulfilled, the Bank creditors had instructed its lawyer to apply to the Court to withdraw the winding up proceedings against the Group. On 26 April 2004, the winding up petition was dismissed.

32. Contingent liabilities

The Company has issued corporate guarantees to banks in respect of banking facilities granted to a subsidiary. As at 31 March 2004, such facilities utilised by the subsidiary amounted to approximately HK$205,602,000 (2003: HK$186,275,000).

33. Charge of assets

160,000,000 shares in Satellite Devices Corporation ("SDC"), a 65.64% owned subsidiary of the Company, held by the Group were pledged to Hang Seng Bank as security for the repayment of the outstanding sum due by ATL to Hang Seng Bank. As at 31 March 2004, such outstanding sum amounted to approximately HK$40,914,000.

34. Litigation

On 8 March 2004, ICEA Capital Limited ("ICEA"), the former sponsor of SDC issued a writ against SDC for the outstanding debt of HK$512,000 in respect of the outstanding sponsorship fee payable. Full provision for this amount had been made in the accounts.

At the report date, a landlord issued writ against Satellite Devices Limited, a 65.64% owned subsidiary of the Company, to claim for the arrears of rent, rates, air-conditioning and management fee, reinstatement costs and late payment interest for a total amount of approximately HK$331,000. Full provisions for this amount had been made in the accounts.

At the report date, other sundry creditors issued writs against the Group for total outstanding debts of HK$86,000 in respect of miscellaneous services rendered. Full provision had been made in the accounts.

35. Ultimate holding company

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

36. Approval of accounts

The accounts were approved by the board of directors on 28 June 2004.

PARTICULARS OF MAJOR PROPERTIES HELD BY THE GROUP

As at 31 March 2004

Investment property:–

	Location	Use	Percentage of Group's interest	Gross floor area (square feet)
1.	Unit 12 on 37th Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories	Industrial	100	2,681

FINANCIAL SUMMARY

	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
(Loss)/profit attributable to shareholders	**(92,874)**	(421,107)	67,612	101,491	24,377
Assets and liabilities					
Total assets	**180,133**	350,607	543,979	359,764	135,562
Total liabilities	**(246,751)**	(309,897)	(175,055)	(54,182)	(80,852)
Minority interests	**(7,665)**	(22,114)	(31,448)	–	–
(Capital deficiency)/shareholders' funds	**(74,283)**	18,596	337,476	305,582	54,710

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