Annual Report 2005

Satellite Devices
An Arcontech Company

Satellite Devices Corporation

(Incorporated in the Cayman Islands with limited liability)

Characteristics of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited:

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. GEM 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 however arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which the director of Satellite Devices Corporation collectively and individually accept responsibility, include 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 which regard to Satellite Devices Corporation. The directors, having made all reasonable enquires, 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.

Contents

Corporate Information

Executive Directors

TSOI Siu Ching, Leo
LEUNG Tak Wah

Independent Non-Executive Directors

LIU Kwong Sang
CHAN Chi Tong
HUANG Hai Wen

Company Secretary

LEUNG Tak Wah, *CPA*

Qualified Accountants

LEUNG Tak Wah, *CPA*

Compliance Officer

TSOI Siu Ching, Leo

Principal Bankers

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

Auditors

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)

Audit Committee

LIU Kwong Sang
(Chairman of the Audit Committee)
CHAN Chi Tong
HUANG Hai Wen

Authorised Representatives

TSOI Siu Ching, Leo
LEUNG Tak Wah

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Ltd.
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

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

Head Office and Principal Place of Business

Unit 5, 20/F.,
Jupiter Tower
No. 9 Jupiter Road, North Point
Hong Kong

Financial Highlights

	Year ended 31 March		
	2005	2004	Change
	HK$'000	*HK$'000*	*%*
Revenue			
Turnover	**1,442**	14,799	-90
Profitability			
Gross Profit	**920**	1,649	-44
Loss before taxation	**(17,163)**	(47,099)	-64
Loss attributable to shareholders	**(17,163)**	(47,099)	-64
Net worth			
Shareholders' fund	**5,142**	22,307	-77
Per share			
Loss per share	**(2.91) Cents**	(7.98) Cents	-64
Net assets per share	**0.87 Cents**	3.78 Cents	-77
Turnover period			
Inventory turnover period	**235 days**	52 days	352
Trade receivable turnover period	**43 days**	9 days	378

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present to the shareholders the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2005.

Financial Results

During the year under review, the group continues to engage in the design, development and sale of location based technology devices and applications in Hong Kong. The market conditions of the business remained harsh and very competitive.

The Group recorded a turnover of approximately HK$1.44 million for the year ended 31 March 2005, representing a decrease of approximately HK$13.33 million or 90% as compared with last year's HK$14.78 million. The loss attributable to shareholders is approximately HK$17.16 million.

Business Review

Due to the growth of business in car security monitoring market condition of the Group, a self-owned and well equipped control centre has already been sat up to meet its demand. A team of well-trained control centre operators serves the clients 24 hours a day; 7 days a week. We believe our services have been improved after we have taken up the role of car security monitoring from our co-partner.

The hard effort in developing our products and services in target segment is going on. The number of members for subscription of service is gradually increased especially we have jointly worked with Canful Motors Limited. We are keeping close touch with other great luxurious private car dealers to seek for opportunity to enlarge our business with them.

The Group is now re-engineering its products by developing GPRS solution replacing currently using SMS message. The costs for communication channel will substantially be reduced.

With the continued improvement of the economies in Hong Kong, the import of great luxurious private car becomes more favorable. It is believed that the demand for security monitoring system would increase. Nevertheless, the prospect for the security monitoring industry is still challenging due to keen competition from local and PRC competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its business.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures.

Capital Structure

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares.

Financial Resources And Liquidity

As at 31 March 2005, the Group has total assets of approximately HK$17.8 million, which was mainly financed by current liabilities of approximately HK$12.7 million and shareholders' fund amounting to approximately HK$5.1 million. The ratio of total liabilities over the shareholders' funds is at 2.47 as at 31 March 2005.

Current assets amounted to approximately HK$0.8 million which mainly comprised of approximately HK$0.3 million inventories and HK$0.1 million cash and bank balance. The working capital ratio is 0.06 as at 31 March 2005.

The Group had no banking facilities available or any bank loans outstanding as at 31 March 2005.

The Directors believe that the Group has a strong financial position. The Group is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain financing on favorable terms.

Foreign Exchange Exposure

The revenues of the Group are denominated mostly in Hong Kong Dollars. The group has minimal exposure to foreign exchange fluctuations and seldom needs to make use of financial instruments for hedging purposes.

Charges on Group Assets and Contingent Liabilities

As at 31 March 2005, there was no charge made on the Group's assets and any material contingent liability outstanding.

Employees

As at 31 March 2005, the Group had a total of 20 employees as comparing to 24 last year, who are engaged in the following operations:

Engineering and R&D	10
Sales and marketing (including field application engineers)	4
Finance, accounting, operation and administration	6
Total headcount	20

Employees in both Hong Kong and Mainland China are remunerated according to their performance and work experience. In addition to basic salaries, staff benefits include medical scheme, share options and performance bonus.

Significant Investments/Material Acquisitions and Disposals of Subsidiaries

During the year, the Group had no significant investments and no material acquisitions or disposal of subsidiaries.

Future Prospects

As per keen competition, our management team was very cautious in using the precious financial resources of the Group. We have focused on the fleet management and security monitoring system on vehicles. We expect we would diversify our products and services in Macau and PRC. The group would fine-tune its existing operations and strive for long term returns for the Company and our shareholders.

Advance 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 advance to entities:

Name of entity	**Outstanding balance as at 31 March 2005 (before provision)** *HK$'000*
Funet Radio & Communications Corporation	12,687

The above entity is independent third party customer of the Group and the amount represented trade receivable balance for sales made to the respective customer as at 31 March 2005. The amount is unsecured, interest-free and repayable in accordance with the credit terms as agreed with respective customer. Adequate provision for bad and doubtful debts have been made on all the above amounts in the accounts for the year ended 31 March 2005.

Final Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 March, 2005 (2004: nil).

Appreciation

I would like to take this opportunity to extend my sincere gratitude to our customers, bankers, investors and business partner for their continuous co-operation, support, patronage and confidence in the Group. I would like to thank my colleagues for their efforts and hard work over the past year. They have made a significant contribution to the year's results.

Tsoi Siu Ching, Leo
Chairman

Hong Kong, 29 June 2005

Profiles of Directors and Senior Management

Executive Directors

Mr. TSOI Siu Ching, Leo, aged 44, is the Chairman of the Board and the Chief Executive Officer of the Group. He is primarily responsible for the overall strategic planning and directions of the Group. Mr. Tsoi graduated from the Hong Kong Polytechnic University in 1982. He is a member of the Institute of Electrical and Electronics Engineers and a founding member of intelligent Transportation Systems - Hong Kong. He has over 20 years experience in the semi-conductor industrial. He joined the Group in 1992. Mr. Tsoi is also the Chairman, Chief Technology Officer and Chief Executive Officer of Arcontech Corporation, an intermediate holding company of the Company.

Mr. LEUNG Tak Wah, aged 42, is the Executive Director and Financial Controller of the Group. He is primarily responsible for the administration, financial management and accounting of the Group. Mr. Leung graduated from the Hong Kong Shue Yan College in 1986. He was also awarded the Degree of Master of Professional Accounting from The Hong Kong Polytechnic University in 1999. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of Institute of Certified Management Accountants. He has over 14 years of experience in accounting. He joined the Group in 2003.

Independent Non-Executive Directors

Mr. LIU Kwong Sang, aged 42, is an independent non-executive director and a member of the Audit Committee of the Group. Mr. Liu is a practicing accountant in Hong Kong and is a director of K.S. Liu Company C.P.A. Ltd. in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Institute of Financial Accountants and a fellow member of the National Institute of Accountants. He has over 13 years of experience in auditing and accounting. He joined the Group in 2001.

Mr. CHAN Chi Tong, aged 44, is an independent non-executive director and a member of the Audit Committee of the Group. Mr. Chan is the founder and the President of CITI-DIC IT Company Limited, a proprietary software solution provider. He is a Chartered Engineer in Hong Kong, a member of the institute of Electrical Engineer and a fellow member of the institution of Electrical Engineer. He has over 18 year in engineering. He joined the Group in 2001.

Mr. HUANG Hai Wen, aged 30, is an independent non-executive director and a member of the Audit Committee of the Group. Mr. Huang manages a logistics business in the People's Republic of China. He joined the Group in 2004.

Senior Management

Mr. LOO Wing Keung, aged 29, is an Engineering Manager. He is primarily responsible for supervising the software development on GIS. Mr. Loo graduated with a Diploma in Aircraft Maintenance Engineering from the British Columbia Institute of Technology, Canada in 1998. He has over 6 years of experience in engineering. He joined the Group in 2000.

Mr. TSUI Chi Kit, aged 39, is an Engineering Manager. He is primarily responsible for overall execution and monitoring of the specific projects in the aspects of software and hardware respectively. He has over 12 years of experience in radio communications projects installation, design, implementation and maintenance. He joined the Group in 2000.

Report of Directors

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2005.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The principal activities of the Group are design, development and sales of location-based technology devices and applications. All of the Group's turnover was derived in Hong Kong.

Results and appropriations

The results of the Group for year are set out in the consolidated profit and loss account on page 18.

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

Reserves

Details of the movement 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 21 and note 21 to the accounts respectively.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 11 to the accounts

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2005 are set out in note 12 to the accounts.

Distributable reserves

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

As at 31 March 2005, the Company had no reserve for distribution.

Report of Directors

Financial Summary

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 44.

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. KU Ngai	(resigned on 29 June 2004)
Mr. LEUNG Tak Wah	(appointed on 9 August 2004)
Mr. LIU Kwong Sang *	
Mr. CHAN Chi Tong *	
Mr. HUANG Hai Wen *	(appointed on 30 September 2004)

* *Independent non-executive directors*

Mr. LEUNG Tak Wah and Mr. HUANG Hai Wen will retire at the forthcoming annual general meeting in accordance with Article 86(3) of the Company's Articles of Association and, being eligible, offer themselves for re-election at that meeting.

Mr. CHAN Chi Tong will retire by rotation at the forthcoming annual general meeting in according with Article 87 of the Company's Articles of Association and, being eligible, offer himself for re-election.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 7- 8.

Directors' service contracts

None of the directors being proposed for re-election at the forthcoming annual general meeting has a services contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interest in contracts

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

Directors' Benefits from rights to acquire shares or debentures

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, invite any employees, directors of the Company and/or any of its subsidiaries, any adviser or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group to subscribe for ordinary share of HK$0.10 each in the Company. The maximum number of share in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12 -month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

As at 31 March 2005, no option has been granted or agreed to be granted by the Company under the Scheme.

Under the Share Option Scheme (the "Share Option Scheme") adopted on 19 July 2000 by Arcontech Corporation ("Arcontech"), an intermediate holding company of the Company, the board of directors of Arcontech may, at their discretion, invite employees or executive directors of Arcontech and/or any of its subsidiaries to take up options to subscribe for ordinary shares of HK$0.10 each in Arcontech subject to the terms and conditions stipulated therein. As at 31 March 2005, no options were granted to the directors of the Company under the Scheme.

Saved as disclosed above, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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, and 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 such right.

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

As at 31 March 2005, 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:

Name of Director	Type of interest	Number of shares	Percentage of issued share capital as at 31 March 2005
Mr. TSOI Siu Ching, Leo	Corporate *(Note 1)*	387,888,000	65.64%

The Director's interest in Arcontech Corporation, an intermediate holding company of the Group and Arcon Solutions (BVI) Limited, an immediate holding company of the Company are as follows:
Name of Director

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

Note 1: Mr. TSOI Siu Ching, Leo is the beneficial owner of Upgrade Technology Limited which in return holds 472,384,000 shares in the issued share capital of Arcontech Corporation as at 31 March 2005. Arcontech Corporation is in turn deemed to be interest in 387,888,000 shares in the issued share capital of the Company by virtue of its interest in its wholly owned subsidiary Acron Solutions (BVI) Limited

Save as disclosed above, as at 31 March 2005, 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 2005, 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 shareholder had notified the Company of their relevant interests or deemed interests in the issued capital of the Company:

Name	**Number of Shares**	**Percentage of issued share capital as at 31 March 2005**
Arcon Solutions (BVI) Limited *(Note 1)*	387,888,000	65.64%

Note 1: Arcontech Corporation is interested in these shares held by its wholly owned subsidiary Arcon Solutions (BVI) Limited. As at 31 March 2005, Upgrade Technology limited is also interested in these shares by virtue of its holding of 472,384,000 shares in the issued capital of Arcontech Corporation. Mr. TSOI Siu Ching, Leo is in turn interested in these shares through Upgrade Technology Limited, a company in which Mr. TSOI Siu Ching, Leo holds 100% of its issued share capital.

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 2005.

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	20%
– five largest customers combined	53%
Purchases	
– the largest supplier	79%
– five largest suppliers combine	100%

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 audit committee has three members comprising Messrs. LIU Kwong Sang, CHAN Chi Tong and HUANG Hai Wen. Mr. LIU Kwong Sang has been appointed chairman of the audit committee. The terms of reference of the audit committee have been established with regard to Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the Board, and (iii) to review and supervise the financial reporting process and internal control procedures of the group. The audit committee held four meetings during the year. At the meetings, the committee focused on examining and approving the quarterly results for year ended 31 March 2005 and the final results for the year ended 31 March 2004.

Corporate governance

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 March 2005.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

Pre-emptive rights

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

Retirement Scheme

Details of the retirement scheme are set out in note 10 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 has 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, 29 June 2005

Auditors' Report

事會陳
務計浩
所師賢

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF
SATELLITE DEVICES CORPORATION
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 18 to 43 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 Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Qualified opinion arising from disagreement about accounting treatment

Included in fixed assets in the consolidated balance sheet as at 31 March 2005, there were computer equipment with net book value of approximately HK$17,003,000. These assets are the major cash-generating unit of the Group. However, the Group 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 2005 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.

Except for the failure to recognise impairment loss as mentioned in the above paragraph, in our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)

Hong Kong, 29 June 2005

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Turnover	4	**1,442**	14,779
Cost of location-based technology devices and applications		**(522)**	(13,130)
		920	1,649
Other revenues	4	**29**	2
Waiver of other payables		**133**	–
Waiver of accrued salary payable to a director		**248**	1,488
Advertising and promotion costs		**(5)**	(4,018)
Staff costs		**(2,628)**	(4,217)
Depreciation		**(11,772)**	(11,966)
Other charges		**(1,378)**	(26,077)
Other operating expenses		**(2,710)**	(3,960)
Loss before taxation	5	**(17,163)**	(47,099)
Taxation	6	**–**	–
Loss attributable to shareholders	7	**(17,163)**	(47,099)
Basic loss per share	8	**2.91 cents**	7.98 cents

Consolidated BALANCE SHEET

AS AT 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Fixed assets	11	**17,012**	28,745
Investments in associated companies	13	**4**	4
Current assets			
Inventories	14	**336**	1,873
Trade receivables	15	**171**	359
Deposits, prepayments and other receivables		**187**	29
Cash and bank balances		**122**	55
		816	2,316
Current liabilities			
Trade payables	16	**–**	367
Other payables and accruals		**2,466**	3,107
Amount due to a fellow subsidiary	17	**4,108**	495
Amount due to a director	18	**6,108**	4,766
Current portion of obligation under finance leases	22	**8**	15
		12,690	8,750
Net current liabilities		**(11,874)**	(6,434)
Total assets less current liabilities		**5,142**	22,315
Capital and reserves			
Share capital	19	**59,092**	59,092
Reserves		**(53,950)**	(36,785)
Shareholders' funds		**5,142**	22,307
Non-current portion of obligation under finance leases	22	**–**	8
		5,142	22,315

On behalf of the Board

TSOI Siu Ching, Leo
Director

LEUNG Tak Wah
Director

BALANCE SHEET

AS AT 31 MARCH 2005

	Notes	2005 *HK$'000*	2004 *HK$'000*
Investments in subsidiaries	*12*	**–**	–
Current assets			
Bank balances		**1**	26
Current liabilities			
Other payables and accruals		**549**	662
Net current liabilities		**(548)**	(636)
Total assets less current liabilities		**(548)**	(636)
Capital and reserves			
Share capital	*19*	**59,092**	59,092
Reserves	*21*	**(59,640)**	(59,728)
		(548)	(636)

On behalf of the Board

TSOI Siu Ching, Leo
Director

LEUNG Tak Wah
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2005

	Share capital *HK$'000*	Share premium *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2003	57,600	34,489	(10)	(24,371)	67,708
Issue of shares	1,492	209	–	–	1,701
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	–	–	(3)	–	(3)
Loss for the year	–	–	–	(47,099)	(47,099)
At 31 March 2004	59,092	34,698	(13)	(71,470)	22,307
At 1 April 2004	59,092	34,698	(13)	(71,470)	22,307
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	–	–	(2)	–	(2)
Loss for the year	–	–	–	(17,163)	(17,163)
At 31 March 2005	59,092	34,698	(15)	(88,633)	5,142

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 HK$'000	2004 HK$'000
Net cash from/(used in) operating activities	24(a)	**123**	(213)
Cash flows from investing activities			
Purchase of fixed assets		**(39)**	(5)
Sales proceeds from fixed assets		**–**	2
Net cash used in investing activities		**(39)**	(3)
Net cash used in financing activities			
Repayment of capital element of finance leases		**(15)**	(15)
Net increase/(decrease) in cash and cash equivalents		**69**	(231)
Cash and cash equivalents at beginning of the year		**55**	289
Effect of foreign exchange rate changes		**(2)**	(3)
Cash and cash equivalents at end of the year		**122**	55
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**122**	55

Notes to the Accounts

1 General information

The Company was incorporated as an exempted company with limited liability in Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the 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 26 March 2002. The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 12 to the accounts.

2 Potential impact arising from the recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has considered the potential impact of these new HKFRSs and concluded that the adoption of these standards would not have a significant impact on its results of operation and financial position.

3 Principal accounting policies

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA.

(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 Company, directly or indirectly, controls more than half of the voting power to govern the financial and operating policies, to appoint or remove majority of the members of the Board, or to cast majority of the votes at the meeting of the Board.

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

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

Notes to the Accounts

3 Principal accounting policies *(continued)*

(a) Group accounting *(continued)*

(ii) Associated companies

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and significant influence is exercised in its management.

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

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

(b) Fixed assets

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

Furniture, fixtures and office equipment, and computer equipment	20%-33.3%
Motor vehicles	25%
Moulds	50%

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

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) Assets under leases

(i) Finance leases

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

3 Principal accounting policies *(continued)*

(c) Assets under 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.

(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.

Notes to the Accounts

3 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 and deposits held at call with banks.

(h) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(i) 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.

(j) Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes profit and loss items that are never taxable or deductible.

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 bases used in the 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) or 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.

3 Principal accounting policies *(continued)*

(j) Taxation *(continued)*

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.

Deferred tax assets and liabilities are offset only when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(k) 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.

(l) 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.

Notes to the Accounts

3 Principal accounting policies *(continued)*

(l) Employee benefits *(continued)*

(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.

(m) 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.

(n) 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 the title has passed.

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

4 Turnover and revenues

The Group is principally engaged in the design, development and sales of location-based technology devices and applications. Revenues recognised during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**1,442**	14,779
Other revenues		
Sundry income	**29**	2
Total revenues	**1,471**	14,781

No activity analysis and geographical analysis are presented for the years ended 31 March 2005 and 2004 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

5 Loss before taxation

Loss before taxation is stated after charging the following:

	2005	2004
	HK$'000	*HK$'000*
Auditors' remuneration		
– current year	**250**	254
– under provision in prior year	**80**	150
Depreciation of fixed assets		
– owned assets	**11,757**	11,951
– assets held under finance leases	**15**	15
Operating lease rental in respect of land and buildings	**499**	893
Research and development costs *(note (a))*	**1,120**	1,793
Retirement benefits costs	**33**	(55)
Exchange loss	**–**	2
Other charges		
– Provision for doubtful debts	**–**	9,261
– Bad debt written off	**–**	12,920
– Provision for obsolete and slow-moving inventories	**1,378**	2,809
– Loss on disposal of fixed assets	**–**	1,087

(a) Included in the research and development costs were staff costs of HK$1,043,000 (2004: HK$1,648,000) which had also been included in staff costs set out in the consolidated profit and loss account.

Notes to the Accounts

6 Taxation

(a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the years ended 31 March 2005 and 2004.

(b) 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.

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

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(17,163)**	(47,099)
Tax at the domestic income tax rate of 17.5%	**(3,003)**	(8,242)
Tax effect of non-deductible expenses	**252**	96
Tax effect of non-taxable income	**(115)**	–
Effect on different tax rates of subsidiaries operating in other jurisdictions	**27**	34
Deferred tax assets not recognised	**2,839**	8,112
	–	–

7 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK$88,000 (2004: loss of HK$93,616,000).

8 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of approximately HK$17,163,000 (2004: HK$47,099,000) and the weighted average number of 590,916,000 ordinary shares (2004: 590,262,148 ordinary shares) in issue during the year.

Diluted loss per share is not presented because there were no dilutive potential ordinary shares outstanding during the two years ended 31 March 2005.

9 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	2005	2004
	HK$'000	*HK$'000*
Independent non-executive directors		
Fees	**230**	154
Other emoluments of executive directors		
– Basis salaries, allowances and other benefits in kind	**429**	1,928
– Retirement benefits scheme contributions	**10**	19
	439	1,947
Total directors' emoluments	**669**	2,101

During the year, an independent non-executive directors received directors' fee of HK$154,000 (2004: HK154,000). The independent non-executive director appointed during the year received directors' fee of HK76,000. The remaining independent non-executive director did not receive any directors' fees for both years.

During the year, an executive director resigned and did not receive emoluments for the year (2004: HK$34,000). The executive director appointed during the year received emoluments of HK$187,000. The other executive director received emoluments of HK$252,000 (2004: 1,636,000).

On 17 May 2004, an executive director signed a letter agreeing to waive his salary for the period from 1 May 2003 onwards. The waived salary for the year ended 31 March 2005 amounting to HK$248,000 (2004: HK$1,488,000) has 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 2005 and 2004.

Notes to the Accounts

9 Directors' and senior management's emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: three) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**1,041**	517
Retirement benefits scheme contributions	**38**	25
	1,079	542

The emoluments of the four (2004: three) highest paid individuals during the years ended 31 March 2005 and 2004 fell in the band from Nil to HK$1,000,000.

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

10 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$7,000 (2004: HK$5,000) were payable to the MPF Scheme at the year end and are included in other payables and accruals in the consolidated balance sheet.

11 Fixed assets – Group

	Computer equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2004	58,641	86	213	187	59,127
Additions	39	–	–	–	39
At 31 March 2005	58,680	86	213	187	59,166
Accumulated depreciation					
At 1 April 2004	29,947	60	188	187	30,382
Charge for the year	11,730	17	25	–	11,772
At 31 March 2005	41,677	77	213	187	42,154
Net book value					
At 31 March 2005	17,003	9	–	–	17,012
At 31 March 2004	28,694	26	25	–	28,745

At 31 March 2005, the net book value of fixed assets held by the Group under finance leases included in the total amount of furniture, fixtures and office equipment amounted to HK$8,000 (2004: HK$23,000).

12 Investments in subsidiaries

	Company	
	2005	2004
	HK$'000	*HK$'000*
Amounts due from subsidiaries *(note (b))*	**92,414**	93,072
Less: Provision	**(92,414)**	(93,072)
	–	–

Notes to the Accounts

12 Investments in subsidiaries *(continued)*

(a) The following is a list of the subsidiaries of the Company as at 31 March 2005:

Name of company	Country/place and date of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ Registered capital	Interest held
Shares held directly:–				
Satellite Devices (BVI) Limited	The British Virgin Islands 15 March 2000	Investment holding in Hong Kong	Ordinary US$3	100%
Satellite Devices Intelligence (BVI) Limited	The British Virgin Islands 18 June 2004	Investment holding in Hong Kong	Ordinary US$1	100%
Shares held indirectly:–				
Satellite Devices Limited	Hong Kong 14 July 1999	Design, development and sale of location based technology devices and applications in Hong Kong	Ordinary HK$5,000,000	100%
衛科導航技術(深圳)有限公司 ("Satellite Devices Technology (Shenzhen) Company Limited")	The People's Republic of China of China excluding Hong Kong (the "PRC") 2 August 2002	Provision of technical support services in the PRC	Registered capital HK$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands 5 July 2000	Investment holding in Hong Kong	Ordinary US$1	100%
Satellite Devices Intelligence Limited	Hong Kong 23 June 2004	Inactive	Ordinary HK$1	100%

Satellite Devices Technology (Shenzhen) Company Limited has adopted 31 December as its financial year end date in order to comply with the Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment.

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

13 Investments in associated companies

	2005	2004
	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 of the Group at 31 March 2005:

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	40%
New Era Telematics Limited	Hong Kong 5 September 2001	Inactive	Ordinary shares of HK$3,000,000	49%

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

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

14 Inventories

Inventories comprise electronic components and parts. As at 31 March 2005 and 2004, all inventories were carried at cost.

Notes to the Accounts

15 Trade receivables

Details of ageing analysis of trade receivables are as follows:

	2005	2004
	HK$'000	*HK$'000*
0 - 30 days	**98**	239
31 - 60 days	**45**	63
61 - 90 days	**8**	12
Over 90 days	**15,237**	15,262
	15,388	15,576
Less: Provision for doubtful debts	**(15,217)**	(15,217)
	171	359

Customers are generally granted with credit terms of 30 to 90 days.

16 Trade payables

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

	2005	2004
	HK$'000	*HK$'000*
0 - 30 days	**–**	33
61 - 90 days	**–**	–
Over 90 days	**–**	334
	–	367

17 Amount due to a fellow subsidiary

	2005	2004
	HK$'000	*HK$'000*
Arcon Technology Limited	**4,108**	495

The amount is unsecured, interest-free and repayable on demand.

18 Amount due to a director

The amount is unsecured, interest-free and repayable on demand.

19 Share capital

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 31 March 2005 and 2004	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2003	576,000,000	57,600
Issue of shares	14,916,000	1,492
At 31 March 2004 and 2005	590,916,000	59,092

On 17 April 2003, 14,916,000 new ordinary shares of HK$0.1 each were issued and allotted to The Chinese University of Hong Kong at the price of HK$0.114 for the settlement of the balance of HK$1,700,000 for the purchase of the software licenses.

20 Share options

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

As at 31 March 2005, no option has been granted or agreed to be granted by the Company under the Scheme.

Notes to the Accounts

21 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 21 of the accounts.

Company

	Share premium	Accumulated Losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003	34,489	(810)	33,679
Issue of shares	209	–	209
Loss for the year	–	(93,616)	(93,616)
At 31 March 2004	34,698	(94,426)	(59,728)
At 1 April 2004	34,698	(94,426)	(59,728)
Profit for the year	–	88	88
At 31 March 2005	34,698	(94,338)	(59,640)

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

As at 31 March 2005 and 2004, the Company had no reserve for distribution.

22 Obligation under finance leases

As at 31 March 2005, the Group's obligations under finance leases were repayable as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**9**	16
In the second year	**–**	9
	9	25
Future finance charges on finance leases	**(1)**	(2)
Present value of finance lease liabilities	**8**	23

The present value of finance lease liabilities is as follows:

	2005	2004
Within one year	**8**	15
In the second year	**–**	8
	8	23

Notes to the Accounts

23 Deferred taxation – Group

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

	Tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003	6,510	(6,510)	–
Charged/(credited) to consolidated profit and loss account	(1,630)	1,630	–
At 31 March 2004	4,880	(4,880)	–
At 1 April 2004	4,880	(4,880)	–
Charged/(credited) to consolidated profit and loss account	(2,011)	2,011	–
At 31 March 2005	2,869	(2,869)	–

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

As at 31 March 2005, the Group had unused tax losses of approximately HK$98,477,000 (2004: approximately HK$94,683,000) available for offset against future profits. A deferred tax asset was recognised for the year ended 31 March 2005 in respect of HK$16,393,000 (2004: HK$27,886,000) 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 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to cash flow used in operating activities

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(17,163)**	(47,099)
Adjustments for:		
Depreciation of owned fixed assets	**11,757**	11,951
Depreciation of fixed assets held under finance leases	**15**	15
Loss on disposal of fixed assets	**–**	1,087
Provision for doubtful debts	**–**	9,261
Provision for obsolete and slow moving stock	**1,378**	2,809
Operating loss before working capital changes	**(4,013)**	(21,976)
Decrease in inventories	**159**	547
Decrease in trade receivables	**188**	31,398
(Increase)/decrease in deposits, prepayments and other receivables including amount due from a fellow subsidiary	**(158)**	10,653
Increase/(decrease) in trade payables, other payables and accruals including amount due to a director and a fellow subsidiary	**3,947**	(20,835)
Net cash from/(used in) operating activities	**123**	(213)

25 Related party transactions

Other than the amount due to a fellow subsidiary as disclosed in note 17 above, during the year, the Group entered into the following transactions with fellow subsidiaries in the ordinary course of business:–

	2005	2004
	HK$'000	*HK$'000*
Office rental expenses paid and payable to		
Arcon Technology Limited	**16**	56
Heng Xing Wei Information Technologies (Shenzhen) Limited	**–**	53
	16	109

Notes to the Accounts

26 Commitments

(a) Commitment under operating leases

As at 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**166**	–
In the second to fifth years inclusive	**9**	–
	175	–

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

As at 31 March 2005, the Group had commitments in respect of acquisition of fixed assets as follows:

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for	**540**	540
Authorised but not contracted for	**–**	–
	540	540

(c) Capital commitments in respect of investment in a subsidiary

As at 31 March 2005, the Group had unprovided capital commitments amounting to HK$857,000 (2004: HK$1,167,000) 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.

27 Litigation

At the report date, a landlord issued writ against Satellite Devices Limited, a wholly 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 provision for this amount had been made in the accounts.

On 8 March 2004, ICEA Capital Limited ("ICEA"), the former sponsor of the Company, issued a writ against the Company 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.

28 Ultimate holding company

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

29 Approval of accounts

The accounts were approved by the board of directors on 29 June 2005.

Financial Summary

	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
(Loss)/profit attributable to shareholders	**(17,163)**	(47,099)	(28,571)	(4,925)	9,172
Assets and liabilities					
Total assets	**17,832**	31,065	99,030	101,078	82,111
Total liabilities	**(12,690)**	(8,758)	(31,322)	(4,789)	(72,986)
Shareholders' funds/(deficits)	**5,142**	22,307	67,708	96,289	9,125

Note:

The results, assets and liabilities of the Group for two years ended 31 March 2002 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.

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