arcontech
The Innovators

2005 Annual Report

Arcontech Corporation

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

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

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

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

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") takes no responsibility 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 (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of the Stock Exchange ("GEM") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) 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
CHAN Kwok Choi, Stanley

Independent Non-Executive Directors

LO Chi Ko
HO Yung San
ZHANG Jin Fu

Qualified Accountant

CHAN Kwok Choi, Stanley
B. Ec, CPA

Compliance Officer

CHAN Kwok Choi, Stanley

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Auditors

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

Audit Committee

LO Chi Ko
HO Yung San
ZHANG Jin Fu

Authorised Representatives

TSOI Siu Ching, Leo
CHAN Kwok Choi, Stanley

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

Flat 8-A6, 8/F, Chou Chong Commercial Building
No. 422-428 Castle Peak Road
Kowloon
Hong Kong

FINANCIAL HIGHLIGHTS

	Year ended 31 March		
	2005	2004	Change
	HK$'000	HK$'000	%
Revenue			
Turnover	**26,497**	100,459	(74)
Profitability			
Gross (loss)/profit	**(960)**	32,277	(103)
Operating loss	**(126,736)**	(99,655)	27
Loss before taxation	**(137,063)**	(109,042)	26
Loss attributable to shareholders	**(129,394)**	(92,874)	39
Net worth			
Shareholders' deficit	**(203,703)**	(74,283)	174
Per share			
Loss per share	**(15.78) cents**	(11.33) cents	39
Net liabilities per share	**(24.84) cents**	(9.06) cents	174
Dividend per share	**nil**	nil	N/A
Turnover period			
Inventory turnover period	**4 days**	291 days	N/A
Trade receivable turnover period	**270 days**	74 days	N/A

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I present to shareholders the annual report of Arcontech Corporation (the "Company") and its subsidiaries (collectively the "Group"), for the year ended 31 March 2005.

Financial Results

For the year ended 31 March 2005, the Group is still operating under severe financial constraints because of the adverse impact of the winding up petition filed against the Company in July 2003 and the prolonged negotiation and completion for the debt restructuring.

With the continuing effort of the Company to negotiate with the Bank creditors regarding the debt restructuring of the Company, a Standstill Agreement was signed on 1 April 2004 and the winding up petition was dismissed on 26 April 2004. The debt restructuring scheme was finally completed after the execution of a Compromise Deed and three Supplemental Deeds signed during the period from September 2004 to August 2005. An announcement on the details of the debt restructuring will be made shortly.

The turnover of the Company decreased from HK$100,459,000 to HK$26,497,000. The loss attributable to shareholders was approximately HK$129,394,000.

The gross profit margin decreased from 32.1% to a gross loss of 3.7% in the current year because of the pressing need to liquidate slow moving and obsolete inventories.

Dividends

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

Business Review

Despite the lifting of the winding up petition in April 2004, the Group's operations were adversely affected while the Company was making a tremendous effort to negotiate with the Bank creditors and an investor trying to finalise a debt restructuring arrangement in the past two years.

For the year ended 31 March 2005, the Group continued to exercise stringent measures to reduce operating costs and has been selective in its focus on products and customers so as to minimize requirements on cash flow. The Group's operating expenses have been controlled very tightly, and have kept to a minimal level. As a result, general and administrative expenses decreased by approximately 28% as compared with last year.

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 had total assets of approximately HK$22 million, which were financed by current liabilities of approximately HK$225 million, and shareholders' deficit of approximately HK$203 million.

Current assets amounted to approximately HK$21 million, of which approximately HK$667,000 were cash and bank deposits. The Group had a working capital ratio of approximately 0.09.

Charges on Group Assets and Contingent Liabilities

The charge on the Group assets and contingent liabilities are detailed in note 31 to the audited financial statements.

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 transactions and seldom needs to make use of financial instruments for hedging purposes.

Employees

As at 31 March 2005, the Group had 49 full time employees who were engaged in the following operations:

Engineering and R&D	34
Sales and marketing (including field application engineers)	5
Finance, accounting, operating and administration	10
	49

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 Prospect

The debt restructuring agreement was completed followed by execution of a third Supplement Deed to the Compromise Deed among the Group, the Bank creditors and an investor on 16 August 2005. I expect that the Group will return to its normal operation shortly.

The Group has the knowledge to develop client solutions, which serves as a much better alternative to those expensive and extensive hardware-based solutions previously launched. From the past experience, those hardware-based solutions are cost ineffectively and involve a lot of hardware maintenance. Hardware are being phasing out very quickly in the present technology environment and it is a cost burden to keep up with such hardware solutions.

The Directors consider that client solutions are more viable to the Group's core business. The Group will focus on developing new solution-based products and diversify its revenue structure by looking to charge design fees and reduce exposure on trading embedded chips.

Advances To Entities

In accordance with rule 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 entities	Outstanding balance as at 31 March 2005 (before provision) HK$'000
Windsor Technology Limited	88,885
Mighty Treasure Trading Limited	67,954
He Mu Economy Development Co. Ltd.	62,383
Shanghai Chuen Tian Electronic Company	53,616
SVA Information Industry Company Limited	24,041
Shenzhen He Si Rui Electrical Ltd.	19,733

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 2005. The amounts are unsecured, interest-free and repayable in accordance with the credit terms as agreed with respective customers. Full provisions 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 their 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, 17 September 2005

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. TSOI Siu Ching, Leo, aged 45, is the founder, Chairman, Chief Technology Officer and Chief Executive Office 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 Electronic Engineers. Mr. Tsoi has over 20 years of experience in the semi-conductor industry.

Mr. CHAN Kwok Choi, Stanley, aged 41, is an executive director and the Chief Financial Officer of the Company. He is primarily responsible for the overall financial planning and corporate planning of the Group. Mr. Chan graduated from the Monash University, Melbourne, Australia in 1987. He is an associate member of the Hong Kong Institute of Certified Public Accountants and Australian Society of Certified Public Accountants. He has over 18 years of senior financial and accounting position in various companies. He joined the Group in October 2004.

Independent Non-executive Directors

Mr. LO Chi Ko, aged 35, is an independent non-executive director and Chairman of the Audit Committee of the Company. 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 10 years of experience in corporate finance and accounting sector, particularly in auditing and taxation areas. Mr. LO is a member of the Hong Kong Institute of Certified Public Accountants and Australian Society of Certified Public Accountants. He joined the Group in August 2003.

Mr. HO Yung San, aged 43, is an independent non-executive director of the Company. He holds a higher diploma in production and industrial engineering from the Hong Kong Polytechnic University. He has more than 17 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.

Mr. ZHANG Jin Fu, aged 30, is an independent non-executive director of the Company. He engaged in trading of electronics components in the PRC. He joined the Group in October 2004.

The directors submit 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 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.

Segmental information

An analysis of the Group's turnover and contribution to loss before taxation by principal activities for the year ended 31 March 2005 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.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 20. The Board does not recommend the payment of any dividend for the year ended 31 March 2005.

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 23 and note 24 to the accounts, respectively.

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.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2005 are set out in note 14 to the accounts.

Share options

Particulars of the Company's share option scheme are set out in note 23 to the accounts.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 31 March 2005 are set out in note 25 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 57.

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	(resigned on 15 October 2004)
Mr. CHAN Kwok Choi, Stanley	(appointed on 15 October 2004)
Mr. LO Chi Ko*	
Mr. HO Yung San*	
Mr. ZHANG Jin Fu*	(appointed on 30 September 2004)

* *Independent non-executive directors*

Mr. Chan Kwok Choi, Stanley and Mr. Zhang Jin Fu will retire at the forthcoming annual general meeting in accordance with Article 99 of the Company's Articles of Association and, being eligible, will offer themselves for re-election at that meeting.

Mr. Lo Chi Ko 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, will 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 8.

Directors' service contracts

Mr Chan Kwok Choi, Stanley, an Executive Director had entered into a service contract with the Company for a term of two years from 15 October 2004. 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 or any of its subsidiaries 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, or its subsidiaries 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' and chief executive's interests and short positions in shares and underlying shares

As at 31 March 2005 and 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 Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM 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 2005	As at the date of this report
Mr. Tsoi Siu Ching, Leo	Corporate *(Note 1)*	234,584,000	28.61%	—
		4,984,000	—	0.61%

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 *(Note 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 2005, Mr. Tsoi Siu Ching, Leo held 28.61% 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 2005, none of the Directors, chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) 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) as recorded in the register required to be kept under section 352 of the SFO or which, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

Directors' benefits from rights to acquire shares or debentures

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 23 to the accounts, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company 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.

Substantial shareholders

As at 31 March 2005 and 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:

			Number of shares		Percentage of issued share capital	
Name	**Capacity**	**Type of interests**	**As at 31 March 2005**	**As at the date of this report**	**As at 31 March 2005**	**As at the date of this report**
Oaktree Capital Management LLC	Interest of a controlled corporation	Corporate	99,910,000	99,910,000	12.18%	12.18%
OCM Emerging Market Fund, L. P.	Beneficial owner	Corporate	99,910,000	99,910,000	12.18%	12.18%
Chinese Star Limited	Trustee	Corporate	237,800,000	237,800,000	29%	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	237,800,000	29%	29%
Kung Ching	Beneficial of trust	Personal	237,800,000	237,800,000	29%	29%
Restart International Investment Limited	Interest of a controlled corporation	Corporate	237,800,000	—	29%	—

Name	Capacity	Type of interests	Number of shares As at 31 March 2005	Number of shares As at the date of this report	Percentage of issued share capital As at 31 March 2005	Percentage of issued share capital As at the date of this report
Sino Breakthrough Limited	Interest of a controlled corporation	Corporate	237,800,000	237,800,000	29%	29%
Smarty Fortune Limited	Interest of a controlled corporation	Corporate	237,800,000	237,800,000	29%	29%
Xiang Xin	Founder of discretionary trust	Personal	237,800,000	237,800,000	29%	29%
HSBC International Trustee Limited	Trustee	Corporate	237,800,000	237,800,000	29%	29%
Hercules Capital Limited	Beneficial owner	Corporate	—	65,600000	—	8%
Moonbo Limited	Trustee	Corporate	—	106,600,000	—	13%
Ng Shing Fun	Beneficial owner	Personal	—	106,600,000	—	13%

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	28 %
— five largest customers combined	87 %
Purchase	
— the largest supplier	85 %
— five largest suppliers combined	96 %

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. LO Chi Ko, HO Yun Sang and ZHANG Jin Fu. All of them are independent non-executive directors of the Company. 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 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.

Corporate governance

The Company has complied with the board's practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year.

The board's practices and procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices (the "CCGP") as set out in Appendix 15 to the GEM Listing Rules which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the CCGP.

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rule 5.09 of the GEM Listings. 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 Articles 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 12 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 30 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, 17 September 2005

事務所 會計師 陳浩賢

GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (Practising)

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 20 to 56 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.

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$129,394,000 for the year ended

31 March 2005 and had net current liabilities and net liabilities of HK$204,452,000 and HK$203,703,000, respectively, as at that date. At present, the banks have suspended all trade lines and overdraft facilities. As detailed in note 2 to the accounts, the Group has undergone a debt restructure arrangement with its bank creditors. During and after the year ended 31 March 2005, Debt Assignment, Compromise Deed and Supplemental Deeds were entered into between the Group, its bank creditors and an investor in respect of the restructure of indebtedness owed to the bank creditors. With the debt restructuring arrangement, the bank indebtedness including interest will be discharged in consideration of a combination of cash payments, transfer of shares of the Company by a substantial shareholder, new loans and partial waiver of the indebtedness. The accounts have been prepared on a going concern basis, the validity of which depends upon the continuing financial supports from its bank creditors and other external funding being available. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

Qualified opinion arising from disagreement about accounting treatment

Included in trade receivables in the consolidated balance sheet as at 31 March 2005, there were total amount of approximately HK$19,335,000 being trade debts due from three debtors. The debts have been outstanding for periods ranging from one month to over one year and have no subsequent settlement up to the date of this report. The Group has been discussing with these debtors regarding the settlement schedule of their debts. Up to the date of this report, no formal agreement for such settlement schedule was reached. In our opinion, the recoverability of the full amount is in doubt and provision should have been made, increasing the consolidated loss for the year ended 31 March 2005 and the net liabilities of the Group as at that date by the amount of provision. However, due to the unavailability of sufficient information, we could not quantify the effect of the provision at the moment.

Except for the failure to provide for doubtful debt 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, 17 September 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	*5*	**26,497**	100,459
Cost of sales		**(27,457)**	(68,182)
Gross (loss)/profit		**(960)**	32,277
Other revenues	*5*	**202**	348
Selling and distribution expenses		**(456)**	(6,368)
General and administrative expenses		**(39,761)**	(55,357)
Goods returned in respect of sales in prior year		**—**	(41,990)
Loss on disposal/deemed disposal of interests in subsidiaries		**(23)**	(20)
Loss on disposal of fixed assets		**(540)**	(2,085)
Write off of inventories		**(46,205)**	—
Impairment loss recognised in respect of fixed assets	*13*	**(21,346)**	—
Reversal of provision/(provision) for inventories		**9,041**	(1,253)
Reversal of provision/(provision) for bad and doubtful debts		**6,924**	(12,287)
Write off of prepayment	*18*	**(42,640)**	—
Bad debt written off		**—**	(12,920)
Gain on waiver of amount due to a director		**9,028**	—
Operating loss	*6*	**(126,736)**	(99,655)
Finance costs	*7*	**(10,327)**	(9,387)
Loss before taxation		**(137,063)**	(109,042)
Taxation	*8*	**—**	—
Loss after taxation		**(137,063)**	(109,042)
Minority interests		**7,669**	16,168
Loss attributable to shareholders	*9*	**(129,394)**	(92,874)
Basic loss per share	*10*	**15.78 cents**	11.33 cents

CONSOLIDATED BALANCE SHEET

As at 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Fixed assets	*13*	**745**	52,529
Investments in associated companies	*15*	**4**	4
		749	52,533
Current assets			
Inventories	*16*	**336**	54,380
Trade receivables	*17*	**19,588**	20,258
Deposits, prepayments and other receivables	*18*	**514**	43,004
Tax recoverable		**—**	7,115
Cash and bank balances		**667**	2,843
		21,105	127,600
Current liabilities			
Trade payables	*19*	**11,466**	28,063
Other payables and accruals		**4,751**	8,262
Amount due to a director	*20*	**—**	4,766
Borrowings — amount due within one year	*25*	**209,340**	205,660
		225,557	246,751
Net current liabilities		**(204,452)**	(119,151)
Total assets less current liabilities		**(203,703)**	(66,618)
Capital and reserves			
Share capital	*22*	**82,000**	82,000
Reserves		**(285,703)**	(156,283)
Capital deficiency		**(203,703)**	(74,283)
Minority interests		**—**	7,665
		(203,703)	(66,618)

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Chan Kwok Choi, Stanley
Director

BALANCE SHEET

As at 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Investments in subsidiaries	*14*	**(1,150)**	17,516
Current assets			
Bank balance		**12**	12
Current liabilities			
Other payables and accruals		**1,482**	1,486
Net current liabilities		**(1,470)**	(1,474)
Total assets less current liabilities		**(2,620)**	16,042
Capital and reserves:			
Share capital	*22*	**82,000**	82,000
Reserves	*24*	**(84,620)**	(65,958)
		(2,620)	16,042

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Chan Kwok Choi, Stanley
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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)
At 1 April 2004	82,000	183,387	20,943	(235)	(360,378)	(74,283)
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	—	—	—	(49)	—	(49)
Disposal of subsidiaries	—	—	—	23	—	23
Loss attributable to shareholders	—	—	—	—	(129,394)	(129,394)
At 31 March 2005	82,000	183,387	20,943	(261)	(489,772)	(203,703)

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 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Net cash used in operations	*26(a)*	**(4,664)**	(10,290)
Interests on bank loans and overdrafts paid		**(10,327)**	(9,368)
Interest element of finance leases paid		**—**	(19)
Hong Kong profits tax paid		**—**	(390)
Hong Kong profits tax refund		**7,115**	3
Net cash used in operating activities		**(7,876)**	(20,064)
Cash flows from investing activities			
Purchase of fixed assets		**(39)**	(25)
Proceeds from disposal of fixed assets		**2,114**	241
Disposal of subsidiaries	*26(b)*	**(2)**	—
Interest received		**—**	2
Net cash from investing activities		**2,073**	218
Cash flows from financing activities			
Bank loans repaid		**(4,063)**	(197)
Increase in trust receipt and factoring loans		**—**	12,064
Increase in bank overdrafts		**7,758**	7,460
Repayment of capital element of finance leases		**(15)**	(250)
Net cash from financing activities		**3,680**	19,077
Net decrease in cash and cash equivalents		**(2,123)**	(769)
Effect of foreign exchange rate changes		**(53)**	(9)
Cash and cash equivalents at beginning of year		**2,843**	3,621
Cash and cash equivalents at end of year		**667**	2,843
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**667**	2,843

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 14 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 2005, the Group incurred a loss attributable to the shareholders of approximately HK$129,394,000 and at that date its current liabilities exceeded its current assets by HK$204,452,000 and its net liabilities amounted to HK$203,703,000. At present, the Banks have suspended all trade lines and overdraft facilities.

As more detailed in note 30, the Group has undergone a debt restructure arrangement with its bank creditors. On 27 September 2004, 6 January 2005, 13 April 2005 and 16 August 2005, the Company entered into Debt Assignment and Compromise Deed, Supplemental Deed, Second Supplemental Deed and Third Supplemental Deed respectively with the bank creditors of the Group and an investor in respect of the restructure of indebtedness owed to the bank creditors. With the debt restructuring arrangement, the bank indebtedness including interest will be discharged in consideration of a combination of cash payments, transfer of shares of the Company by a substantial shareholder, new loans and partial waiver of the indebtedness.

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 as current assets. The effects of these adjustments have not been reflected in the accounts.

3 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.

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 HKICPA. 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 have power to govern its financial and operating policies.

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.

4 Principal accounting policies *(Continued)*

(a) Group accounting *(Continued)*

(i) Consolidation (Continued)

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.

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 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.

4 Principal accounting policies *(Continued)*

(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.

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%

4 Principal accounting policies *(Continued)*

(b) Fixed assets *(Continued)*

(ii) Other fixed assets (Continued)

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.

(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.

4 Principal accounting policies *(Continued)*

(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.

(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.

4 Principal accounting policies *(Continued)*

(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 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.

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)*

(i) Taxation *(Continued)*

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.

(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.

4 Principal accounting policies *(Continued)*

(k) 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.

(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.

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.

4 Principal accounting policies *(Continued)*

(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 13).

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	
	2005	2004
	HK$'000	HK$'000
Turnover		
Sale of goods	**26,497**	100,459
Other revenues		
Commission income	**—**	6
Operating lease rental income from investment property	**44**	177
Interest income	**—**	2
Sundry income	**158**	163
	202	348
Total revenues	**26,699**	100,807

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 2005 HK$'000	Sales of GPS 2005 HK$'000	Group 2005 HK$'000	Sales of software and engineering solutions excluding GPS 2004 HK$'000	Sales of GPS 2004 HK$'000	Group 2004 HK$'000
Turnover	25,055	1,442	26,497	85,780	14,679	100,459
Segment results	(98,656)	(28,057)	(126,713)	(52,437)	(47,198)	(99,635)
Loss on disposal/ deemed disposal of interests in subsidiaries			(23)			(20)
Operating loss			(126,736)			(99,655)
Finance costs			(10,327)			(9,387)
Loss before taxation			(137,063)			(109,042)
Taxation			—			—
Loss after taxation			(137,063)			(109,042)
Minority interests			7,669			16,168
Loss attributable to shareholders			(129,394)			(92,874)
Segment assets	21,024	826	21,850	149,067	31,062	180,129
Investments in associated companies			4			4
Total assets			21,854			180,133
Segment liabilities	218,975	6,582	225,557	238,487	15,929	254,416

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

	Sales of software and engineering solutions excluding GPS 2005 HK$'000	**Sales of GPS 2005 HK$'000**	**Group 2005 HK$'000**	Sales of software and engineering solutions excluding GPS 2004 HK$'000	Sales of GPS 2004 HK$'000	Group 2004 HK$'000
Other information						
Capital expenditure	**—**	**39**	**39**	20	5	25
Depreciation	**16,059**	**11,772**	**27,831**	17,904	11,966	29,870
Revaluation surplus arising from revaluation of property	**—**	**—**	**—**	(200)	—	(200)
Loss on disposal of fixed assets	**540**	**—**	**540**	998	1,087	2,085
Write off of inventories	**46,205**	**—**	**46,205**	—	—	—
Impairment loss recognised in respect of fixed assets	**4,344**	**17,002**	**21,346**	—	—	—
(Reversal of provision)/ provision for inventories	**(10,419)**	**1,378**	**(9,041)**	(1,556)	2,809	1,253
Write off of bad debt	**—**	**—**	**—**	—	12,920	12,920
(Reversal of provision)/ provision for bad and doubtful debts	**(6,924)**	**—**	**(6,924)**	3,026	9,261	12,287
Waiver of amount due to a director	**(2,919)**	**(6,109)**	**(9,028)**	—	—	—
Write off of prepayment	**42,640**	**—**	**42,640**	—	—	—

6 Operating loss

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

	Group	
	2005	2004
	HK$'000	HK$'000
Auditors' remuneration		
— current year provision	**600**	700
— underprovision in previous years	**200**	439
Depreciation of fixed assets		
— owned assets	**27,816**	29,855
— assets held under finance leases	**15**	15
Operating lease rentals in respect of land and buildings	**1,441**	2,395
Research and development costs *(note (a))*	**2,633**	4,822
Staff costs excluding directors' emoluments		
— salaries, bonus, allowances and benefits in kind	**4,961**	9,282
— retirement benefits scheme contributions *(note 12)*	**(15)**	(236)
Revaluation surplus arising from revaluation of property	**—**	(200)
Net exchange loss	**22**	63

(a) Included in the research and development costs were staff costs of HK$2,428,000 (2004: HK$3,221,000) which had also been included in staff costs disclosed above.

7 Finance costs

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**10,327**	9,368
Interest element of finance leases	**—**	19
	10,327	9,387

8 Taxation

(a) No Hong Kong profits tax has been provided 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.

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

	2005	2004
	HK$'000	HK$'000
Loss before taxation	**(137,063)**	(109,042)
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	**(23,986)**	(19,082)
Tax effect of expenses that are not deductible	**9,869**	380
Tax effect of income that are not taxable	**(115)**	—
Reversal of deferred tax assets previously not recognised	**(234)**	—
Effect on different tax rates of subsidiaries operating in other jurisdictions	**49**	219
Deferred tax assets not recognised	**14,417**	18,483
	—	—

9 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK$18,662,000 (2004: HK$6,906,000).

10 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately HK$129,394,000 (2004: HK$92,874,000) and the weighted average number of 820,000,000 ordinary shares (2004: 820,000,000 ordinary shares) in issue during the year.

Diluted loss per share for both years has not been presented as there were no dilutive potential ordinary shares outstanding as at the balance sheet date.

11 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	
	2005	2004
	HK$'000	HK$'000
Independent non-executive directors		
Fees	**384**	226
Other emoluments of executive directors		
Basic salaries, allowances and other benefits in kind	**1,268**	5,477
Retirement benefits scheme contributions	**15**	36
	1,283	5,513
Total directors' emoluments	**1,667**	5,739

During the year, two independent non-executive directors received individual emoluments of HK$154,000 each. (2004: HK$97,000 each). The independent non-executive director appointed during the year received directors' fee of approximately HK$76,000.

During the year, one executive director resigned and received individual emoluments of HK$397,000 (2004: HK$615,000). An existing executive director received individual emoluments from the Group of HK$754,000 (2004: HK$4,898,000). The executive director appointed during the year received individual emoluments of HK$132,000.

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 waived salary for the year ended 31 March 2005 amounting to HK$746,000 (2004: HK$$3,481,000) 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 2005 and 2004.

11 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 two (2004: two) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Basic salaries, allowances and other benefits in kind	**943**	1,089
Compensation for loss of office	**—**	638
Retirement benefits scheme contributions	**32**	31
	975	1,758

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Nil to HK$1,000,000	**3**	2
HK$1,000,001 — HK$1,500,000	**—**	1

During the year ended 31 March 2004, the Group paid an employee amounted to HK$638,000 as the compensation for loss of office. Apart from this, 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.

12 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$22,000) were payable to the MPF Scheme at the balance sheet date and are included in other payables and accruals in the consolidated balance sheet.

13 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 2004	2,250	26,957	955	94,736	124,898
Additions	—	—	—	39	39
Disposals	(2,250)	(1,912)	—	—	(4,162)
Currency realignment	—	9	4	11	24
At 31 March 2005	—	25,054	959	94,786	120,799
Accumulated depreciation					
At 1 April 2004	—	17,343	628	54,398	72,369
Charge for the year	—	4,756	96	22,979	27,831
Impairment loss	—	4,344	—	17,002	21,346
Eliminated on disposals	—	(1,508)	—	—	(1,508)
Currency realignment	—	9	1	6	16
At 31 March 2005	—	24,944	725	94,385	120,054
Net book value					
At 31 March 2005	—	110	234	401	745
At 31 March 2004	2,250	9,614	327	40,338	52,529

All the assets at 31 March 2005 were stated at cost less accumulated depreciation.

13 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	2,250	—	—	—	2,250
	2,250	26,957	955	94,736	124,898

At 31 March 2005, 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 amounted to HK$8,000 (2004: HK$23,000).

During the year, the directors have carried out a review on the recoverable amounts of its fixed assets in view of the significant losses suffered by and slump in business of the Group over the years and concluded that the estimated recoverable amounts of its major assets, computer equipments were less than their carrying amounts and impairment loss of HK$21,346,000 should be recognised.

14 Investment in subsidiaries — Company

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**57**	57
Amounts due from subsidiaries *(note (b))*	**268,750**	269,780
Amounts due to subsidiaries *(note (b))*	**(1,150)**	(983)
	267,600	268,797
Less: Provision	**(268,807)**	(251,338)
	(1,150)	17,516

14 Investment in subsidiaries — Company *(Continued)*

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

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
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 14 July 1999	Ordinary HK$5,000,000	65.64	Design, development and sales of location-based technology devices and application in Hong Kong

14 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
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

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 list 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.

15 Investment in associated companies

	Group 2005 HK$'000	Group 2004 HK$'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 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	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.

16 Inventories

	Group	
	2005	2004
	HK$'000	HK$'000
Amount of inventories before provision	**4,523**	141,398
Less: Provision on Unsold Returned Goods	**—**	(84,209)
	4,523	57,189
Less: General provision	**(4,187)**	(2,809)
	336	54,380

As at 31 March 2005 and 2004, all inventories were carried at cost.

17 Trade receivables

The Group normally grants credit period ranging from 30 days to 120 days to its trade debtors. As at 31 March 2005, the ageing analysis of trade receivable was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 — 30 days	**3,609**	254
31 — 60 days	**2,540**	96
61 — 90 days	**5,571**	19
Over 90 days	**356,193**	373,486
	367,913	373,855
Less: Provision for bad and doubtful debts	**(348,325)**	(353,597)
	19,588	20,258

18 Deposits, prepayments and other receivables

Included in deposits, prepayments and other receivables in the consolidated balance sheet as 31 March 2004 was 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. No purchases of the chipset as referred to in the contract has been made by ATL. The directors are of the view that due to the significant deterioration of financial position of the Group in the past 2 years, the Group is unable to squeeze any significant funding to make the purchases of the chips which are essential to the recovery of the deposit under the contracts. Even though the Group may possibly work out and improve its overall financial position in the near future, the lapse of time has already made the chips technologically and commercially obsolete. Therefore, the recovery of the deposit through buying and selling of the chips under contract or selling of the rights under to any third party becomes practically unrealistic. The directors therefore considered the entire amount of the deposit unrecoverable and decided to write off such deposit.

19 Trade payables

At 31 March 2005, the ageing analysis of the trade payables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 — 30 days	**25**	33
31 — 60 days	**—**	11
61 — 90 days	**5**	27
Over 90 days	**11,436**	27,992
	11,466	28,063

20 Amount due to a director — Group

On 31 August 2005, the Company received a letter from the director, Mr. Tsoi Siu Ching, Leo, who agreed to waive all amounts due to him by the Group as at 31 March 2005. The amount waived was included as gain on waiver of amount due to a director in the consolidated profit and loss account. As at 31 March 2004, the amount was unsecured, interest free and had no fixed term of repayment.

21 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 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)	—
At 1 April 2004	8,077	(8,077)	—
Charged/(credited) to consolidated profit and loss account	(5,483)	5,483	—
At 31 March 2005	2,594	(2,594)	—

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$435,682,000 (2004: approximately HK$381,703,000) available for offset against future profits. A deferred tax asset has been recognised for the year ended 31 March 2005 in respect of HK$14,823,000 (2004: HK$46,154,000) 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.

22 Share capital

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 31 March 2004 and 31 March 2005	3,000,000,000	300,000
Issued and fully paid:		
As at 31 March 2004 and 31 March 2005	820,000,000	82,000

23 Share option scheme

The Company has adopted 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 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 Scheme may not exceed 30% of the issued share capital of the Company.

Pursuant to the Scheme, the subscription 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.

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.

23 Share option scheme *(Continued)*

All options granted under the Scheme since its adoption were lapsed before and during the year ended 31 March 2004 and there was no option outstanding at 31 March 2005 and 2004.

24 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 23 of the accounts.

Company

	Share premium *(note (i))* HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
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)
At 1 April 2004	183,387	(249,345)	(65,958)
Loss for the year	—	(18,662)	(18,662)
At 31 March 2005	183,387	(268,007)	(84,620)

(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 2005, the Company had no reserve available for distribution.

25 Borrowings

	Group 2005 HK$'000	Group 2004 HK$'000
Bank loans — secured	**21,308**	21,308
Trust receipt and factoring loans	**151,013**	155,076
Bank overdrafts	**36,976**	29,218
Obligations under finance leases	**43**	58
	209,340	205,660
Less: Amount due within one year shown under current liabilities	**(209,340)**	(205,660)
Amount due after one year	**—**	—
Secured	**—**	40,914
Unsecured	**209,340**	164,746
	209,340	205,660

At 31 March 2005 and 2004, all bank borrowings were repayable within one year and the Group's finance lease liabilities were repayable as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**44**	60
Future finance charges on finance leases	**(1)**	(2)
Present value of finance lease liabilities	**43**	58
The present value of finance lease liabilities is as follows:		
Within one year	**43**	58

26 Notes to consolidated cash flow statement

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

	Group	
	2005	2004
	HK$'000	HK$'000
Loss before taxation	**(137,063)**	(109,042)
Adjustments for:		
Interest income	**—**	(2)
Interest on bank loans and overdrafts	**10,327**	9,368
Interest element of finance leases	**—**	19
Depreciation	**27,831**	29,870
Impairment loss recognised in respect of fixed assets	**21,346**	—
Loss on disposal/deemed disposal of interests in subsidiaries	**23**	20
(Reversal of provision)/provision for bad and doubtful debts	**(6,924)**	12,287
Write off of inventories	**46,205**	—
(Reversal of provision)/provision for inventories	**(9,041)**	1,253
Write off of prepayment	**42,640**	—
Waiver of amount due to a director	**(9,028)**	—
Loss on disposal of fixed assets	**540**	2,085
Surplus arising from revaluation of property	**—**	(200)
Operating loss before working capital changes	**(13,144)**	(54,342)
Decrease in inventories	**16,880**	35,198
Decrease in trade receivables, deposits, prepayments and other receivables	**7,444**	89,374
Decrease in trade payables, other payables and accruals, including amount due to a director	**(15,844)**	(80,520)
Net cash used in operations	**(4,664)**	(10,290)

26 Notes to consolidated cash flow statement *(Continued)*

(b) Disposal of subsidiaries

	2005 HK$'000	2004 HK$'000
Cash and bank balance	1	—
Other net current liabilities	(2)	—
Exchange reserves	(23)	
	(24)	—
Loss on disposal	(23)	—
Cash payment for disposal	1	—
Satisfied by cash	1	—

The analysis of net outflow of cash and cash equivalents in respect of the disposal is as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Cash payment	(1)	—
Net cash and bank balance disposed of	(1)	—
Net outflow of cash and cash equivalents	(2)	—

27 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$1,441,000 (2004: HK$2,395,000).

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:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**944**	654
In the second to fifth years inclusive	**301**	334
	1,245	988

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.

(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$44,000 (2004: HK$177,000).

During the year, the Group disposed of the investment property.

(c) As at 31 March 2005 and 2004, the Company had no material operating lease commitments.

28 Related party transactions

During the year, the Group entered into the following transactions with a substantial shareholder in the ordinary course of business: -

	2005 HK$'000	2004 HK$'000
Office rental expenses paid and payable to Restart International Investment Limited	**330**	—

29 Capital commitments

(a) As at 31 March 2005, the Group had capital commitments in respect of acquisition of fixed assets contracted but not provided for amounting to HK$540,000 (2004: HK$540,000).

(b) 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.

(c) As at 31 March 2005 and 2004, the Company had no material unprovided capital commitments.

30 Subsequent events

(a) The Group has undergone a debt restructure arrangement with its bank creditors. On 27 September 2004, 6 January 2005, 13 April 2005 and 16 August 2005, the Company entered into Debt Assignment and Compromise Deed, Supplemental Deed, Second Supplemental Deed and Third Supplemental Deed respectively with the bank creditors of the Group and an investor in respect of the restructure of indebtedness owed to the bank creditors. With the debt restructuring arrangement, the bank indebtedness including interest were discharged in consideration of a combination of cash payments of HK$8,000,000 from the investor to the bank creditors; transfer of 57,400,000 ordinary shares in the Company from Upgrade Technology Limited ("Upgrade Technology"), a shareholder of the Company, to the bank creditors; two new bank loans amounted of HK$40,000,000 and HK$10,00,000 respectively and partial waiver of the indebtedness. The debt restructuring agreement was completed followed by execution of the Third Supplemental Deed on 16 August 2005.

30 Subsequent events *(Continued)*

(b) On 19 July 2005, the Company and Hercules Capital Limited ("Hercules") entered into an agreement to settle the professional fee due by the Company to Hercules. Pursuant to the agreement, Upgrade Technology transferred to Hercules an aggregate of 65,600,000 ordinary shares in the Company, representing approximately 8% of the Company's issued capital.

(c) On 20 July 2005, Kingston Finance Limited granted a loan facility up to HK$13 million to the Company for the implementation of the debt restructuring arrangement with the bank creditors. This loan facility was secured by pledge of 387,888,000 shares in Satellite Devices Corporation, a 65.64% owned subsidiary of the Company, held by the Group and personal guarantee executed by a director of the Company, Mr. Tsoi Siu Ching, Leo. On 16 August 2005, the Company drew down HK$12,000,000 to pay to the bank creditors.

31 Contingent liabilities

The Company has issued corporate guarantees to banks in respect of banking facilities granted to a subsidiary. As at 31 March 2005, such facilities utilised by the subsidiary amounted to approximately HK$209,296,000 (2004: HK$205,602,000).

32 Litigation

(a) 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.

(b) On 8 March 2004, ICEA Capital Limited ("ICEA"), the former sponsor of Satellite Devices Corporation ("SDC"), a 65.64% owned subsidiary of the Company, issued a writ against SDC for the outstanding debt of HK$512,000 in respect of the outstanding sponsorship fee payable. On 10 August 2005, ICEA presented a winding-up petition against SDC. Full provision for this amount had been made in the accounts. As announced in the Announcement of SDC dated 12 August 2005, SDC had paid the principal sum of the judgement debt in full on the same date.

(c) 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.

33 Approval of accounts

The accounts were approved by the board of directors on 17 September 2005.

FINANCIAL SUMMARY

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
(Loss)/profit attributable to shareholders	**(129,394)**	(92,874)	(421,107)	67,612	101,491
Assets and liabilities					
Total assets	**21,854**	180,133	350,607	543,979	359,764
Total liabilities	**(225,557)**	(246,751)	(309,897)	(175,055)	(54,182)
Minority interests	**—**	(7,665)	(22,114)	(31,448)	—
(Capital deficiency)/ shareholders' funds	**(203,703)**	(74,283)	18,596	337,476	305,582

Note:

The results, assets and liabilities of the Group for year 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.