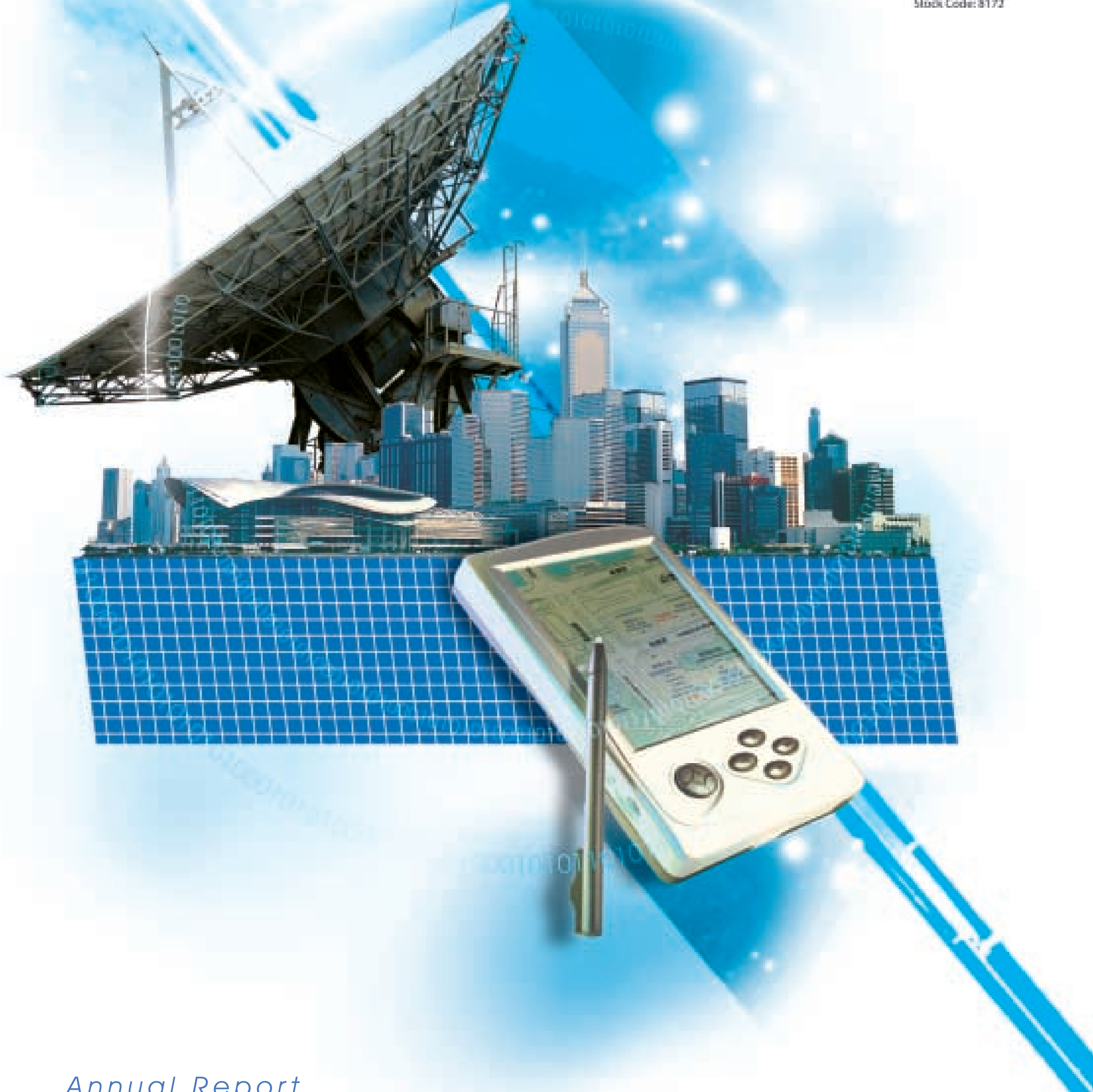
Satellite Devices Corporation

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8172



Annual Report

2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective 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 Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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

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Corporate Information

Executive Directors

LO Mun Lam, Raymond
LEUNG Tak Wah
YU Wai Yin, Vicky

Independent Non-Executive Directors

LUM Pak Sum
SUM Chun Ho
WAN Kwok Pan

Company Secretary

LEUNG Tak Wah, *FCPA*

Qualified Accountants

LEUNG Tak Wah, *FCPA*

Compliance Officer

LEUNG Tak Wah, *FCPA*

Principal Bankers

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

Auditors

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

Audit Committee

LUM Pak Sum
(Chairman of the Audit Committee)
SUM Chun Ho
WAN Kwok Pan

Authorised Representatives

LO Mun Lam, Raymond
LEUNG Tak Wah

Share registrar and Transfer Office

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

Registered Office

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

Head Office and Principal Place of Business

Room 2019, 20/F.
Fortune Commercial Building
362 Sha Tsui Road,
Tsuen Wan
Hong Kong

Financial Highlights

	Year ended 31 March		
	2006	2005	Change
	HK$'000	*HK$'000*	*%*
Revenue			
Turnover	**1,359**	1,442	-6
Profitability			
Gross Profit	**839**	920	-9
Loss before taxation	**(17,726)**	(17,163)	-3
Loss attributable to shareholders	**(17,726)**	(17,163)	-3
Net worth			
Shareholders' (deficits) fund	**(5,826)**	5,142	-213
Per share			
Loss per share	**(14.49) Cents**	(14.52) Cents	0.2
Net (liabilities) assets per share	**(4.42) Cents**	4.35 Cents	-202

Management Discussion and Analysis

Financial Results

For the year ended 31 March 2006, the Company and its subsidiaries (collectively the "Group") continued to focus on the security monitoring services and recorded an audited consolidated turnover of HK$1,359,000, which was trading at a similar level as of last year. The loss attributable to shareholders (the "Shareholders") of the Company this year of HK$17.73 million was also at a similar level as of last year. However, for the year ended 31 March 2006, staff cost was reduced by approximately HK$0.50 million and the successful recovery of an amount of bad debt provision, amounting to HK$2.50 million was also recorded. These savings were offset by the provision made against out-dated equipment and software amounting to HK$5.83 million. The market for our services has not grown since the last financial year, although the market in general remained very competitive.

Business Review

In 2005 and the first quarter of 2006, the Group continued to operate under keen competition. The Group has been exploring opportunities and additional sales channels for its 3G Skyeye Monitoring System by cooperating with other car dealers and insurance companies but the response from the insurance companies has not been encouraging. In August 2005, Mr. Tsoi resigned from the Group as Chairman of the board (the "Board") of directors, Chief Executive and Executive Director. The Group immediately sought qualified replacements. To strengthen the business prospects of the Group, additional directors were recruited to provide advice and service support. Furthermore, the Group also tried to improve its operational efficiency by reducing its administration headcounts and mitigating its overhead expenses by implementing tight operational control. For the year ended 31 March 2006, the Group was in pursuit of capital improvements, rationalizing and strategizing its operations to promote the return of profitability.

Capital Structure

The Board announced on 25 November 2005 that the Company and Executive Talent Limited (the "Creditor") entered into a deed on 10 October 2005 whereby the Company proposed to issue 67,585,863 shares (the "Loan Shares") at HK$0.10 each to the Creditor as full repayment of a loan owed by the Company to the Creditor (the "Loan Capitalisation"). The Loan Shares represent approximately 11.44% of the issued share capital of the Company prior to the completion of the Loan Capitalisation and approximately 10.26% of the enlarged share capital of the Company upon completion of the Loan Capitalisation which took place on 9 December 2005. It was also announced that the Board intended to put forward proposals to the Shareholders in relation to the (1) proposed capital reorganisation; (2) proposed open offer; and (3) proposed acquisition. All the proposals were submitted to the Shareholders for their approval in the extraordinary general meeting of the Company (the "EGM") held on 20 April 2006. The Directors are delighted to mention that all the special resolutions proposed at the EGM were approved, the approval of which will greatly enhance the future operations of the Group. The proposed capital reorganisation of the Group became effective on 22 June 2006.

Financial Resources and Liquidity

As at 31 March 2006, the Group has total assets of approximately HK$0.5 million, which was mainly financed by current liabilities of approximately HK$1.5 million, non-current liabilities of approximately HK$4.8 million and shareholders' deficits amounting to approximately HK$5.8 million. The ratio of total liabilities over the shareholders' fund is not applicable as at 31 March 2006 as the shareholders' fund is negative.

Current assets amounted to approximately HK$0.5 million which is mainly comprised of trade receivable and cash and bank balance of approximately HK$0.3 million and HK$0.1 million respectively. The working capital ratio is 0.30 as at 31 March 2006.

The Group had no banking facilities available or any bank loan outstanding as at 31 March 2006.

Foreign Exchange Exposure

The revenue of the Group was denominated mostly in Hong Kong Dollars. The Group has minimal exposure to foreign exchange fluctuations and seldom needs to make use of financial instruments for hedging purpose.

Charges on Group Assets and Contingent Liabilities

As at 31 March 2006, there was no charge made on the Group's assets and any material contingent liability outstanding.

Employees

As at 31 March 2006, the Group had a total of 15 employees as comparing to 20 last year, who are engaged in the following operations:

Engineering and R & D	9
Sales and Marketing (including field application engineers)	1
Finance, accounting, operation and administration	5
Total headcount	15

Employees in both Hong Kong and Mainland China are remunerated according to their performance and work experience.

Management Discussion and Analysis

Significant Investment and Material Acquisitions and Disposals of Subsidiaries

As reported in the circular to Shareholders dated 27 March 2006, the Group proposed to acquire the entire share interest of Hip Kin Retailing Limited. The proposed acquisition was approved by the Shareholders at the EGM of 20 April 2006. Hip Kin Retailing Limited has been the exclusive distribution of (i) London based Anya Hindmarch, a brand offering chic designer ladies' handbags, leather accessories, luggage, shoes and apparel, in Hong Kong since 1995 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. The whole consideration is HK$80 million, payable in cash and convertible notes upon completion.

Save as the above, the Group had no significant investments and no material acquisition or disposal of subsidiaries during the year.

Future Prospects

Leveraging on its own brand name, the Group will continue to provide services and product solutions of the location-based technology and innovations to its high-income clientele in Hong Kong. The Group's services and product solutions are still suffering from fierce competition in terms of pricing and function variety that may hamper the Group's number of subscribers in the future. In order to maintain the Group's competitiveness, the management has directed the in-house engineering team to improve the services by concentrating on certain state-of-the-art developments. We also monitor all newly introduced solutions offered by our competitors to stay ahead within the market.

In view of the positive economic growth in Hong Kong, the management will devote more effort to ensure the acquired businesses of Hip Kin Retailing Limited contribute to the future profitability of the Group. We are expecting the completion of this acquisition and the open offer made for new shares in the later part of July 2006. The successful implementation of the proposed transactions shall strengthen both the financial position and profitability of the Group substantially.

Profiles of Directors and Senior Management

Executive Directors

Mr. LO Mun Lam, Raymond, aged 53, is the executive Director of the Group. He is the Chairman of a private equity firm with interests in various business sectors, including a registered advisory firm. He has over 26 years of management experience, including banking and finance, manufacturing and distribution of radio-telecom related products, hospitality management, portfolio management in real estate and direct investments. He served previously as the Honorary Treasurer of the Hong Kong Council of Social Services, the Treasurer of the Harvard Club of Hong Kong and the Chief Financial Officer of the Canadian Foundation for the preservation of Chinese Cultural and Historical Treasures. He is also a fellow number of Institute of Chartered Accountants in England & Wales; a member of the Institute of Chartered Accountants of Ontario, Canada; a member of the Hotel & Catering International Management Association of the United Kingdom and a counselor of Real Estate of the United States of America. Mr. Lo joined the Group in 2005.

Mr. LEUNG Tak Wah, aged 43, is the executive Director and financial controller of the Group. He is primarily responsible for the administration, financial management and accounting of the Group. Mr. Leung graduated from the Hong Kong Shue Yan College in 1986. He was also awarded the Degree of Master of Professional Accounting from The Hong Kong Polytechnic University in 1999. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a certified member of Institute of Certified Management Accountants. He has over 15 years of experience in accounting. He joined the Group in 2003.

Ms. YU Wai Yin, Vicky, aged 27, is the executive Director of the Group. She has over 8 years of experience in sales and merchandising in the textiles trading and fashion retailing businesses. Ms. Yu joined the Group in 2005.

Independent Non-Executive Directors

Mr. LUM Pak Sum, aged 45 is a professional accountant. He holds a master degree in business administration from the University of Warwick, U.K. and a Bachelor of Laws degree (Honors) from the University of Wolverhampton, U.K. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Lum has over 18 years' experience in the financial field, the money market and capital market. He joined the Group in 2005.

Mr. SUM Chun Ho, aged 34, has over 10 years of experience in the fields of professional accounting services. He holds a Master's Degree in Accounting from Monash University, is a member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He is currently the sole proprietor of Messrs. C.H. Sum & Co., Certified Public Accountants (Practising). Mr. Sum joined the Group in 2005.

Mr. WAN Kwok Pan, aged 35, has over 10 years of experience in the field of Electronics Services. He holds a Master's Degree in Business Administration from The University of Hong Kong. Mr. Wan joined the Group in 2006.

Profiles of Directors and Senior Management

Senior Management

Mr. TSUI Chi Kit, aged 40, is an Engineering Manager. He is primarily responsible for overall execution and monitoring of the specific projects in the aspects of software and hardware respectively. He has over 12 years of experience in radio communications projects installation, design, implementation and maintenance. He joined the Group in 2000.

Corporate Governance Report

The Board is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance with emphasis on transparency, independence and accountability. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly tightened regulatory requirements.

The Code on Corporate Governance Practices ("CGP Code") issued by the Stock Exchange in the GEM Listing Rules set out two levels of corporate governance practice, i.e, mandatory code provisions that a listed company must comply with or explain its non-compliance and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with all the mandatory code provisions of CGP Code, save for the deviations discussed below.

The Board received an enquiry from the Listing Division of the Stock Exchange on 15 March 2006 regarding failure to notify the Stock Exchange about certain potential breach of the GEM Listing Rules. The Board immediately investigated the possible breaches as indicated by the Stock Exchange and noted that some omissions took place when the Company was suffering from serious depletion of resources owing to substantial operating losses. Following our submission which illustrated that the Company had complied in substance in all respects, but admittedly, there might have been procedural omissions in the Company's compliance with certain formal requirements under the GEM Listing Rules, the Listing Division ruled that the Board be warned but no formal disciplinary actions have been taken in this regard. The members of the Board are of the view that the Company is in compliance in all material respects with relevant laws and regulations directly relevant to a GEM Listed Public Company.

Corporate Governance Report

Board of Directors

The number of meetings of the Board and audit committee meetings attended by each Director during the year under review are set out in the following table. Figure in brackets indicates the maximum number of meetings held in the period in which an individual was a Board member or Audit Committee Member (as the case may be).

		Meetings Attended/(Held)	
	Note	**Board**	**Audit Committee**
Executive Directors			
Mr. TSOI Siu Ching, Leo	*2*	2/(3)	N/A
Mr. LEUNG Tak Wah	*3*	9/(9)	N/A
Ms. YU Wai Yin, Vicky	*4*	5/(7)	N/A
Mr. LO Mun Lam, Raymond	*5*	5/(5)	N/A
Independent Non-Executive Director			
Mr. HUANG Hai Wen	*6*	0/(3)	0/(2)
Mr. CHAN Chi Tong	*7*	2/(3)	2/(2)
Mr. LIU Kwong Sang	*8*	4/(8)	3/(3)
Mr. SUM Chun Ho	*9*	3/(7)	2/(2)
Mr. LUM Pak Sum	*10*	3/(5)	2/(2)
Mr. WAN Kwok Pan	*11*	1/(1)	1/(1)

Notes

1. There was no remuneration committee nor nomination committee in the year under review.
2. Resigned as executive Director on 31 August 2005.
3. Appointed as executive Director on 9 August 2004.
4. Appointed as executive Director on 26 August 2005.
5. Appointed as executive Director on 13 September 2005.
6. Resigned as independent non-executive Director on 31 August 2005.
7. Resigned as independent non-executive Director on 15 September 2005.
8. Resigned as independent non-executive Director on 8 February 2006.
9. Appointed as independent non-executive Director on 26 August 2005.
10. Appointed as independent non-executive Director on 13 September 2005.
11. Appointed as independent non-executive Director on 8 February 2006.

Each of the independent non-executive Directors have confirmed in writing their independence from the Company in accordance with the guidelines on director independence of the GEM Listing Rules. On this basis, the Company considers all such Directors to be independent.

Biographical details of Directors of the Company as at the date of this report are set out on pages 7 to 8 of this annual report. Given the composition of the Board and the skills, knowledge and expertise of the Directors, the Board believe that it is appropriately structured to provide sufficient checks and balances to protect the interest of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Group.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors from the Group for the year are disclosed in note 10 to the financial statements.

Chairman and Chief Executive Officer

During the year under review, the Company did not elect Chairman and Chief Executive Officer after the resignation of Mr. Tsoi Siu Ching, Leo as it took some time for the newly appointed Directors to settle down in the business of the Group. The Group, however, will raise this issue at the forthcoming annual general meeting of the Company ("AGM") for discussion among the Shareholders.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors. Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the resigned or existing independent non-executive directors ("INED(s)") is appointed for a specific term. However, all INEDs are subject to the retirement by rotation and re-election at every annual general meeting of the Company in accordance with the articles of association of the Company.

Audit Committee

The Audit Committee comprises all independent non-executive Directors and is responsible for review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The committee is also responsible for reviewing all quarterly results, including interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel records and external auditors and senior management.

The Group's financial statements for the year ended 31 March 2006 have been reviewed by the Audit Committee. The Audit Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange, and disclosure have fully made.

Remuneration Committee

The Company did not set up the Remuneration Committee yet as it took some time for the newly appointed Directors to settle down in the business of the Group. The Group, however, will propose to set up a remuneration committee at the forthcoming AGM.

Corporate Governance Report

Internal Control

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limitation in authority which helps to safeguard its assets against unauthorised use of disposition, to ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and to ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives.

Directors' Securities Transaction

The Company has adopted a code of conduct regarding securities transaction by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by any of the Directors during the year ended 31 March 2006.

Directors' and Auditors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The auditors' responsibilities are set out in the Auditors' Report.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 March 2006 amounted to HK$250,000 and HK$207,000 respectively.

Communication with Shareholders

The Company attached great priority to establishing effective communications with its shareholders and investors. As a means of communications, the Company provides information relating to the Company and its business in its interim and annual reports.

The Company regards its AGM as an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the AGM to address shareholders' queries. The Company also responds to request for information and queries from the shareholders and investors and welcomes the views of shareholders on matters concerning the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management direct.

Report of Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 March 2006.

Principal activities

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

Results and appropriations

The results of the Group for year are set out in the consolidated income statement on page 21.

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

Reserves

Details of the movement in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 24 and note 22 to the financial statements respectively.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2006 are set out in note 13 to the financial statements.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 20 to the financial statements.

Distributable reserves

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

As at 31 March 2006, the Company had no reserve for distribution.

Report of Directors

Financial summary

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 52.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

The Directors during the year and up to the date of this report were:

Mr. LEUNG Tak Wah	
Ms. YU Wai Yin, Vicky	(appointed on 26 August 2005)
Mr. LO Mun Lam	(appointed on 13 September 2005)
Mr. TSOI Siu Ching, Leo	(resigned on 31 August 2005)
Mr. SUM Chun Ho *	(appointed on 26 August 2005)
Mr. LUM Pak Sum *	(appointed on 13 September 2005)
Mr. WAN Kwok Pan *	(appointed on 8 February 2006)
Mr. LIU Kwong Sang *	(resigned on 8 February 2006)
Mr. CHAN Chi Tong *	(resigned on 15 September 2005)
Mr. HUANG Hai Wen*	(resigned on 31 August 2005)

* *Independent non-executive Directors*

Ms. Yu Wai Yin, Vicky, Mr. Lo Mun Lam, Mr. Sum Chun Ho, Mr. Lum Pak Sum and Mr. Wan Kwok Pan will retire at the forthcoming annual general meeting in accordance with Article 86(3) of the Company' Articles of Association and, being eligible, offer themselves for re-election at that meeting.

Directors' service contracts

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

Directors' interest in contracts

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

Directors' benefits from rights to acquire shares or debentures

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, invite any employees, directors of the Company and/or any of its subsidiaries, any adviser or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group to subscribe for ordinary share of HK$0.01 each (as adjusted for Capital Reorganisation) in the Company. The maximum number of share in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

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

As at 31 March 2006, no option has been granted or agreed to be granted by the Company under the Scheme.

Saved as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any such right.

Directors' and chief executive's interest in securities

As at 31 March 2006, none of the Directors, chief executive of the Company or their respective associates had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Substantial shareholder's interests in securities

As at 31 March 2006, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long position in the shares of the Company

Name	Nature of interest	Number of New Shares interested or deemed to be interest *(note 7)*	Approximate percentage of the issued share capital of the Company
Kingston Securities Limited *(Note 1)*	Beneficial owner	395,101,116	75.00% *(note 6)*
Arcon Solutions (BVI) Limited *(note 2)*	Beneficial owner	58,408,800	44.35% *(note 5)*
Kingston Finance Limited *(note 2)*	Securities interest in shares	58,408,800	44.35% *(note 5)*
FUNG Chan Man, Alex *(note 3)*	Beneficial owner	85,000,000	16.14% *(note 6)*
LAI Chun Kong *(note 3)*	Beneficial owner	85,000,000	16.14% *(note 6)*
Everlasting Bright Investments Ltd *(note 3)*	Beneficial owner	68,000,000	12.91% *(note 6)*
Executive Talent Limited *(note 4)*	Beneficial owner	13,517,172	10.26% *(note 5)*

Notes:

1. Kingston Securities Limited has conditionally agreed to underwrite 395,101,116 offer shares pursuant to the Underwriting Agreement. As per notices made pursuant S. 324 Part XV of the SFO (Notices) received by the Company, Chu Yuet Wah and Ma Siu Fong each is deemed to be interest in the 395,101,116 Offer Shares underwritten by Kingston Securities Limited.

2. The 58,408,800 New Shares are held by Acron Solutions (BVI) Limited, a company wholly owned by Acrontech Corporation. Accordingly, Acrontech Corporation is deemed to be interested in the 58,408,800 New Shares. Acron Solutions (BVI) Limited had granted a securities interest over the 58,408,800 New Shares as securities of Kingston Finance Limited.

3. Each of Fung Chan Man Alex, Lai Chun Kong and Everlasting Bright Investment Ltd has entered into a sub-underwriting agreement with Kingston Securities Limited to sub-writer 85,000,000, 85,000,000 and 68,000,000 Offer Shares respectively. As per the Notice received, Lau Chun Fat George is deemed to be interested in 68,000,000 Offer Shares as a result of him being beneficial interested in the entire share capital of Everlasting Bright Investments Ltd.

4. The 13,517,172 New Shares are held by Executive Talent Limited, a company wholly-owned by Wu Ling Yee. Accordingly, Wu Ling Yee is deemed to be interest in the 13,517,172 New Shares.

5. The percentage holding is calculated based on the total existing issued share capital of 131,700,372 New Shares.

6. The percentage holding is calculated based on the number of shares interested or deemed to be interested over 526,801,488 New Shares of the Company, being the enlarged issued share capital of the company assuming the Open Offer has completed as at 31 March 2006.

7. New shares represent shares of HK$0.01 each in the share capital of the Company upon the Capital Reorganisation becoming effective on 22 June 2006.

Major customers and suppliers

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
– the largest customer	34.6%
– five largest customers combined	41.1%
Purchases	
– the largest supplier	N/A
– five largest supplier combine	N/A

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Competing interests

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

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Board practices and procedures

The Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year ended 31 March 2006.

Pre-emptive rights

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

Retirement scheme

Details of the retirement scheme are set out in note 11 to the financial statements.

Auditors

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

The financial statements have been audited by Graham H.Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Tak Wah
Executive Director

Hong Kong, 23 June 2006

Auditors' Report

事務所 會計師 陳浩賢
GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

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

We have audited the financial statements on pages 21 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

Auditors' Report

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 23 June 2006

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue	5	**1,359**	1,442
Cost of location-based technology devices and applications		**(520)**	(522)
		839	920
Other income		**204**	29
Reversal of provision for doubtful debts		**2,498**	–
Reversal of write-down/(write-down) of inventories		**176**	(1,378)
Write-off of long outstanding other payables and accruals		**252**	133
Waiver of accrued salary payable to a director		**–**	248
Write-off of property, plant and equipment		**(5,827)**	–
Staff costs		**(2,188)**	(2,628)
Depreciation		**(11,194)**	(11,772)
Other operating expenses		**(2,486)**	(2,715)
Loss before taxation	6	**(17,726)**	(17,163)
Taxation	7	**–**	–
Loss attributable to shareholders	8	**(17,726)**	(17,163)
Basic loss per share	9	**14.49 cents**	14.52 cents

Consolidated Balance Sheet

AS AT 31 MARCH 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	12	–	17,012
Investments in associates	14	4	4
		4	17,016
Current assets			
Inventories	15	–	336
Trade receivables	16	328	171
Deposits, prepayments and other receivables		10	187
Cash and cash equivalents	17	112	122
		450	816
Current liabilities			
Other payables and accruals		1,505	2,466
Amount due to a fellow subsidiary	18	–	4,108
Amount due to a director	19	–	6,108
Current portion of obligation under finance leases		–	8
		1,505	12,690
Net current liabilities		(1,055)	(11,874)
Total assets less current liabilities		(1,051)	5,142
Capital and reserves			
Share capital	20	65,850	59,092
Reserves		(71,676)	(53,950)
Total (deficits)/equity attributable to equity holders of the Company		(5,826)	5,142
Non-current liabilities			
Other loan	23	4,775	–
		(1,051)	5,142

The financial statements on pages 21 to 51 were approved and authorised for issue by the Board of Directors on 23 June 2006 and are signed on its behalf by:

LO Mun Lam, Raymond
Director

LEUNG Tak Wah
Director

Balance Sheet

AS AT 31 MARCH 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investment in subsidiaries	13	–	–
Current assets			
Cash and cash equivalents	17	22	1
Current liabilities			
Other payables and accruals		329	549
Net current liabilities		(307)	(548)
Total assets less current liabilities		(307)	(548)
Capital and reserves			
Share capital	20	65,850	59,092
Reserves	22	(66,157)	(59,640)
		(307)	(548)

LO Mun Lam, Raymond
Director

LEUNG Tak Wah
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2004	59,092	34,698	(13)	(71,470)	22,307
Exchange differences arising on translation of financial statements of overseas subsidiaries and net losses not recognised in the consolidated income statement	–	–	(2)	–	(2)
Loss for the year	–	–	–	(17,163)	(17,163)
At 31 March 2005	59,092	34,698	(15)	(88,633)	5,142
At 1 April 2005	59,092	34,698	(15)	(88,633)	5,142
Issue of shares upon loan capitalisation	6,758	–	–	–	6,758
Loss for the year	–	–	–	(17,726)	(17,726)
At 31 March 2006	65,850	34,698	(15)	(106,359)	(5,826)

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2006

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	**(17,726)**	(17,163)
Adjustments for:		
Depreciation	**11,194**	11,772
Write-off of property, plant and equipment	**5,827**	–
(Reversal of write-down)/write-down of inventories	**(176)**	1,378
Reversal of provision for doubtful debts	**(2,537)**	–
Operating loss before working capital changes	**(3,418)**	(4,013)
Decrease in inventories	**512**	159
Decrease in trade receivables	**2,380**	188
Decrease/(increase) in deposits, prepayments and other receivables	**177**	(158)
Increase in trade payables, other payables and accruals including amount due to a director and a fellow subsidiary	**356**	3,947
Net cash from operating activities	**7**	123
Net cash used in investing activities		
Purchase of property, plant and equipment	**(9)**	(39)
Net cash used in financing activities		
Repayment of capital element of finance leases	**(8)**	(15)
Net (decrease)/increase in cash and cash equivalents	**(10)**	69
Cash and cash equivalents at 1 April	**122**	55
Effect of foreign exchange rate changes	**–**	(2)
Cash and cash equivalents at 31 March	**112**	122
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**112**	122

Notes to the Financial Statements

1 General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 13 to the financial statements.

The financial statements have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. This assumption is dependent upon the continuing financial support of the Group's creditors and other external funding being available.

At 31 March 2006, the Group's net current liabilities exceeded its current assets by approximately HK$1,055,000 and the net liabilities of the Group amounted to approximately HK$5,826,000. As more detailed in note 29 below, subsequent to the balance sheet date, the directors of the Company proposed a capital reorganisation of the Company's share capital and an open offer to qualifying shareholders for subscription on the basis of three offer shares for every new share (being share of HK$0.01 each in the share capital of the Company upon the capital reorganisation become effective). Details of the proposed capital reorganisation and proposed open offer are disclosed in the Company's circular dated 27 March 2006. 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 a proposed acquisition (details of which are also disclosed in the Company's circular dated 27 March 2006) and as to approximately HK$1.85 million for marketing the brands to be acquired under the proposed acquisition and the remaining balance of approximately HK$3.40 million for general working capital of the Company. All the proposed capital reorganisation, proposed open offer and proposed acquisition were approved by the shareholders of the Company on 20 April 2006.

On the basis that the Group will raise additional working capital from the proposed open offer, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Had the going concern basis not been used, adjustments would have to be made to reclassify non-current liabilities to current liabilities, reduce the value of assets to their recoverable amounts and provide for any future liabilities which might arise.

2 Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised HKFRSs, HKASs and Interpretations that are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2005 which are pertinent to its operations and relevant to these financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

The adoption of HKASs 2, 7, 8, 10, 12, 16, 17, 18, 19, 21, 27, 32, 33, 36, 37 and 39 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosure in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs and HKASs are summaries as follows:

(a) The adoption of HKAS 1 requires the disclosure of judgments (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

(b) The adoption of HKAS 24 affects the identification of related parties and the disclosure of related party transactions. These related party disclosures are presented in note 26 to the financial statements.

Notes to the Financial Statements

2 Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") *(continued)*

(c) The adoption of HKFRS 2 has resulted in a change in accounting policy for share options. Prior to this, no recognition and measurement of share-based payment transactions in which share options granted over shares in the Company were required until such options were exercised, at which time the share capital and share premium were credited with the proceeds received.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 4(l).

There were no share options granted by the Company after 7 November 2002 but had not vested before by 1 January 2005. Accordingly, the adoption of HKFRS 2 in respect of share options granted has had no effect on these financial statements.

The Group has not early applied the following new HKFRSs that have been issued by the HKICPA but not yet effective. The Group has considered these standards and interpretations but does not expect that they will have a material effect on the results of operation and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining Whether an Arrangement Contains a Lease [2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market-Waste, Electrical and Electronic Equipment [3]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [6]

2 Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") *(continued)*

[1] Effective for the annual periods beginning on or after 1 January 2007

[2] Effective for the annual periods beginning on or after 1 January 2006

[3] Effective for the annual periods beginning on or after 1 December 2005

[4] Effective for the annual periods beginning on or after 1 March 2006

[5] Effective for the annual periods beginning on or after 1 May 2006

[6] Effective for the annual periods beginning on or after 1 June 2006

3 Critical accounting judgments and key source of estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

There are no significant risk of key assumptions concerning the future and other key sources of estimation at the balance sheet date which will cause an adjustment to carrying amounts of assets and liabilities within the next year.

There are no significant effects on amounts recognised in the financial statements arising from the judgments or estimates used by management.

4 Principal accounting policies

These financial statements have been prepared in accordance with HKFRS and HKAS issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The measurement basis used in the preparation of the financial statements is the historical cost basis. The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Group accounting

(i) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

4 Principal accounting policies *(continued)*

(a) Group accounting *(continued)*

(i) Consolidation (continued)

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power or issued share capital or controls the composition of its board of directors or has power to govern its financial and operating policies.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates are as follows:

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

4 Principal accounting policies *(continued)*

(b) Property, plant and equipment *(continued)*

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal or retirement of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(c) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to operating leases net of any incentives received from the leasing company are charged to the income statement on straight-line basis over the lease term.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with bank.

Other payables

Other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effects of discounting would be immaterial, in which case they are stated at cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements

4 Principal accounting policies *(continued)*

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(g) Provisions

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

(h) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

4 Principal accounting policies *(continued)*

(h) Taxation *(continued)*

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

(i) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(j) Foreign currencies

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Notes to the Financial Statements

4 Principal accounting policies *(continued)*

(k) Employee benefits

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

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(l) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

4 Principal accounting policies *(continued)*

(l) Share-based payments *(continued)*

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(m) Research and development costs

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

(n) Revenue recognition

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

Interest income is recognised as it accrues using the effective interest method.

5 Revenue

Revenue, which is also the Group's turnover, represents net invoiced value of goods sold, less discounts and returns.

No activity analysis and geographical analysis are presented for the years ended 31 March 2006 and 2005 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

Notes to the Financial Statements

6 Loss before taxation

Loss before taxation is stated after charging/(crediting) the following:

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration		
– current year	**250**	250
– under provision in prior year	**–**	80
Building management fee	**251**	201
Depreciation of fixed assets		
– owned assets	**11,194**	11,757
– assets held under finance leases	**–**	15
Exchange loss	**10**	–
Legal and professional fees	**680**	531
Operating lease rental in respect of land and buildings	**310**	499
Research and development costs *	**1,010**	1,120
Retirement benefits costs **	**(4)**	33
Telephone	**259**	374

* Included in the research and development costs were staff costs of HK$1,008,000 (2005: HK$1,043,000) which had also been included in staff costs in the consolidated income statement.

** This item is included in staff costs in the consolidated income statement.

7 Taxation

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for the years ended 31 March 2006 and 2005.

(b) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

7 Taxation *(continued)*

(c) The taxation for the year can be reconciled to loss before taxation per the consolidated income statement as follow:

	2006 HK$'000	2005 HK$'000
Loss before taxation	**(17,726)**	(17,163)
Tax at the domestic income tax rate of 17.5%	**(3,102)**	(3,003)
Tax effect of non-deductible expenses	**230**	252
Tax effect of non-taxable income	**–**	(115)
Effect on different tax rates of subsidiaries operating in other jurisdictions	**28**	27
Deferred tax assets not recognised	**2,844**	2,839
	–	–

8 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$6,517,000 (2005: profit of HK$88,000).

9 Loss per share

The calculation of basic loss per share is based on the loss for the year of approximately HK$17,726,000 (2005: HK$17,163,000) and the weighted average number of 122,367,968 ordinary shares (2005 (restated): 118,183,200 ordinary shares) in issue during the year.

The weighted average number is stated after taking into consideration of the consolidation of shares by way of every five existing shares into one new consolidated share ("Share Consolidation). The Share Consolidation was effective on 22 June 2006. Further details of the Share Consolidation are also disclosed in note 29 "Post balance sheet event".

Diluted loss per share is not presented for the years ended 31 March 2006 and 2005 as there were no potential dilutive shares outstanding during both years.

Notes to the Financial Statements

10 Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 March 2006 and 2005 are set out below:

2006	**Fees**	**Salaries and allowances**	**Retirement scheme contribution**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors				
Tsoi Siu Ching, Leo *(note 1)*	**–**	**–**	**–**	**–**
Leung Tak Wah	**–**	**260**	**12**	**272**
Yu Wai Yin, Vicky *(note 2)*	**70**	**–**	**–**	**70**
Lo Mun Lam, Raymond *(note 3)*	**–**	**–**	**–**	**–**
Independent non-executive directors				
Liu Kwong Sang *(note 4)*	**–**	**–**	**–**	**–**
Chan Chi Tong *(note 5)*	**70**	**–**	**–**	**70**
Huang Hai Wen *(note 1)*	**64**	**–**	**–**	**64**
Sum Chun Ho *(note 6)*	**35**	**–**	**–**	**35**
Lum Pak Sum *(note 7)*	**–**	**–**	**–**	**–**
Wan Kwok Pan *(note 8)*	**6**	**–**	**–**	**6**
Total	**245**	**260**	**12**	**517**

2005	Fees	Salaries and allowances	Retirement scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo	–	250	2	252
Leung Tak Wah	–	179	8	187
Independent non-executive directors				
Liu Kwong Sang	–	–	–	–
Chan Chi Tong	154	–	–	154
Huang Hai Wen	76	–	–	76
Ku Ngai *(note 9)*	–	–	–	–
Total	230	429	10	669

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

Note:

1. Mr. Tsoi and Mr. Huang resigned on 31 August 2005

2. Ms. Yu was appointed on 26 August 2005

3. Mr. Lo was appointed on 13 September 2005

4. Mr. Liu resigned on 8 February 2006

5. Mr. Chan resigned on 15 September 2005

6. Mr. Sum was appointed on 26 August 2005

7. Mr. Lum was appointed on 13 September 2005

8. Mr. Wan was appointed on 8 February 2006

9. Mr. Ku resigned on 29 June 2004

During the year ended 31 March 2005, Mr. Tsoi Siu Ching, Leo waived his salaries to the amount of HK$248,000. The waived amount has not been included in the above disclosure. Apart from this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2006 and 2005.

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) director, details of whose emoluments are set out in above. Details of the emoluments of the remaining four (2005: four) non-director, highest paid employees of the Group for the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**675**	1,041
Retirement benefits scheme contributions	**31**	38
	706	1,079

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

The emoluments of each of the non-director, highest paid individuals for the years ended 31 March 2006 and 2005 fell within Nil to HK$1,000,000 band.

During the year ended 31 March 2006 and 2005, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11 Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

12 Property, plant and equipment

	Computer equipment HK$'000	Furniture fixture and office equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost					
At 1 April 2004	58,641	86	213	187	59,127
Additions	39	–	–	–	39
At 31 March 2005	58,680	86	213	187	59,166
At 1 April 2005	58,680	86	213	187	59,166
Additions	9	–	–	–	9
Write-off	(58,689)	(86)	(213)	(187)	(59,175)
At 31 March 2006	–	–	–	–	–
Depreciation, amortisation and impairment loss					
At 1 April 2004	29,947	60	188	187	30,382
Charge for the year	11,730	17	25	–	11,772
At 31 March 2005	41,677	77	213	187	42,154
At 1 April 2005	41,677	77	213	187	42,154
Charge for the year	11,185	9	–	–	11,194
Eliminated on write-off	(52,862)	(86)	(213)	(187)	(53,348)
At 31 March 2006	–	–	–	–	–
Net book value					
At 31 March 2006	–	–	–	–	–
At 31 March 2005	17,003	9	–	–	17,012

At 31 March 2006, no property, plant and equipment were held under finance leases. At 31 March 2005, the net book value of property, plant and equipment held by the Group under finance leases included in the total amount of furniture, fixtures and office equipment amounted to HK$8,000.

Notes to the Financial Statements

13 Investment in subsidiaries

	Company 2006 HK$'000	Company 2005 HK$'000
Amounts due from subsidiaries *(note (b))*	**97,629**	92,414
Less: provision	**(97,629)**	(92,414)
	–	–

(a) The following is a list of the subsidiaries of the Company as at 31 March 2006:

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Interest held
Shares held directly:–				
Satellite Devices (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$3	100%
Satellite Devices Intelligence (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	100%
Shares held indirectly:–				
Satellite Devices Limited	Hong Kong	Design, development and sale of location based technology devices and applications in Hong Kong	Ordinary HK$5,000,000	100%

13 Investment in subsidiaries *(continued)*

(a)

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Interest held
衛科導航技術(深圳)有限公司 ("Satellite Devices Technology (Shenzhen) Company Limited")	The People's Republic of China excluding Hong Kong (the "PRC")	Provision of technical support services in the PRC	Registered capital HK$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	100%
Satellite Devices Intelligence Limited	Hong Kong	Inactive	Ordinary HK$1	100%

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

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

14 Investments in associates

	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**1,474**	1,474
Amount due to an associate *(note (b))*	**(1,470)**	(1,470)
	4	4

Notes to the Financial Statements

14 Investments in associates *(continued)*

(a) The following is a list of the associates of the Group at 31 March 2006:

Company	Place and date of incorporation	Principal activities and place of operation	Issued share capital	Interest held indirectly
Telematics Systems Limited	Hong Kong 22 June 2001	Inactive	Ordinary shares of HK$10,000	40%
New Era Telematics Limited	Hong Kong 5 September 2001	Inactive	Ordinary shares of HK$3,000,000	49%

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

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

15 Inventories

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

16 Trade receivables

The Group has a policy of allowing its trade customers with credit period normally ranged from 30 to 90 days. The aging analysis of trade receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**283**	98
31 – 60 days	**45**	45
61 – 90 days	**–**	8
Over 90 days	**12,719**	15,237
	13,047	15,388
Less: Provision for doubtful debts	**(12,719)**	(15,217)
	328	171

17 Cash and cash equivalents

The cash and cash equivalents at 31 March 2006 and 2005 comprised cash and bank balances only. Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amount of the cash and cash equivalents approximate to their fair values.

18 Amount due to a fellow subsidiary

The amount is due to Arcon Technology Limited ("ATL") and is unsecured, interest-free and repayable on demand. During the year, ATL assigned the amount due to it to a third party and the amount was included in other loan in the consolidated balance sheet at 31 March 2006.

19 Amount due to a director

The amount is due to Mr. Tsoi Siu Ching, Leo and is unsecured, interest-free and repayable on demand. During the year, Mr. Tsoi assigned the amount due to him to Executive Talent Limited, a company incorporated in the British Virgin Islands ("ETL"). The amount due to ETL was subsequently capitalised as detailed in note 20 below.

20 Share capital

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 April 2004, 31 March 2005 and 31 March 2006	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2004 and 31 March 2005	590,916,000	59,092
Issue of shares upon loan capitalisation *(note)*	67,585,863	6,758
At 31 March 2006	658,501,863	65,850

Note: On 9 December 2005, 67,585,863 new ordinary shares of HK$0.1 each were issued and allotted at par to a creditor, Executive Talent Limited, pursuant to a loan capitalisation deed entered into on 10 October 2005 with the creditor. Details of the loan capitalisation were disclosed in the Company's circular dated 27 March 2006. This is also the major non-cash transaction during the year.

Notes to the Financial Statements

21 Share options

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

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

No share option was granted under the Scheme since its adoption.

22 Reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

Company	**Share premium**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	34,698	(94,426)	(59,728)
Profit for the year	–	88	88
At 31 March 2005	34,698	(94,338)	(59,640)
At 1 April 2005	34,698	(94,338)	(59,640)
Loss for the year	–	(6,517)	(6,517)
At 31 March 2006	34,698	(100,855)	(66,157)

22 Reserves *(continued)*

Note: The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

In the opinion of the director, the Company had no reserve available for distributions to shareholders at the balance sheet date.

23 Other loan

The other loan is unsecured, interest bearing at the rate of 10% per annum and repayable by 4 quarterly instalments with the first instalment due on 30 June 2007.

24 Deferred taxation

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

	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	4,880	(4,880)	–
Charged/(credited) to consolidated income statement	(2,011)	2,011	–
At 31 March 2005	2,869	(2,869)	–
At 1 April 2005	2,869	(2,869)	–
Charged/(credited) to consolidated income statement	(2,876)	2,876	–
At 31 March 2006	(7)	7	–

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

Notes to the Financial Statements

24 Deferred taxation *(continued)*

As at 31 March 2006, the Group had unused tax losses of approximately HK$97,339,000 (2005: approximately HK$98,477,000) available for offset against future profits. A deferred tax asset was recognised for the year ended 31 March 2006 in respect of HK$40,000 (2005: HK$16,393,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation at the balance sheet date.

25 Financial risk management

The Group's activities exposed it mainly to currency risk and credit risk. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance.

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's bank deposits and trade and other receivables. Cash transactions are limited to high-credit-quality institutions. In respect of the receivables, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

(b) Currency risk

The Group's principal businesses are mainly conducted and recorded in Hong Kong dollars and Renminbi Yuan. Therefore, the Group does not have any significant exposure to currency risk.

(c) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest bearing unsecured loan. The unsecured loan at fixed rate exposes the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

26 Related party transactions

Other than related party transactions in respect of key management personnel remuneration, amount due to a fellow subsidiary and amount due to a director, which were disclosed in notes 10, 18 and 19 respectively, the Group entered into the following transactions with a fellow subsidiary in the ordinary course of business:

	2006	2005
	HK$'000	*HK$'000*
Office rental expenses paid and payable to Arcon Technology Limited	**–**	16

27 Commitments

(a) Commitment under operating leases

As at 31 March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**93**	166
In the second to fifth years inclusive	**77**	9
	170	175

(b) Capital commitments in respect of acquisition of property, plant and equipment

As at 31 March 2006, the Group had commitments in respect of acquisition of property, plant and equipment as follows:

	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for	**–**	540
Authorised but not contracted for	**–**	–
	–	540

27 Commitments *(continued)*

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

As at 31 March 2006, the Group had unprovided capital commitments amounting to HK$857,000 (2006: HK$857,000) in respect of the investment in a subsidiary, Satellite Devices Technology (Shenzhen) Company Limited, being the balance of the required capital contribution to this subsidiary by the Group as at that date.

(d) Capital commitments in respect of acquisition of a company

On 10 October 2005 and 24 November 2005, the Company entered into a sale and purchase agreement and supplemental agreement respectively, with Chung Chiu Limited, a company incorporated in the British Virgin Islands with its principal office in Hong Kong, (the "Vendor") for the acquisition of the entire issued share capital of Hip Kin Retailing Limited, a company incorporated in Hong Kong ("HKR") at the consideration of HK$80 million. The consideration shall be satisfied by (i) approximately HK$18.48 million in cash out of the estimated net proceeds from the proposed open offer (as detailed in note 29 below) and the issue of convertible note for the remaining balance of approximately HK$61.52 million. The proposed acquisition of HKR is subject to the Company's shareholders' approval and certain conditions, among of which are the Capital Reorganisation having become effective and the completion of Open Offer (both as defined below). Further details of the proposed acquisition are set out in the Company's circular dated 27 March 2006. Such proposed acquisition was approved by the Company's shareholders on 20 April 2006.

28 Litigation

On 29 June 2005, a landlord issued writ against Satellite Devices Limited, a wholly owned subsidiary of the Company, to claim for the arrears of rent, rates, air-conditioning and management fee, reinstatement costs and late payment interest for a total amount of approximately HK$331,000. Full provision for this amount had been made in the financial statements.

Apart from the action against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

29 Post balance sheet events

On 20 April 2006, the following proposals which are detailed in the Company's circular dated 27 March 2006 (the "Circular"), were approved by the shareholders of the Company:

(i) proposed capital reorganisation ("Capital Reorganisation") – (i) every five existing issued and unissued shares of HK$0.10 each in the share capital of the Company be consolidated into one share of HK$0.50 each (the "Consolidated Share") in the capital of the Company (the "Share Consolidation"); (ii) the issued share capital of the Company be reduced (the "Capital Reduction") by cancelling paid-up capital to the extent of HK$0.49 on each Consolidated Share in the capital of the Company in issue on the date the Capital Reduction become effective (the "Effective Date") so that each issued share in the capital of the Company shall be treated as one fully-paid up share of HK$0.01 each in the capital of the Company (the "New Share"); (iii) the authorised but unissued share capital of the Company be sub-divided by subdividing each of the authorised but unissued shares of HK$0.50 each in the capital of the Company into fifty new shares of HK$0.01 each; and (iv) the credit amount arising from the Capital Reduction be applied to a distributable reserve of the Company where it may be utilised by the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at the Effective Date. The Capital Reorganisation had become effective on 22 June 2006;

(ii) proposed open offer ("Open Offer") – conditional upon the Capital Reorganisation having become effective and other conditions set out in the Circular being satisfied, the issue by way of open offer of 395,101,116 shares of HK$0.01 each in the share capital of the Company upon the Capital Reorganisation (the "Offer Shares") to the Qualifying Shareholders (as defined in the Circular) for subscription on the basis of three Offer Shares for every one share of HK$0.01 at a price of HK$0.065 per Offer Share; and

(iii) the proposed acquisition of HKR as mentioned in note 27 above.

Financial Summary

	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Loss attributable to shareholders	**(17,726)**	(17,163)	(47,099)	(28,571)	(4,925)
Assets and liabilities					
Total assets	**454**	17,832	31,065	99,030	101,078
Total liabilities	**(6,280)**	(12,690)	(8,758)	(31,322)	(4,789)
Shareholders' (deficit)/funds	**(5,826)**	5,142	22,307	67,708	96,289

Note:

The results, assets and liabilities of the Group for the year ended 31 March 2002 have been prepared on a combined basis as if the group structure, at the time when the Company's shares were listed on the GEM, had been in existence throughout the year concerned.