

Interim Report **2005**




Satellite
Devices
An Arcoritech Company

Satellite Devices Corporation
Incorporated in the Cayman Islands with limited liability

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

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



FINANCIAL PERFORMANCE

The Group has an approximate turnover of HK\$460,000 for the six months ended 30 September 2005 as compared to approximately HK\$621,000 for the corresponding period in the previous fiscal year.

Net loss of the Group for the six months ended 30 September 2005 was approximately HK\$6,743,000 as compared to approximately HK\$7,084,000 for the corresponding period in previous fiscal year.

Loss per share of the Group was approximately HK\$0.0114 for the six months ended 30 September 2005 and HK\$0.0120 for the corresponding period in the previous fiscal year.

The Board does not recommend the payment of any dividend for the six months ended 30 September 2005.



SECOND QUARTER RESULTS (UNAUDITED)

The Board of Directors ("Board") of Satellite Devices Corporation (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2005, together with the comparative unaudited figures for the corresponding period in 2004 (the "Relevant Periods") as follows:

Condensed Consolidated Profit & Loss Account

	Notes	Six months ended 30 September		Three months ended 30 September	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover	2	460	621	221	295
Cost of location based technology devices and applications		(41)	(201)	(7)	(168)
		419	420	214	127
Other revenue		1	160	-	85
Advertising and promotion costs		(1)	(1)	(1)	-
Staff cost	4	(1,095)	(1,017)	(409)	(599)
Depreciation		(5,873)	(5,899)	(2,935)	(2,949)
Other operating expenses		(194)	(747)	256	(336)
(Loss) before Taxation		(6,743)	(7,084)	(2,875)	(3,672)
(Loss) attributable to shareholders		(6,743)	(7,084)	(2,875)	(3,672)
Interim Dividend		Nil	Nil	Nil	Nil
(Loss) per share	6	(1.14) cents	(1.20) cents	(0.05) cents	(0.06) cents

Consolidated Balance Sheet

		As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Unaudited)
	Note		
Fixed assets	7	11,148	17,012
Interest in associated companies		4	4
Current assets			
Inventories		303	336
Trade receivables	8	99	171
Deposits, prepayments and other receivables		20	187
Cash and bank balances		136	122
		<u>558</u>	<u>816</u>
Current liabilities			
Other payables and accruals		1,760	2,466
Amount due to a fellow subsidiary		4,792	4,108
Amount due to Director		–	6,108
Loan payable		6,759	–
Current portion of obligation under finance leases		–	8
		<u>13,311</u>	<u>12,690</u>
Net current (liabilities)/assets		<u>(12,753)</u>	<u>(11,874)</u>
Total assets less current liabilities		<u>(1,601)</u>	<u>5,142</u>
Capital and reserve			
Share capital	10	59,092	59,092
Reserves		(60,693)	(53,950)
		<u>(1,601)</u>	<u>5,142</u>

Condensed Consolidated Cashflow Statement

	Six months ended 30 September 2005 HK\$'000 (Unaudited)	Six months ended 30 September 2004 HK\$'000 (Unaudited)
Net cash outflow from operating activities	<u>14</u>	<u>81</u>
Net cash outflow before financing	<u>14</u>	<u>81</u>
Increased/(Decreased) in cash and cash equivalents	14	81
Effect of foreign exchange rate changes	0	(4)
Cash and cash equivalents at beginning of the period	<u>122</u>	<u>55</u>
Cash and cash equivalent at the end of the period	<u>136</u>	<u>132</u>
Analysis of balances of cash and cash equivalent:		
Cash and bank balances	<u>136</u>	<u>132</u>

Consolidated Statement of Changes in Equity (Unaudited)

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange difference <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2004	59,092	34,699	(13)	(71,470)	22,308
Exchange differences	–	–	(4)	–	(4)
Loss for the period	–	–	–	(7,084)	(7,084)
	<u>59,092</u>	<u>34,699</u>	<u>(17)</u>	<u>(78,554)</u>	<u>15,220</u>
As at 30 September 2004	<u>59,092</u>	<u>34,699</u>	<u>(17)</u>	<u>(78,554)</u>	<u>15,220</u>
As at 1 April 2005	59,092	34,699	(15)	(88,634)	5,142
Exchange differences	–	–	–	–	–
Loss for the period	–	–	–	(6,743)	(6,743)
	<u>59,092</u>	<u>34,699</u>	<u>(15)</u>	<u>(95,377)</u>	<u>(1,601)</u>
As at 30 September 2005	<u>59,092</u>	<u>34,699</u>	<u>(15)</u>	<u>(95,377)</u>	<u>(1,601)</u>

Notes to the accounts:

1. Basis of presentation

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

2. Turnover and revenue

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

	Six months ended 30 September		Three month ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
Mobile positioning units and fleet management systems	460	621	221	295
	<u>460</u>	<u>621</u>	<u>221</u>	<u>295</u>

3. Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 September		Three month ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Depreciation				
Owned fixed assets	5,873	5,891	2,935	2,945
Leased fixed assets	-	8	-	4
	<u>5,873</u>	<u>5,899</u>	<u>2,935</u>	<u>2,949</u>

4. Staff costs

	Six months ended 30 September		Three month ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Wages and salaries	1,099	959	445	572
Retirement scheme Contribution	(4)	58	(36)	27
	<u>1,095</u>	<u>1,017</u>	<u>409</u>	<u>599</u>

5. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the period ended 30 September 2005 and 2004.

No overseas taxation has been provided as the Group's overseas subsidiary did not have any taxable profit for the period ended 30 September 2005 and 2004.

Deferred Taxation

No deferred tax asset has been recognized in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognized tax losses may be carried forward indefinitely.

6. Loss per share

The calculation of basic (loss)/earnings per share for the six months ended 30 September 2005 is based on the Group's loss attributable to shareholders of approximately HK\$6,743,000 (2004: HK\$7,084,000) and weighted average number of 590,916,000 ordinary shares (2004: 590,916,000 ordinary shares) in issue during the period.

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

7. Capital expenditure

	Fixed assets HK\$'000
6 months ended 30 September 2005	
Opening net book amount	17,021
Depreciation	<u>5,873</u>
Closing net book amount	<u>11,148</u>



8. Trade receivable

Details of ageing analysis of trade receivable were as follows:

	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000
0 – 30 days	52	98
31 – 60 days	7	45
61 – 90 days	7	8
Over 90 days	14,390	15,237
	14,456	15,388
Less: Provision for doubtful debts	(14,357)	(15,217)
	99	171

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

9. Long term liabilities

As at 30 September 2005, the Group's obligation under finance leases were repayable as follows:

	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000
Within one year	–	9
In the second year	–	–
	–	9
Future finance charge on finance leases	–	(1)
	–	8

The present value of finance lease liabilities is as follows:

Within one year	–	8
In the second year	–	–
	–	8

10. Share capital

	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000
Authorized: 10,000,000,000 ordinary shares @ HK0.1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid: 590,920,000 ordinary shares	<u>59,092</u>	<u>59,092</u>

11. Commitments

(a) Commitments under operating leases

As at 30 September 2005 and 31 March 2005, the Group had future aggregate minimum lease payment under non-cancelable operating leases in respect of land & buildings

	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000
Within one year	36	166
In the second to fifth year	0	9
	<u>36</u>	<u>175</u>

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

As at 30 September 2005 and 31 March 2005, the Group had commitments in respect of acquisition of fixed assets as follows:

	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000
Contracted but not provided for	540	540
Authorized but not contracted for	—	—
	<u>540</u>	<u>540</u>



INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

For the period ended 30 September 2005, the Group recorded a turnover of approximately HK\$460,000 (2004: \$621,000) which represents sale of location based technology devices and applications is very competitive. The net loss attributable to shareholders was approximately HK\$6,743,000 (2004: \$7,084,000) for the period ended 30 September 2005.

Business Review

During the period under review, the Group continues to operate under keen competition both in Hong Kong and PRC. To restore the financial strength and profitability of the Group, the Group is currently working on an acquisition of a retailing business which distributes branded apparel and accessories in Hong Kong and Taiwan. The Group believes that the acquisition benefits both the Group and the shareholders. The Group considers that the proposed diversification of business by way of the Proposed Acquisition is commercially justifiable. A separate report on the details of the acquisition will be made shortly.

Financial Resources and Liquidity

As at 30 September 2005, the Group had a total assets of approximately HK\$11,710,000 which was mainly financed by current liabilities of approximately HK\$13,311,000. The Group had a working capital ratio of approximately 0.040. Fixed assets of the Group amounted to approximately HK\$11,148,000.



Employees

As at 30 September 2005, the Group had a total of 20 employees as same as 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
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Total headcount	20
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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 Share options and performance bonus.

Business Outlook

Despite the keen competition, the Group will continue to explore new product lines and services in its existing business. As the same time, the Group will seek to expand its business by acquiring some established business with a view to strengthen its financial strength and profitability.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND DEBENTURES

As at 30 September 2005, the interest, deemed interest, long position, short position of the Director 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 VX 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:



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

Name	Type of interest	Interest in the Company as a director		Percentage of issued share capital	
		During the period under review	As at 30 September 2005	During the period under review	As at 30 September 2005
Mr. Tsoi Siu Ching, Leo	Corporate (Note 1)	387,888,000	-	65.64%	-

Directors' interests in options over shares in Arcontech Corporation are referred to above.

During the period under review, the resigned Director's interest in Arcontech Corporation, an intermediate holding company of the Company and Arcon Solutions (BVI) Limited, an immediate holding company of the Company are as follows:

Name of Director	Name of Company	Type of Interest	Interest in the company as a director	
			During the period	as at 30 September 2005 (Note 2)
Mr. TSOI Siu Ching, Leo	Arcontech Corporation	Corporate (Note 1)	242,784,000	N/A
Mr. TSOI Siu Ching, Leo	Arcon Solutions (BVI) Ltd.	Corporate (Note 1)	3,250 shares of US\$1.00 each	N/A

Note 1: Mr. TSOI Siu Ching, Leo is the beneficial owner of Upgrade Technology Limited which in return holds 242,784,000 shares in the issued share capital of Arcontech Corporation as at 30 September 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 Arcon Solutions (BVI) Limited. On 31 August 2005, Mr. Tsoi resign as executive director of the Company.

Note 2: Mr. TSOI Siu Ching, Leo, has resigned as a director of the Company, effective Aug 31, 2005.

Save as disclosed above, as at 30 September 2005, none of the Directors, chief executive of the Company or their respective associates had any interest or short positions in 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 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.

B. *Share options*

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002 for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group. 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 consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company. Upon acceptance of the option, the grantee must pay HK\$1.00 to the Company by way of the consideration for the grant.

As at 30 September 2005, no option has been granted or agreed to be granted by the Company under the Scheme.

Saved as disclosed above, none of the directors or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any right during the period.

Saved as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than interest disclosed in "Directors' and chief executive's Interest 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 30 September 2005
Arcon Solutions (BVI) Limited (<i>Note 1</i>)	387,888,000	65.64%

Note 1: Arcontech Corporation is interested in these shares held by its wholly owned subsidiary Arcon Solutions (BVI) Limited. As at 30 September 2005 Upgrade Technology Limited is also interested in these shares by virtue of its holding of 242,784,000 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.

Saved 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 30 September 2005.

COMPETING INTEREST

None of the Directors, initial management shareholders and their respective associates of the Company has interest in a business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has three members comprising Messrs. LIU Kwong Sang, Lum Pak Sum and Sum Chun Ho. Mr. LIU Kwong Sang has been appointed chairman of the audit committee. The terms of reference of the audit committee have been established with regard to rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the Board, and (iii) to review and supervise the financial reporting process and internal control procedures of the group. The audit committee held four meetings during the year. At the meetings, the committee focused on examining and approving the quarterly results of the Company.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

For the period under review, the Company has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing rules. Having made specific enquires of all the Directors, the Directors have complied with required standard of dealings and code of conduct regarding directors' securities transactions for the period under review.

CODE OF BOARD PRACTICE

The Directors are of the opinion that the Company has complied with the Code of Best Practice as set out in Rules 5.35 and 5.45 of the GEM Listing rules since the Company's listing on GEM in 2002.

By Order of the Board
Leung Tak Wah
Executive Director

Hong Kong, 14 November 2005

As at the date of this report, the board of directors of the Company comprising three executive directors, namely Messrs. Lo Mun Lam, Raymond, Leung Tak Wah and Ms. Yu Wai Yin, Vicky and three independent non-executive directors namely, Messrs. Liu Kwong Sang, Lum Pak sum, and Sum Chun Ho.