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SATELLITE DEVICES CORPORATION
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8172)

- (1) ISSUE OF SHARES PURSUANT TO LOAN CAPITALISATION;
(2) PROPOSED CAPITAL REORGANISATION;
(3) PROPOSED OPEN OFFER OF 395,101,116 OFFER SHARES AT A PRICE
OF HK\$0.065 PER OFFER SHARE ON THE BASIS OF THREE OFFER
SHARES FOR EVERY NEW SHARE;
(4) VERY SUBSTANTIAL ACQUISITION –
PROPOSED ACQUISITION OF HIP KIN RETAILING LIMITED;
AND
(5) RESUMPTION OF TRADING**

Financial adviser to Satellite Devices Corporation



KINGSTON CORPORATE FINANCE LIMITED

Underwriter to the Open Offer



KINGSTON SECURITIES LIMITED

(1) ISSUE OF SHARES PURSUANT TO LOAN CAPITALISATION

The Company and the Creditor entered into the Loan Capitalisation Deed on 10 October 2005 whereby the Company proposed to issue 67,585,863 Loan Shares at HK\$0.10 each to the Creditor as full repayment of the Loan subject to the conditions as referred to in the paragraph headed “Conditions of Loan Capitalisation” below. The Loan Shares represent approximately 11.44% of the existing issued share capital of the Company and approximately 10.26% of the enlarged share capital of the Company upon completion of the Loan Capitalisation.

(2) PROPOSED CAPITAL REORGANISATION

The Directors propose that the share capital of the Company be reorganised in the following manner:

1. every 5 Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company be consolidated into one Consolidated Share;
2. the nominal value of every issued Consolidated Share will be reduced from HK\$0.50 each to HK\$0.01 each and become New Share;
3. the reduction of nominal value of the issued Consolidated Shares will involve the cancellation of the paid-up capital of the Company of the extent of HK\$0.49 per issued Consolidated Share; and
4. every authorized but unissued Consolidated Share will be subdivided into 50 New Shares.

As at the date of this announcement, there are 590,916,000 Existing Shares in issue and 67,585,863 Loan Shares to be issued pursuant to the Loan Capitalisation. Assuming no further Existing Shares will be issued from the date of this announcement up to the completion of the Proposed Capital Reorganisation, there will be 131,700,372 New Shares in issue. On the basis of 131,700,372 New Shares in issue following the Proposed Capital Reorganisation, a credit of approximately HK\$64.53 million will arise on the cancellation of the paid-up capital of the Company which will be credited to a distributable reserve account of the Company and will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

The Proposed Capital Reorganisation is subject to the conditions contained in the section headed “Conditions of the Proposed Capital Reorganisation” below. Upon fulfillment of such conditions, the Proposed Capital Reorganisation will become effective. Further announcement(s) on this matter including the effective date of the Proposed Capital Reorganisation will be made in due course.

(3) PROPOSED OPEN OFFER

Following completion of the Proposed Capital Reorganisation, the Company proposes to raise approximately HK\$25.68 million, before expenses, by issuing and offering 395,101,116 Offer Shares at a price of HK\$0.065 per Offer Share on the basis of three Offer Shares for every one New Share held by the Qualifying Shareholders on the Record Date. The Proposed Open Offer is only available to the Qualifying Shareholders who are entitled to apply for excess Offer Shares not taken up in excess of their respective entitlements under the Proposed Open Offer.

The Proposed Open Offer is fully underwritten by the Underwriter. The Proposed Open Offer is conditional upon, among other things, the Proposed Capital Reorganisation having become effective, the passing by the Independent Shareholders at the EGM of the relevant resolution to approve the Proposed Open Offer and the passing by the Shareholders at the EGM of the relevant resolution to approve the Proposed Acquisition, the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Offer Shares as referred to in the paragraph headed “Conditions of the Proposed Open Offer” below, and is further subject to the Underwriter not terminating the Underwriting Agreement as referred to in the paragraph headed “Termination of the Underwriting Agreement” below.

In order to be qualified for the Proposed Open Offer, the Shareholders must lodge any transfer of the New Shares (together with the relevant share certificate(s)) for registration with the Registrar. The timetable for the Proposed Open Offer is subject upon completion of the Proposed Capital Reorganisation and the Company will make a further announcement on such timetable upon the Proposed Capital Reorganisation having become effective.

Any buying or selling of the Shares from now up to the date on which all the conditions to which the Open Offer is subject are fulfilled are at investors’ own risk.

The estimated net proceeds from the Proposed Open Offer will be approximately HK\$23.73 million, which is intended to be applied as to approximately HK\$18.48 million for the partial payment of the consideration for the Proposed Acquisition; approximately HK\$1.85 million for marketing of the brands to be acquired under the Proposed Acquisition; and the remaining balance of HK\$3.40 million for general working capital of the Company. The Directors consider that the Proposed Open Offer will further strengthen the financial position of the group and support the future development of the group’s business. The Directors consider that the Proposed Open Offer is in the interest of the Company and its shareholders as a whole. However, a Qualifying Shareholder who does not take up the Offer Share to which they are entitled should note that their shareholdings in the Company will be diluted.

(4) PROPOSED ACQUISITION

The Directors are also pleased to announce that the Company and Chung Chiu Limited entered into the Sale and Purchase Agreement, pursuant to which, upon completion of the Loan Capitalisation, Proposed Capital Reorganisation and Proposed Open Offer, the Company agreed to acquire the entire shareholding interest in HKR. Completion shall take place on a date which is 3 Business Days after the fulfillment of all the conditions to the Sale and Purchase Agreement (or such later date as the parties thereto may be agreed in writing) which is subject to further announcement for the timetable upon completion of the Proposed Open Offer. Upon completion of the Proposed Acquisition, the Company will nominate a wholly owned subsidiary to become the registered and beneficially owner of the entire interest of HKR.

The consideration of HK\$80.0 million shall be satisfied by (i) as to HK\$40 million payable upon completion to Chung Chiu Limited, of which approximately HK\$18.48 million in cash out of the proceeds from the Proposed Open Offer and the remaining balance of approximately HK\$21.52 million, at the option of the Company in cash or in lieu of part or all of the remaining cash consideration of approximately HK\$21.52 million in the form of Convertible Note; and (ii) as to the remaining balance of HK\$40 million in the form of Convertible Note, provided that the Convertible Note shall not be convertible within the first six months from the date of its issuance and the Vendor may only convert the whole or any part of the outstanding principal amount if immediately after any such conversion the Vendor together with parties acting in concert with it within the meaning of the Takeovers Code do not control 30% or more of the voting power at a general meeting of the Company.

(5) GENERAL

The Company will, in compliance with the GEM Listing Rules, convene the EGM to consider and, if thought fit, pass the resolutions to approve the Proposed Capital Reorganisation, Proposed Open Offer and Proposed Acquisition. Arcon and its associate are required to abstain from voting in the EGM on the resolution regarding the Proposed Open Offer which will be conducted by way of poll.

An independent board committee of the Company will be established to advise the Independent Shareholders on the Proposed Open Offer and an independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in this respect.

A circular containing, among other things, (i) the Loan Capitalisation; (ii) the Proposed Capital Reorganisation; (iii) the Proposed Open Offer; (iv) the Proposed Acquisition; (v) the letter of advice from the independent board committee to the Independent Shareholders in respect of the Proposed Open Offer; (vi) the letter of advice from the independent financial adviser to the independent board committee and Independent Shareholders in respect of the Proposed Open Offer; and (vii) a notice of EGM, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules.

The Stock Exchange is concerned that the ultimate intention of the Company and the Vendor is to inject a business into a listed company which is under the Vendor's control. The Stock Exchange will closely monitor all future transactions, if any, between the Company and the Vendor and may aggregate such transactions and decide whether the reverse takeover rule should apply. The Stock Exchange may also revisit this matter in the event that there are evidences available to indicate that the Company is under the control of the Vendor. Shareholders and potential investors should also note that the Proposed Acquisition, which is subject to a number of conditions precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are in doubt about any of the above matters.

(6) SUSPENSION AND RESUMPTION OF TRADING IN THE EXISTING SHARES

At the request of the Company, trading in the Existing Shares on the Stock Exchange was suspended from 9:30 a.m. on Tuesday, 4 October 2005 pending the release of this announcement. Applications have been made to the Stock Exchange for resumption of trading in the Existing Shares with effect from 9:30 a.m. on Monday, 28 November 2005.

ISSUE OF SHARES PURSUANT TO LOAN CAPITALISATION

Loan Capitalisation Deed

Date: 10 October 2005

Loan

The Loan due from the Company to the Creditor amounts to HK\$6,758,586.32 which is interest free and repayable on demand. Save for the lending of the Loan by the Creditor to the Company, the Creditor, which is incorporated in the British Virgin Islands, together with its beneficial owner, Ms. Wu Ling Yee, are independent of and not connected with the Company and its subsidiaries and their connected persons (as defined under the GEM Listing Rules),

Loan Shares

The Company proposed to issue 67,585,863 Loan Shares at HK\$0.10 each to the Creditor as full repayment of the Loan subject to the conditions as referred to in the paragraph headed “Conditions of Loan Capitalisation” below.

The Loan Shares represent approximately 11.44% of the existing issued share capital of the Company and approximately 10.26% of the enlarged share capital of the Company upon completion of the Loan Capitalisation.

The Loan Shares will be issued under the general mandate to allot, issue and deal with the Existing Shares granted to the Directors by a resolution passed by the Shareholders at the annual general meeting of the Company held on 25 July 2005 subject to the limit up to 20% of the issued share capital of the Company as at the date of passing the resolution at such meeting (i.e. 118,183,200 Existing Shares). As at the date of this announcement, none of the Existing Shares has been issued under such general mandate.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Loan Shares.

Loan Share Price

The Loan Share at HK\$0.10 per Share has been arrived at after taking into account the amount of the loan outstanding and the latest financial condition of the Company. The Loan Share Price represents:

- (i) a premium of approximately 566.7% over the closing price of HK\$0.015 per Existing Share as quoted on the Stock Exchange on 3 October 2005, being the Latest Trading Day;
- (ii) a premium of approximately 532.9% over the average of the closing prices per Existing Share as quoted on the Stock Exchange of approximately HK\$0.0158 for the 5 trading days up to and including the Latest Trading Day;
- (iii) a premium of approximately 517.3% over the average of the closing prices per Existing Share as quoted on the Stock Exchange of approximately HK\$0.0162 for the 10 trading days up to and including the Latest Trading Day; and
- (iv) a premium of approximately 1049.4% with reference to the Group's audited consolidated net asset value of HK\$0.0087 per Existing Share as at 31 March 2005.

Conditions of Loan Capitalisation

Completion of the Loan Capitalisation Deed shall be conditional upon:

- (i) the satisfaction of any conditions or requirements imposed on the Company by the Stock Exchange pursuant to the GEM Listing Rules in connection with the transactions contemplated by the Loan Capitalisation Deed;
- (ii) the Stock Exchange granting approval for the listing of, and permission to deal in, the Loan Shares on the Stock Exchange;
- (iii) if necessary, all consents of all relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, Cayman Islands, or elsewhere which are required or appropriate for the entering into and the implementation of the Loan Capitalisation Deed having been given or made; and
- (iv) save for any temporary suspension of the trading of the Existing Shares on the Stock Exchange, no indication being received on or before the completion of the Loan Capitalisation from the Securities and Futures Commissions of Hong Kong or the Stock Exchange to the effect that the listing of the Existing Shares on the Stock Exchange will or may be withdrawn or objected

to as a result of the completion of the Loan Capitalisation or in connection with the terms of or any transactions contemplated by the Loan Capitalisation Deed (including but not limited to in connection with an allegation that the Company is no longer suitable for listing).

None of the applicable conditions had been fulfilled as at the date of this announcement. None of the conditions can be waived, except with the mutual agreement of the Company and the Creditor. The Company has no intention to waive any of the conditions, and is not aware if the Creditor has any such intention.

Completion of Loan Capitalisation

Completion of the Loan Capitalisation Deed shall take place on or before the 3rd Business Day following the satisfaction or waiver by the Company of the conditions specified in the Loan Capitalisation Deed. If any of the above conditions are not fulfilled or waived on or before 31 December 2005 or such other date as the Company and the Creditor may agree in writing, the Loan Capitalisation Deed will lapse and be of no further effect.

Reason for the Loan Capitalisation

In view of the financial position of the Group especially its net current liabilities position, the Directors believe that restructuring of the Group's debt is necessary for the financial stability and future growth of the Group.

The Loan Capitalisation will enable the Group to: (i) repay the entire amount of the Loan due to the Creditor; (ii) improve its working capital position; and (iii) reduce its gearing level. The Directors believe therefore that the Loan Capitalisation is in the best interest of the Company and its Shareholders as a whole.

Upon completion of the Loan Capitalisation, the Company does not have any significant outstanding debts other than an outstanding loan of approximately HK\$5 million which is short term, non-secured and interest free payable to Arcon Technology Limited (a fellow subsidiary of the Company).

Ranking of Loan Shares

The Loan Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue or to be issued by the Company on or prior to completion of the Loan Capitalisation including the rights to all dividends and other distributions declared, made or paid at any time after the date of issue and allotment of the Loan Shares.

The effect of the Loan Capitalisation on the shareholding structure of the Company is set out in the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" below.

PROPOSED CAPITAL REORGANISATION

The Directors propose that the share capital of the Company be reorganised in the following manner:

1. every 5 Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company be consolidated into one Consolidated Share;
2. the nominal value of every issued Consolidated Share will be reduced from HK\$0.50 each to HK\$0.01 each and become New Share;
3. the reduction of nominal value of the issued Consolidated Shares will involve the cancellation of the paid-up capital of the Company of the extent of HK\$0.49 per issued Consolidated Share;
4. every authorized but unissued Consolidated Share will be subdivided into 50 New Shares.

As at the date of this announcement, there are 590,916,000 Existing Shares in issue and 67,585,863 Loan Shares to be issued pursuant to the Loan Capitalisation. Assuming no further Existing Shares will be issued from the date of this announcement up to the completion of the Proposed Capital Reorganisation, there will be 131,700,372 New Shares in issue following the Proposed Capital Reorganisation. On the basis of 131,700,372 New Shares in issue, a credit of approximately HK\$64.53 million will arise on the cancellation of the paid-up capital of the Company which will be credited to a distributable reserve account of the Company and will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

As at 31 March 2005, the audited accumulated losses of the Company amounted to approximately HK\$88.63 million. The debit balance of the distributable reserve account will become approximately HK\$24.10 million after setting off in full the accumulated losses of the Company.

As at the date of this announcement, the authorised capital of the Company is HK\$1,000,000,000 divided into 10,000,000,000 Existing Shares of HK\$0.10 each, of which 590,916,000 Existing Shares have been issued and are fully paid. Upon the Proposed Capital Reorganisation becoming effective and on the basis of the same number of the Existing Shares in issue and 67,585,863 Existing Shares to be issued pursuant to the Loan Capitalisation, the paid-up capital of the Company will be reduced from HK\$65,850,186.30 to HK\$1,317,003.72. Immediately upon the Proposed Capital Reorganisation becoming effective, the authorised capital of the Company will be HK\$1,000,000,000 divided into 100,000,000,000 New Shares of HK\$0.01 each and the issued share capital of the Company will be HK\$1,317,003.72 divided into 131,700,372 New Shares.

As at the date of this announcement, there are no outstanding options, warrants and securities of the Company convertible or exchangeable into the Shares.

Conditions of the Proposed Capital Reorganisation

The implementation of the Proposed Capital Reorganisation is conditional upon:

- (i) the passing of the necessary special resolution by the Shareholders at the EGM to approve the Proposed Capital Reorganisation;
- (ii) compliance with any conditions which the Cayman Islands court may impose;
- (iii) the confirmation of the Capital Reduction by the Cayman Islands court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the court order and the minutes containing the particulars required under the Companies Law; and
- (iv) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Proposed Capital Reorganisation

Upon fulfillment of the above conditions, the Proposed Capital Reorganisation will become effective. None of the applicable conditions had been fulfilled as at the date of this announcement and none of the conditions can be waived. The Loan Capitalisation and the Proposed Capital Reorganisation are not inter-conditional. Further announcement will be made by the Company to inform the Shareholders of the effective date of the Proposed Capital Reorganisation.

Status of the New Shares

The New Shares will rank *pari passu* in all respects with each other and the Proposed Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

Change in board lot size

The Existing Shares are currently traded in board lots of 6,000 Existing Shares. To increase the value of each board lot after the Proposed Capital Reorganisation, the Board also proposes to change the board lot size to 30,000 New Shares following the Proposed Capital Reorganisation such that the value of each board lot be changed from HK\$90 based on the closing price of HK\$0.015 per Existing Share as quoted on the Stock Exchange on the Latest Trading Day immediately prior to this announcement to HK\$2,250 based on the adjusted closing price of HK\$0.075 per New Share assuming immediately upon the completion of the Proposed Capital Reorganisation.

Reasons for the Proposed Capital Reorganisation

After completion of the Proposed Capital Reorganisation, it is expected to bring about a corresponding upward adjustment in the trading price of the New Shares on the Stock Exchange which will reduce the overall transaction costs for dealings in the New Shares.

The Company had an audited accumulated losses of approximately HK\$94.34 million (on an unconsolidated basis) as at 31 March 2005. On the basis of 590,916,000 Existing Shares in issue and 67,585,863 Loan Shares to be issued pursuant to the Loan Capitalisation, a credit of approximately HK\$64.53 million will arise as a result of the Capital Reduction and the amount will be credited to a distributable reserve account of the Company. The reserve will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company. The Directors believe that implementation of the Proposed Capital Reorganisation will therefore provide better flexibility to the Company in conducting fund raising exercises for future expansion and allow the Company to pay dividend when it makes profit in the future. The Share Consolidation is also intended to reduce the transaction costs for dealing in the Consolidated Shares as well as to increase the market value per New Share.

The Proposed Capital Reorganisation will have no material effect on the consolidated net assets of the Group. Other than the expenses to be incurred by the Company in relation to the Proposed Capital Reorganisation, the implementation thereof will not, by itself, materially alter the underlying assets, business operations, management or financial position of the Group or the interests of the Shareholders as a whole.

Accordingly, the Board is of the view that the Proposed Capital Reorganisation and the change in board lot size are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Free Exchange of Certificate(s) for New Shares and Trading Arrangements

The effective date of the Proposed Capital Reorganisation is not ascertainable at present and an application will be made to the Cayman Islands court in respect of the Capital Reduction. Further announcement(s) on this matter including the effective date of the Proposed Capital Reorganisation will be made in due course. Arrangements will be made so that, subject to the Proposed Capital Reorganisation becoming effective, the Shareholders may submit their existing certificates for the Existing Shares in exchange for new certificates for the New Shares on the basis of five (5) Existing Shares for one (1) New Share at the expense of the Company. After the expiry of such period, existing certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.5 per existing certificate or new certificate, whichever the higher number of certificates (or such higher amount as may from time to time be allowed by the Stock Exchange) may be.

Fractional New Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the New Shares will be aggregated, sold and retained for the benefit of the Company. In order to alleviate the difficulties arising from the existence of odd lots of New Shares, the Company has agreed to procure an agent to arrange for matching service regarding the sale and purchase of odd lots of New Shares. Further details in respect of the odd lots arrangement and colour of the new share certificates will be set out in the circular of the Company to be despatched to Shareholders. Shareholders should note that successful matching of the sale and purchase of odd lots of New Shares is not guaranteed.

Details of the arrangements and timetable regarding such free exchange of share certificates, fractions of New Shares, odd lot trading (if any) and other relevant trading arrangements will be set out in the circular to be despatched to the Shareholders for such purpose. Arrangements will also be made to ensure that the New Shares are accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS upon the Proposed Capital Reorganisation becoming effective.

PROPOSED OPEN OFFER

The Proposed Open Offer will be proceeded after completion of the Proposed Capital Reorganisation and is required to be made conditional on, among other things, the conditions as set out under the section headed “Conditions of the Proposed Open Offer” and therefore the Proposed Open Offer may or may not proceed.

Issue statistics

Basis of the Proposed Open Offer	:	Three Offer Shares for every New Share held on the Record Date
Subscription Price	:	HK\$0.065 per Offer Share
Number of Existing Shares in issue as at the date of this announcement	:	590,916,000 Existing Shares
Number of Loan Shares to be issued upon completion of the Loan Capitalisation	:	67,585,863 Loan Shares
Number of New Shares in issue upon completion of the Loan Capitalisation and Proposed Capital Reorganisation	:	131,700,372 New Shares
Number of Offer Shares	:	395,101,116 Offer Shares
Number of Offer Shares underwritten by the Underwriter	:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite 395,101,116 Offer Shares, subject to and upon the terms and conditions of the Underwriting Agreement. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Underwriter is a third party independent of and not connected with the Company and its subsidiaries and their respective connected persons (as defined in the GEM Listing Rules)

Number of New Shares in issue : 526,801,488 New Shares
upon completion of the
Proposed Open Offer

The invitation to apply for the Offer Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange.

Qualifying Shareholders

The Proposed Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Open Offer prospectus, for information only, to the Excluded Shareholders. To qualify for the Proposed Open Offer, the Shareholders must:

- (i) be registered on the register of members of the Company; and
- (ii) have an address in Hong Kong on the register of members of the Company.

at the close of business on the Record Date.

In order to be qualified for the Proposed Open Offer, the Shareholders must lodge any transfer of the New Shares (together with the relevant share certificate(s)) for registration with the Registrar. The timetable for the Proposed Open Offer is subject to the completion of the Proposed Capital Reorganisation and the Company will make a further announcement on such timetable after completion of the Proposed Capital Reorganisation.

The controlling Shareholder has not indicated whether he/she will subscribe for the Offer Shares to which he/she will be entitled under the Proposed Open Offer.

Closure of register of members

The register of members of the Company will be closed to determine the eligibility of the Proposed Open Offer and the timetable of which will be announced by the Company subject to the completion of the Proposed Capital Reorganisation. No transfer of Shares will be registered during such period.

Subscription Price

HK\$0.065 per Offer Share, payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Offer Shares or applies for excess Offer Shares.

The Subscription Price of HK\$0.065 per Offer Share was arrived at after arm's length negotiations between the Company and the Underwriter with reference to recent closing prices of the Shares on the Stock Exchange and represents:

- (i) a discount of approximately 13.3% to the adjusted closing price of HK\$0.075 per New Share as quoted on the Stock Exchange on the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on that day;
- (ii) a discount of approximately 3.7% to the theoretical ex-entitlement price of HK\$0.0675 per New Share based on the adjusted closing price of HK\$0.075 per New Share as quoted on the Stock Exchange on the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on that day;
- (iii) a discount of approximately 17.7% to the average adjusted closing price of HK\$0.079 per New Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on those days; and
- (iv) a discount of approximately 19.8% to the average adjusted closing price of HK\$0.081 per New Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on those days.

The Directors consider that the subscription price of the Offer Shares arrived at after arm's-length negotiations with the Underwriter after having taken into account i) the recent price performance of the Shares; and ii) the offering of an opportunity to the existing Shareholders to participate in the Proposed Open Offer and to share in the results of the future business development of the Company.

Basis of provisional allotments

The Company will provisionally allot three Offer Shares for every New Share held by Qualifying Shareholders on the Record Date assuming that the Proposed Capital Reorganisation had already become effective on that day.

Under the GEM Listing Rules, the Proposed Open Offer is required to be made conditional, among other things, on the approval of the Independent Shareholders. Arcon and its associate are required to abstain from voting in the EGM on the resolution regarding the Proposed Open Offer which will be conducted by way of poll.

Status of the Offer Shares

The Offer Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the New Shares in issue on the date of allotment and issue of the Offer Shares. Holders of Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Rights of the Excluded Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 17.41(1) of the GEM Listing Rules and make enquiries regarding the feasibility of extending the Proposed Open Offer to Excluded Shareholders and the details of the Excluded Shareholders will be disclosed in the Prospectus. If, based on legal opinions provided by the legal advisors to the Company, the Directors consider that, in compliance with Rule 17.41(1) of the GEM Listing Rules, (i) it is necessary or expedient not to offer the Offer Shares to any particular Shareholder on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Proposed Open Offer will not be available to such Excluded Shareholders; or (ii) the legal opinions provided by the legal advisors do not support the statement in paragraph (i) above, the Offer Shares will be offered to such particular Shareholders.

The Company will send the Prospectus Documents to the Qualifying Shareholders and the Open Offer prospectus to the Excluded Shareholders (if any) for their information only. The Company will not send the Application Form and the form of application for excess Offer Shares to the Excluded Shareholders. The Excluded Shareholders will be entitled to vote at the EGM to consider and, if thought fit, passing the resolutions approving, among others, the Proposed Open Offer.

The Company will make arrangements for the Offer Shares, which would otherwise have been provisionally allotted to any Excluded Shareholders there may be, to be sold in the market as soon as practicable, if a premium (net of expenses) can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to Excluded Shareholders in Hong Kong dollars pro rata to their respective shareholdings as soon as possible. The Company will retain individual amounts of less than HK\$100 for its own benefits.

Application for excess Offer Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements and any Offer Shares provisionally allotted but not taken up by the Qualifying Shareholders by completing the Excess Application Forms for excess Offer Shares and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholder should note that the aforesaid arrangement in relation to the allocation of the excess Offer Shares will not be

extended to beneficial owners individually. The Shareholders with their New Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the record Date.

The Directors will allocate the excess Offer Shares at their discretion, on a fair and equitable basis by reference to the number of excess Offer Shares applied by each Qualifying Shareholder, but will give preference to topping-up odd lots to whole board lots.

Certificates of the Offer Shares

Subject to fulfillment of the conditions of the Proposed Open Offer, share certificates for the Offer Shares are expected to be posted to those entitled thereto at their registered address at their own risks. The Company will make a further announcement on the posting date of the share certificates for the Offer Shares upon the Proposed Capital Reorganisation having become effective. No fractional entitlements or allotments are expected to arise as a result of the Proposed Open Offer.

Application for listing

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

Fund raising activities in the 12 months immediately prior to this announcement

There is no fund raising activity of the Company in the 12 months immediately prior to this announcement.

Underwriting Agreement

Date	:	10 October 2005
Parties	:	the Company and the Underwriter
Number of Offer Shares	:	395,101,116 Offer Shares
Commission	:	2.5% of the aggregate subscription price of the Offer Shares underwritten by the Underwriter, the Directors consider that such rate is fair and reasonable and was determined after arm's length negotiations between the Company and the Underwriter
Terms	:	Pursuant to the Underwriting Agreement, Kingston Securities being the Underwriter has agreed to underwrite up to 395,101,116 Offer Shares

Termination of the Underwriting Agreement

The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company at any time if, prior to 5:00 p.m. on the third Business Day after the date on which the latest time for acceptance of the Offer Shares falls or such date as may be agreed between the Company and the Underwriter:

- (a) the introduction of any new law or regulation or any change in existing laws or regulations (or any change in the judicial interpretation or application thereof) whether in Hong Kong or elsewhere; by any court or other competent authority in Hong Kong or elsewhere; or any other place that is the place of incorporation of any member of the Group, or in which any member of the Group conducts or carries on business; or**
 - (i) any change or deterioration (whether or not permanent) in local, national or international, economic, financial, political or military conditions or any event beyond the control of the Company (including, without limitation, acts of government, strikes, wars, acts of violence, acts of terrorism, sabotage, raids, attacks, explosion, flooding, civil commotion, terrorist attack, acts of God or accident); or**
 - (ii) any change or deterioration (whether or not permanent) in local, national or international securities market conditions; or**
 - (iii) without prejudice to sub-paragraphs (ii) and (iii) above, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial or political circumstances or otherwise; or**
 - (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; or**
 - (v) any suspension in the trading of Shares on the Stock Exchange for a continuous period of five business days (save and except for any temporary suspension of dealing for a period not exceeding ten consecutive business days pending the publication of this announcement or any other public announcement by the Company as may be required by the Stock Exchange and/or the Securities and Futures Commission); or**
 - (vi) a change or development involving a prospective change in taxation or exchange control in Hong Kong or elsewhere which will or may materially and adversely affect the Group or the present or prospective shareholders of the Company in their capacity as such; or**

- (b) **there comes to the notice of the Underwriter or the Underwriter shall have reasonable cause to believe that any of the undertakings or other obligations expressed to be assumed by or imposed on the Company under this Agreement have not been complied with in any respect; or**
- (c) **there comes to the notice of the Underwriter or the Underwriter shall have reasonable cause to believe that any of the representations or warranties given by the Company under this Agreement was untrue or inaccurate in any respect which adversely affect the success of the Proposed Open Offer.**

Save for all reasonable costs, charges and expenses which may be incurred in connection with the Proposed Open Offer, upon the giving of notice termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the Proposed Open Offer will not proceed.

The Directors (including the independent non-executive Directors) consider that the terms of the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Conditions of the Proposed Open Offer

The Proposed Open Offer is conditional upon each of the following events happening on or before the time and dates specified as follows (or such other time and date as the parties may agree):

1. the Proposed Capital Reorganisation having become effective;
2. the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by any two Directors (or by their agents);
3. the passing by the Independent Shareholders by poll at the EGM of the relevant resolution to approve the Proposed Open Offer and the passing by the Shareholders at the EGM of the relevant resolution to approve the Proposed Acquisition;
4. the delivery of the signed copy by all the Directors of each of the Prospectus Documents referred to in (2) above to the Underwriter on or before the Posting Date;
5. the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by any two Directors (or by their agents duly authorised in writing) in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Company Ordinance and the GEM Listing Rules on or before the Posting Date;

6. compliance by the Company with all its obligations under the Underwriting Agreement in respect of its offer of Shares and delivery of documents to the Underwriter;
7. compliance with the relevant legal procedures and requirements under Cayman Islands laws, which include, among other things, the sanction of the Cayman Islands court, to effect the Capital Reduction;
8. the Listing Committee of the Stock Exchange (a) granting or agreeing to grant listing of, and permission to deal in, the Offer Shares either unconditionally or subject to such conditions which the Underwriter in its absolute opinion accepts and the satisfaction of such conditions (if any); and (b) not having been withdrawn or revoked such listing and permission before 4:00 p.m. on the settlement date as agreed;
9. the Underwriting Agreement not being terminated in accordance with its terms;
10. The posting of the Prospectus Documents to the Qualifying Shareholders.

If the above conditions are not satisfied on or before the latest time for the Proposed Open Offer to become unconditional which is subject to further announcement upon the Proposed Capital Reorganisation having become effective (or such other date as the parties may agree), the Proposed Open Offer will not proceed. None of the conditions can be waived, except with the mutual agreement of the Company and the Underwriter. The Company has no intention to waive any of the conditions, and is not aware if the Underwriter has any such intention.

Warning of the risk of dealings in New Shares

The Proposed Open Offer is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the subparagraph headed “Termination of the Underwriting Agreement” above). Accordingly, the Proposed Open Offer may or may not proceed.

The Shareholders and potential investors should therefore exercise caution when dealing in the New Shares respectively, and if they are in any doubt about their position, they should consult their professional advisers.

The Shareholders should note that dealings in the New Shares with an ex-entitlement basis will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholders or other persons dealing in such New Shares up to the date on which all conditions to which the Proposed Open Offer is subject are fulfilled, will accordingly bear the risk that the Proposed Open Offer cannot become unconditional and may not proceed.

Any Shareholders or other persons contemplating selling or purchasing the New Shares, who are in any doubt about their position, are recommended to consult his/her/its own professional adviser.

Reasons for the Proposed Open Offer and use of proceeds

The estimated net proceeds from the Proposed Open Offer will be approximately HK\$23.73 million, which is intended to be applied as to approximately HK\$18.48 million for the partial payment of the consideration for the Proposed Acquisition and HK\$1.85 million for marketing of the brands to be acquired under the Proposed Acquisition and the remaining balance of HK\$3.40 million for general working capital of the Company. The Directors consider that the Proposed Open Offer will further strengthen the financial position of the Group and support the future development and expansion of the Group's business. The Directors consider that the Proposed Open Offer is in the interest of the Company and its shareholders as a whole. However, a Qualifying Shareholder who does not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

The Directors (including the independent non-executive Directors) are of the view that fund raising by way of the Open Offer gives fair participation opportunity to all Shareholders for the Company's future development. Given that the Proposed Open Offer will not be proceeded until completion of the Proposed Capital Reorganisation and having taken into consideration (i) the change in market condition from time to time; (ii) the time interval to complete the conditions precedent; and (iii) the interest of Shareholders (including the controlling Shareholder) in participating the Proposed Open Offer may vary, the Directors (including the independent non-executive Directors) consider that it is fair and reasonable that the controlling Shareholder has not indicated whether he/she will subscribe for the Offer Shares to which he/she will be entitled under the Proposed Open Offer as at the date of this announcement.

An independent board committee of the Company will be established to advise the Independent Shareholders on the Proposed Open Offer and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in this respect.

To the best knowledge of the Company with enquiry from the Vendor, the Vendor did not hold any Existing Shares as the date of this announcement.

THE PROPOSED ACQUISITION

Sale and Purchase Agreement and Supplemental Agreement

Date: 10 October 2005 and 24 November 2005

Parties

Purchaser: the Company

Vendor: Chung Chiu Limited, a company incorporated in the BVI with its principal office in Hong Kong

The Company confirms that, to the best of the Directors' knowledge, information and belief having made reasonable enquiries, the Vendor is principally engaged in investment holding and the Vendor and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its subsidiaries and their respective connected persons (as defined under the GEM Listing Rules).

Assets to be acquired

The entire issued share capital of HKR.

Consideration

The consideration of HK\$80 million shall be satisfied by:

- (i) as to HK\$40 million payable upon completion to the Vendor, of which approximately HK\$18.48 million in cash out of the proceeds from the Proposed Open Offer and the remaining balance of approximately HK\$21.52 million, at the option of the Company in cash or in lieu of part of or all the remaining cash consideration of approximately HK\$21.52 million in the form of Convertible Note; and
- (ii) as to the remaining balance of HK\$40 million by issue of the Convertible Note,

provided that (a) the Convertible Note shall not be convertible within the first six months from the date of its issuance and (b) the Vendor may only convert the whole or any part of the outstanding principal amount if immediately after any such conversion the Vendor together with parties acting in concert with it within the meaning of the Takeovers Code do not control 30% or more of the voting power at a general meeting of the Company.

The consideration was determined between the Company and the Vendor after arm's length negotiations with reference to the business performance of HKR. HKR recorded an unaudited net profit before tax of HK\$5.53 million for the eight months ended 31 August 2005 and based on the consideration of HK\$80 million and taking into account the profit guarantee by the Vendor to the Company of not less than HK\$10 million for HKR for the year ended 31 March 2006, the Directors consider that the consideration of the Proposed Acquisition is fair and reasonable and in the interest of the Company and its Shareholders as a whole. The conversion price of the Convertible Note of HK\$0.10 per New Share was determined with reference to, amongst other things, the recent Existing Share price performance.

Due diligence review of the legal and financial affairs of HKR is in progress.

Profit Guarantee to the Company

The Vendor will guarantee to the Company that the audited net profit (before tax) of HKR will not be less than HK\$10 million for its year ending 31 March 2006. In the event that such guarantee cannot be fulfilled, the Vendor will compensate the Company the shortfall between HK\$10 million and the audited profit/loss (before tax) of HKR for its year ending 31 March 2006 and further announcement will be made by the Company on such compensation.

The Convertible Note

The terms of the Convertible Note have been negotiated on arm's length basis and the principal terms of which are summarized below:

Principal amount

Not less than HK\$40 million but not more than HK\$61.52 million in the event that the partial consideration of approximately HK\$21.52 million (after deduction of the issue of the Convertible Notes in principal amount of HK\$40 million and HK\$18.48 million cash payment) of the Proposed Acquisition is fully satisfied by the issue of Convertible Note at the option of the Company.

Interest

The Convertible Note is non-interest bearing which is determined after arm's length negotiation between the Company and the Vendor

Maturity

3 years from the date of the issue.

Denomination

In multiple of HK\$100,000

Form

Registered form only.

Conversion Price

HK\$0.10 per New Share, which is subject to adjustment provisions as standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain change in the share capital of the Company including consolidation or sub-division of New Shares, capitalization of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

Assuming that the Proposed Capital Reorganisation had already become effective, the conversion price of HK\$0.10 per New Share represents: (i) a premium of 33.3% over the adjusted closing price of HK\$0.075 per New Share on the Latest Trading Day; (ii) a premium of 26.6% over the average adjusted closing price of HK\$0.079 per New Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Trading Day; and (iii) a premium of 23.5% over the average adjusted closing price of HK\$0.081 per New Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Trading Day.

Conversion

Holder of the Convertible Note may convert the whole or part of the principal amount of the relevant Convertible Note (in multiple of HK\$100,000) into New Shares as determined by dividing the principal amount of the relevant Convertible Note outstanding at the time of conversion by the conversion price.

The Vendor may only convert the whole or any part of the outstanding principal amount if immediately after any such conversion the Vendor together with parties acting in concert with it within the meaning of the Takeovers Code do not control 30% or more of the voting power at a general meeting of the Company.

Financing the Proposed Acquisition partly by way of, among other things, the issue of Convertible Notes is made from the commercial perspective with a provision put in place under the Convertible Notes that restricts the Vendor together with parties acting in concert with it from avoiding the change in control in the Company and minimize the immediate dilution effect on their respective shareholdings in the Company once the conversion rights attaching to the Convertible Notes were exercised. It should be noted that the Vendor never contemplated obtaining control of the Company by exercising the conversion rights attaching to the Convertible Notes.

Pursuant to the Sale and Purchase Agreement, the holder(s) of the Convertible Note is/are restricted to exercise the conversion rights attaching on the Convertible Note to the extent that no holder(s) of the Convertible Note will become a controlling Shareholder.

The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the EGM. An application will be made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

Conversion period

The holders of the Convertible Note shall have the right at any time after six month of the date of issue of the relevant Convertible Note to convert all or part of the principal amount of the relevant Convertible Note outstanding at any time into Conversion Shares at the price of HK\$0.10 per Conversion Share provided that an integral multiple of HK\$100,000 be converted at any time and save that if the outstanding principal amount of the relevant Convertible Note is less than HK\$100,000, the whole (but not part only) of the outstanding principal amount of the relevant Convertible Note must be converted.

Ranking

The Conversion Shares will rank pari passu in all respects among themselves and with all other New Shares in issue on the date of such allotment and issue.

Redemption by the Company

The Company shall have the right to redeem the whole or any part of the outstanding principal amount of the relevant Convertible Note at any time.

Transferability

The Convertible Note is freely transferable, provided that the holders of the Convertible Note must inform the Company of each transfer or assignment made by them. The Company undertakes to notify the Stock Exchange if any of the Convertible Note is transferred to a connected person (as defined in the GEM Listing Rules).

Events of default

All Convertible Note contain an event of default provision which provides that on the occurrence of certain events of default specified in the Convertible Note (e.g. liquidation), each of the holders of the Convertible Note shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Note.

Conditions

Completion of the Sale and Purchase Agreement is conditional upon, among other things:

1. the Company having confirmed it is satisfied with its due diligence review of the legal and financial affairs of HKR;
2. the Proposed Capital Reorganisation having become effective;
3. the passing by the Independent Shareholders at the EGM by poll of the relevant resolution to approve the Proposed Open Offer and the passing by the Shareholders at the EGM of the relevant resolution to approve the Proposed Acquisition;
4. the completion of the Proposed Open Offer;
5. the Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the shares falling to be issued upon exercise of the conversion rights attached to the Convertible Note; and

6. all consents which are required for the entering into or the implementation or completion of the Sale and Purchase Agreement by the Vendor, the Company and/or HKR or for the performance of their respective obligations hereunder having been obtained, including, without limitation, the consents (if appropriate or required) of the shareholders of the Vendor, the Purchaser and of the Company (if applicable), the Stock Exchange and the SFC and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, or elsewhere which are required or appropriate for the entering into and the implementation of the Sale and Purchase Agreement having been made.

Completion

Completion shall take place on a date upon fulfillment of all the conditions to the Sale and Purchase Agreement (or such later date as the parties thereto may be agreed in writing). Further announcement will be made by the Company upon completion of the Proposed Acquisition.

Information on HKR

HKR which commenced business in 2002, is a distribution and brand management company engaged in the licensed retail sales of high-end, chic apparel and accessories under third-party European brand names. HKR markets and sells its products through a network of single-branded stores located at 5 shopping malls (The Lee Gardens, The Landmark, Pacific Place, Chater House, Harbour City which is expected to be open in mid-2006) in Hong Kong and 2 shopping malls (Breeze Centre, Shin Kong Mitsukoshi) in Taipei.

HKR has been the exclusive distributor of (i) London-based Anya Hindmarch, a brand offering chic designer ladies' handbags, leather accessories, luggages, shoes and apparel, in Hong Kong since 1995 (operated under Hip Kin Enterprises Limited, a fellow company of HKR from 1995 to 2001) and in Taiwan since 2002; (ii) Paris-based Paule Ka, a women's wear design house offering a "young couture" style that appeal to women who opt for subtly elegant designer apparel, in Hong Kong since 2002. HKR currently has exclusive licensing contracts (wholesale/retail) with Anya Hindmarch and Paule Ka until 2010. HKR's licensing territories include Macau and also has a first right of refusal of distributing Anya Hindmarch products in Mainland China.

Set out below are the unaudited financial figures of HKR for the two years ended 31 December 2004 and the eight months ended 31 August 2005:

	Year ended 31 December		Eight months ended
	2003	2004	31 August 2005
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Turnover	24.58	29.28	20.30
Net profit/(loss) before tax	(0.26)	1.88	5.53
Net profit/(loss) after tax	(0.32)	1.56	4.47
			As at
	As at 31 December		31 August
	2003	2004	2005
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Net assets/(liabilities)	(0.20)	1.36	5.84

Reasons for the Proposed Acquisition

The Company is principally engaged in the design, development, and sale of location-based technology devices and applications in Hong Kong.

In order to diversify into other business areas and to improve the earnings of the Group in the long run, the Group has been looking for investment opportunities. The Directors are of the view that the business of HKR, with its strengths of (i) strong expertise in identifying up coming apparel brands and introducing their products that appeal to customers in the Greater China market; (ii) ability to work closely with the licensors and designers which enables it to better identify, markets and price their products in the licensing territories; and (iii) experiences in securing retail spaces with landlords of major premier shopping malls which can be leveraged for the expansion of its retail network as well as the introduction of other brands, has a high growing potential as a result of the rapid economic development of the licensing territories in particular Macau and the PRC and the entry of the World Trade Organisation, is an opportunity for the Group of restoring its profitability and improving, so far as the value of the Company and its Shareholders as a whole are concerned, upon completion of its strategic business diversification by the Proposed Acquisition which in particular is substantiated, among other things, by the i) business track record of HKR; ii) profit guarantee given by the Vendor that HKR will make a net profit (before tax) of not less than HK\$10 million for the year ending 31 March 2006. On these bases, the management of the Company is confident and optimistic about the prospect of the Company and therefore financing the Proposed Acquisition partly by way of, among other things, the issue of Convertible Notes, in the opinion of the Directors, can (i) facilitate the Company with immediate funding without immediate further dilution of the shareholding of the existing Shareholders and (ii) limit immediate cash outflow of the Company.

Combining with the Board's expertise in technology devices, textiles trading and manufacturing, financial management and marketing experience, the Directors expect that the management of the Company may enjoy further synergistic benefit by inviting two representatives from HKR to join the Board upon completion of the Proposed Acquisition. However, the directors of HKR are of the view that they need further time to consider the appropriate representatives whose expertise and time availability will fit to work closely with the Company and therefore the appointment is not necessary to be made until the Proposed Acquisition is being proceeded after the Proposed Acquisition is approved by the Shareholders at the EGM. As such, HKR has not confirmed the representatives to be appointed to the Board at the date of this announcement and the Directors confirm that full disclosure about the appointment of the representatives from HKR will be made in the relevant announcement and circular in relation to the Proposed Acquisition. Save as above, the Board currently has no intention to change the existing Board composition. The Company intends to maintain the employment of the existing management team of HKR after the Proposed Acquisition has been consummated, and through sharing the experience with the management of HKR, to provide additional training in respect of the knowledge of retailing business to the existing staff.

For the two years ended 31 March 2005, the audited consolidated net loss of the Company attributable to the Shareholders was approximately HK\$47.10 million and HK\$17.16 million respectively. As at 31 March 2005, the audited consolidated net asset value of the Group was approximately HK\$5.14 million and the audited net asset value per Existing Share is HK\$0.009 per Existing Share. Upon completion of the Proposed Acquisition, the Group will continue to operate its current principal activities.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company immediately before and after completion of the Loan Capitalisation, Proposed Capital Reorganisation, Proposed Open Offer and the Proposed Acquisition:

	Existing Shareholding as at the date of this announcement		Immediately after completion of the Loan Capitalisation		Immediately after completion of the Loan Capitalisation and Proposed Capital reorganisation		Immediately after completion of the Loan Capitalisation, Proposed Capital reorganisation and Proposed Open Offer			
							Assuming all Qualifying Shareholders take up their entitlements		Assuming no Qualifying Shareholders take up their entitlements	
	<i>Number of Existing Shares</i>	<i>%</i>	<i>Number of Existing Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>
Arcon	387,888,000	65.64%	387,888,000	58.90%	77,577,600	58.90%	310,310,400	58.90%	77,577,600	14.73%
Creditor	0	0.00%	67,585,863	10.26%	13,517,172	10.26%	54,068,688	10.26%	13,517,172	2.57%
Underwriters ⁽¹⁾	0	0.00%	0	0.00%	0	0.00%	0	0.00%	395,101,116	75.00%
Vendor ⁽³⁾	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other Shareholders ⁽²⁾	203,028,000	34.36%	203,028,000	30.83%	40,605,600	30.83%	162,422,400	30.83%	40,605,600	7.71%
Total	590,916,000	100.00%	658,501,863	100.00%	131,700,372	100.00%	526,801,488	100.00%	526,801,488	100.00%

Immediately after completion of the Loan Capitalisation, Proposed Capital reorganisation, Proposed Open Offer and Issue of Convertible Note in relation to the Proposed Acquisition

Shareholder	Assuming the consideration is partly satisfied by the Convertible Notes of the maximum principal amount of approximately HK\$61.52 million (All of the Convertible Notes have been fully exercised in the event that all Qualifying Shareholders take up their entitlements)				Assuming the consideration is partly satisfied by the Convertible Notes of the principal amount of approximately HK\$40 million (All of the Convertible Notes have been fully exercised in the event that no Qualifying Shareholders take up their entitlements)			
	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>
Arcon	310,310,400	27.17%	77,577,600	6.79%	310,310,400	33.48%	77,577,600	8.37%
Creditor	54,068,688	4.73%	13,517,172	1.18%	54,068,688	5.83%	13,517,172	1.46%
Underwriters ⁽¹⁾	0	0.00%	395,101,116	34.60%	0	0.00%	395,101,116	42.63%
Vendor ⁽³⁾	615,200,000	53.87%	615,200,000	53.87%	400,000,000	43.16%	400,000,000	43.16%
Other Shareholders ⁽²⁾	162,422,400	14.22%	40,605,600	3.56%	162,422,400	17.53%	40,605,600	4.38%
Total	1,142,001,488	100.00%	1,142,001,488	100.00%	926,801,488	100.00%	926,801,488	100.00%

- Note:* (1) The Underwriter and its ultimate beneficial owners are independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules) and are not acting in concert with the Company. According to the Underwriter, the Underwriter has entered into a sub-underwriting agreement with the sub-underwriters, who are independent of and not connected with nor acting in concert with the Company or the Underwriter, to sub-underwrite 238,000,000 underwritten Offer Shares, representing approximately 45.19% of the enlarged issued share capital of the Company immediately upon completion of the Proposed Open Offer. Therefore, the Underwriter and the sub-underwriter will at no time hold 30% or more (i.e. maximum 29.99%) interests in the Company upon completion of the Proposed Open Offer. The Underwriter will place down any Offer Shares to be taken up by them to the independent third parties not connected with the Company and their respective connected persons (as defined under the GEM Listing Rules) and concert parties of the Company.
- (2) Other Shareholders are shareholders other than Arcon and their concert parties and their respective associates.
- (3) The Convertible Note shall not be convertible within the first six months from the date of its issuance and the Vendor may only convert the whole or any part of the outstanding principal amount if immediately after any such conversion the Vendor together with parties acting in concert with it within the meaning of the Takeovers Code do not control 30% or more of the voting power at a general meeting of the Company.

RESTORATION OF PUBLIC FLOAT

The Stock Exchange has stated that if, upon completion of the Rights Issue, less than 25% of the New Shares are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading in the New Shares; or
- there are too few New Shares in public hands to maintain an orderly market;

then it will consider exercising its discretion to suspend trading in the New Shares until a sufficient public float is attained.

The Company undertakes that it will make appropriate arrangements to ensure minimum public float of the Company in compliance with the relevant requirements of the GEM Listing Rules.

Expected Timetable

Since the Capital Reduction under Cayman Law requires sanction of the Cayman Islands court, it is estimated that the Proposed Capital Reorganisation will take approximately two months from the date of EGM to complete the necessary court proceedings and obtaining the requisite order from the Cayman Islands court. The Proposed Open Offer is subject to the completion of the Proposed Capital Reorganisation and the Proposed Acquisition is subject to the completion of the Proposed Open Offer, the Company will make a further announcement on the expected timetable for (i) the Proposed Open Offer upon the Proposed Capital Reorganisation become effective; (ii) the Proposed Acquisition upon the completion of the Open Offer; and (iii) trading arrangement for the Proposed Capital Reorganisation when it is finalized.

GENERAL

The principal activity of the Company is investment holding. The principal activities of the Group are design, development and sales of location-based technology devices and applications.

Under the GEM Listing Rules, the Proposed Acquisition, where the percentage ratio (as defined under the GEM Listing Rules) is over 100%, constitutes a very substantial acquisition in respect of the Company, and the Proposed Acquisition are subject to approval by Shareholders at the EGM.

The Loan Capitalisation and the Proposed Capital Reorganisation is not conditional on the implementation of the Proposed Open Offer and the Proposed Acquisition. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Loan Shares, New Shares, Offer Shares and Conversion Shares.

The Company will, in compliance with the GEM Listing Rules, convene the EGM to consider and, if thought fit, pass the resolutions to approve, the Proposed Capital Reorganisation, Proposed Open Offer and Proposed Acquisition. Arcon and its associate are required to abstain from voting in the EGM on the resolution of the Proposed Open Offer which will be conducted by way poll.

A circular containing, among other things, (i) the Loan Capitalisation; (ii) the Proposed Capital Reorganisation; (iii) the Proposed Open Offer; (iv) Proposed Acquisition; (v) the letter of advice from the independent board committee to the Independent Shareholders on the Proposed Open Offer; (vi) the letter of advice from the independent financial adviser to the independent board committee and Independent Shareholders on the Proposed Open Offer; and (vii) a notice of EGM, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules.

The Stock Exchange is concerned that the ultimate intention of the Company and the Vendor is to inject a business into a listed company which is under the Vendor's control. The Stock Exchange will closely monitor all future transactions, if any, between the Company and the Vendor and may aggregate such transactions and decide whether the reverse takeover rule should apply. The Stock Exchange may also revisit this matter in the event that there are evidences available to indicate that the Company is under the control of the Vendor. Shareholders and potential investors should also note that the Proposed Acquisition, which is subject to a number of conditions precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are in doubt about any of the above matters.

SUSPENSION AND RESUMPTION OF TRADING IN THE EXISTING SHARES

At the request of the Company, trading in the Existing Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 4 October 2005 at the request of the Company pending the issue and publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Existing Shares with effect from 9:30 a.m. on Monday, 28 November 2005.

DEFINITIONS

The following words and phrases used in this announcement have the following meaning:

“Application Form(s)”	the provisional allotment letter(s), together with application form(s), for use by the Qualifying Shareholders to apply for the Offer Shares
“Acceptance Date”	a date to be agreed between the Underwriter and the Company being the last day for Qualifying Shareholders to apply for the Offer Shares
“Arcon”	Arcon Solution (BVI) Limited, a wholly owned subsidiary of Arcontech Corporation
“associates”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	The board of Directors
“Business Day”	any day (other than Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Capital Reduction”	the proposed reduction of the nominal value of each of the issued Consolidated Shares from HK\$0.50 each to HK\$0.01 by the cancellation of HK\$0.49 paid up on each issued Consolidated Share
“Companies Law”	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Consolidated Share”	share(s) of HK\$0.50 each upon Share Consolidation
“Conversion Share(s)”	the New Share to be issued upon the conversion rights of the Convertible Note have been exercised

“Convertible Note(s)”	The convertible note with a conversion price of HK\$0.10 per New Share to be issued by the Company in an aggregate principal amount of not less than HK\$40 million but not more than HK\$61.52 million in the event that the partial consideration of approximately HK\$21.52 million (after deduction of the issue of the Convertible Notes in principal amount of HK\$40 million and HK\$18.48 million cash payment) of the Proposed Acquisition is fully satisfied by the issue of Convertible Note at the option of the Company
“Creditor”	Executive Talent Limited, wholly owned by Ms. Wu Ling Yee
“Director(s)”	director(s) of the Company
“EGM”	the special general meeting of the Company to be convened to be held to approve, among others, the Proposed Capital Reorganisation, Proposed Open Offer and Proposed Acquisition
“Excluded Shareholders”	Shareholders other than Qualifying Shareholders
“Existing Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company prior to the Share Consolidation
“HKR”	Hip Kin Retailing Limited (to be renamed as GO Lifestyle Limited)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders, other than Arcon and its associates
“Kingston Securities” or “Underwriter”	Kingston Securities Limited, a licensed corporation to carry out business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance
“Latest Trading Day”	3 October 2005, being the last trading day prior to the suspension of trading in the Existing Shares on 9:30 a.m. pending the release of this announcement
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Loan”	the loan of HK\$6,758,586.32 owed by the Company to the Creditor
“Loan Capitalisation Deed”	The deed dated 10 October 2005 entered into by the Company and the Creditor whereby the Creditor agreed to subscribe for 67,585,863 Loan Shares at HK\$0.10 each and the Company agreed to issue such Existing Shares as full repayment of the Loan

“Loan Capitalisation”	The Loan of HK\$6,758,586.32 to be repaid pursuant to the Loan Capitalisation Deed
“Loan Share(s)”	67,585,863 Existing Shares to be subscribed by the Creditor pursuant to the Loan Capitalisation Deed
“New Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company upon the Capital Reorganisation become effective
“Offer Share(s)”	395,101,116 New Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of three offer shares for every Existing Share held on the Record Date pursuant to the Proposed Open Offer
“Posting Date”	a date to be agreed between the Company and the Underwriter being the date of despatch of the Prospectus Documents
“Prospectus Documents”	the Open Offer prospectus, the Application Form and the form of application for excess Offer Shares
“Proposed Acquisition”	the Proposed Acquisition by the Company from the Vendor of the entire interests in HKR pursuant to the Sale and Purchase Agreement
“Proposed Capital Reorganisation”	the Capital Reduction, the Share Consolidation and the change in the board lot size
“Proposed Open Offer”	the proposed issue of the Offer Shares by way of Open Offer to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein
“Qualifying Shareholders”	Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown in the register of members are in Hong Kong
“Record Date”	the date by reference to which entitlements to the Proposed Open Offer will be determined
“Registrar”	Computershare Hong Kong Investor Services Ltd. of Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Hong Kong, the Company’s Hong Kong share registrar

“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated as of 10 October 2005 entered into between the Company and the Vendor in respect of the Proposed Acquisition
“Share(s)”	Existing Share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Consolidation”	the proposed consolidation of every 5 issued and unissued Existing Share into 1 Consolidated Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription of Loan Shares
“Subscription Price”	the subscription price of HK\$0.065 per Offer Share
“Supplemental Agreement”	The supplemental agreement to the Sale and Purchase Agreement entered into between the Company and the Vendor on 24 November 2005 in respect of the Proposed Acquisition
“Vendor”	Chung Chiu Limited, a company incorporated in the British Virgin Islands and which is ultimately owned by a family trust
“Underwriting Agreement”	the underwriting agreement dated 10 October 2005 entered into between the Company and the Underwriter in relation to the Proposed Open Offer
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent”	percentage

By order of the board of
Satellite Devices Corporation
Leung Tak Wah
Executive Director

25 November 2005, Hong Kong

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Lo Mun Lam, Raymond, Mr. Leung Tak Wah and Ms. Yu Wai Yin, Vicky; and three independent non-executive Directors, namely Mr. Liu Kwong Sang, Mr. Sum Chun Ho and Mr. Lum Pak Sum.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this announcement 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 circular misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will be published on the Company's website and will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of publication.