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

**DESPATCH OF CIRCULAR**

**Financial adviser to Satellite Devices Corporation**



**KINGSTON CORPORATE FINANCE LIMITED**

**Underwriter to the Open Offer**



**KINGSTON SECURITIES LIMITED**

**Independent financial adviser to the Independent Board Committee**

**GD Guangdong Securities Limited**

The Circular issued by the Company containing, among other things, (1) Proposed Capital Reorganisation; (2) Proposed Open Offer; (3) Proposed Acquisition; (4) the recommendations of the independent board committee of the Company in relation to the Proposed Open Offer; (5) a letter of advice from Guangdong Securities to the independent board committee of the Company and the Independent Shareholders in relation to the Proposed Open Offer; and (6) the notice of EGM at which shall be convened for the purpose of considering and if thought fit, approving the resolutions in relation to the aforesaid proposal and the issue of Convertible Note had been despatched to the Shareholders on 27 March, 2006.

Details of an unaudited pro forma statement of adjusted consolidated net tangible assets statement of the Group which is prepared based on the unaudited consolidated net tangible assets of the Group as at 30 September 2005 and adjusted to reflect the effect of the Proposed Open Offer.

Reference is made to the announcement dated 25 November 2005 (the “Announcement”) and the circular dated 27 March 2005 (the “Circular”) issued by the Company. Unless otherwise defined herein, terms used in this announcement shall have the same meanings as those defined in the Announcement and the Circular.

The information set out below is extracted from the Circular and is reproduced to notify the Shareholders the particular information which has been added and further clarified in the Circular.

### **PROPOSED OPEN OFFER**

As at the Latest Practicable Date, the controlling Shareholder has not indicated whether he/she will subscribe for the Offer Shares to which he/she will be entitled under the Proposed Open Offer.

The Board would like to stress that the intention of whether or not the controlling shareholder will take up his/her full entitlement in the Proposed Open Offer is of immaterial to influence or cause any adverse uncertainties to the Independent Shareholders in voting for or against the Proposed Open Offer as the fundamental benefit and economic profit derived from the Proposed Acquisition is the most crucial consideration to the Company and its Shareholders as a whole. As discussed, the total net proceeds to be raised from the Proposed Open Offer will be utilised to satisfy the partial consideration of the Proposed Acquisition that is expected, in the opinion of the Board, to further strengthen the business foundations and therefore the earning’s base of the Group that will eventually benefit the Company and its Shareholders as a whole.

In the view that the effect to the controlling shareholder’s position in respect of the Proposed Open Offer is of no different from that of the Independent Shareholders regardless whether the controlling shareholder indicates his/her intention to the Proposed Open Offer, the key factor that should be taken into consideration is whether the Proposed Acquisition could substantiate the Company’s business strength that would further enhance the Group’s profitability. As such, the Directors would like to reiterate that it is still appropriate to give their recommendation to the Independent Shareholders to vote in favor of the Proposed Open Offer given the solid business foundation, fundamental benefit and economic profit to be contributed to the Company by HKR after completion of the Proposed Acquisition.

Given that the Proposed Open Offer will not proceed until after the completion of Proposed Capital Reorganisation which is approximately three months from now amid the ever-changing condition in the equity capital markets and political uncertainty in the global market, the controlling shareholder is reluctant to state its intention of whether or not it will take up its full entitlement in the Proposed Open Offer at this stage. As a matter of fact that the controlling shareholder’s position in respect of the Proposed Open Offer is identical to the Independent Shareholders of the Company, the Directors are of the view that it is fair and reasonable for the controlling shareholder to remain open in respect of its intention regarding the Open Offer under identical terms with the Independent Shareholders.

## **PROPOSED ACQUISITION**

In view of the financial strength and working capital of the Company, the Board decided, after publication of the Announcement, that the consideration of HK\$80 million shall be satisfied by:

- (i) approximately HK\$18.48 million in cash out of the estimated net proceeds from the Proposed Open Offer; and
- (ii) the issue of Convertible Note for the remaining balance of approximately HK\$61.52 million,

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

Combining with the Board's expertise in technology devices, textiles trading and manufacturing, financial management and marketing experience, the Directors expect that the management of the Company may enjoy further synergistic benefit by sharing retail experience with the senior management of HKR upon completion of the Proposed Acquisition. Save as above, HKR will not appoint any representative to the board of directors of the Company and the Board currently has no intention to change the existing Board composition. The Company intends to maintain the employment of the existing management team of HKR after the Proposed Acquisition has been consummated, and through sharing the experience with the management of HKR, to provide additional training in respect of the knowledge of retailing business to the existing staff.

### **Dilution effect on Shareholders as a result of conversion of any part of the Convertible Notes:**

Assuming that the entire maximum principal amount of approximately HK\$61.52 million under the Convertible Notes is successfully issued and converted at its initial conversion price of HK\$0.10 per Conversion Share, a total of approximately 615,200,000 Conversion Shares will be issued, representing (i) approximately 93.4% of the existing issued capital of the Company; and (ii) approximately 53.9% of the existing issued share capital of the Company as enlarged by the issue of the Offer Shares and the Conversion Shares.

In view of the future dilution of existing Shareholders on the exercise of the conversion rights attaching to the Convertible Notes, the Company will keep the Shareholders informed of the level of dilution and details of conversion after completion of the Proposed Acquisition as follows:

- (a) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth Business Day following the end of each calendar month and will include the following details in a tabular form:
  - (i) whether there is any conversion of the Convertible Notes during the relevant month. If yes, details of the conversion(s), including the conversion date, number of Conversion Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (ii) the number of outstanding principal amount of the Convertible Notes after the conversion, if any;
  - (iii) the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;
  - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (b) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing in respect of the Convertible Notes (as the case may be) up to the date on which the total amount of the Conversion Shares amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be).

In respect of conversion of the Convertible Notes held by the holders, the Company will make an announcement in the event any such conversion will result in an increase of its shareholding in the Company by 5%.

## **UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following are the statement of unaudited consolidated net tangible assets of the Group before the Open Offer and unaudited pro forma adjusted consolidated net tangible assets of the Group immediately after the Open Offer based on the unaudited consolidated balance sheet of the Group as at 30 September 2005, which has been extracted from the interim report of the Group for the six months ended 30 September 2005, and an unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group based on the unaudited pro forma balance sheet of the Enlarged Group at 30 September 2005, as set out in section B of Appendix III of the Circular.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group immediately after the Open Offer is prepared to demonstrate the effect of the Open Offer on the net tangible assets of the Group as if the Open Offer had been completed as at 30 September 2005.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group is prepared to demonstrate the effect of the Proposed Acquisition on the net tangible assets of the Group as if the Proposed Acquisition had been completed as at 30 September 2005.

The pro forma financial information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group and the Enlarged Group as at 30 September 2005 and any future financial periods.

	<b>Unaudited consolidated net tangible assets of the Group as at 30 September 2005</b>			<b>Unaudited consolidated net tangible assets of the Group per Share before the Open offer <i>(note 1)</i> HK cents</b>
	<i>HK\$'000</i>			
	<u>(1,601)</u>			<u>(0.27)</u>
	<b>Unaudited Consolidated net tangible assets of the Group before the Open Offer</b>	<b>Estimated proceeds from the Open Offer</b>	<b>Unaudited proforma adjusted consolidated net tangible assets of the Group immediately after the Open Offer</b>	<b>Unaudited proforma adjusted consolidated net tangible assets of the Group per Share immediately after the Open Offer <i>(note 2)</i> HK cents</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
	<u>(1,601)</u>	<u>23,730</u>	<u>22,129</u>	<u>2.24</u>
<b>Unaudited proforma consolidated net assets of the Enlarged Group</b>	<b>Less: Pro forma consolidated intangible asset of the Enlarged Group after Proposed Acquisition <i>(note 3)</i> <i>HK\$'000</i></b>	<b>Unaudited proforma adjusted consolidated net tangible assets of the Enlarged Group after the Proposed Acquisition <i>HK\$'000</i></b>	<b>Unaudited proforma adjusted consolidated net tangible assets of the Enlarged Group per Share after the Proposed Acquisition <i>(note 4)</i> <i>HK cents</i></b>	<b>Unaudited proforma consolidated net assets of the Enlarged Group per Share after the Proposed Acquisition <i>(note 4)</i> <i>HK cents</i></b>
<u>33,430</u>	<u>71,130</u>	<u>(37,700)</u>	<u>(3.82)</u>	<u>3.39</u>

*Note:*

1. The adjusted consolidated net tangible assets per Share before the Open Offer and the Proposed Acquisition is calculated based on the 590,916,000 shares in issue as at 30 September 2005.
2. The unaudited proforma adjusted consolidated net tangible assets of the Group per Share immediately after the Open Offer is calculated based on the 590,916,000 shares in issue as at 30 September 2005 together with the 395,101,116 Offer Shares.
3. The intangible asset of the Enlarged Group is the goodwill arising from the Proposed Acquisition amounting to HK\$71,130,000 as set out in note 1 of Section D in Appendix III of the Circular.
4. The unaudited proforma adjusted consolidated net tangible assets of the Enlarged Group per Share after the Proposed Acquisition and the unaudited proforma consolidated net assets of the Enlarged Group per Share after the Proposed Acquisition are calculated based on the 590,916,000 shares in issue as at 30 September 2005 together with the 395,101,116 Offer Shares assuming no conversion of Convertible Note.

## EXPECTED TIMETABLE

2006

Latest time for lodging forms of proxy for the purpose of the EGM (not less than 48 hours before the EGM) .....	10:00 a.m. on Tuesday, 18 April
EGM to be held .....	10:00 a.m. on Thursday, 20 April
Announcement of results of EGM appears on the Stock Exchange's website .....	Friday, 21 April
Expected effective date of the Proposed Capital Reorganisation .....	4:00 p.m. on Thursday, 22 June
Free exchange of existing Share certificates for New Share certificates commences .....	Friday, 23 June
Existing counter for trading in existing Shares in board lot of 6,000 Shares closes .....	9:30 a.m. on Friday, 23 June
Temporary counter for trading in existing Shares in board lot of 1,200 Consolidated Shares opens .....	9:30 a.m. on Friday, 23 June
First day of availability of odd lot facility .....	Friday, 23 June
Last day of dealings in New Shares on cum-entitlement basis .....	Friday, 23 June
First day of dealings in New Shares on ex-entitlement basis .....	Monday, 26 June
Latest time for lodging transfers of Shares in order to be entitled to the Open Offer .....	4:00 p.m. on Tuesday, 27 June
Register of members closes (both dates inclusive) .....	Wednesday, 28 June to Friday, 30 June
Record Date .....	Friday, 30 June
Register of members reopens .....	Monday, 3 July
Prospectus Documents expected to be despatched .....	Monday, 3 July



Existing counter for trading in New Shares in board lot of 30,000 New Shares (in form of new share certificates) re-opens .....	9:30 a.m. on Friday, 7 July
Parallel trading in the New Shares and existing Shares commences .....	9:30 a.m. on Friday, 7 July
Latest time for lodging acceptance of and payment for the Offer Shares .....	4:00 p.m. on Tuesday, 18 July
Expected time for the Open Offer to become unconditional .....	4:00 p.m. on Friday, 21 July
Announcement of results of the Open Offer appears on the Stock Exchange's website .....	Monday, 24 July
Certificates for the Offer Shares expected to be despatched .....	Tuesday, 25 July
Dealings in Offer Shares commence .....	Thursday, 27 July
Temporary counter for trading in New Shares in board lot of 1,200 Consolidated Shares closes .....	4:00 p.m. on Friday, 28 July
Parallel trading in New Shares and existing Shares ends .....	4:00 p.m. on Friday, 28 July
Last day of availability of odd lot facility .....	Friday, 28 July
Free exchange of existing Share certificates for New Share certificates ends .....	Wednesday, 2 August

*All references to time and dates in this circular are to Hong Kong time and dates.*

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

28 March 2006, Hong Kong

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

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this announcement is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this circular misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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