THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Satellite Devices Corporation (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares of the Company.

Satellite Devices

SATELLITE DEVICES CORPORATION

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

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

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 Underwriter may terminate the Underwriting Agreement by notice in writing to the Company at any time if, prior to 4:00 p.m. on the third Business Day after the date on which the latest time for acceptance of the Offer Shares falls (or such other date as may be agreed between the Company and the Underwriter:)

(a) the introduction of any new law or regulation or any change in existing laws or regulations (or any change in the judicial interpretation or application thereof) whether in Hong Kong or elsewhere; by any court or other competent authority in Hong Kong or elsewhere; or any other place that is the place of incorporation of any member of the Group, or in which any member of the Group conducts or carries on business; or

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

(b) there comes to the notice of the Underwriter or the Underwriter shall have reasonable cause to believe that any of the undertakings or other obligations expressed to be assumed by or imposed on the Company under this Agreement have not been complied with in any respect; or

(c) there comes to the notice of the Underwriter or the Underwriter shall have reasonable cause to believe that any of the representations or warranties given by the Company under this Agreement was untrue or inaccurate in any respect which adversely affect the success of the Proposed Open Offer.

If the Underwriter terminates the Underwriting Agreement, or if the conditions of the Underwriting Agreement have not been fulfilled in accordance with the terms thereof, the Open Offer will not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the dealings in the New Shares with on an ex-entitlement basis will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

A letter of advice from Guangdong Securities Limited, the independent financial adviser to the independent board committee of the Company, containing its opinion regarding the Open Offer is set out on pages 45 to 60 of this circular.

A notice convening a EGM to be held at Chater Room I, Function Room Level, The Ritz Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong on 20 April 2006 at 10:00 a.m. is set out on pages 149 to 153 of this circular. If you are not able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Ltd. of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, the Company's Hong Kong share registrar as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

27 March 2006

CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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.

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In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"3G Skyeye Monitoring System"	a security system to monitor the location of the vehicles
"Announcement"	the announcement dated 25 November 2005 made by the Company in relation to, among others, (1) the Loan Capitalisation; (2) the Proposed Capital Reorganisation; (3) the Proposed Open Offer; and (4) the Proposed Acquisition
"Application Form(s)"	the provisional allotment letter(s), together with application form(s), for use by the Qualifying Shareholders to apply for the Offer Shares, being in such usual form as may be agreed between the Company and the Underwriter
"Acceptance Date"	a date to be agreed between the Underwriter and the Company being the last day for Qualifying Shareholders to apply for the Offer Shares
"Arcon"	Arcon Solutions (BVI) Limited, a wholly owned subsidiary of Arcontech Corporation
"associates"	has the meaning ascribed thereto in the GEM Listing Rules
"Board"	the board of Directors
"Business Day"	any day (other than Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"Bus Fleet Information System"	a positioning system to closely monitor the location and routine of the bus
"Capital Reduction"	the proposed reduction of the nominal value of each of the issued Consolidated Shares from HK$0.50 each to HK$0.01 by the cancellation of HK$0.49 paid up on each issued Consolidated Share
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Law"	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)

"Company"	Satellite Devices Corporation, a company incorporated in the Cayman Islands under the Companies Law, the issued Shares of which are listed on GEM
"Consolidated Share"	share(s) of HK$0.50 each upon Share Consolidation
"Conversion Share(s)"	the New Share to be issued upon the conversion rights of the Convertible Note have been exercised
"Convertible Note(s)"	the convertible note with a conversion price of HK$0.10 per New Share to be issued by the Company in an aggregate principal amount of not more than approximately HK$61.52 million is fully satisfied by the issue of Convertible Note at the option of the Company
"Creditor"	Executive Talent Limited, which is wholly owned by Ms. Wu Ling Yee
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to be held to approve, among others, the Proposed Capital Reorganisation, Proposed Open Offer and Proposed Acquisition
"Excess Application Form(s)"	the excess application form(s) for use by the Qualifying Shareholders to apply for excess Offer Shares not initially taken up under the Open Offer
"Excluded Shareholders"	Shareholders, whose names appear on the register of members of the Company are outside Hong Kong on the Record Date and whom the Directors, after making relevant enquiring as required under the GEM Listing Rules, consider their exclusion from the Open Offer to be necessary or expedient an account either of the legal restriction under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange of that place
"Existing Share(s)"	share(s) of HK$0.10 each in the share capital of the Company prior to the Share Consolidation
"GEM"	The Growth Enterprise Market of the Stock Exchange

"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries
"HKR"	Hip Kin Retailing Limited (a company incorporated in Hong Kong under the Companies Ordinance)
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising Mr. Wan Kwok Pan, Mr. Sum Chun Ho and Mr. Lum Pak Sum, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the Proposed Open Offer
"Independent Financial Adviser" or "Guangdong Securities"	Guangdong Securities Limited, which is a licensed corporation under the SFO permitted to carry out types 1, 4 and 6 regulated activities (as defined in the SFO) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Independent Shareholders"	Shareholders, other than Arcon and its associates
"Kingston Securities" or "Underwriter"	Kingston Securities Limited, a licensed corporation to carry out business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance
"Latest Practicable Date"	24 March 2006, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this circular
"Latest Trading Day"	3 October 2005, being the last trading day prior to the suspension of trading in the Existing Shares on 9:30 a.m. pending the release of the Announcement
"Loan"	the loan of HK$6,758,586.32 owed by the Company to the Creditor
"Loan Capitalisation Deed"	The deed dated 10 October 2005 entered into by the Company and the Creditor whereby the Creditor agreed to subscribe for 67,585,863 Loan Shares at HK$0.10 each and the Company agreed to issue such Existing Shares as full repayment of the Loan
"Loan Capitalisation"	The Loan of HK$6,758,586.32 to be repaid pursuant to the Loan Capitalisation Deed

"Loan Share(s)"	67,585,863 Existing Shares subscribed by the Creditor pursuant to the Loan Capitalisation Deed
"New Share(s)"	share(s) of HK$0.01 each in the share capital of the Company upon the Capital Reorganisation become effective
"Offer Share(s)"	395,101,116 New Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of three offer shares for every New Share held on the Record Date pursuant to the Proposed Open Offer
"Posting Date"	a date to be agreed between the Company and the Underwriter being the date of despatch of the Prospectus Documents
"PRC"	the People's Republic of China
"Prospectus Documents"	the Open Offer prospectus, the Application Form and the form of application for excess Offer Shares
"Proposed Acquisition"	the proposed acquisition by the Company from the Vendor of the entire interests in HKR pursuant to the Sale and Purchase Agreement
"Proposed Capital Reorganisation"	the Capital Reduction, the Share Consolidation and the change in the board lot size
"Proposed Open Offer"	the proposed issue of the Offer Shares by way of Open Offer to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein
"Qualifying Shareholders"	Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown in the register of members are in Hong Kong, other than the Excluded Shareholders
"Record Date"	the date by reference to which entitlements to the Proposed Open Offer will be determined
"Registrar"	Computershare Hong Kong Investor Services Ltd. of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, the Company's Hong Kong share registrar
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated as of 10 October 2005 entered into between the Company and the Vendor in respect of the Proposed Acquisition

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	Existing Share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Consolidation"	the proposed consolidation of every 5 issued and unissued Existing Share into 1 Consolidated Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	subscription of Loan Shares
"Subscription Price"	the subscription price of HK$0.065 per Offer Share
"Supplemental Agreement"	The supplemental agreement to the Sale and Purchase Agreement entered into between the Company and the Vendor on 24 November 2005 in respect of the Proposed Acquisition
"Vendor"	Chung Chiu Limited, a company incorporated in the British Virgin Islands and which is ultimately owned by a family trust
"Underwriting Agreement"	the underwriting agreement dated 10 October 2005 entered into between the Company and the Underwriter in relation to the Proposed Open Offer
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%" or "per cent"	percentage

Since the Capital Reduction under Cayman Law requires sanction of the Cayman Islands court, it is estimated that the Proposed Capital Reorganisation will take approximately two months from the date of EGM to complete the necessary court proceedings and obtaining the requisite order from the Cayman Islands court. Dates stated in this circular for events mentioned in the timetable, in particular the effective date of the Proposed Capital Reorganisation, are indicative only and may be extended or varied. The Proposed Open Offer is subject to the completion of the Proposed Capital Reorganisation and the Proposed Acquisition is subject to the completion of the Proposed Open Offer, any changes to the anticipated timetable for (i) the Proposed Capital Reorganisation; (ii) the Proposed Open Offer; and (iii) the Proposed Acquisition will be announced accordingly.

The expected timetable for the Proposed Capital Reorganisation and the Proposed Open Offer is set out below:

	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

	2006
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.

EFFECT OF BAD WEATHER

(I) The latest time for lodging forms of proxy for the purpose of the EGM will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

in force in Hong Kong at any local time between 9:00 a.m. and 10:00 a.m. on Wednesday, 18 April 2006. Instead, the latest time for lodging forms of proxy for the purpose of the EGM will be rescheduled to 10:00 a.m. on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 10:00 a.m..

(II) The latest time for lodging transfers of Shares for the entitlement to the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or

- a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 a.m. and 4:00 a.m. on Tuesday, 27 June 2006. Instead, the latest time for lodging transfers of Shares for the entitlement to the Open Offer will be rescheduled to 12:00 noon on the next Bussiness Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

(III) The latest time for lodging acceptance of and payment for the Offer Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or

- a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 a.m. and 4:00 a.m. on Tuesday, 18 July 2006. Instead, the latest time for lodging acceptance of and payment for the Offer Shares will be rescheduled to 12:00 noon on the next Bussiness Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

If the latest time for lodging (I) forms of proxy for the purpose of the EGM; (II) transfers of Shares for the entitlement to the Open Offer; and (III) acceptance of and payment for the Offer Shares do not take place as scheduled, the dates mentioned in the section headed “Expected timetable” in this circular may be affected and a press announcement will be made by the Company in such event.

SATELLITE DEVICES CORPORATION

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

Executive Directors:
Mr. Lo Mun Lam, Raymond
Mr. Leung Tak Wah
Ms. Yu Wai Yin, Vicky

Independent non-executive Directors:
Mr. Wan Kwok Pan
Mr. Sum Chun Ho
Mr. Lum Pak Sum

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

Head office and principal place of business in Hong Kong:
Unit 5, 20/F.,
Jupiter Tower
No. 9 Jupiter Street, North Point
Hong Kong

27 March 2006

To Shareholders

Dear Sir or Madam,

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

INTRODUCTION

The Board announced on 25 November 2005 that the Company and the Creditor entered into the Loan Capitalisation Deed on 10 October 2005 whereby the Company proposed to issue 67,585,863 Loan Shares at HK$0.10 each to the Creditor as full repayment of the Loan. 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.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Open Offer. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect. The purpose of this circular is to provide you with further information regarding, among other things, (i) the Loan Capitalisation; (ii) the Proposed Capital Reorganisation; (iii) the Proposed Open Offer; (iv) the Proposed Acquisition; (v) the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Proposed Open Offer; (vi) the letter of advice from Guangdong Securities to the Independent Board Committee and Independent Shareholders in respect of the Proposed Open Offer; and (vii) a notice of EGM, which shall be convened for the purpose of considering and, if thought fit, approving the resolutions in relation to the aforesaid proposals and the issue of the Convertible Note and the Conversion Shares.

ISSUE OF SHARES PURSUANT TO LOAN CAPITALISATION

Loan Capitalisation Deed

Date: 10 October 2005

Loan

The Loan due from the Company to the Creditor amounts to HK$6,758,586.32 which was interest free and repayable on demand. Save for being interested in 10.26% of the issued share capital of the Company as at the Latest Practicable Date, the Creditor, which is incorporated in the British Virgin Islands, together with its beneficial owner, Ms. Wu Ling Yee, are independent of and not connected with the Company and its subsidiaries and their connected persons (as defined under the GEM Listing Rules),

Loan Shares

The Company has issued 67,585,863 Loan Shares at HK$0.10 each to the Creditor as full repayment of the Loan.

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

The Loan Shares were issued under the general mandate to allot, issue and deal with the Existing Shares granted to the Directors by a resolution passed by the Shareholders at the annual general meeting of the Company held on 25 July 2005 subject to the limit up to 20% of the issued share capital of the Company as at the date of passing the resolution at such meeting (i.e. 118,183,200 Existing Shares). Upon completion of the Loan Capitalisation, 57.19% of such general mandate has been utilised.

Loan Share Price

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

(i) a premium of approximately 566.7% over the closing price of HK$0.015 per Existing Share as quoted on the Stock Exchange on 3 October 2005, being the Latest Trading Day;

(ii) a premium of approximately 532.9% over the average of the closing prices per Existing Share as quoted on the Stock Exchange of approximately HK$0.0158 for the five trading days up to and including the Latest Trading Day;

(iii) a premium of approximately 517.3% over the average of the closing prices per Existing Share as quoted on the Stock Exchange of approximately HK$0.0162 for the ten trading days up to and including the Latest Trading Day; and

(iv) a premium of approximately 1049.4% with reference to the Group's audited consolidated net asset value of HK$0.0087 per Existing Share as at 31 March 2005.

Completion of Loan Capitalisation

All of the applicable conditions have been fulfilled and the Loan Capitalisation Deed was completed on 9 December 2005.

Reason for the Loan Capitalisation

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

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

Upon completion of the Loan Capitalisation, the Company does not have any significant outstanding debts other than an outstanding loan of approximately HK$5 million which is short term, non-secured and interest free.

Ranking of Loan Shares

The Loan Shares rank pari passu in all respects among themselves and with all other Shares in issue including the rights to all dividends and other distributions declared, made or paid at any time after the date of issue and allotment of the Loan Shares.

SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company immediately before and after the completion of the Loan Capitalisation.

	Shareholding immediately before completion of the Loan Capitalisation		**Shareholding immediately after completion of the Loan Capitalisation**	
	Number of Existing Shares	*%*	*Number of Existing Shares*	*%*
Arcon	387,888,000	65.64	387,888,000	58.91
Creditor	0	0	67,585,863	10.26
Other Shareholders *(Note)*	203,028,000	34.36	203,028,000	30.83
Total	**590,916,000**	**100.00**	**658,501,863**	**100.00**

Note: Other Shareholders are Shareholders other than (i) the Creditor and its concert parties and their respective associates; and (ii) Arcon and its concert parties and their respective associates.

PROPOSED CAPITAL REORGANISATION

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

1. every 5 Existing Shares of HK$0.10 each in the issued and unissued share capital of the Company be consolidated into one Consolidated Share;

2. the nominal value of every issued Consolidated Share will be reduced from HK$0.50 each to HK$0.01 each and become New Share;

3. the reduction of nominal value of the issued Consolidated Shares will involve the cancellation of the paid-up capital of the Company of the extent of HK$0.49 per issued Consolidated Share; and

4. every authorized but unissued Consolidated Share will be subdivided into 50 New Shares.

As at the Latest Practicable Date, there are 658,501,863 Existing Shares in issue. Assuming no further Existing Shares will be issued from the Latest Practicable Date up to the completion of the Proposed Capital Reorganisation, there will be 131,700,372 New Shares in issue following the Proposed Capital Reorganisation. On the basis of 131,700,372 New Shares in issue, a credit of approximately HK$64.53 million will arise on the cancellation of the paid-up capital of the Company which will be credited to a distributable reserve account of the Company and will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

As at 30 September 2005, the unaudited accumulated losses of the Company amounted to approximately HK$94.66 million. The debit balance of the distributable reserve account will become approximately HK$30.13 million after setting off in full the accumulated losses of the Company.

As at the Latest Practicable Date, the authorised capital of the Company is HK$1,000,000,000 divided into 10,000,000,000 Existing Shares of HK$0.10 each, of which 658,501,863 Existing Shares have been issued and are fully paid. Upon the Proposed Capital Reorganisation becoming effective and on the basis of the same number of the Existing Shares in issue, the paid-up capital of the Company will be reduced from HK$65,850,186.30 to HK$1,317,003.72. Immediately upon the Proposed Capital Reorganisation becoming effective, the authorised capital of the Company will be HK$1,000,000,000 divided into 100,000,000,000 New Shares of HK$0.01 each and the issued share capital of the Company will be HK$1,317,003.72 divided into 131,700,372 New Shares.

As at the Latest Practicable Date, there are no outstanding options, warrants and securities of the Company convertible or exchangeable into the Shares.

Conditions of the Proposed Capital Reorganisation

The implementation of the Proposed Capital Reorganisation is conditional upon:

(i) the passing of the necessary special resolution by the Shareholders at the EGM to approve the Proposed Capital Reorganisation;

(ii) compliance with any conditions which the Cayman Islands court may impose;

(iii) the confirmation of the Capital Reduction by the Cayman Islands court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the court order and the minutes containing the particulars required under the Companies Law; and

(iv) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Proposed Capital Reorganisation

Upon fulfillment of the above conditions, the Proposed Capital Reorganisation will become effective. None of the applicable conditions had been fulfilled as at the Latest Practicable Date and none of the conditions can be waived.

Status of the New Shares

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

Change in board lot size

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

Reasons for the Proposed Capital Reorganisation

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

The Company had an unaudited accumulated losses of approximately HK$94.66 million (on an unconsolidated basis) as at 30 September 2005. On the basis of 590,916,000 Existing Shares in issue and 67,585,863 Loan Shares to be issued pursuant to the Loan Capitalisation, a credit of approximately HK$64.53 million will arise as a result of the Capital Reduction and the amount will be credited to a distributable reserve account of the Company. The reserve will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company. The Directors believe that implementation of the Proposed Capital Reorganisation will therefore provide better flexibility to the Company in conducting fund raising exercises for future expansion and allow the Company to pay dividend when it makes profit in the future. The Share Consolidation is also intended to reduce the transaction costs for dealing in the Consolidated Shares as well as to increase the market value per New Share.

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

The Proposed Capital Reorganisation is not conditional on the implementation of the Proposed Open Offer and the Proposed Acquisition. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares. The effective date of the Capital Reorganisation will be subject to the date when the Cayman Islands count grants its unconditional approval and therefore the timetable may be affected accordingly and subject to further announcement.

Subject to the granting of listing of, and permission to deal in, the New Shares on GEM, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on GEM or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

Shareholders and investors are advised to exercise caution in dealing in Shares.

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

Upon the Proposed Capital Reorganisation becoming effective to be expected on 22 June 2006, the Shareholders may, on or after 23 June 2006 until 2 August 2006, submit their certificates for the Existing Shares to the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Ltd. of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange for new certificates for the New Shares on the basis of five (5) Existing Shares for one (1) New Share at the expense of the Company. After the expiry of such period, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK$2.5 per existing certificate or new certificate, whichever the higher number of certificates (or such higher amount as may from time to time be allowed by the Stock Exchange) may be.

Fractional New Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the New Shares will be aggregated, sold and retained for the benefit of the Company. In order to alleviate the difficulties arising from the existence of odd lots of New Shares, the Company has appointed Kingston Securities to arrange for matching service regarding the sale and purchase of odd lots of New Shares.

Kingston will provide such service during the period from Friday, 23 June 2006 to Friday, 28 July 2006, both dates inclusive. Holders of New Shares in odd lots who wish to take advantage of this facility either to dispose of or top up their odd lots to a board lot of 30,000 New Shares may directly or through their brokers contact Kingston at Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong and at the telephone number (852) 2298-6215, to the attention of Ms. Rosita Kiu during such period. Shareholder should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed.

Upon the Capital Reorganisation becoming effective, the arrangement proposed for dealings in the New Shares are expected to be as follows:

From 23 June 2006, the existing counter for trading in the Existing Shares in board lot of 6,000 Shares will be temporarily closed. A temporary counter will be established for trading in the Existing Shares in board lot of 1,200 consolidated Shares. Certificates for the Shares may only be traded at this temporary counter.

With effective from 7 July 2006, the existing counter for trading in Shares will be reopened for trading in the New Shares in board lot of 30,000 New Shares.

From 7 July 2006 to 28 July 2006, both days inclusive, there will be parallel trading at the above two counters.

The temporary counter for trading in the Existing Shares in board lot of 1,200 consolidated Shares will be removed after the close of trading on 28 July 2006. Thereafter, trading will be in the New Shares only and the certificates for the Existing Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes. Nevertheless, certificates for the existing Shares will continue to be good evidence of legal title and valid for registration purpose.

Arrangements will also be made to ensure that the New Shares are accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS upon the Proposed Capital Reorganisation becoming effective.

PROPOSED OPEN OFFER

The Proposed Open Offer will be proceeded subject to the completion of the Proposed Capital Reorganisation and is inter-conditional with the Proposed Acquisition.

Issue statistics

Basis of the Proposed Open Offer	:	Three Offer Shares for every New Share held on the Record Date
Subscription Price	:	HK$0.065 per Offer Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	658,501,863 Existing Shares
Number of New Shares in issue upon the Proposed Capital Reorganisation becoming effective	:	131,700,372 New Shares
Number of Offer Shares	:	395,101,116 Offer Shares

Number of Offer Shares underwritten by the Underwriter	:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite 395,101,116 Offer Shares, subject to and upon the terms and conditions of the Underwriting Agreement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Underwriter is a third party independent of and not connected with the Company and its subsidiaries and their respective connected persons (as defined in the GEM Listing Rules)
Number of New Shares in issue upon completion of the Proposed Open Offer	:	526,801,488 New Shares

As at the Latest Practicable Date, there are no outstanding options, warrants and securities of the Company convertible or exchangeable into the Shares.

Qualifying Shareholders

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

(i) be registered on the register of members of the Company; and

(ii) have an address in Hong Kong on the register of members of the Company

at the close of business on the Record Date.

In order to be qualified for the Proposed Open Offer, the Shareholders must lodge any transfer of New Shares (together with the relevant share certificate(s)) for registration with the Registrar by 4:00 p.m. on 27 June 2006.

The branch share registrar and transfer office of the Company in Hong Kong is:

Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

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

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.

Closure of register of members

The register of members of the Company will be closed from 28 June 2006 to 30 June 2006 to determine the eligibility of Shareholders to the Proposed Open Offer. No transfer of New Shares will be registered during such period.

Subscription Price

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

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

(i) a discount of approximately 13.3% to the adjusted closing price of HK$0.075 per New Share as quoted on the Stock Exchange on the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on that day;

(ii) a discount of approximately 3.7% to the theoretical ex-entitlement price of HK$0.0675 per New Share based on the adjusted closing price of HK$0.075 per New Share as quoted on the Stock Exchange on the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on that day;

(iii) a discount of approximately 17.7% to the average adjusted closing price of HK$0.079 per New Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on those days;

(iv) a discount of approximately 19.8% to the average adjusted closing price of HK$0.081 per New Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Trading Day assuming that the Proposed Capital Reorganisation had already become effective on those days; and

(v) a discount of approximately 31.6% to the adjusted closing price of HK$0.095 per New Share as quoted on the Stock Exchange on the Latest Practicable Date assuming that the Proposed Capital Reorganisation had already become effective on that day.

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

Basis of provisional allotments

The Company will provisionally allot three Offer Shares for every New Share held by Qualifying Shareholders on the Record Date assuming immediately after the Proposed Capital Reorganisation becoming effective.

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

Status of the Offer Shares

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

Rights of the Excluded Shareholders

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

Having reviewed the register of members as at the Latest Practicable Date, the Company noted that no Shareholders have maintained addresses located outside of Hong Kong. Hence, no Shareholders will be excluded from the Proposed Open Offer.

The Company will send the Prospectus Documents to the Qualifying Shareholders.

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

The Excluded Shareholders will, however, be entitled to vote at the EGM to consider and, if thought fit, approving the resolutions in respect of the Capital Reorganisation, the Proposed Open Offer and the Proposed Acquisition.

Application for excess Offer Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements and any Offer Shares provisionally allotted but not taken up by the Qualifying Shareholders by completing the Excess Application Forms for excess Offer Shares and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholder should note that the aforesaid arrangement in relation to the allocation of the excess Offer Shares will not be extended to beneficial owners individually. The Shareholders with their New Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

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

The Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Offer Shares will not be extended to beneficial owners individually. The Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Certificates for the Offer Shares

Subject to fulfillment of the conditions of the Proposed Open Offer, share certificates for the Offer Shares are expected to be posted on 25 July 2006 to qualifying Shareholders who have validly applied and paid for the Offer Shares at their own risks. No fractional entitlements or allotments are expected to arise as a result of the Proposed Open Offer. In case that fractions of Offer Shares arised, the Company will not provisionally allot fractions of Offer Shares and will sell such Offer Shares created from the aggregation of Offer Shares for the benefit of the Company.

Application for listing

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

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on GEM, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Offer Shares on GEM or, such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangements will effect their rights and interests.

Fund raising activities in the 12 months immediately prior to the Latest Practicable Date

There is no fund raising activity of the Company in the 12 months immediately prior to the Latest Practicable Date.

Underwriting Agreement

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

Termination of the Underwriting Agreement

The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company at any time if, prior to 4:00 p.m. on the third Business Day after the date on which the latest time for acceptance of the Offer Shares falls or such other date as may be agreed between the Company and the Underwriter:

(a) the introduction of any new law or regulation or any change in existing laws or regulations (or any change in the judicial interpretation or application thereof) whether in Hong Kong or elsewhere; by any court or other competent authority in Hong Kong or elsewhere; or any other place that is the place of incorporation of any member of the Group, or in which any member of the Group conducts or carries on business; or

(i) any change or deterioration (whether or not permanent) in local, national or international, economic, financial, political or military conditions or any event beyond the control of the Company (including, without limitation, acts of government, strikes, wars, acts of violence, acts of terrorism, sabotage, raids, attacks, explosion, flooding, civil commotion, terrorist attack, acts of God or accident); or

(ii) any change or deterioration (whether or not permanent) in local, national or international securities market conditions; or

(iii) without prejudice to sub-paragraphs (ii) and (iii) above, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial or political circumstances or otherwise; or

(iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; or

(v) any suspension in the trading of Shares on the Stock Exchange for a continuous period of five business days (save and except for any temporary suspension of dealing for a period not exceeding ten consecutive business days pending the publication of the Announcement or any other public announcement by the Company as may be required by the Stock Exchange and/or the Securities and Futures Commission); or

(vi) a change or development involving a prospective change in taxation or exchange control in Hong Kong or elsewhere which will or may materially and adversely affect the Group or the present or prospective shareholders of the Company in their capacity as such; or

(b) there comes to the notice of the Underwriter or the Underwriter shall have reasonable cause to believe that any of the undertakings or other obligations expressed to be assumed by or imposed on the Company under this Agreement have not been complied with in any respect; or

(c) there comes to the notice of the Underwriter or the Underwriter shall have reasonable cause to believe that any of the representations or warranties given by the Company under this Agreement was untrue or inaccurate in any respect which adversely affect the success of the Proposed Open Offer.

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

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

Conditions of the Proposed Open Offer

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

1. the Proposed Capital Reorganisation having become effective;

2. the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by any two Directors (or by their agents);

3. the passing by the Independent Shareholders by poll at the EGM of the relevant resolution to approve the Proposed Open Offer and the passing by the Shareholders at the EGM of the relevant resolution to approve the Proposed Acquisition;

4. the delivery of the signed copy by all the Directors of each of the Prospectus Documents referred to in (2) above to the Underwriter on or before the Posting Date;

5. the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by any two Directors (or by their agents duly authorised in writing) in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Company Ordinance and the GEM Listing Rules on or before the Posting Date;

6. compliance by the Company with all its obligations under the Underwriting Agreement in respect of its offer of Shares and delivery of documents to the Underwriter;

7. compliance with the relevant legal procedures and requirements under Cayman Islands laws, which include, among other things, the sanction of the Cayman Islands court, to effect the Capital Reduction;

8. the Listing Committee of the Stock Exchange (a) granting or agreeing to grant listing of, and permission to deal in, the Offer Shares either unconditionally or subject to such conditions which the Underwriter in its absolute opinion accepts and the satisfaction of such conditions (if any); and (b) not having been withdrawn or revoked such listing and permission before 4:00 p.m. on the settlement date as agreed;

9. the Underwriting Agreement not being terminated in accordance with its terms; and

10. The posting of the Prospectus Documents to the Qualifying Shareholders.

If the above conditions are not satisfied on or before the latest time for the Proposed Open Offer to become unconditional (or such other date as may be agreed between the Company and the Underwriter), the Proposed Open Offer will not proceed. None of the conditions can be waived, except with the mutual agreement of the Company and the Underwriter. The Company has no intention to waive any of the conditions, and is not aware if the Underwriter has any such intention.

Warning of the risk of dealings in New Shares

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

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

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

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

Reasons for the Proposed Open Offer and use of proceeds

The estimated net proceeds from the Proposed Open Offer will be approximately HK$23.73 million, (net of expenses of approximately HK$1.95 million) which is intended to be applied as to approximately HK$18.48 million for the partial payment of the consideration for the Proposed Acquisition and HK$1.85 million for marketing of the brands to be acquired under the Proposed Acquisition and the remaining balance of HK$3.40 million for general working capital of the Company. The Directors consider that the Proposed Open Offer will further strengthen the financial position of the Group and support the future development and expansion of the Group's business. The Directors consider that the Proposed Open Offer is in the interest of the Company and its shareholders as a whole. However, a Qualifying Shareholder who does not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

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

The Independent Board Committee has established to advise the Independent Shareholders on the Proposed Open Offer and Guangdong Securities was appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

PROPOSED ACQUISITION

Sale and Purchase Agreement and Supplemental Agreement

Date: 10 October 2005 and 24 November 2005

Parties

Purchaser: the Company

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

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

Assets to be acquired

The entire issued share capital of HKR. Upon completion of the Proposed Acquisition, HKR will be a wholly owned subsidiary of the Company.

Consideration

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.

The consideration was determined between the Company and the Vendor after arm's length negotiations with reference to the business performance of HKR. HKR recorded an audited net profit before tax of HK$7.76 million for the year ended 31 December 2005 and based on the consideration of HK$80 million and taking into account the profit guarantee by the Vendor to the Company of not less than HK$10 million for HKR for the 12 months period from 1 April 2005 to 31 March 2006, the Directors consider that the consideration of the Proposed Acquisition is fair and reasonable and in the interest of the Company and its Shareholders as a whole. The conversion price of the Convertible Note of HK$0.10 per New Share was determined with reference to, amongst other things, the recent Existing Share price performance.

Profit Guarantee to the Company

The Vendor will guarantee to the Company that the audited net profit (before tax) of HKR will not be less than HK$10 million for the 12 months period from 1 April 2005 to 31 March 2006. In the event that such guarantee cannot be fulfilled, the Vendor will compensate the Company the shortfall between HK$10 million and the audited profit/loss (before tax) of HKR for the 12 months period from 1 April 2005 to 31 March 2006 and further announcement will be made by the Company on such compensation.

Legal and Financial Due Diligence

In connection with the very substantial acquisition (the "Acquisition") by the Company, the Company has carried out the primary duties (i) to perform legal and financial due diligence review, on an on-going basis, in order to gain a sufficient comprehension of the business of HKR, and (ii) to ensure the information disclosed in all relevant documents, including but not limited to the announcement and circular, are sufficient to give a true, balanced and fair view of the affairs of HKR and the relevant details about the Proposed Acquisition. Throughout the due diligence process, the Directors have taken an active and leading role in the understanding HKR from various aspects mentioned below:

(i) interviewed and discussed with the directors and senior management of HKR on the outset to understand the nature of HKR's business, operation, product details, sales and marketing, business strategy and development plan, background of the senior management, and trend and prospects of the high-end branded fashion retailing industry in Hong Kong, Taiwan as well as the PRC;

(ii) reviewed the information provided by HKR, along with the legal advisers to the Company, including but not limited to the corporate documents, certificate of incorporation, Memorandum of Association, minutes of the board, business registration, intellectual property, shareholding structure, license agreements, lease agreements, employment and supplier contracts, and any material contracts;

(iii) interviewed, made enquires with, visited and observed the key operational premises of HKR;

(iv) detailed review of the management accounts and then audited financial statements of HKR for the past track record period;

(v) detailed review of the outstanding banking facilities and working capital sufficiency of HKR;

(vi) detailed review of the profit and cashflow projection of HKR for the period ending 31 March 2007; and

(vii) reviewed the provisions relating to the listing rule implications under Chapter 10, 11 and 19 of the GEM Listing Rules and the Takeovers Code and ensure proper understanding the impact to the shareholding structure of the Company and safeguard of procedures regarding the issue of convertible notes as part of the consideration payable for the Proposed Acquisition.

As demonstrated above, the Directors have been actively conducting substantial due diligence review on the affairs of HKR and exercised due diligence in discharging their duties. Having made the above due diligence exercise and careful enquiries with the management of HKR, and reviewed the relevant report and documentations, the Directors have satisfied themselves that the due diligence work should have made the description of HKR's business in any publications true, complete and accurate.

The Convertible Note

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

Principal amount

In order to satisfy the portion of consideration amounting approximately HK$21.52 million, the Company now intends to settle such partial consideration by issuing Convertible Notes upon completion of the Proposed Acquisition. Not more than HK$61.52 million (after deduction of approximately HK$18.48 million in cash out of the estimated net proceed from the Proposed Offer) of the Proposed Acquisition is fully satisfied by the issue of Convertible Note.

Interest

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

Maturity

3 years from the date of the issue.

Denomination

In multiple of HK$100,000

Form

Registered form only.

Conversion Price

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

The conversion price has been negotiated on arm's length basis and was determined after taking into consideration (a) the par value of the New Shares and (b) the expected economic benefit to be brought to the Group by HKR.

Assuming that the Proposed Capital Reorganisation had already become effective prior to the issue of the Convertible Note, the conversion price of HK$0.10 per New Share represents: (i) a premium of 33.3% over the adjusted closing price of HK$0.075 per New Share on the Latest Trading Day; (ii) a premium of 26.6% over the average adjusted closing price of HK$0.079 per New Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Trading Day; (iii) a premium of 23.5% over the average adjusted closing price of HK$0.081 per New Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Trading Day; and (iv) a discount of 9.1% over the adjusted closing price of HK$0.11 per New Share as quoted on the Stock Exchange on the Latest Practicable Date.

Conversion

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

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

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

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

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

Conversion period

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

Ranking

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

Redemption by the Company

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

Transferability

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

Events of default

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

Conditions

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

1. the Company having confirmed it is satisfied with its due diligence review of the legal and financial affairs of HKR;

2. the Proposed Capital Reorganisation having become effective;

3. the passing by the Independent Shareholders at the EGM by poll of the relevant resolution to approve the Proposed Open Offer and the passing by the Shareholders at the EGM of the relevant resolutions to approve the Proposed Acquisition, the issue of the Convertible Notes and the Conversion Shares;

4. the completion of the Proposed Open Offer;

5. the Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the shares falling to be issued upon exercise of the conversion rights attached to the Convertible Note; and

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

If despite the Company and the Vendor each used their respective best endeavours to procure the fulfilment of the above conditions as soon as possible, the above conditions are not fulfilled on or before 20 August 2006 (or such late date as may be agreed between the Company and the Vendor), the sale and Purchase Agreement shall terminate and neither parties shall have any claim against the other for costs, damages, compensation or otherwise. The Company may waive any conditions at its own discretion, however, the Company has no intention to waive any of the conditions, as they are necessary for the completion of the Proposed Acquisition.

Completion

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

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

Information on HKR

HKR which commenced business in 2002, is a distribution and brand management company engaged in the licensed retail sales of high-end, chic apparel and accessories under third-party European brand names. HKR commenced its retailing business by setting up two shops in Hong Kong and one shop in Taiwan after it successfully entered into the relevant license agreements with two established European brand names for high-end fashion and accessories, namely Anya Hindmarch and Paule Ka. To tap into growing high-end fashion market, HKR further expanded its sales network by setting up one shop in Hong Kong in mid-2003 and one shop each in Hong Kong and Taipei in September 2005. HKR markets and sells its products through a network of single-branded stores located at 5 shopping malls (The Lee Gardens, The Landmark, Pacific Place, Chater House, Harbour City which is expected to be open in mid-2006) in Hong Kong and 2 shopping malls (Breeze Centre, Shin Kong Mitsukoshi) in Taipei.

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

The two European brands have been successfully penetrated in Hong Kong and Taiwan due to proper brand positioning engineered by the experienced sales and marketing team. Despite the unfavourable impact on the retail sales during the SARS period in the first half of 2003, HKR still achieved a total turnover of approximately HK$24.5 million from its retail outlets in 2003. Even though no new shop was established in 2004, turnover was further increased by approximately 20% to HK$29.4 million. In 2005, HKR further established two new shops and HKR's turnover was further increased to approximately HK$32.9 million. In view of strong recovery of the Hong Kong economy since late 2005 and new shop to be opened in Harbour City replacing the expiring lease contract at Pacific Place in mid 2006, the Directors are confident that HKR will be able to achieve better business growth in the coming year.

In respect of the license agreement entered into between HKR and the licensor for trade name "Anya Hindmarch" on February 2005, the key terms are set out as follows:

– License agreement has five years term until February 2010 and is renewable for another five years term;

– HKR has the right and franchise to sell products under the trade name "Anya Hindmarch" and to use certain intellectual property;

– HKR shall sell at the premises only products supplied by Anya Hindmarch;

– HKR shall only be entitled to resell the products to retail customers and other retail outlets at such prices agreed with the licensor;

- HKR shall use the products only such advertising, promotional and selling materials are provided and approved by the licensor;

- The licensor shall not supply any other person, firm or company as a distributor or agent for Anya Hindmarch products in the territory; and

- The licensor shall not supply to other person, firm or company in the territory any of the products whether for use or resale.

In respect of the license agreement entered into between HKR and the licensor for trade name "Paule Ka" on April 2005, the key terms are set out as follows:

- License agreement has five years term until April 2010 and is renewable for another five years terms;

- HKR has the exclusive right to use tradename "Paule Ka" in the territory; and

- HKR has the exclusive right to sell all of the "Paule Ka" products in the territory.

Management Discussion and analysis of results of operations of HKR

Business review for the year ended 31 December 2003

For the year ended 31 December 2003, HKR recorded a turnover of approximately HK$24.5 million and a loss attributable to shareholders of approximately HK$391,000. The gross margin for the year was 49% and loss per share was HK$0.78.

During the year under review, the HKR's revenue was derived from the retailing of fashion and handbags in Hong Kong and Taiwan. As to the geographical segments, about 81% of HKR's revenue was derived from customers based in Hong Kong and the remaining 19% from customers based in Taiwan. No order book is maintained since the nature of business is retailing.

HKR maintain a positive financial position. As at 31 December 2003, bank borrowings amounted to approximately HK$1.7 million. The gearing ratio (total bank borrowings over total assets) was 12%. The banking facilities were secured by investment properties of related parties. The entire bank borrowings were repayable within one year.

The working capital was financed by related companies, available banking facilities and internally generated funds. The capital structure is 500,000 ordinary shares of HK$1.00 each.

HKR did not involved in other investments and no material acquisition and disposal of subsidiaries and affiliated companies in the course of the year.

After the opening of 2 shops in Hong Kong and 1 shop in Taiwan in 2002, HKR opened a new shop in Hong Kong in the middle of the unprecedent crisis caused by SARS (Severe Acute Respiratory Syndrome). Despite the adverse impact of the overall retail market, HKR still recorded a turnover of HK$24.5 million for the year.

The employees in both Hong Kong and Taiwan are remunerated in accordance with their performance and work experience while adequate training will be provided. No option scheme is introduced.

HKR used foreign exchange forward contracts to hedge foreign currency risk once purchase was made from overseas. No contingent liabilities was incurred during the year.

Business review for the year ended 31 December 2004

Although HKR outperformed most of the retailers during the difficult time of SARS, the management was uncertain about the timing for the full recovery of the retail market in general and decided to take a conversative approach by delaying the expansion plan. Instead the management focused its marketing effort and resources in brand position, event marketing and customer services. As a result, HKR recorded a 20% increase in sales turnover to approximately HK$29.4 million and a profit attributable to shareholders of approximately HK$3.6 million for the year ended 31 December 2004. The gross margin for the year was 57% and earnings per share was HK$7.14.

During the year under review, the HKR's revenue was derived from the retailing of fashion and handbags in Hong Kong and Taiwan. As to the geographical segments, about 78% of HKR's revenue was derived from customers based in Hong Kong and the remaining 22% from customers based in Taiwan.

As at 31 December 2004, bank borrowings amounted to approximately HK$3.7 million and the gearing ratio (total bank borrowings over total assets) is approximately 32%. The banking facilities were secured by investment properties of related parties and the entire bank borrowings were repayable within one year.

During the year under review, the working capital was financed by available banking facilities and internally generated funds. There was no change in the share capital structure. No acquisitions and disposal of subsidiaries and affiliated companies occurred in the course of the year. As at 31 December 2004, HKR has no contingent liability.

Business review for the year ended 31 December 2005

The encouraging result of the year ended 31 December 2004 and the overall retail market recovery in early 2005 gave confidence to the management of HKR to resume the suspended expansion plan and open one additional shop each in Hong Kong and Taiwan in September 2005. HKR did not require loan financing for the expansion while the capital structure maintain the same.

As a result of the 2 new shops, HKR recorded a 12% increase in turnover to approximately HK$32.9 million and a profit attributable to shareholders of approximately HK$6.3 million for the year ended 31 December 2005. The gross margin for the year was 62% and earnings per share was HK$12.53. No order book is necessary in this business.

During the year under review, the HKR's revenue was derived from the retailing of fashion and handbags in Hong Kong and Taiwan. As to the geographical segments, about 76% of HKR's revenue was derived from customers based in Hong Kong and the remaining 24% from customers based in Taiwan.

No significant investment was held and there was no material acquisition and disposal of subsidiaries and affiliated companies in the course of the year. Employees in both Hong Kong and Taiwan are remunerated according to their performance and work experience while training is provided and no option schemes are introduced.

As at 31 December 2005, bank borrowings amounted to approximately HK$5.7 million and the gearing ratio (total bank borrowings over total assets) is approximately 27%. The banking facilities were secured by investment properties of related parties and the entire bank borrowings were repayable within one year. Hedging policy maintained the same and no contingent liabilities was incurred.

Summary as shown below set out the audited financial figures of HKR for the three years ended 31 December 2005:

	Year ended 31 December		
	2003	**2004**	**2005**
	HK$' million	*HK$' million*	*HK$' million*
Turnover	24.51	29.36	32.89
Net profit/(loss) before tax	(0.33)	4.39	7.76
Net profit/(loss) after tax	(0.39)	3.57	6.27

	As at 31 December		
	2003	**2004**	**2005**
	HK$' million	*HK$' million*	*HK$' million*
Net assets/(liabilities)	(0.27)	3.30	9.57

MODIFIED AUDIT OPINION ON THE FINANCIAL INFORMATION OF HKR

Having made enquiries with the directors of HKR, the absence of stocktake happened in December 2002 was mainly attributable to HKR's internal control system that was not fully operational or implemented when HKR commenced its operations for just a few months. The reporting accountant of HKR had performed physical stock taking and other audit procedures to ensure the existence, quantities and valuation of the closing inventories. Result was satisfactory and the balances were fairly stated in the financial statements of HKR for the years ended 31 December 2003, 2004 and 2005.

On the other hand, the absence of evidence for the 490,000 shares issued and allocated but unpaid as at 31 December 2003 was mainly related to errors and omission in the handling of the statutory records of HKR in 2003. The Directors understands that the unpaid capital was subsequently paid up by the shareholders of HKR during the year ended 31 December, 2004 and result was satisfactory as a result of appropriate audit procedures. As the error was an omission made by the management of HKR for the years ended 31 December, 2002 and 2003, subsequent paid up had satisfactorily rectified the error.

The Directors had performed a due diligence review on the financial position and results of HKR and the errors and omission were noted. The management of HKR was aware of the non-compliance and had taken relevant measures to rectify the errors subsequently to ensure such errors or omission would not happen in future. As the reporting accountants of HKR had performed appropriate audit procedures and expressed a true and fair view of the state of affairs and its results and cash flows for the years ended 31 December 2004 and 2005. The Directors are of the opinion that the modified audit opinion does not have material effect on the Group. Besides, the Directors will carry out its internal control review on both financial and operational system of HKR after acquisition to ensure a full compliance of the regulatory requirements in future.

On the basis that the (i) detailed financial due diligence; (ii) discussions with the key management and existing auditors of HKR; (iii) absence of any material omissions and errors in 2004 and 2005; (iv) presence of fully qualified and experienced accountants in the Board of the Company; and (v) temporary weakness in the internal control system of HKR during the early stage of its business led to the above qualifications on the audited financial statements had been properly and effectively rectified; and (vi) clean financial statements had been issued by the reporting accountant of HKR for the Latest Practicable Date, the Directors are confident that the existing internal control system of HKR is competent to effectively inform the Directors with prompt information of HKR and therefore the Directors are satisfied with the reliability of the financial information of HKR under Appendix II in this circular and the internal control of HKR.

Reasons for the Proposed Acquisition

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

In order to diversify into other business areas and to improve the earning's base of the Group in the long run, the Group has been looking for investment opportunities. The Directors are of the view that the business of HKR, with its strengths of (i) strong expertise in identifying up-coming apparel brands and introducing their products that appeal to customers in the Greater China market; (ii) ability to work closely with the licensors and designers which enables it to better identify, markets and price their products in the licensing territories; and (iii) experiences in securing retail spaces with landlords of major premier shopping malls which can be leveraged for the expansion of its retail network as well as the introduction of other brands, has a high growing potential as a result of the rapid economic development of the licensing territories in particular Macau and the PRC and the entry of the World Trade Organisation, is an opportunity for the Group of restoring its profitability and improving, so far as the value of the Company and its Shareholders as a whole are concerned, upon completion of its strategic business diversification by the Proposed Acquisition which in particular is substantiated, among other things, by the i) business track record of HKR; ii) profit guarantee given by the Vendor that HKR will make a net profit (before tax) of not less than HK$10 million for the 12 months period from 1 April 2005 to 31 March 2006. On these bases, the management of the Company is confident and optimistic about the prospect of the Company and therefore financing the Proposed Acquisition partly by way of, among other things, the issue of Convertible Notes, in the opinion of the Directors, can (i) facilitate the Company with immediate funding without immediate further dilution of the shareholding of the existing Shareholders and (ii) limit immediate cash outflow of the Company.

Combining with the Board's expertise in technology devices, textiles trading and manufacturing, financial management and marketing experience, the Directors expect that the management of the Company may enjoy further synergistic benefit by 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.

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

The Directors consider that the Proposed Acquisition will bring an increase in the earning and assets of the Group due to the consolidation of the net profit and net assets of HKR into the Group and bring an increase in the liabilities of the Group due to the issue of the Convertible Notes.

SHAREHOLDING STRUCTURE OF THE COMPANY

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

	Existing Shareholding as at the Latest Practicable Date		Immediately after completion of the Proposed Capital Reorganisation		Immediately after completion of the Proposed Capital Reorganisation and Proposed Open Offer			
					Assuming all Qualifying Shareholders take up their entitlements		Assuming no Qualifying Shareholders take up their entitlements	
	Number of Existing Shares	*%*	*Number of New Shares*	*%*	*Number of New Shares*	*%*	*Number of New Shares*	*%*
Arcon	295,050,000	44.81%	59,010,000	44.81%	236,040,000	44.81%	59,010,000	11.20%
Creditor	67,585,863	10.26%	13,517,172	10.26%	54,068,688	10.26%	13,517,172	2.57%
Underwriters [(1)]	0	0.00%	0	0.00%	0	0.00%	395,101,116	75.00%
Vendor [(3)]	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other Shareholders [(2)]	295,866,000	44.93%	59,173,000	44.93%	236,692,800	44.93%	59,173,200	11.23%
Total	**658,501,863**	**100.00%**	**131,700,372**	**100.00%**	**526,801,488**	**100.00%**	**526,801,488**	**100.00%**

Shareholder	Immediately after completion of the Proposed Capital Reorganisation, Proposed Open Offer and issue of Convertible Note of approximately HK$61.52 million in relation to the Proposed Acquisition (All of the Convertible Notes have been fully exercised in the event that all Qualifying Shareholders take up their entitlements)		(All of the Convertible Notes have been fully exercised in the event that no Qualifying Shareholders take up their entitlements)	
	Number of New Shares	*%*	*Number of New Shares*	*%*
Arcon	236,040,000	20.67%	59,010,000	5.17%
Creditor	54,068,688	4.73%	13,517,172	1.18%
Underwriters (1)	0	0.00%	395,101,116	34.60%
Vendor (3)	615,200,000	53.87%	615,200,000	53.87%
Other Shareholders (2)	236,692,800	20.73%	59,173,200	5.18%
Total	1,142,001,488	100.00%	1,142,001,488	100.00%

Note: (1) The Underwriter and its ultimate beneficial owners are independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules) and are not acting in concert with the Company. According to the Underwriter, the Underwriter has entered into a sub-underwriting agreement with the sub-underwriters, who are independent of and not connected with nor acting in concert with the Company or the Underwriter, to sub-underwrite 238,000,000 underwritten Offer Shares, representing approximately 45.19% of the enlarged issued share capital of the Company immediately upon completion of the Proposed Open Offer. Therefore, the Underwriter and the sub-underwriters will at no time hold 30% or more (i.e. maximum 29.99%) interests in the Company upon completion of the Proposed Open Offer. The Underwriter will place down any Offer Shares to be taken up by them to the independent third parties not connected with the Company and their respective connected persons (as defined under the GEM Listing Rules) and concert parties of the Company.

(2) Other Shareholders are shareholders other than Arcon and their concert parties and their respective associates.

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

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 veiw 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%.

RESTORATION OF PUBLIC FLOAT

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

– a false market exists or may exist in the trading in the New Shares; or

– there are too few New Shares in public hands to maintain an orderly market;

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

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

RECENT DEVELOPMENT OF THE GROUP

Since 2004, the Group tried to negotiate with one of the largest telecommunication company in Macau jointly to provide Bus Fleet Information System to one of the largest bus transportation company in Macau involving about 300 vehicles. The negotiation was gradually ended due to the difficulties of obtaining acceptable business terms that would be beneficial to all business parties. In addition, the Group is still negotiating with one of the famous car dealer in Hong Kong for promoting its system products but the negotiation is still in progress. The Group also tried to explore whether there was any possibilities of introducing the Group's system solutions for location-based services to the products provided by those mobile communication service providers but the negotiation was recently ended due to the difficulties of obtaining favourable business terms.

In 2005, 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 are not encouraging. Furthermore, the Group also tried to improve its operational efficiency by reducing its administration headcounts and mitigate its overhead expenses by implementing tight operational control.

FINANCIAL AND TRADING 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. Despite the luxury car market recorded a significant growth in 2005 and is expected to continue its growth momentum in the coming years which may in turn lead to an increase in demand for the services of the location-based applications, 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 by approximately 20%. However, the Directors have seen encouraging results from the operation and administrative cost control program that has been implemented since last year and the Directors expect to streamline the operation cost structure in order to improve operational efficiency.

In view of the positive economic growth in Hong Kong, the management has been actively looking for acquisitions of profitable businesses. The group is currently working on an acquisition of a retailing business, Hip Kin Retailing Limited ("HKR"), which is specialized in distribution and brand management in the licensed retail sales of high-end apparel and accessories under established European brand names. HKR currently markets and sells its products to high-income consumers through a network of 4 single-branded outlets in Hong Kong and 2 shopping malls in Taipei.

The Group considers that there are significant potential synergies in marketing, distribution capabilities as well as customer relationships management after the acquisition.

With HKR's strong capabilities in identifying fashionable brands as well as marketing, pricing and distributing products through its own-managed retail network, the Group believes that HKR can contribute to the financial performance and shareholders' return of the Group. Given HKR's solid management capabilities and financial track record, the Group also considers there are growth opportunities in licensing other brands and tapping the mainland China and Macau markets. We expect a bright and favor returns will benefit the Group and the shareholders.

GENERAL

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

Under the GEM Listing Rules, the Proposed Acquisition, where the percentage ratio (as defined under the GEM Listing Rules) is over 100%, constitutes a very substantial acquisition in respect of the Company, and the Proposed Acquisition are subject to approval by the Shareholders at the EGM. No Shareholder has a material interest in the Proposed Acquisition and no Shareholders will be abstained from voting at the EGM in respect of the relevant resolution on the Proposed Acquisition.

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

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

PROCEDURES BY WHICH SHAREHOLDERS MAY DEMAND POLL

Pursuant to the Article 66 of the Articles of Association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Members present in person or in the case of Member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the voting rights of all Members having the right to vote at the meeting; or

(d) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that rights.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a member.

THE EGM

Set out in this circular is a notice convening the EGM which will be held at Chater Room I, Function Room Level, The Ritz Carlton Hong Kong, 3 Connaught Road, Hong Kong on 20 April 2006 at 10:00 a.m. at which resolutions will be proposed to approve the (1) Proposed Capital Reorganisation; (2) Proposed Open Offer; (3) Proposed Acquisition; and (4) the issue of the Convertible Notes and the Conversion Shares.

There was no (i) voting trust or other agreement or arrangement or understanding entered into by or binding upon Arcon and its concert parties; or (ii) obligation or entitlement whereby Arcon and its concert parties had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of their Shares to a third party, either generally or on a case-by-case basis as at the Latest Practicable Date.

There is no discrepancy between the beneficial shareholding interest of Arcon and its concert parties in the Company as disclosed in this circular and the numbers of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. If you do not intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Registrar, Computershare Hong Kong Investor Services Ltd. of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, the Company's Hong Kong share registrar not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so desire.

RECOMMENDATIONS

Guangdong Securities has been appointed to advise the Independent Board Committee with regard to the terms and conditions of the Open Offer. The text of the letter of advice from Guangdong Securities to the Independent Board Committee containing its recommendation and the principal factors it has taken into account in arriving at its recommendation are set out on pages 45 to 60 of this circular.

The Independent Board Committee, having taken into account the advice of Guangdong Securities, considers that the terms of the Open Offer are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the Open Offer. The text of the letter from the Independent Board Committee is set out on page 44 of this circular.

The Directors consider that the (1) Proposed Capital Reorganisation; (2) Proposed Open Offer; (3) Proposed Acquisition; and (4) the issue of the Convertible Notes and the Conversion Shares, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

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

FURTHER INFORMATION

Your attention is drawn to the texts of the letters from the Independent Board Committee and from Guangdong Securities respectively containing their recommendations and opinions regarding the Open Offer and the financial information set out in the appendices to this circular.

On behalf of the Board
Leung Tak Wah
Executive Director

SATELLITE DEVICES CORPORATION

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8172)

27 March 2006

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER OF 395,101,116 OFFER SHARES AT A PRICE OF HK$0.065 PER OFFER SHARE ON THE BASIS OF THREE OFFER SHARE FOR EVERY NEW SHARES

As the Independent Board Committee, we have been appointed to advise you in connection with the Open Offer, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 27 March 2006 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Open Offer and the advice of Guangdong Securities in relation thereto as set out on pages 45 to 60 of the Circular, we are of the opinion that the terms of the Open Offer are fair and reasonable so far as the Shareholders are concerned. We therefore recommend that you vote in favour of resolution in relation to the Open Offer to be proposed at the EGM to approve the Open Offer.

Yours faithfully,

Mr. Wan Kwok Pan **Mr. Sum Chun Ho** **Mr. Lum Pak Sum**

Independent Board Committee

The following is the text of the letter of advice given by Guangdong Securities in relation to the terms of Open Offer for inclusion in this circular.

GD Guangdong Securities Limited

Unit 2505-06
25/F Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

27 March 2006

To the Independent Board Committee and
the Independent Shareholders of Satellite Devices Corporation

Dear Sirs,

PROPOSED OPEN OFFER OF 395,101,116 OFFER SHARES AT A PRICE OF HK$0.065 PER OFFER SHARE ON THE BASIS OF THREE OFFER SHARES FOR EVERY NEW SHARE

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Proposed Open Offer, details of which are contained in the Letter from the Board in the circular issued to the Independent Shareholders dated 27 March 2006 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

The Board intends to put forward proposals to the Shareholders in relation to the (1) the Proposed Capital Reorganization; (2) the Proposed Open Offer of 395,101,116 Offer Shares at a price of HK$0.065 per Offer Share on the basis of three Offer Shares for every New Share; and (3) the Proposed Acquisition.

The following is a summary of the components of these proposals:

(1) the Proposed Capital Reorganization involves (i) every 5 Existing Shares of HK$0.10 each in the issued and unissued share capital of the Company will be consolidated into one Consolidated Share ; (ii) the nominal value of every issued Consolidated Share will be reduced from HK$0.50 each to HK$0.01 each and become New Share; (iii) the reduction of nominal value of the issued Consolidated Shares will involve the cancellation of the paid-up capital of the Company to the extent of HK$0.49 per issued Consolidated Share; and (iv) every authorized but unissued Consolidated Share will be subdivided into 50 New Shares;

(2) the Proposed Open Offer involves the Company to raise approximately HK$25.68 million (before expenses) on the basis of an allotment of three Offer Share for every New Share held by Qualifying Shareholders on the Record Date at the Offer Price of HK$0.065 per Offer Share. Qualifying Shareholders are entitled to apply for any unsold entitlements and any Offer Shares provisionally allotted but not taken up by the Qualifying Shareholders ; and

(3) the Proposed Acquisition involves the Company to acquire the entire issued share capital of HKR at a consideration of HK$80 million, which shall be satisfied by (i) approximately HK$18.48 million in cash out of the net proceeds from the Proposed Open Offer; and (ii) as to the remaining balance of HK$61.52 million by issue of the Convertible Note, on the condition that (a) the Convertible Note shall not be convertible within the first six months from the date of its issuance and (b) the Vendor may only convert the whole or any part of the outstanding principal amount if immediately after any such conversion the Vendor together with parties acting in concert with it within the meaning of the Takeovers Code do not control 30% or more of the voting power at a general meeting of the Company.

The Proposed Open Offer will be proceeded subject to the completion of the Proposed Capital Reorganisation and is inter-conditional with the Proposed Acquisition.

The Independent Board Committee, comprising Wan Kwok Pan, Lum Pak Sum and Sum Chun Ho, all of whom are independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Proposed Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Proposed Open Offer are in the interests of the Company and the Shareholders as a whole.

In formulating our opinions, we have relied on the information and representations contained in the Circular, which have been provided by the management of the Company and the Directors and we have assumed that all information and representations contained or referred to in the Circular are true and accurate in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company and the Directors and have been advised by the management of the Company and the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We believe that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted an independent verification of the information provided by the management of the Company and the Directors nor have we carried out any independent investigation into the business and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders relating to the fairness and reasonableness of the terms of the Proposed Open Offer, we have taken into consideration, inter alia, the following principal factors and reasons:

1. Reasons for the Proposed Open Offer and the Proposed Acquisition

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

As stated in the Letter from the Board, the estimated net proceeds from the Proposed Open Offer will be approximately HK$23.73 million (net of expenses of approximately HK$1.95 million) which is intended to be applied as to approximately HK$18.48 million for the partial payment of the consideration for the Proposed Acquisition and 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.

The Group has been making losses in recent years. For the three years ended 31 March 2005, the Group recorded an audited consolidated net loss of approximately HK17,163,000, HK$47,099,000 and HK$28,571,000 respectively. Given the business and financial performance of the Group in recent years, we concur with the Directors' view that it is necessary to diversify into other business area to enhance the Group's income base with an aim to improve the earning of the Group in the long run.

In order to achieve this, the Directors proposed to acquire HKR in the Proposed Acquisition, as stated in the Letter from the Board, the Directors are of the view that the business of HKR, with its strengths of (i) strong expertise in identifying up coming apparel brands and introducing their products that appeal to customers in the Greater China market; (ii) ability to work closely with the licensors and designers which enables it to better identify, markets and price their products in the licensing territories; and (iii) experiences in securing retail spaces with landlords of major premier shopping malls which can be leveraged for the expansion of its retail network as well as the introduction of other brands, has a high growing potential as a result of the rapid economic development of the licensing territories in particular Macau and the PRC and the entry of the World Trade Organisation, is an opportunity for the Group of restoring its profitability and improving, so far as the value of the Company and its Shareholders as a whole are concerned, upon completion of its strategic business diversification by the Proposed Acquisition which in particular is substantiated, among other things, by the i) business track record of HKR; ii) profit guarantee given by the Vendor that HKR will make a net profit (before tax) of not less than HK$10 million for the 12 months period from April 2005 to 31 March 2006 and (iii) the Proposed Acquisition will bring an increase in the earning and assets of the Group due to the consolidation of the net profit and net assets of HKR into the Group. On these bases, the management of the Company is confident and optimistic about the prospect of the HKR. 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.

We have discussed with the Directors on the retailing industry and note that (i) the execution of the Individual Visit Scheme in July 2003, (ii) the opening of the Hong Kong Disneyland in September 2005, and (iii) the average of 9% GDP growth rate of PRC, the Directors are optimistic on the retailing business in Hong Kong. Moreover, we refer to a report from the Hong Kong Tourism Board dated 20 January 2006 and note that the visitor arrivals to Hong Kong grew to more than 23 million in 2005 representing an increase of 7.1% compared to 2004 of which visitor numbers from international markets increased by 13.1% to a record 10.8 million in 2005 and arrivals from Mainland China increased by 2.4% to a record of more than 12.5 million in 2005. Given the aforesaid statistics and the sustainable growth of 9% GDP of China for the past 10 years, we share the same view with the Directors that retailing business in Hong Kong is promising and is of excellent prospect.

Referring to the Accountants' Report on HKR stated in Appendix II to the Circular, we note that the turnover, gross profit and the net profit of HKR have been increasing approximately 12%, 20% and 100% on average respectively for the three successive year ended 31 December 2005. In this regards, we share the same view with the Directors that the Proposed Acquisition will restore and bring an increase in the earning and assets of the Group.

Furthermore, the Company has appointed Ms. Yu Wai Yin, Vicky, as executive Director on 26 August 2005 who possesses 8 years of experience in sales and merchandising in the textiles trading and fashion retailing businesses and Ms. Yu has neither been the director nor the staff of HKR before the Latest Practicable Date, and as stated in the Letter from the Board, the Company intends to maintain the employment of the existing management team of HKR after the Proposed Acquisition has been consummated, in order for the management of HKR to share their experience and to provide additional training in respect of the knowledge of retailing business to the existing staff. As such, we regards that the Directors have taken appropriate action to equip itself with strong expertise to entry into and monitor the retailing business for the Proposed Acquisition. Therefore, we hold a view that the Proposed Acquisition is in the interest of the Company and the Shareholders as a whole.

We note from the 2005 interim report of the Company (the "Interim Report") with the period ended as at 30 September 2005, the Group had (1) a net current liabilities of HK$12,753,000 of which loan payable amounted to HK$6,759,000; (2) a net total liabilities of HK$1,601,000; and (3) an accumulated loss of HK$60,693,000. As mentioned in our financial analysis of the Proposed Open Offer and the Proposed Acquisition in the section headed "Financial effects of the Proposed Open Offer and the Proposed Acquisition" below, the net assets per shares of the Group will be improved significantly after the Proposed Open Offer and the Proposed Acquisition (the net proceeds are mainly applied to pay the cash consideration of the Proposed Acquisition), we hold a view that the Proposed Open Offer and the Proposed Acquisition will strengthen the financial position of the Group and support the future development and expansion of the Group's business.

Based on the Group's financial position and the cash consideration of the Proposed Acquisition, we hold a view that the Company raises fund to effect the Proposed Acquisition by way of the Proposed Open Offer is in the best interest of the Group and the Shareholders as a whole. Details of fund raising alternative can be referred to the section headed "Alternatives to the Proposed Open Offer" below. Hence, we concur with the views of the Directors that the Proposed Open Offer will give fair participation opportunity to all Qualifying Shareholders to maintain their respective proportionate interests in the Company and to continue to participate in the future growth and development of the Group.

2. Principal terms of the Proposed Open Offer

Basis

As stated in the Letter from the Board, the Proposed Open Offer is on the basis of provisional allotment of three Offer Shares for every New Share held by the Qualifying Shareholders on the Record Date at the subscription price of HK$0.065 per Offer Share assuming that the Proposed Capital Reorganisation had already been completed. The Offer Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the New Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Subscription Price

As stated in the Letter from the Board, HK$0.065 per Offer Share shall be payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Offer Shares or applies for excess Offer Shares.

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

(1) a discount of approximately 13.3% to the adjusted closing price of HK$0.075 per New Share as quoted on the Stock Exchange on the Latest Trading Day assuming that the Proposed Capital Reorganisation had been completed immediately prior to that day;

(2) a discount of approximately 3.7% to the theoretical ex-entitlement price of HK$0.0675 per New Share based on the adjusted closing price of HK$0.075 per New Share as quoted on the Stock Exchange on the Latest Trading Day assuming that the Proposed Capital Reorganisation had been completed immediately prior to that day;

(3) a discount of approximately 17.7% to the average adjusted closing price of HK$0.079 per New Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Trading Day assuming that the Proposed Capital Reorganisation had been completed immediately prior to those days;

(4) a discount of approximately 19.8% to the average adjusted closing price of HK$0.081 per New Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Trading Day assuming that the Proposed Capital Reorganisation had been completed immediately prior to those days; and

(5) a discount of approximately 31.6% to the adjusted closing price of HK$0.095 per New Share as quoted on the Stock Exchange on the Latest Practicable Date assuming that the Proposed Capital Reorganisation had been completed immediately prior to that day.

As stated in the Letter from the Board, the Subscription Price was arrived at after arm's-length negotiations with the Underwriter after having taken into account i) the price performance of the Shares before the Announcement; and ii) the offering of an opportunity to the existing Shareholders to participate in the Proposed Open Offer and to share the results of the future business development of the Company.

(i) Share price performance

The average daily closing prices, the monthly highest recorded price and the monthly lowest recorded price of the Shares traded on the Stock Exchange in each of the fifteen months during the period commencing from 1 January 2005 up to and including the Latest Practicable Date (the "Review Period") are shown as follows (based on the closing price per Share as quoted on the Stock Exchange on each trading day during the Review Period and adjusted for the effect of the Proposed Capital Reorganisation):-

Table 1: Share price performance of the Company

Months	**Share price**		
	Average daily closing price *(Note 2)* *(HK$)*	**Highest price** *(Note 2)* *(HK$)*	**Lowest price** *(Note 2)* *(HK$)*
2005			
January	0.1410	0.190	0.095
February	0.1250	0.125	0.120
March	0.1205	0.125	0.110
April	0.1345	0.160	0.085
May	0.1270	0.130	0.125
June	0.1000	0.125	0.100
July	0.1075	0.115	0.060
August	0.0785	0.110	0.055
September	0.0895	0.115	0.065
October *(Note 3)*	0.0750	0.100	0.055
November *(Note 3)*	0.0780	0.130	0.055
December	0.0880	0.100	0.060
2006			
January	0.0670	0.090	0.055
February	0.1160	0.170	0.065
March *(Note 1)*	0.1010	0.125	0.080

Source: The Stock Exchange of Hong Kong Limited

Notes: 1. Up to the Latest Practicable Date

2. For the share price comparison purpose, the market share price presented as price per New Share which is adjusted on the basis of every 5 Shares be consolidated into one Consolidated Share and form one New Share by nominal reduction assuming the Proposed Capital Reorganisation has been completed.

3. The trading of Shares on the Stock Exchange was suspended from 4 October 2005 to 25 November 2005 pending for the release of the Announcement.

During the Review Period and before the date of the Announcement, the New Shares (assuming the Proposed Capital Reorganisation has been completed) were traded on a descending trend from the highest price of HK$0.190 per New Share on 5 January 2005 to a lowest price of HK$0.055 per New Share on 15 August 2005 and 3 October 2006 respectively and to the closing price of HK$0.075 per New Share on the Latest Trading Day. The Directors have advised that the Subscription Price was set at a price in the lower end of the aforesaid range and represents a premium of approximately 18.18% to the lowest price per New Share and a discount of approximately 65.89% to the highest price per New Share and a discount of approximately 13.3% to the closing price per New Share on the Latest Trading Day so as to induce the Independent Shareholders to participate in the Proposed Open Offer. We concur with the Directors that it is a common market practice for the subscription price of an open offer or a right issue to be set at a discount to the prevailing market prices of the relevant shares before the announcement in respect of the open offer and right issue is made. Our assessment on the fairness and reasonableness of the Subscription Price is set out in the following section (ii).

We also note that following the publication of the Announcement to the Latest Practicable Date, the Share price raised from HK$0.075 per New Share (assuming the Proposed Capital Reorganisation is completed) on the Latest Trading Day to HK$0.085 per New Share on the date immediately after the date of the Announcement on 28 November 2005 and continued to rise to the highest price of HK$0.15 per New Share on 20 February 2006. Since the Subscription Price was still below the closing price of HK$0.095 per New Share as at the Latest Practicable Date, given that, we are of the view that the Qualifying Shareholders can have a good investment opportunity to acquire Shares at a favourable price level.

(ii) Comparison with recent open offers and right issues by listed companies in Hong Kong

We have reviewed and included, so far as we are aware of, all the companies listed on the Stock Exchange which have announced open offer and rights issues during the period from 1 January 2005 up to and including 24 November 2005, being the last trading day of the Share on the Stock Exchange prior to the Announcement (the "Period"). We consider that using the reference within 2005 is appropriate for assessing the reasonableness of the pricing of the Proposed Open Offer. Based on the publicly available information, the open offers and right issues of listed companies on the mainboard of the Stock Exchange and GEM (the "Comparable Companies") announced during the Period, is summarized in the table below:

Table 2: Open Offer and Rights Issue Announced by Listed Companies in Hong Kong

Company (Stock code)	Date of announcement (dd/mm/yy)	Basis of allotment for the open offer/ rights issue	Premium/ discount) to (the closing price per share on the last trading day prior to the press announcement	Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement	Premium/ discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement	Underwriting commission	Underwriter(s)
Open offer							
Maxx Bioscience Holdings Limited (512)	06/01/05	2 for 1	(41.5)%	(37.5)%	(19.1)%	1.25%	Underwritten by Independent underwriters
Northern International Holdings Limited (736)	28/01/05	1 for 1	(33.3)%	(31.3)%	(20.0)%	2%	Underwritten by independent underwriters
Haywood Investments Limited (905)	07/02/05	1 for 1	(52.9)%	(54.5)%	(35.6)%	2%	Underwritten by independent underwriters
Shang Hua Holdings Limited (371)	07/07/05	1 for 2	(83)%	(84)%	(77)%	2.5%	Underwritten by an independent underwriter
Garient (Holdings) Limited (729)	05/08/05	3 for 1	(60.0)%	(67.0)%	(27.54)%	3%	Underwritten by a connected person and an independent underwriter
United Power Investment Limited (674)	29/08/05	1 for 1	(67.39)%	(69.01)%	(32.74)%	1.5%	Underwritten by a connected person and an independent underwriter
ePro Limited (8086)	17/11/05	1 for 2	(18.75)%	(12.16)%	(13.33)%	Fixed sum of HK$1,000	Underwritten by a connected person

Company (Stock code)	Date of announcement (dd/mm/yy)	Basis of allotment for the open offer/ rights issue	Premium/ discount) to (the closing price per share on the last trading day prior to the press announcement	Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement	Premium/ discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement	Underwriting commission	Underwriter(s)
Rights issue							
New World China Land Limited (917)	18/02/05	3 for 2	(30.0)%	(26.3)%	(14.6)%	1%	Underwritten by a connected person
Lai Sun Garment (International) Limited (191)	18/05/05	1 for 8	(5.7)%	(9.1)%	(5.1)%	4.3%	Underwritten by an independent underwriter
Hualing Holdings Limited (382)	19/05/05	3 for 2	(56.5)%	(57.5)%	(34.2)%	2%	Underwritten by a connected Person
SNP Leefung Holdings Limited (623)	25/5/05	1 for 4	(14.3)%	(15.5)%	(11.8)%	2%	Underwritten by an independent underwriter
Wealthmark International (Holdings) Limited (39)	08/07/05	1 for 2	(14.29)%	(19.62)%	(10)%	2.5%	Underwritten by an independent underwriter
Zhong Hua International Holdings Limited (1064)	19/07/05	1 for 2	(65.8)%	(59.06)%	(26.9)%	2%	Underwritten by an independent underwriter
Asia Alliance Holdings Limited (616)	22/07/05	10 for 1	(53.5)%	(55.1)%	(9.5)%	1%	Underwritten by an independent underwriter
Unity Investments Holdings Limited (913)	26/07/05	10 for 1	(62.96)%	(65.52)%	(13.04)%	2.5%	Underwritten by an independent underwriter
Symphony Holdings Limited (1223)	27/07/05	1 for 2	(61.8)%	(61.9)%	(51.9)%	2.5%	Underwritten by a connected person
Garron International Limited (1226)	09/08/05	4 for 1	(90.48)%	(90.83)%	(61.54)%	3%	Underwritten by a connected person
Capital Estate Limited (193)	11/08/05	4 for 1	(60.0)%	(55.9)%	(23.1)%	1.5%	Underwritten by an independent underwriter
Century Legend (Holdings) Limited (79)	16/08/05	1 for 5	(30.8)%	(31.2)%	(27.1)%	2.5%	Underwritten by a connected person
Renren Holdings Limited (59)	05/10/05	6 for 1	(45.5)%	(44.4)%	(11.8)%	2.5%	Underwritten by an independent underwriter and a connected person
Wonson International Holdings Limited (651)	06/10/05	4 for 1	(54.95)%	(56.52)%	(19.35)%	2.5%	Underwritten by independent underwriters

Company (Stock code)	Date of announcement (dd/mm/yy)	Basis of allotment for the open offer/ rights issue	Premium/ discount) to (the closing price per share on the last trading day prior to the press announcement	Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement	Premium/ discount) to theoretical ex-rights/ exentitlements price per share on the last trading day prior to the press announcement	Underwriting commission	Underwriter(s)
Heritage International Holdings Limited (412)	07/10/05	5 for 2	(46.2)%	(53.0)%	(19.7)%	2%	Underwritten by independent underwriters
B&S Entertainment Holdings Limited (8167)	07/10/05	4 for 1	(65.5)%	(68.8)%	(28.6)%	2.5%	Underwritten by an independent underwriter
Wai Yuen Tong Medicine Holdings Limited (897)	10/10/05	3 for 1	(49.15)%	(50.08)%	(19.48)%	2.5%	Underwritten by an independent underwriter
Earnest Investments Holdings Limited (339)	12/10/05	8 for 1	(90.7)%	(91.7)%	(52.4)%	1.5%	Underwritten by an independent underwriter
Foundation Group Limited (1182)	18/10/05	3 for 1	(77)%	(76.53)%	(45.63)%	1%	Underwritten by two independent underwriters and a connected person
QPL International Holdings Limited (243)	1/11/2005	1 for 5	(13.89)%	(22.50)%	(11.43)%	2.5%	Underwritten by an independent underwriter and certain connected persons
HKR International Limited (480)	03/11/05	1 for 6	2.7%	0.8%	2.4%	Higher of HK$10,000,000 or 2.5%	Underwritten by a connected person
Far East Technology International Limited (36)	09/11/2005	1 for 2	(25.0)%	(24.9)%	(18.2)%	2.5%	Underwritten by an independent underwriter
New World Cyberbase Limited (276)	14/11/05	2 for 1	(35.6)%	(35.6)%	(15.7)%	1.5%	Underwritten by a connected person
Results of the Comparables of open offer and right issues:							
Minimum			8.7%	7.87%	5.1%	1%	
Maximum			(90.48)%	(90.83)%	(77.0)%	4.3%	
Mean/Average			(46.46)%	(47.32)%	(25.59)%	2.2%	
Median			(49.15)%	(53.0)%	(19.59)%	2.5%	
The Company	**25 November 2005**	**3 for 1**	**(13.3)%**	**(19.8)%**	**(3.7)%**	**2.5%**	**Underwritten by an independent underwriter**

Source: The Stock Exchange of Hong Kong Limited

We are mindful of the fact that the pricing of an open offer may vary under different stock market conditions as well as for companies with different financial standing and business performance. Nevertheless, we consider that a broader comparison of open offers and right issues announced recently would provide a more general reference during a comprehensive period for assessing the reasonableness of the pricing of the Proposed Open Offer.

The Directors advised that, in order to attract Qualifying Shareholders to participate in the Proposed Open Offer, the Subscription Price must be set at a discount to the closing price. We note from result of the Table 2 that it is the common market practice for most of the Comparable Companies setting their subscription price of an open offer and a right issue at a discount (instead of a premium) to the prevailing market prices of the relevant shares before the announcement in respect of the open offer and right issue is made.

In view of (1) the discount rates of the Comparable Companies' subscription prices to their respective closing price on the last trading day prior to the press announcement range from a premium of approximately 8.7% to a discount of approximately 90.48%; (2) the discount rates of the Comparable Companies' subscription prices to their respective closing price on 10 trading days prior to the press announcement range from a premium of approximately 7.87% to a discount of approximately 90.83%; and (3) the discount rates of the Comparable Companies' subscription prices to their respective theoretical ex-rights or ex-entitlements price on the last trading day prior to the press announcement range from a premium of approximately 5.1% to a discount of approximately 77.0%, we consider that the discount rate of the Subscription Price falls within all the discount rates ranges as mentioned above.

In addition, smaller discount rate of the Subscription Price is noted when compared with (1) the mean and median discounts rate of the Comparable Companies' subscription prices to their respective closing price on the last trading day prior to the press announcement of approximately 46.46% and 49.15%; (2) the mean and median discounts rate of the Comparable Companies' subscription prices to their respective closing price on 10 trading days prior to the press announcement of approximately 47.32% and 53.0%; and (3) the mean and median discounts rate of the Comparable Companies' subscription prices to their respective theoretical ex-rights or ex-entitlements price on the last trading day prior to the press announcement of approximately 25.59% and 19.59%. The Directors proposed to adopt a small discount rate so that the dilution effect of those non-participating Qualifying Shareholders will be minimal given the fixed amount of funds to be raised by way of the Proposed Open Offer. As such, we note that the basis of determining the Subscription Price by making a discount to the closing price of the Shares before the publication of the Announcement is acceptable and the Proposed Open Offer provides a good investment opportunity for the Qualifying Shareholders to acquire shares at a favourable price level, we consider that the pricing of the Proposed Open Offer is fair and reasonable.

Dilution effect on the Shareholders

Although the Proposed Open Offer which is to be made on the basis of three Offer Shares for every New Shares held will lead to a maximum dilution of approximately 75% of the attributable interest in the Company (in terms of percentage shareholding) of the Qualifying Shareholders who do not elect to subscribe for in full their assured allotments under the Proposed Open Offer after completion of the Proposed Capital Reorganisation and the Proposed Open Offer (but before any New Shares to be issued through conversion of the Convertible Notes), the Proposed Open Offer grants each of the Qualifying Shareholders equal opportunity to accept the Offer Shares. In addition, considering the funding requirements of the Group and the slight discount rate on the Subscription Price, the Directors consider that the basis of the Proposed Open Offer is determined with the objective to keep the dilution effect to those non-participating Qualifying Shareholders at the lowest level. We concur with the Directors' view that those non-participating Qualifying Shareholders will have the minimum dilution effect on the offer basis of three Offer Shares for every New Share given the funding requirements of the Group and the Subscription Price of HK$0.065. Further, the Proposed Open Offer provides funds for the Group and its shareholders to share the future benefits that may be brought about by the expansion of the Group's business through the use of proceeds from the Proposed Open Offer. We therefore consider that the possible maximum dilution effect of approximately 75% on the Shareholders under the Proposed Open Offer is fair and reasonable.

3. Underwriting arrangements

From the Table 2 as set out above, we note that the commissions of the respective commercial underwriters range from 1% to 4.3% among the Comparable Companies and the mean commissions calculated from and the median commissions extracted from the Comparable Companies are 2.2% and 2.5% respectively. In view of this, we consider the commission to be charged to the Company by the underwriter of 2.5% is within the range of normal commissions charged by commercial underwriters and is comparable to the market practice.

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Proposed Open Offer would not be proceeded if the Underwriters exercise their termination rights under the Underwriting Agreement, details of the provisions granting the Underwriters such termination rights are included in the section headed "Conditions of the Proposed Open Offer" in the Letter from the Board. We consider such provisions are in normal commercial terms and in line with the normal market practice.

Hence, we are of the view that the terms of the underwriting arrangement is fair and reasonable.

4. Intention of the controlling shareholder of the Company to take up its entitlement in the Proposed Open Offer

As stated in the Letter from the Board, Arcon and its associate (the controlling shareholder of the Company) are required to abstain from voting in the EGM on the resolution regarding the Proposed Open Offer and the Directors 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 neither forms an material part nor causes 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 which will eventually benefit the Company and its Shareholders as a whole. Regardless of the interest of the controlling shareholder of the Company and the Independent Shareholders, 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 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 conditions in the equity capital markets and political uncertainty in the global market, the controlling shareholder of the Company 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.

Having consider that the Proposed Open Offer will benefit the Shareholders and the Company as a whole as analyzed in the sections headed under "Use of Proceeds" and "Financial effects of the Proposed Open Offer and the Proposed Acquisition" below, we consider that the most important factors for the Independent Shareholders in deciding their voting intention is the benefits arising from the Proposed Open Offer and the Proposed Acquisition. In addition, as confirmed by the Directors, all of them are independent from the controlling shareholder of the Company, in which they do not hold any interest in the controlling shareholding and do not represent controlling shareholder's own interest in the Company and the controlling shareholder does not participate in the daily operation, management decision and directors' meeting of the Company so far. In this regard, we concur with the Directors' view that the intention of the controlling shareholder of the Company to take up its entitlement in the Proposed Open Offer should not be a factor to affect the voting intention of the Independent Shareholders.

5. Fund raising activities in the 12 months immediately prior to the Announcement

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

6. Alternatives to the Proposed Open Offer

Debt financing or bank borrowings

The Directors advised that they have considered other methods of funds raising such as debt financing and bank borrowing. Given the Group's current financial position as well as the HK$18.48 million in cash to be payable to the Vendor upon completion of the Proposed Acquisition, we concur with the Directors' view that the capability of the Group to raise sufficient funds from bank borrowing for the Proposed Acquisition would be minimal and in light of the current financial position of the Company, the Company will be better off by avoiding the interest burden resulted from the debt financing and bank borrowing.

Equity funding

The Directors consider that it is more conservative for the Company to implement the Proposed Acquisition through equity funds raising activities. Hence the issuance of Loan Shares has already diluted the then shareholdings of the Shareholders, the Directors consider that it will not be in the best interest of the Shareholders to further dilute their shareholdings if equity financing in the size comparable to the Proposed Open Offer is raised through a placing of new Shares. Notwithstanding both open offer and rights issue allow Shareholders to maintain their respective proportionate interests in the Company and participate in the enlargement of the capital base of the Company, we concur with the Directors' view that the Proposed Open Offer, which will not incur additional time and costs for trading of nil-paid rights, is more time and cost effective.

Accordingly, as compared to debt financing from bank borrowing, placement of new Shares and rights issue, we concur with the Directors' view that the Proposed Open Offer under the prevailing arrangement is a better funds raising alternative to finance the Group's business expansion plans while enable the Shareholders to maintain their proportionate interests in the Company should they so wish and we are of the view that the fund raising by way of open offer is fair and reasonable.

7. Risks associated with the Proposed Open Offer

As stated in the Letter from the Board, the Proposed Open Offer is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Termination of the Underwriting Agreement" in the Letter of the Board). Given the Proposed Open Offer may or may not proceed, the Directors consider that the Shareholders and potential investors should therefore exercise caution when dealing in the New Shares respectively, and advise that if they are in any doubt about their position, they should consult their professional advisers.

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

8. Use of Proceeds

The estimated net proceeds from the Proposed Open Offer will be approximately HK$23.73 million which is intended to be applied as to approximately HK$18.48 million for the partial payment of the consideration for the Proposed Acquisition and 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.

After considering (i) the Proposed Acquisition will restore and bring an increase in the earning of the Group and strengthen the financial position of the Group; (ii) the Company already has a plan to support the future development and expansion of the Group's new business for HKR; and (iii) the increased general working capital will increase the cash position of the Group, as a result the improvement in liquidity will strengthen the financial position, we conclude that the use of proceeds undertaken by the Group is in the interest to the Company and its Shareholders as a whole.

9. Financial effects of the Proposed Open Offer, the Use of Proceeds and the Proposed Acquisition

We have made reference to the section headed "Pro Forma Financial Information" as set out in Appendix III to the Circular for the following analysis on the effects of the Proposed Open Offer and the Proposed Acquisition.

Net asset/(liability) value

The unaudited pro forma adjusted consolidated net asset of the Enlarged Group amounts to approximately HK$33.43 upon completion of the Proposed Open Offer and the Proposed Acquisition, representing an increase of HK$35.03 million as compared to the unaudited consolidated net liability value of the Group of approximately HK$1.60 million as at 30 September 2005. The unaudited pro forma adjusted consolidated net asset/(liability) per Share will be improved from HK cents (0.27) to HK cents 3.39.

We are of the view that the Proposed Open Offer presents a valuable opportunity for Qualifying Shareholders to enlarge the capital base of the Group while providing the Group with necessary funding to pay the cash consideration of the Proposed Acquisition and also to increase the working capital of the Group. Besides, after completion of the Proposed Acquisition, the net asset of HKR will be consolidated into the Group and such consolidation will further increase the net asset value of the Group. As a result, the Proposed Open Offer and the Proposed Acquisition would increase the net asset value of the Group and the net asset value per Share.

Gearing Ratio

The unaudited pro forma adjusted total assets of the Enlarged Group will amount to approximately HK$107.81 million upon completion of the Proposed Open Offer and Proposed

Acquisition, representing an increase of HK$96.1 million as compared to the unaudited consolidated total asset value of the Group of approximately HK$11.71 million as at 30 September 2005. The unaudited pro forma adjusted total liabilities of the Enlarged Group will increase from approximately HK$13.31 million to approximately HK$74.37 million upon completion of the Proposed Open Offer and Proposed Acquisition. Accordingly, the gearing ratio of the Group, which is calculated by dividing the total liabilities by the total assets of the Group as at 30 September, of 1.14 will be improved to 0.69 as a result of the Proposed Open Offer and the Proposed Acquisition.

Based on the above analysis, given that both the net asset value and the gearing ratio of the Group are improved after the Proposed Open Offer and the Proposed Acquisition, we are of the view that the Proposed Open Offer of which the net proceeds are mainly applied to pay the cash consideration of the Proposed Acquisition and the Proposed Acquisition, is in the interest to the Company and its Shareholders as a whole.

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9. RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Proposed Open Offer is in the interests of the Company and the Independent Shareholders as a whole, and that the terms of the Open Offer Agreements are fair and reasonable as far as the Company and the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the ordinary resolution approving the Proposed Open Offer at the EGM.

Yours faithfully,
For and on behalf of
GUANGDONG SECURITIES LIMITED

C. K. Poon
Managing Director and
Head of Corporate Finance Department

A. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 MARCH 2005

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 March 2005:

	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,442	14,779	57,471
Cost of location-based technology devices and applications	(522)	(13,130)	(37,683)
	920	1,649	19,788
Other revenues	29	2	48
Waiver of other payables	133	–	–
Waiver of accrued salary payable to a director	248	1,488	–
Advertising and promotion costs	(5)	(4,018)	(2,383)
Staff costs	(2,628)	(4,217)	(10,112)
Depreciation	(11,772)	(11,966)	(11,723)
Other charges	(1,378)	(26,077)	(18,719)
Other operating expenses	(2,710)	(3,960)	(6,245)
Loss before taxation	(17,163)	(47,099)	(29,346)
Taxation	–	–	775
Loss attributable to shareholders	(17,163)	(47,099)	(28,571)
Basic loss per share	2.91 cents	7.98 cents	4.96 cents

No dividends have been paid or declared by the Company for the three years ended 31 March 2005. There were neither extraordinary nor exceptional items during each of the three years ended 31 March 2005.

The Company's then auditors, Graham H.Y. Chan & Co. has issued a disclaimer of opinion on the Company's consolidated financial statements for the year ended 31 March 2004 and 2005 respectively, the texts of which are reproduced below.

B. AUDITORS' REPORT CONTAINED IN THE COMPANY'S 2004 ANNUAL REPORT

Set out below is the reproduction of the text of the qualified auditors' report for the year ended 31 March 2004 contained in the Company's 2004 annual report. Reference to page numbers in the auditors' report refer to the page numbers of the 2004 annual report of the Company.

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 accounts on pages 22 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

Included in fixed assets in the consolidated balance sheet as at 31 March 2004, there were computer equipment with net book value of approximately HK$28,694,000. These assets are the major cash-generating unit of the Group. However, the Group has been suffering from significant operating loss over the years and it is uncertain whether the operating results will be improved in the near future. In our opinion, the carrying amounts of these assets have exceeded their recoverable amounts and impairment loss should have been recognised, increasing the consolidated loss for the year ended 31 March 2004 and reducing the net assets of the Group as at that date by the amount of impairment loss. However, due to the unavailability of sufficient information, we could not quantify the effect of the impairment loss at the moment.

Except for the failure to recognise impairment loss as mentioned in the above paragraph, in our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 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

Hong Kong, 28 June 2004

C. AUDITORS' REPORT CONTAINED IN THE COMPANY'S 2005 ANNUAL REPORT

Set out below is the reproduction of the text of the qualified auditors' report and the audited financial statements for the year ended 31 March 2005 contained in the Company's 2005 annual report. Reference to page numbers in the auditors' report and the audited financial statements of the Group refer to the page numbers of the 2005 annual report of the Company.

陳浩賢會計師事務所

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 accounts on pages 18 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

Included in fixed assets in the consolidated balance sheet as at 31 March 2005, there were computer equipment with net book value of approximately HK$17,003,000. These assets are the major cash-generating unit of the Group. However, the Group has been suffering from significant operating loss over the years and it is uncertain whether the operating results will be improved in the near future. In our opinion, the carrying amounts of these assets have exceeded their recoverable amounts and impairment loss should have been recognised, increasing the consolidated loss for the year ended 31 March 2005 and reducing the net assets of the Group as at that date by the amount of impairment loss. However, due to the unavailability of sufficient information, we could not quantify the effect of the impairment loss at the moment.

Except for the failure to recognise impairment loss as mentioned in the above paragraph, in our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 29 June 2005

D. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2005

The following is a summary of the audited consolidated accounts of the Company for the year ended 31 March 2005 as extracted from the 2005 annual report of the Company.

Consolidated Profit and Loss Account
For the year ended 31 March 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Turnover	*4*	1,442	14,779
Cost of location-based technology devices and applications		(522)	(13,130)
		920	1,649
Other revenues	*4*	29	2
Waiver of other payables		133	–
Waiver of accrued salary payable to a director		248	1,488
Advertising and promotion costs		(5)	(4,018)
Staff costs		(2,628)	(4,217)
Depreciation		(11,772)	(11,966)
Other charges		(1,378)	(26,077)
Other operating expenses		(2,710)	(3,960)
Loss before taxation	*5*	(17,163)	(47,099)
Taxation	*6*	–	–
Loss attributable to shareholders	*7*	(17,163)	(47,099)
Basic loss per share	*8*	2.91 cents	7.98 cents

Consolidated Balance Sheet

As at 31 March 2005

	Notes	2005 HK$'000	2004 HK$'000
Fixed assets	11	17,012	28,745
Investments in associated companies	13	4	4
Current assets			
Inventories	14	336	1,873
Trade receivables	15	171	359
Deposits, prepayments and other receivables		187	29
Cash and bank balances		122	55
		816	2,316
Current liabilities			
Trade payables	16	–	367
Other payables and accruals		2,466	3,107
Amount due to a fellow subsidiary	17	4,108	495
Amount due to a director	18	6,108	4,766
Current portion of obligation under finance leases	22	8	15
		12,690	8,750
Net current liabilities		(11,874)	(6,434)
Total assets less current liabilities		5,142	22,315
Capital and reserves			
Share capital	19	59,092	59,092
Reserves		(53,950)	(36,785)
Shareholders' funds		5,142	22,307
Non-current portion of obligation under finance leases	22	–	8
		5,142	22,315

Balance Sheet

As at 31 March 2005

	Notes	2005 HK$'000	2004 HK$'000
Investments in subsidiaries	12	–	–
Current assets			
Bank balances		1	26
Current liabilities			
Other payables and accruals		549	662
Net current liabilities		(548)	(636)
Total assets less current liabilities		(548)	(636)
Capital and reserves			
Share capital	19	59,092	59,092
Reserves	21	(59,640)	(59,728)
		(548)	(636)

Consolidated Statement of Changes in Equity
For the year ended 31 March 2005

	Share capital	Share premium	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2003	57,600	34,489	(10)	(24,371)	67,708
Issue of shares	1,492	209	–	–	1,701
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	–	–	(3)	–	(3)
Loss for the year	–	–	–	(47,099)	(47,099)
At 31 March 2004	59,092	34,698	(13)	(71,470)	22,307
At 1 April 2004	59,092	34,698	(13)	(71,470)	22,307
Exchange differences arising on translation of accounts of overseas subsidiaries and net losses not recognised in the consolidated profit and loss account	–	–	(2)	–	(2)
Loss for the year	–	–	–	(17,163)	(17,163)
At 31 March 2005	59,092	34,698	(15)	(88,633)	5,142

Consolidated Cash Flow Statement
For the year ended 31 March 2005

	Notes	2005 HK$'000	2004 HK$'000
Net cash from/(used in) operating activities	24(a)	123	(213)
Cash flows from investing activities			
Purchase of fixed assets		(39)	(5)
Sales proceeds from fixed assets		–	2
Net cash used in investing activities		(39)	(3)
Net cash used in financing activities			
Repayment of capital element of finance leases		(15)	(15)
Net increase/(decrease) in cash and cash equivalents		69	(231)
Cash and cash equivalents at beginning of the year		55	289
Effect of foreign exchange rate changes		(2)	(3)
Cash and cash equivalents at end of the year		122	55
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		122	55

Notes to the Accounts

1 General information

The Company was incorporated as an exempted company with limited liability in 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 principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 12 to the accounts.

2 Potential impact arising from the recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has considered the potential impact of these new HKFRSs and concluded that the adoption of these standards would not have a significant impact on its results of operation and financial position.

3 Principal accounting policies

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

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power to govern the financial and operating policies, to appoint or remove majority of the members of the Board, or to cast majority of the votes at the meeting of the Board.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An 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 consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

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

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(c) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in obligations under finance leases in the balance sheet. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(h) Related parties

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 or corporate entities.

(i) 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.

(j) Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes profit and loss items that are never taxable or deductible.

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

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

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

Deferred tax assets and liabilities are offset only when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(k) Translation of foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

On consolidation, the accounts of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are dealt with as a movement in the exchange reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

(l) Employee benefits

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

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the profit and loss account in respect of the value of options granted during the year. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapsed prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

(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 on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

4 Turnover and revenues

The Group is principally engaged in the design, development and sales of location-based technology devices and applications. Revenues recognised during the year are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Turnover		
Sale of goods	1,442	14,779
Other revenues		
Sundry income	29	2
Total revenues	1,471	14,781

No activity analysis and geographical analysis are presented for the years ended 31 March 2005 and 2004 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.

5 Loss before taxation

Loss before taxation is stated after charging the following:

	2005	**2004**
	HK$'000	*HK$'000*
Auditors' remuneration		
– current year	250	254
– under provision in prior year	80	150
Depreciation of fixed assets		
– owned assets	11,757	11,951
– assets held under finance leases	15	15
Operating lease rental in respect of land and buildings	499	893
Research and development costs *(note (a))*	1,120	1,793
Retirement benefits costs	33	(55)
Exchange loss	–	2
Other charges		
– Provision for doubtful debts	–	9,261
– Bad debt written off	–	12,920
– Provision for obsolete and slow-moving inventories	1,378	2,809
– Loss on disposal of fixed assets	–	1,087

(a) Included in the research and development costs were staff costs of HK$1,043,000 (2004: HK$1,648,000) which had also been included in staff costs set out in the consolidated profit and loss account.

6 Taxation

(a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the years ended 31 March 2005 and 2004.

(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.

(c) Taxation for the year can be reconciled to the loss before taxation per the consolidated profit and loss account as follow:

	2005	**2004**
	HK$'000	*HK$'000*
Loss before taxation	(17,163)	(47,099)
Tax at the domestic income tax rate of 17.5%	(3,003)	(8,242)
Tax effect of non-deductible expenses	252	96
Tax effect of non-taxable income	(115)	–
Effect on different tax rates of subsidiaries operating in other jurisdictions	27	34
Deferred tax assets not recognised	2,839	8,112
	–	–

7 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK$88,000 (2004: loss of HK$93,616,000).

8 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of approximately HK$17,163,000 (2004: HK$47,099,000) and the weighted average number of 590,916,000 ordinary shares (2004: 590,262,148 ordinary shares) in issue during the year.

Diluted loss per share is not presented because there were no dilutive potential ordinary shares outstanding during the two years ended 31 March 2005.

9 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Independent non-executive directors		
Fees	230	154
Other emoluments of executive directors		
– Basis salaries, allowances and other benefits in kind	429	1,928
– Retirement benefits scheme contributions	10	19
	439	1,947
Total directors' emoluments	669	2,101

During the year, an independent non-executive directors received directors' fee of HK$154,000 (2004: HK154,000). The independent non-executive director appointed during the year received directors' fee of HK76,000. The remaining independent non-executive director did not receive any directors' fees for both years.

During the year, an executive director resigned and did not receive emoluments for the year (2004: HK$34,000). The executive director appointed during the year received emoluments of HK$187,000. The other executive director received emoluments of HK$252,000 (2004: HK$1,636,000).

On 17 May 2004, an executive director signed a letter agreeing to waive his salary for the period from 1 May 2003 onwards. The waived salary for the year ended 31 March 2005 amounting to HK$248,000 (2004: HK$1,488,000) has been included in the above disclosure. Apart from this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2005 and 2004.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: three) individuals during the year are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	1,041	517
Retirement benefits scheme contributions	38	25
	1,079	542

The emoluments of the four (2004: three) highest paid individuals during the years ended 31 March 2005 and 2004 fell in the band from Nil to HK$1,000,000.

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement upon joining the Group, or as compensation for loss of office.

10 Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the Scheme vest fully with the employees. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Contributions totalling HK$7,000 (2004: HK$5,000) were payable to the MPF Scheme at the year end and are included in other payables and accruals in the consolidated balance sheet.

11 Fixed assets – Group

	Computer equipment *HK$'000*	Furniture, fixtures and office equipment *HK$'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
Accumulated depreciation					
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
Net book value					
At 31 March 2005	17,003	9	–	–	17,012
At 31 March 2004	28,694	26	25	–	28,745

At 31 March 2005, the net book value of fixed assets held by the Group under finance leases included in the total amount of furniture, fixtures and office equipment amounted to HK$8,000 (2004: HK$23,000).

12 Investments in subsidiaries

	Company 2005 *HK$'000*	2004 *HK$'000*
Amounts due from subsidiaries *(note (b))*	92,414	93,072
Less: Provision	(92,414)	(93,072)
	–	–

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

Name of company	Country/place and date 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 15 March 2000	Investment holding in Hong Kong	Ordinary US$3	100%
Satellite Devices Intelligence (BVI) Limited	The British Virgin Islands 18 June 2004	Investment holding in Hong Kong	Ordinary US$1	100%
Shares held indirectly:–				
Satellite Devices Limited	Hong Kong 14 July 1999	Design, development and sale of location based technology devices and applications in Hong Kong	Ordinary HK$5,000,000	100%
衛科導航技術(深圳)有限公司 ("Satellite Devices Technology (Shenzhen) Company Limited")	The People's Republic of China of China excluding Hong Kong (the "PRC") 2 August 2002	Provision of technical support services in the PRC	Registered capital HK$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands 5 July 2000	Investment holding in Hong Kong	Ordinary US$1	100%
Satellite Devices Intelligence Limited	Hong Kong 23 June 2004	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.

13 Investments in associated companies

	2005	2004
	HK$'000	*HK$'000*
Share of net assets	1,474	1,474
Amount due to an associated company *(note (b))*	(1,470)	(1,470)
	4	4

(a) The following is a list of the associated companies of the Group at 31 March 2005:

Company	Place and date of incorporation	Principal activities and place of operation	Issued share capital	Interest held indirectly
Telematics Systems Limited	Hong Kong 22 June 2001	Inactive	Ordinary shares of HK$10,000	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 associated company is unsecured, interest free and has no fixed terms of repayment.

14 Inventories

Inventories comprise electronic components and parts. As at 31 March 2005 and 2004, all inventories were carried at cost.

15 Trade receivables

Details of ageing analysis of trade receivables are as follows:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	98	239
31 – 60 days	45	63
61 – 90 days	8	12
Over 90 days	15,237	15,262
	15,388	15,576
Less: Provision for doubtful debts	(15,217)	(15,217)
	171	359

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

16 Trade payables

Details of ageing analysis of the trade payables are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
0 – 30 days	–	33
61 – 90 days	–	–
Over 90 days	–	334
	–	367

17 Amount due to a fellow subsidiary

	2005	**2004**
	HK$'000	*HK$'000*
Arcon Technology Limited	4,108	495

The amount is unsecured, interest-free and repayable on demand.

18 Amount due to a director

The amount is unsecured, interest-free and repayable on demand.

19 Share capital

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 31 March 2005 and 2004	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2003	576,000,000	57,600
Issue of shares	14,916,000	1,492
At 31 March 2004 and 2005	590,916,000	59,092

On 17 April 2003, 14,916,000 new ordinary shares of HK$0.1 each were issued and allotted to The Chinese University of Hong Kong at the price of HK$0.114 for the settlement of the balance of HK$1,700,000 for the purchase of the software licenses.

20 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.

As at 31 March 2005, no option has been granted or agreed to be granted by the Company under the Scheme.

21 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 21 of the accounts.

Company

	Share premium	**Accumulated Losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003	34,489	(810)	33,679
Issue of shares	209	–	209
Loss for the year	–	(93,616)	(93,616)
At 31 March 2004	34,698	(94,426)	(59,728)
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)

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 debts as they fall due in the ordinary course of business.

As at 31 March 2005 and 2004, the Company had no reserve for distribution.

22 Obligation under finance leases

As at 31 March 2005, the Group's obligations under finance leases were repayable as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	9	16
In the second year	–	9
	9	25
Future finance charges on finance leases	(1)	(2)
Present value of finance lease liabilities	8	23

The present value of finance lease liabilities is as follows:

	2005	2004
Within one year	8	15
In the second year	–	8
	8	23

23 Deferred taxation – Group

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

	Tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003	6,510	(6,510)	–
Charged/(credited) to consolidated profit and loss account	(1,630)	1,630	–
At 31 March 2004	4,880	(4,880)	–
At 1 April 2004	4,880	(4,880)	–
Charged/(credited) to consolidated profit and loss account	(2,011)	2,011	–
At 31 March 2005	2,869	(2,869)	–

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

As at 31 March 2005, the Group had unused tax losses of approximately HK$98,477,000 (2004: approximately HK$94,683,000) available for offset against future profits. A deferred tax asset was recognised for the year ended 31 March 2005 in respect of HK$16,393,000 (2004: HK$27,886,000) 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.

24 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to cash flow used in operating activities

	2005	**2004**
	HK$'000	*HK$'000*
Loss before taxation	(17,163)	(47,099)
Adjustments for:		
Depreciation of owned fixed assets	11,757	11,951
Depreciation of fixed assets held under finance leases	15	15
Loss on disposal of fixed assets	–	1,087
Provision for doubtful debts	–	9,261
Provision for obsolete and slow moving stock	1,378	2,809
Operating loss before working capital changes	(4,013)	(21,976)
Decrease in inventories	159	547
Decrease in trade receivables	188	31,398
(Increase)/decrease in deposits, prepayments and other receivables including amount due from a fellow subsidiary	(158)	10,653
Increase/(decrease) in trade payables, other payables and accruals including amount due to a director and a fellow subsidiary	3,947	(20,835)
Net cash from/(used in) operating activities	123	(213)

25 Related party transactions

Other than the amount due to a fellow subsidiary as disclosed in note 17 above, during the year, the Group entered into the following transactions with fellow subsidiaries in the ordinary course of business:–

	2005	**2004**
	HK$'000	*HK$'000*
Office rental expenses paid and payable to		
Arcon Technology Limited	16	56
Heng Xing Wei Information Technologies (Shenzhen) Limited	–	53
	16	109

26 Commitments

(a) Commitment under operating leases

As at 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	166	–
In the second to fifth years inclusive	9	–
	175	–

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

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

	2005	**2004**
	HK$'000	*HK$'000*
Contracted but not provided for	540	540
Authorised but not contracted for	–	–
	540	540

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

As at 31 March 2005, the Group had unprovided capital commitments amounting to HK$857,000 (2004: HK$1,167,000) in respect of the investment in a subsidiary, Satellite Devices Technology (Shenzhen) Company Limited, being the balance of the required capital contribution to this subsidiary by the Group as at that date.

27 Litigation

At the report date, 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 accounts.

On 8 March 2004, ICEA Capital Limited ("ICEA"), the former sponsor of the Company, issued a writ against the Company for the outstanding debt of HK$512,000 in respect of the outstanding sponsorship fee payable. Full provision for this amount had been made in the accounts.

28 Ultimate holding company

The directors regard Upgrade Technology Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29 Approval of accounts

The accounts were approved by the board of directors on 29 June 2005.

E. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2005 and three months ended 30 September 2005, together with the comparative unaudited figures for the corresponding period in 2004, extracted interim report of the Company.

Condensed Consolidated Profit & Loss Account

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

Consolidated Balance Sheet

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

Condensed Consolidated Cashflow Statement

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

Consolidated Statement of Changes in Equity (Unaudited)

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

Notes to the accounts:

1. Basis of presentation

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

2. Turnover and revenue

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

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

3. Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 September		**Three month ended 30 September**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation				
Owned fixed assets	5,873	5,891	2,935	2,945
Leased fixed assets	–	8	–	4
	5,873	5,899	2,935	2,949

4. Staff costs

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

5. Taxation

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

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

Deferred Taxation

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

6. Loss per share

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

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

7. Capital expenditure

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

8. Trade receivable

Details of ageing analysis of trade receivable were as follows:

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

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

9. Long term liabilities

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

	As at 30 September 2005 *HK$'000*	As at 31 March 2005 *HK$'000*
Within one year	–	9
In the second year	–	–
	–	9
Future finance charge on finance leases	–	(1)
	–	8
The present value of finance lease liabilities is as follows:		
Within one year	–	8
In the second year	–	–
	–	8

10. Share capital

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

11. Commitments

(a) Commitments under operating leases

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

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

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

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

	As at 30 September 2005 *HK$'000*	As at 31 March 2005 *HK$'000*
Contracted but not provided for	540	540
Authorized but not contracted for	–	–
	540	540

F. STATEMENT OF INDEBTEDNESS OF THE GROUP

Borrowings

At the close of business on 31 January 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding loan of approximately HK$4,775,000. The amount 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.

Save as disclosed above and apart from intra-group liabilities, as at the close of business of 31 January 2006, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured or unsecured, guaranteed or not), any mortgages or charges, or other material contingent liabilities or guarantee.

G. MATERIAL ADVERSE CHANGE

Save as disclosed in the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2005, the Directors confirm that there were no material change in the financial or trading position or prospects of the Group subsequent to 31 March 2005, being the date to which the last audited financial statements of the Company were made up, up to the Latest Practicable Date.

H. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cashflow generated from the operating activities, the financial resources available for the Enlarged Group, including internally generated funds, the available credit facilities and the estimated net proceeds of the Open Offer, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

I. MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE GROUP

Review of operations, management analysis and discussion

Business review for the year ended 31 March 2003

For the financial year ended 31 March 2003, the Group recorded a sales turnover of approximately HK$57.5 million and a net loss attributable to shareholders of approximately HK$28.6 million. The gross profit margin for the year was 34% and the loss per share was HK$4.96 cents per share.

While, during the year, the Group was challenged by rigorous competition and unfavorable business environment, the Group still experienced a strong growth in turnover that was nearly doubled, reaching approximately HK$57.5 million or a year-on-year growth of 100%. The impressive growth in turnover indicates the Group's successful implementation of its strategic plans according to its roadmap. This also demonstrates the increasing popularity of utilizing location-based technology and widening acceptance of the Group's products and services.

However, during the last quarter of the fiscal year, both local and world economies took a major hit led by US-Iraqi War and SARS (Severe Acute Respiratory Syndrome). The effect was negative to the already depressing economy of Hong Kong and the Group's performance. As some customers have either slowed down in the pace of repayment of receivables or requested longer credit periods of transactions, the Group has made a doubtful debt provision of HK$12.2 million for prudence sake.

In addition, due to the rapidly changing technology and fall in general component prices during the year, the Group has decided to take a conservative action by writing off or making provision of HK$6.0 million of the existing inventories as at 31 March 2003.

The Directors believe this conservative financial representation is in line with the best practice of the Group.

Due to the aforesaid reasons, the Group made a net loss of HK$28.6 million during the year comparing with HK$4.9 million of the previous year.

Nevertheless, despite the weak economies, the Group continues to strive for profitability and positive cash flows. Through a series of internal process re-engineering, the Group has implemented various effective measures to tighten its cost control while maintaining our flexibility and productivity to face any unexpected challenges.

In terms of product and business development, during the year, the Group has introduced a series of innovative products. One of these products is RoadPilot, a PDA-enabled auto-navigation system with complete Hong Kong road mapping. The Group has also partnered with one of the world's largest technology companies to market RoadPilot that has received warm and exciting responses from the local market. Furthermore, Joint Laboratory for GeoInformation Science, which is a major GIS (Geographical Information System) research institute established jointly by two leading research institutions – Chinese Academy of Sciences and The Chinese University of Hong Kong, has become the Group's strategic partner. Through the strategic partnership, the Group has received the latest Infrared aerial photo images of Hong Kong and the 3-dimensional GeoVisualisation technology. These technologies will be incorporated into the Group's future product lines such as 3-dimensional positioning system and location-based devices.

While the Group is uncertain of the exact economic effect that SARS will cause and the duration that this impact will last, the Director nevertheless very confident about the market trend and the future prospects of location-based technology and its derived products and services.

Business review for the year ended 31 March 2004

The year 2003-04 was a challenging year for Hong Kong and China. Following the continued downturn of Hong Kong economy, the Iraq War, and the outbreak of SARS, Hong Kong's business environment was difficult in the year under review.

The Group generated a turnover of approximately HK$14,779,000, representing a decrease of HK$ 42,692,000 or 74% as compared with the previous year's HK$ 57,471,000. The net loss attributable to shareholders is approximately HK$47,099,000.

Year 2003 is full of challenges. The outbreak of SARS during the early part of the year further depressed the already weak economy. As a result, our business has seriously suffered. The turnover for the financial year ended 31 March 2004 recorded only approximately HK$15 million, which was approximately HK$43 million less than last year. During such period, the Group focused on its internal restructure on streamlining operating expenses in order to address the overall difficult environment.

Due to the adverse business environment, some customers have had difficulties in paying of receivables or requested longer credit periods of transactions; the Group has made a doubtful debt provision of HK$9 million for prudence sake. Besides, due to the liquidation of a debtor, the Group has written off bad debt of HK$12.9 million.

With regard to the dynamic market situation, the technology changed rapidly during the year, and the Group has decided to take conservative action by writing off or making provision of HK$2.8 million of its existing inventories as at 31 March 2004.

The Directors believe this conservative financial presentation is in line with the best practice of the Group.

Due to the aforesaid reasons, the Group made a net loss of approximately HK$47 million during the year comparing with HK$28.6 million of the previous year.

In terms of product and business development, during the year, the auto-navigation systems with GIS of full Hong Kong mapping, RoadPilot was quite successful. Further versions with maps of major China cities are under development. The Group is currently studying the potential and opportunities of location-based advertising systems on handheld communication in Hong Kong. For the GPRS powered and Internet-enabled portable personal tracking system, a GPS stick is under development.

Furthermore, joint laboratory for GeoInformation Science, which is a major GIS research institute established jointly by two leading research institute – Chinese Academy of Science and The Chinese University of Hong Kong, have become the Group's strategic partner. The 3 – dimensional GeoVisualisation technology acquired from The Chinese University of Hong Kong is a remarkable milestone in the 3D GIS development of the Group. More results are expected to be achieved later for the year.

Nevertheless, despite the weak economies, the Group continues to spend in promotional campaign and shows in Hong Kong and PRC in the hope of improving the turnover.

Business Review for the year ended 31 March 2005

During the year under review, the Group continues to engage in the design, development and sale of location based technology devices and applications in Hong Kong. The market conditions of the business remained harsh and very competitive.

The Group recorded a turnover of approximately HK$1.44 million for the year ended 31 March 2005, representing a decrease of approximately HK$13.33 million or 90% as compared with the previous year's HK$14.78 million. The loss attributable to shareholders is approximately HK$17.16 million.

Due to the growth of business in car security monitoring market condition of the Group, a self-owned and well equipped control centre has already been set up to meet its demand. A team of well-trained control centre operators serves the clients 24 hours a day; 7 days a week. The Directors believe the Group's services have been improved after it has taken up the role of car security monitoring from its co-partner.

The hard effort in developing the Group's products and services in target segment is going on. The number of members for subscription of service is gradually increased especially the Group has jointly worked with Canful Motors Limited. The Group is keeping close touch with other great luxurious private car dealers to seek for opportunity to enlarge its business with them.

The Group is now re-engineering its products by developing GPRS solution replacing currently using SMS message. The costs for communication channel will substantially be reduced.

With the continued improvement of the economies in Hong Kong, the import of great luxurious private car becomes more favorable. It is believed that the demand for security monitoring system would increase. Nevertheless, the prospect for the security monitoring industry is still challenging due to keen competition from local and PRC competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its business.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountant, Cheung & Siu Certified Public Accountants, Hong Kong.

Cheung & Siu Certified Public Accountants
張、蕭會計師事務所

Room A, 15/F.,
Fortis Bank Tower,
77-79 Gloucester Road,
Wan Chai,
Hong Kong

27th March 2006

The Board of Directors
Satellite Devices Corporation

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Hip Kin Retailing Limited ("Hip Kin") for the three years ended 31st December, 2005 (the "Relevant Periods") for inclusion in the circular issued by Satellite Devices Corporation (the "Company") dated 27th March 2006 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Hip Kin (the "Acquisition").

Hip Kin was incorporated in Hong Kong with limited liability on 4th October, 1999. The principal activities of Hip Kin are the retailing of fashion and handbags in Hong Kong and Taiwan. Hip Kin currently operates 4 retail shops in Hong Kong and 2 retail shops in Taiwan.

The statutory financial statements of Hip Kin for the year ended 31st December, 2003 were audited by P. H. Lam & Company, certified public accountants registered in Hong Kong.

For the purpose of this report, we have audited the financial statements of Hip Kin for the three years ended 31st December, 2005, which are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), in accordance with Statements of Auditing Standards issued by the HKICPA.

The Financial Information has been prepared based on the audited financial statements of Hip Kin. We have examined the Financial Information for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Hip Kin are responsible for the Financial Information. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information together with the notes thereto, to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion. However, the evidence available to us was limited because:

(i) we are unable to carry out necessary procedures to verify the existence of inventories amounting to HK$664,259 as at 31st December, 2002 because no stocktake was performed by Hip Kin at that date and, as a consequence, were not able to attend the year end stocktake of Hip Kin. Any adjustments to the opening net assets of Hip Kin would affect the results and cash flows of Hip Kin for the year ended 31st December, 2003; and

(ii) we are unable to obtain adequate and satisfactory evidence regarding the 490,000 shares of HK$1 each in Hip Kin issued and allotted but remain unpaid as at 31st December, 2003, such share capital was subsequently paid up during the year ended 31st December 2004. Any adjustments found to be necessary would have a consequential significant effect on the net liabilities as at 31st December, 2003.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters described in (i) and (ii) above, in our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Hip Kin as at 31st December, 2003, 2004 and 2005 and of its results and cash flows for the Relevant Periods then ended.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$*	*HK$*	*HK$*
TURNOVER	*2*	24,512,510	29,355,520	32,893,055
Cost of sales		(12,511,152)	(12,571,492)	(12,599,190)
Gross profit		12,001,358	16,784,028	20,293,865
Other revenue and gains	*2*	134,052	89,588	499,191
Selling and distribution costs		(1,400,000)	(1,228,939)	(962,702)
Administrative expenses		(10,798,493)	(11,123,197)	(11,811,123)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*4*	(63,083)	4,521,480	8,019,231
Finance costs	*5*	(265,401)	(135,042)	(256,581)
PROFIT/(LOSS) BEFORE TAX		(328,484)	4,386,438	7,762,650
Tax	*7*	(62,195)	(815,540)	(1,495,562)
NET PROFIT/(LOSS) FOR THE YEAR		(390,679)	3,570,898	6,267,088
Dividend	*8*	–	–	9,000,000

BALANCE SHEETS

		As at 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS				
Property, plant and equipment	*9*	1,564,426	1,176,538	1,510,725
CURRENT ASSETS				
Inventories	*10*	2,730,312	1,720,137	3,151,070
Accounts receivable	*11*	300,650	248,639	1,226,368
Deposits and other receivables		1,287,598	1,287,598	2,155,937
Due from a director	*12*	140,000	–	–
Due from related companies	*13*	7,192,641	–	–
Due from holding company	*14*	487,624	6,170,085	11,537,376
Derivative financial instruments	*18*	–	–	60,170
Cash and bank balances		548,846	544,896	772,520
		12,687,671	9,971,355	18,903,441
CURRENT LIABILITIES				
Accounts payable	*15*	619,788	681,843	588,474
Accrued liabilities and other payables		1,806,360	1,608,164	2,364,897
Tax payables		56,864	784,556	2,191,557
Bank overdrafts, secured	*16*	–	1,004,578	–
Trust receipt loans, secured	*16*	1,682,588	2,617,488	5,639,469
Due to a director	*17*	–	160,000	60,000
Due to related companies	*17*	10,354,714	912,588	–
Derivative financial instruments	*8*	–	75,995	–
		14,520,314	7,845,212	10,844,397
NET CURRENT ASSETS/(LIABILITIES)		(1,832,643)	2,126,143	8,059,044
		(268,217)	3,302,681	9,569,769
CAPITAL AND RESERVES/ (DEFICITS IN ASSETS)				
Share capital	*19*	500,000	500,000	500,000
Reserves	*20*	(768,217)	2,802,681	9,069,769
		(268,217)	3,302,681	9,569,769

STATEMENTS OF CHANGES IN EQUITY

	Issued capital HK$	(Accumulated losses)/ Retained profits HK$	Proposed final dividend HK$	Total HK$
At 1st January, 2003	500,000	(377,538)	–	122,462
Net loss for the year	–	(390,679)	–	(390,679)
At 31st December, 2003 and 1st January, 2004	500,000	(768,217)	–	(268,217)
Net profit for the year	–	3,570,898	–	3,570,898
At 31st December, 2004 and 1st January, 2005	500,000	2,802,681	–	3,302,681
Net profit for the year	–	6,267,088	–	6,267,088
Proposed final dividend	–	(9,000,000)	9,000,000	–
At 31st December, 2005	500,000	69,769	9,000,000	9,569,769

CASH FLOW STATEMENTS

	Year ended 31st December, 2003	2004	2005
	HK$	*HK$*	*HK$*
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) from operating activities before tax	(328,484)	4,386,438	7,762,650
Adjustments for:			
Depreciation	463,000	481,777	685,080
Interest income	(720)	(462)	(350)
Interest expense	265,401	135,042	256,581
Operating profit before working capital changes	399,197	5,002,795	8,703,961
Decrease/(increase) in inventories	(2,066,053)	1,010,175	(1,430,933)
Decrease/(increase) in accounts receivable	914	52,011	(977,729)
Increase in deposits and other receivables	(646,660)	–	(868,339)
Increase/(decrease) in accounts payable	619,788	62,055	(93,369)
Increase/(decrease) in accrued liabilities and other payables	1,516,645	(198,196)	756,733
Cash generated from operations	(176,169)	5,928,840	6,090,324
Interest paid	(265,401)	(135,042)	(256,581)
Taxes paid	(16,043)	(87,848)	(88,561)
Net cash inflow/(outflow) from operating activities	(457,613)	5,705,950	5,745,182
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(877,141)	(93,889)	(1,019,267)
Decrease/(increase) in amount due from a director	(140,000)	140,000	–
Decrease/(increase) in amounts due from related companies	(7,192,641)	7,192,641	–
Increase in amount due from holding company	–	(5,682,461)	(5,367,291)
Interest received	720	462	350
Net cash inflow/(outflow) from investing activities	(8,209,062)	1,556,753	(6,386,208)
CASH FLOW FROM FINANCING ACTIVITIES			
Increase/(decrease) in amount due to a director	–	160,000	(100,000)
Increase/(decrease) in amounts due to related companies	8,430,941	(9,442,126)	(912,588)
Increase in trust receipt loans	233,835	934,900	3,021,981
Increase/(decrease) in derivative financial instruments	–	75,995	(136,165)
Net cash inflow/(outflow) from financing activities	8,664,776	(8,271,231)	1,873,228
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,899)	(1,008,528)	1,232,202
Cash and cash equivalents at beginning of year	550,745	548,846	(459,682)
CASH AND CASH EQUIVALENTS AT END OF YEAR	548,846	(459,682)	772,520
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	548,846	544,896	772,520
Bank overdrafts	–	(1,004,578)	–
	548,846	(459,682)	772,520

B. NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS"). The Financial Information has been prepared under the historical cost convention.

(b) Property, plant and equipment

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

The cost of an asset 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 fixed assets 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture and equipment	20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Gain or loss on derecognition of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

(c) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(d) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

(f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

An estimate for doubtful debts for accounts receivable is made when there is an objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(g) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

A deferred tax asset is also recognised for the carryforward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the carryforward of the unused tax losses can be utilised.

(h) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Hip Kin and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that Hip Kin maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(i) Borrowing costs

Borrowing costs are charged to the income statement in the period in which they are incurred.

(j) Dividends

Final dividends proposed by the directors of Hip Kin are classified as a separated allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(k) Retirement benefits scheme

Hip Kin operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of Hip Kin in an independently administered fund. Hip Kin's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(l) Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

(m) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(n) Financial instruments

Financial assets and financial liabilities are recognised on Hip Kin's balance sheet when Hip Kin becomes a party to the contractual provisions of the instrument.

Accounts receivables, other receivables, amounts due from a director, related companies, holding company

Accounts receivable, other receivables and amounts due from a director, related companies and holding company are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired. The allowances recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Accounts payable, other payables, bills payable, amount due to a director and related companies

Accounts payable, other payables, bills payable, amount due to a director and related companies are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivatives and hedging

All derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. Hip Kin designates certain derivatives as hedging instruments to hedge against its exposure of changes in fair value of recognised liabilities. For fair value hedges, changes in the fair value of the hedged items attributable to the relevant hedged risks and of the hedging instruments are recognised in profit or loss in the period in which fair value changes arise. For cash flow hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity and 'recycled' into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss. For net investment hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss. On disposal of the foreign operation, the gain or loss on the hedging instrument remaining in equity will be transferred to profit or loss for the period in which the disposal takes place.

(o) Equity instruments

Equity instruments issued by Hip Kin are recorded at the proceeds, net of direct issue cost.

(p) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Hip Kin's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(q) Segment Reporting

A segment is a distinguishable component of Hip Kin that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2. TURNOVER, OTHER REVENUES AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of Hip Kin's turnover, other revenues and gains is as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Turnover			
Sales of goods	24,512,510	29,355,520	32,893,055
Other revenues			
Bank interest income	720	462	350
Sundry income	133,332	10,000	284,710
	134,052	10,462	285,060
Gains			
Exchange gains, net	–	79,126	214,131
	134,052	89,588	499,191

3. SEGMENTAL INFORMATION

Business segments

No business segment analysis is presented as Hip Kin comprises only one business segment which is retailing of fashion and handbags.

Geographical segments

An analysis of Hip Kin's revenue and contribution to operating results and segmental assets and liabilities by geographical segments, irrespective of the origin of the goods, is presented below:

	Year ended 31st December, 2003			
	Hong Kong	**Taiwan**	**Elimination**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
TURNOVER				
External sales	19,976,131	4,536,379	–	24,512,510
Inter-segment sales	–	291,910	(291,910)	–
	19,976,131	4,828,289	(291,910)	24,512,510
RESULTS				
Segment results	641,692	127,836	–	769,528
Interest income				720
Unallocated expenses				(833,331)
Loss from operating activities				(63,083)
Finance costs				(265,401)
Loss before tax				(328,484)
Tax				(62,195)
Net loss for the year				(390,679)
ASSETS				
Segment assets	6,289,590	1,775,326	(1,633,084)	6,431,832
Unallocated corporate assets				7,820,265
				14,252,097
LIABILITIES				
Segment liabilities	3,255,121	2,543,563	(1,633,084)	4,165,600
Unallocated corporate liabilities				10,354,714
				14,520,314
OTHER INFORMATION				
Capital expenditure	877,141	–	–	877,141
Depreciation	348,628	114,372	–	463,000

	Year ended 31st December, 2004			
	Hong Kong	Taiwan	Elimination	Total
	HK$	*HK$*	*HK$*	*HK$*
TURNOVER				
External sales	23,035,832	6,319,688	–	29,355,520
Inter-segment sales	–	259,474	(259,474)	–
	23,035,832	6,579,162	(259,474)	29,355,520
RESULTS				
Segment results	5,545,879	367,524	–	5,913,403
Interest income				462
Unallocated expenses				(1,392,385)
Profit from operating activities				4,521,480
Finance costs				(135,042)
Profit before tax				4,386,438
Tax				(815,540)
Net profit for the year				3,570,898
ASSETS				
Segment assets	4,460,732	1,198,130	(681,054)	4,977,808
Unallocated corporate assets				6,170,085
				11,147,893
LIABILITIES				
Segment liabilities	5,260,478	2,193,200	(681,054)	6,772,624
Unallocated corporate liabilities				1,072,588
				7,845,212
OTHER INFORMATION				
Capital expenditure	93,889	–	–	93,889
Depreciation	367,405	114,372	–	481,777

	Year ended 31st December, 2005			
	Hong Kong	**Taiwan**	**Elimination**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
TURNOVER				
External sales	24,930,497	7,962,558	–	32,893,055
RESULTS				
Segment results	6,568,071	2,009,866	–	8,577,937
Interest income				350
Unallocated expenses				(559,056)
Profit from operating activities				8,019,231
Finance costs				(256,581)
Profit before tax				7,762,650
Tax				(1,495,562)
Net profit for the year				6,267,088
ASSETS				
Segment assets	6,526,929	2,993,220	(643,359)	8,876,790
Unallocated corporate assets				11,537,376
				20,414,166
LIABILITIES				
Segment liabilities	8,519,979	2,907,777	(643,359)	10,784,397
Unallocated corporate liabilities				60,000
				10,844,397
OTHER INFORMATION				
Capital expenditure	552,317	466,950	–	1,019,267
Depreciation	477,319	207,761	–	685,080

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Profit/(loss) from operating activities of Hip Kin is arrived at after charging:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Cost of inventories sold	11,403,162	11,866,441	11,649,996
Depreciation	463,000	481,777	685,080
Minimum lease payments under operating leases on land and buildings	5,924,605	6,002,346	6,831,096
Auditors' remuneration	14,000	58,000	67,000
Staff cost (excluding directors' remuneration – *note 6*)			
Salaries and allowances	2,140,059	2,184,619	2,465,725
Pension scheme contributions	92,640	75,841	83,836
	2,232,699	2,260,460	2,549,561

5. FINANCE COSTS

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Interest on bank loans and overdrafts wholly repayable within five years	265,401	135,042	256,581

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Fees	130,000	–	–
Other emoluments:			
Salaries and benefits in kind	–	–	–
Pension scheme contributions	–	–	–
	130,000	–	–

Of the five individuals with highest emoluments, none (31st December, 2004 and 2003: none) of them is director whose emolument is disclosed as above. Details of the remuneration of the five (31st December, 2004 and 2003: five) non-director, highest paid employees are as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Salaries and benefits in kind	987,159	961,736	890,511
Pension scheme contributions	44,553	43,708	44,220
	1,031,712	1,005,444	934,731

During the Relevant Periods, no emoluments were paid by Hip Kin to the directors or any of the five highest paid individuals as an inducement to join or upon joining Hip Kin or as compensation for loss of office. No directors waived any emoluments during the Relevant Periods.

7. TAX

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Current year provision			
Hong Kong	–	735,738	1,043,774
Overseas	62,195	79,802	451,788
Tax charge for the year	62,195	815,540	1,495,562

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the periods.

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the year ended 31st December, 2003.

Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the countries in which the Company operates, based on existing legislation, interpretations and practices in respect thereof.

There are no material unprovided deferred tax assets and liabilities at the respective balance sheet dates.

A reconciliation of the tax charge applicable to profit before tax using the statutory rate to the tax charge at the effective tax rate is as follows:

	Year ended 31st December, 2003					
	Hong Kong		Taiwan		Total	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
Profit/(loss) before tax	(438,160)		109,676		(328,484)	
Tax at the statutory income tax rate	(76,678)	(17.5)	27,419	25.0	(49,259)	(15.0)
Expenses not deductible for tax	49,479	11.3	37,049	33.8	86,528	26.3
Income not subject for tax	–	–	(2,273)	(2.1)	(2,273)	(0.7)
Tax loss not recognised	26,405	6.0	–	–	26,405	8.0
Effect on change in tax rate	794	0.2	–	–	794	0.3
Tax charge at effective rate	–	–	62,195	56.7	62,195	18.9

	Year ended 31st December, 2004					
	Hong Kong		Taiwan		Total	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
Profit before tax	4,018,452		367,986		4,386,438	
Tax at the statutory income tax rate	703,229	17.5	91,997	25.0	795,226	18.1
Expenses not deductible for tax	98,783	2.5	510	0.1	99,293	2.3
Income not subject for tax	–	–	(12,705)	(3.5)	(12,705)	(0.3)
Tax loss utilised	(66,274)	(1.7)	–	–	(66,274)	(1.5)
Tax charge at effective rate	735,738	18.3	79,802	21.6	815,540	18.6

	Year ended 31st December, 2005					
	Hong Kong		Taiwan		Total	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
Profit before tax	5,771,111		1,991,539		7,762,650	
Tax at the statutory income tax rate	1,009,944	17.5	497,885	25.0	1,507,829	19.4
Expenses not deductible for tax	72,707	1.3	–	–	72,707	0.9
Income not subject for tax	(38,877)	(0.7)	(46,097)	(2.3)	(84,974)	(1.1)
Tax charge at effective rate	1,043,774	18.1	451,788	22.7	1,495,562	19.2

Hip Kin had tax losses arising in Hong Kong of HK$378,710 as at 31st December, 2003 that are available indefinitely for offsetting against future taxable profits of Hip Kin. Deferred tax assets have not been recognised in respect of these losses as the directors consider that the realisation of these tax losses were remote at that time.

There are no income tax consequences attaching to the payment of dividend by Hip Kin to its shareholders.

8. DIVIDEND

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Proposed final dividend of HK$18 per ordinary share	–	–	9,000,000

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	**Furniture and equipment**	**Total**
	HK$	*HK$*	*HK$*
Cost:			
At 1st January, 2003	1,195,557	242,299	1,437,856
Additions	789,709	87,432	877,141
At 31st December, 2003 and 1st January, 2004	1,985,266	329,731	2,314,997
Additions	43,331	50,558	93,889
At 31st December, 2004 and 1st January, 2005	2,028,597	380,289	2,408,886
Additions	890,125	129,142	1,019,267
At 31st December, 2005	2,918,722	509,431	3,428,153
Accumulated depreciation:			
At 1st January, 2003	239,111	48,460	287,571
Charge for the year	397,054	65,946	463,000
At 31st December, 2003 and 1st January, 2004	636,165	114,406	750,571
Charge for the year	405,719	76,058	481,777
At 31st December, 2004 and 1st January, 2005	1,041,884	190,464	1,232,348
Charge for the year	583,744	101,336	685,080
At 31st December, 2005	1,625,628	291,800	1,917,428
Net book value:			
At 31st December, 2005	1,293,094	217,631	1,510,725
At 31st December, 2004	986,713	189,825	1,176,538
At 31st December, 2003	1,349,101	215,325	1,564,426

10. INVENTORIES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Merchandise	2,730,312	1,720,137	3,151,070

No inventories were stated at net realisable value as at 31st December 2003, 2004 and 2005.

11. ACCOUNTS RECEIVABLE

Hip Kin's trading terms with its customers are on cash on delivery or on credit. The credit period is generally for a period of 60 days. Each customer has a maximum credit limit. Hip Kin seeks to maintain strict control over its outstanding receivables.

All accounts receivable aged within 60 days from date of invoices issued.

12. DUE FROM A DIRECTOR

Particulars of the amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Gouw San Bo, Elizabeth	140,000	–	–

The amount due from a director is unsecured, interest-free and has no fixed terms of repayment.

Maximum amount outstanding during the Relevant Periods:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Gouw San Bo, Elizabeth	140,000	140,000	–

13. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Power Assets Enterprises Limited	3,941,034	–	–
Goldig Properties Limited	3,047,607	–	–
Goldlog Investment (H.K.) Limited	204,000	–	–
	7,192,641	–	–

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

Gouw Kar Yiu, Carl, a director of Hip Kin has interests in all of the above related companies as directors and beneficial shareholders.

Gouw Hiap Kian and Gouw San Bo, Elizabeth, directors of Hip Kin have interests in Goldig Properties Limited as directors and beneficial shareholders.

Maximum amount outstanding during the Relevant Periods:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Power Assets Enterprises Limited	3,941,034	3,941,034	–
Goldig Properties Limited	3,047,607	3,047,607	–
Goldlog Investment (H.K.) Limited	204,000	204,000	–
	7,192,641	7,192,641	–

14. DUE FROM HOLDING COMPANY

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Chung Chiu Limited	487,624	6,170,085	11,537,376

The amount due from holding company is unsecured, interest-free and has no fixed terms of repayment.

15. ACCOUNTS PAYABLE

All accounts payable aged within 60 days from date of invoices issued.

16. BANK OVERDRAFTS AND TRUST RECEIPT LOANS

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Bank overdrafts, secured	–	1,004,578	–
Trust receipt loans, secured	1,682,588	2,617,488	5,639,469
	1,682,588	3,622,066	5,639,469

Hip Kin's bank overdrafts and trust receipt loans are repayable within one year and subject to banker's best lending interest rate.

Hip Kin's general banking facilities of HK$8,300,000 (2004: HK$6,300,000; 2003: HK$2,300,000) were secured by the followings:

(i) mortgage over real properties owned by related companies in which all of directors of Hip Kin have interests;

(ii) personal guarantees provided by Gouw Hiap Kian, Gouw Kar Yiu, Carl and Gouw San Bo, Elizabeth, directors of Hip Kin; and

(iii) corporate guarantee provided by the holding company of Hip Kin and a related company.

17. DUE TO A DIRECTOR/RELATED COMPANIES

The amounts due to a director and related companies are unsecured, interest-free and have no fixed terms of repayment.

18. DERIVATIVES FINANCIAL INSTRUMENTS

Derivatives under hedge accounting

	2003		**2004**		**2005**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Fair value hedges – foreign currency forward contracts	–	–	–	75,995	60,170	–

Fair value hedges:

Hip Kin uses foreign exchange forward contracts to minimise its exposure in relation to foreign currency forecast purchases. The foreign exchange forward contracts and the corresponding accounts payable have the same terms and the directors of Hip Kin consider that the foreign exchange forward contracts are highly effective hedging instruments. Major items of the foreign exchange forward contracts are set out below:

Notional amount	**Maturity**	**Forward exchange rate**
2004		
GBP 56,500	7th April, 2005	13.950
GBP 50,000	3rd June, 2005	13.950
EUR100,000	3rd June, 2005	10.386
2005		
GBP 1,937	27th March, 2006	13.900
EUR 67,625	20th March, 2006	9.555
EUR 50,000	6th April, 2006	9.385
GBP 10,958	10th April, 2006	13.685
GBP100,000	12th April, 2006	13.560

19. SHARE CAPITAL

	As at 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Authorised, issued and fully paid:			
500,000 ordinary shares of HK$1 each	500,000	500,000	500,000

20. RESERVES

	(Accumulated losses)/ Retained profits	**Proposed final dividend**	**Total**
	HK$	*HK$*	*HK$*
At 1st January, 2003	(377,538)	–	(377,538)
Net loss for the year	(390,679)	–	(390,679)
At 31st December, 2003 and 1st January, 2004	(768,217)	–	(768,217)
Net profit for the year	3,570,898	–	3,570,898
At 31st December, 2004 and 1st January, 2005	2,802,681	–	2,802,681
Net profit for the year	6,267,088	–	6,267,088
Proposed final dividend	(9,000,000)	9,000,000	–
At 31st December, 2005	69,769	9,000,000	9,069,769

21. RELATED PARTIES TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Financial Information, Hip Kin had the following transactions with related parties during the Relevant Periods:

		Year ended 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$*	*HK$*	*HK$*
Purchases of goods from a related company	*(i)*	1,068,536	–	–
Management fee paid to related companies	*(ii)*	360,000	1,007,088	–

Notes:

(i) Purchases of goods from a related company were made at cost.

(ii) Management fee paid to related companies were charged at rates mutually agreed between Hip Kin and the related companies.

22. OPERATING LEASE COMMITMENTS

Hip Kin leases certain retail shops under operating lease arrangements. Leases for retail shops are negotiated for terms ranging from 2 to 3 years.

At the balance sheet date, Hip Kin had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Within one year	4,314,576	3,664,236	5,572,560
In the second to fifth years, inclusive	4,110,636	446,400	7,265,460
	8,425,212	4,110,636	12,838,020

The operating lease rentals of certain retail shops in Hong Kong are based on the higher of a fixed rental or contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rent have not been included above and only the minimum lease commitment have been included in the above table.

The operating lease rentals of retail shops in Taiwan are based solely on the sales of the outlet. In the opinion of the directors, as the future sales of the retail outlets could not be accurately estimated, the relevant rental commitment have not been included in the above table.

23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22 above, Hip Kin had the following commitments at the balance sheet date:

Commitments under license agreements in respect of two brand name products

	As at 31st December,		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Minimum purchases	17,462,487	13,040,455	19,366,140

24. CONTINGENT LIABILITIES

Hip Kin has no material contingent liabilities as at 31 December, 2003, 2004 and 2005.

25. ULTIMATE HOLDING COMPANY

During the Relevant Periods, the directors of Hip Kin consider that Hip Kin's ultimate holding company is Chung Chiu Limited, a company incorporated in the British Virgin Islands.

26. FINANCIAL RISKS AND MANAGEMENT

Hip Kin's overall risk management programme seeks to minimise potential adverse effects on the financial performance of Hip Kin.

(i) Interest rate risk

Interest rate risk refers to the risk experienced by Hip Kin as a result of the fluctuation in interest rates. Interest rate risk is minimal, as Hip Kin does not has significant interest-bearing balances at the respective balance sheet dates.

(ii) Foreign currency risk

Hip Kin incurs foreign currency risk on transactions and balances that are denominated in currencies other than Hong Kong dollars. The currencies giving rise to this risk are primarily Euro, Pound Sterling and New Taiwan Dollar.

(iii) Commodity price risk

Hip Kin's exposure to commodity price risk is minimal.

(iv) Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to Hip Kin, resulting in a loss. Hip Kin deals merely with retail customers who pay with cash and credit cards. Hip Kin's accounts receivable mainly represented by receivables from banks in respect of sales settled by customers through credit cards in Hong Kong and shopping mall who collected sales proceeds in Taiwan on behalf of Hip Kin.

(v) Liquidity risk

Hip Kin actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, Hip Kin maintain sufficient levels of cash to meet its working capital requirements. Short term funding is obtained from overdraft facilities and trade financing facilities from banks.

(vi) Fair values

The carrying amounts of the financial assets and liabilities in the Financial Information approximate their fair values.

C. SUBSEQUENT EVENT

There is no material subsequent event subsequent to 31st December, 2005.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Hip Kin in respect of any period subsequent to 31st December, 2005.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. INTRODUCTION

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of Hip Kin Retailing Limited (the "Proposed Acquisition"). The acquisition consideration of HK$80 million will be settled by:

– approximately HK$18.48 million in cash out of the proceeds from the Proposed Open Offer; and

– the issue of Convertible Note for the remaining balance of approximately HK$61.52 million.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is 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 the audited balance sheet of HKR as at 31 December 2005 as extracted from the accountants' report set out in appendix II to this Circular as if the Proposed Acquisition and the Proposed Open Offer had been completed on 30 September 2005.

The unaudited pro froma consolidated income statement and cash flow statement of the Enlarged Group are prepared based on audited consolidated income statement and cash flow statement of the Group for the year ended 31 March 2005 as extracted from the annual report of the Group for the year ended 31 March 2005, and the audited income statement and cash flow statement of HKR for the year ended 31 December 2005 as extracted from the accountants' report set out in appendix II to this Circular as if the Proposed Acquisition and the Proposed Open Offer had been completed on 1 April 2004.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Proposed Acquisition and the Proposed Open Offer. As it is prepared for illustrative purposes only, it may not give a true picture of the results or financial position of the Enlarged Group following completion of the Proposed Acquisition and the Proposed Open Offer.

B. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	The Group as at 30 September 2005 HK$'000	Pro forma adjustments HK$'000 (note 1)	Pro forma Group immediately after the Open Offer HK$'000	HKR as at 31 December 2005 HK$'000	Pro forma adjustments HK$'000	Note	Pro forma Enlarged Group HK$'000
Non-current assets							
Fixed assets	11,148		11,148	1,511			12,659
Investments in associated companies	4		4	–			4
Goodwill					71,130	2	71,130
	11,152		11,152	1,511			83,793
Current assets							
Inventories	303		303	3,151			3,454
Trade receivables	99		99	1,226			1,325
Prepayments, deposits and other receivables	20		20	2,156			2,176
Amount due from holding company	–		–	11,537			11,537
Derivative financial instruments	–		–	60			60
Cash and bank balances	136	23,730	23,866	773	(18,480)	3	5,459
					(700)	5	
	558		24,288	18,903			24,011
Current liabilities							
Trade payables	–		–	588			588
Other payables and accruals	1,760		1,760	2,365			4,125
Amount due to a director	–		–	60			60
Amount due to a fellow subsidiary	4,792		4,792	–			4,792
Loan payable	6,759		6,759	–			6,759
Tax payables	–		–	2,192			2,192
Trust receipt loans, secured	–		–	5,639			5,639
	13,311		13,311	10,844			24,155
Net current assets/ (liabilities)	(12,753)		10,977	8,059			(144)
Total assets less current liabilities	(1,601)		22,129	9,570			83,649
Non-current liabilities							
Convertible Note	–		–	–	50,219	4	50,219
	(1,601)		22,129	9,570			33,430
Capital and reserves							
Capital	59,092	3,951	63,043	500	(500)	6	63,043
Reserves	(60,693)	19,779	(40,914)	9,070	11,301	4	(29,613)
					(9,070)	6	
	(1,601)		22,129	9,570			33,430

C. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2005	Pro forma adjustments	Pro forma Group immediately after the Open Offer	HKR for the year ended 31 December 2005	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000* *(note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Turnover	1,442		1,442	32,893			34,335
Cost of sales	(522)		(522)	(12,599)			(13,121)
Gross profit	920		920	20,294			21,214
Other revenues	29		29	499			528
Waiver of other payables	133		133	–			133
Waiver of accrued salary payable to a director	248		248	–			248
Administrative and general expenses	(18,493)		(18,493)	(12,774)			(31,267)
Profit/(loss) from operating activities	(17,163)		(17,163)	8,019			(9,144)
Finance costs	–		–	(256)	(3,515)	7	(3,771)
Profit/(loss) before taxation	(17,163)		(17,163)	7,763			(12,915)
Taxation	–		–	(1,496)			(1,496)
Profit/(loss) attributable to shareholders	(17,163)		(17,163)	6,267			(14,411)

D. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2005 HK$'000	Pro forma adjustments HK$'000 (note 1)	Pro forma Group immediately after the Open Offer HK$'000	HKR for the year ended 31 December 2005 HK$'000	Pro forma adjustments HK$'000	Note	Pro forma Enlarged Group HK$'000
Profit/(loss) before taxation	(17,163)		(17,163)	7,763	(3,515)	7	(12,915)
Adjustments for:							
Depreciation of fixed assets	11,772		11,772	685			12,457
Interest income	–		–	(1)			(1)
Interest expense	–		–	256	3,515	7	3,771
Provision for obsolete and slow moving stock	1,378		1,378	–			1,378
Operating profit/(loss) before working capital changes	(4,013)		(4,013)	8,703			4,690
Decrease/(increase) in inventories	159		159	(1,431)			(1,272)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	30		30	(1,846)			(1,816)
Increase in trade payables, other payables and accruals, including amount due to a director and a fellow subsidiary	3,947		3,947	664			4,611
Cash generated from operations	123		123	6,090			6,213
Interest paid	–		–	(256)			(256)
Hong Kong profits tax paid	–		–	(89)			(89)
Net cash from operating activities	123		123	5,745			5,868

	The Group for the year ended 31 March 2005	Pro forma adjustments	Pro forma Group immediately after the Open Offer	HKR for the year ended 31 December 2005	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000* *(note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Investing activities							
Purchase of fixed assets	(39)		(39)	(1,019)			(1,058)
Purchase of subsidiary					(18,480)	3	(18,480)
Cost of acquisition of subsidiary					(700)	5	(700)
Increase in amount due from holding company	–		–	(5,368)			(5,368)
Interest received	–		–	1			1
Net cash used in investing activities	(39)		(39)	(6,386)			(25,605)
Issue of Offer Share		23,730	23,730	–			23,730
Repayment of capital element of finance leases	(15)		(15)	–			(15)
Decrease in amount due to a director	–		–	(100)			(100)
Decrease in amounts due to related companies	–		–	(913)			(913)
Increase in trust receipt loans	–		–	3,022			3,022
Increase/(decrease) in derivative financial instruments	–		–	(136)			(136)
Net cash from/(used in) financing activities	(15)		23,715	1,873			25,588
Net increase in cash and cash equivalents	69		23,799	1,232			5,851
Cash and cash equivalents at beginning of the year	55		55	(459)			(404)
Effect of foreign exchange rates change	(2)		(2)	–			(2)
Cash and cash equivalents at end of the year	122		23,852	773			5,445

Notes:

1. The adjustment represents the issuance of 395,101,116 Offer Shares at a price of HK$0.065 per Offer Share on the basis of three Offer Shares for every one New Share of HK$0.01 each. The net proceeds from the Open Offer are estimated to be HK$23.73 million of which HK$18.48 million will be applied for partial payment of the Proposed Acquisition. This gives rise to an increase in share capital of HK$3,951,000 and share premium of HK$19,779,000.

   This adjustment is not expected to have a continuing effect on the Group.

2. The adjustment reflects the excess of the cost of acquisition (including acquisition consideration and direct legal and professional cost for the Proposed Acquisition) over HKR's net asset value as at 31 December 2005 with the assumption that the fair value of HKR is the same as the carrying amount of net asset of HKR as at 31 December 2005.

   Since the fair value of the assets and liabilities of HKR at the Completion Date will be different from their net asset value used in the preparation of the unaudited pro forma financial information, the actual goodwill of the Enlarged Group arising from the Acquisition of HKR will be different from the estimated goodwill as shown above.

3. The consideration of the Acquisition will be satisfied by HK$18.48 million in cash and issue of Convertible Note of HK$61.52 million. The cash consideration of HK$18.48 million will be financed by the Proposed Open Offer.

   This adjustment is not expected to have a continuing effect on the Group.

4. This represents liability component and equity component of Convertible Note of HK$61.52 million. According with Hong Kong Accounting Standard 32 ("HKAS 32"), if compound financial instrument contains both liability and equity, the company recognises separately the liability component and equity component. The liability component is based on the present value of the liability component which is calculated using a discount rate of 7% (being the Hong Kong dollar prime rate as 30 September 2005). The equity component is the difference between the proceeds of Convertible Note and the fair value of the liability component.

5. In connection with the Proposed Acquisition, the Group will be required to incur legal and professional cost of approximately HK$700,000.

   This adjustment is not expected to have a continuing effect on the Group.

6. The adjustment reflects the elimination of share capital and pre-acquisition profit of HKR.

7. It represents interest on liability component of Convertible Note with the assumption that no conversion is taken place during the year. According to HKAS 32, the unwinding of the discount on the liability is recognised in the income statement as interest expenses. The interest expense is based on discount rate of 7%.

   This adjustment is expected to have a continuing effect on the Group.

E. 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 this appendix.

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.

Unaudited consolidated net tangible assets of the Group as at 30 September 2005	**Unaudited consolidated net tangible assets of the Group per Share before the Open offer** *(note 1)*
HK$'000	*HK cents*
(1,601)	(0.27)

Unaudited Consolidated net tangible assets of the Group before the Open Offer	**Estimated proceeds from the Open Offer**	**Unaudited proforma adjusted consolidated net tangible assets of the Group immediately after the Open Offer**	**Unaudited proforma adjusted consolidated net tangible assets of the Group per Share immediately after the Open Offer** *(note 2)*
HK$'000	*HK$'000*	*HK$'000*	*HK cents*
(1,601)	23,730	22,129	2.24

Unaudited proforma consolidated net assets of the Enlarged Group	Less: Pro forma consolidated intangible asset of the Enlarged Group after Proposed Acquisition	Unaudited proforma adjusted consolidated net tangible assets of the Enlarged Group after the Proposed Acquisition	Unaudited proforma adjusted consolidated net tangible assets of the Enlarged Group per Share after the Proposed Acquisition	Unaudited proforma consolidated net assets of the Enlarged Group per Share after the Proposed Acquisition
	(note 3)		*(note 4)*	*(note 4)*
HK$'000	*HK$'000*	*HK$'000*	*HK cents*	*HK cents*
33,430	71,130	(37,700)	(3.82)	3.39

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 this appendix.

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.

F. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of inclusion in this circular received from the Company's auditors, Graham H.Y. Chan & Co., Certified Public Accountants, Hong Kong.

陳浩賢會計師事務所

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

Unit 1, 15/F., The Center,
99 Queen's Road Central,
Hong Kong

27 March 2006

The Board of Directors
Satellite Devices Corporation

Dear Sirs,

Re: Satellite Devices Corporation and its subsidiaries together with Hip Kin Retailing Limited (collectively referred to as "the Enlarged Group")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of Satellite Devices Corporation (the "Company") and its subsidiaries (collectively the "Group"), set out on pages 125 to 132 under the headings of "Pro Forma Financial Information" in Appendix III to the Company's circular dated 27 March 2006 (the "Circular"). The Pro Forma Financial Information has been prepared by the Directors of the Company, solely for illustrative purposes only, as to how the Group's proposed acquisition of Hip Kin Retailing Limited (the "Proposed Acquisition") and the Proposed Open Offer might have affected the financial information presented.

Responsibility

It is the responsibility solely of the Directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practice Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of the Company.

Our work does not constitute an audit or review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been compiled in accordance with the basis set out in Appendix III – A and E to the Circular for illustrative purpose only and, because of its nature, it may not be indicative of:

– the financial position of the Enlarged Group as at 30 September 2005 or at any future date; or

– the results and cash flows of the Enlarged Group for the year ended 31 March 2005 or any future period; or

– the financial position of the Group as at 30 September 2005 or at any future date.

Opinion

In our opinion:

a. the Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Rules.

Yours faithfully,
Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)
Hong Kong

G. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

Borrowings

At the close of business on 31 January 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group together with HKR (collectively referred to as "the Enlarged Group") had the following borrowings:

	note	The Group *HK$'000*	HKR *HK$'000*	Enlarged Group *HK$'000*
Trust receipt loans	a	–	3,035	3,035
Bank overdrafts	a	–	1,835	1,835
Other loan	b	4,775	–	4,775
Amounts due to directors	c	–	338	338
Amounts due to related companies	d	–	1,380	1,380
		4,775	6,588	11,363

Notes:

a. Bank borrowings of HKR are secured by mortgage over real properties owned by related companies of HKR, personal guarantees provided by directors of HKR and corporate guarantees provided by a related company of HKR and its holding company. All the bank borrowings are repayable within one year.

b. The amount 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.

c. The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

d. The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

Capital commitments

a) Capital commitments in respect of acquisition of fixed assets

As at 31 January 2006, the Group had commitments in respect of acquisition of fixed assets as follows:

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

b) *Capital commitments in respect of investment in a subsidiary*

As at 31 January 2006, the Group had unprovided capital commitments amounting to 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.

As at 31 January 2006, HKR had no capital commitment.

Save as disclosed above and apart from intra-group liabilities, as at the close of business of 31 January 2006, the Enlarged Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured or unsecured, guaranteed or not), any mortgages or charges, or other material contingent liabilities or guarantee.

The Directors have confirmed that, save for a new bank loan of HK$1,000,000 obtained by HKR for the purpose of working capital, there has not been any material change in the indebtedness and the contingent liabilities of the Enlarged Group since 31 January 2006 up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, 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 issuer. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:–

1. the information contained in this circular 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 document misleading; and

3. all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

(1) Authorised and issued share capital of the Company

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised as at the Latest Practicable Date:		*HK$*
10,000,000,000	Shares of HK$0.10 each	1,000,000,000
Issued and fully paid:		
67,585,863	Loan Shares issued pursuant to the Loan Capitalisation	6,758,586
658,501,863	Shares as at the Latest Practicable Date	65,850,186
Upon completion of the Proposed Capital Reorganisation:		
131,700,372	Shares upon completion of the Proposed Capital Reorganisation	13,170,037
395,101,116	Offer Shares to be issued pursuant to the Proposed Open Offer	39,510,111
526,801,488	Shares in issue upon completion of the Proposed Open Offer	52,680,148

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The New Shares and Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

The Company had no debt securities in issue as at the Latest Practicable Date.

No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchange.

There is no arrangement under which future dividends are waived or agreed to be waived as at the Latest Practicable Date.

Save as disclosed in this circular, no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant, derivative or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

3. DISCLOSURE OF INTERESTS

Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares and debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the Listing Rules relating to securities transactions by the Directors are as follows:–

Long position in the shares and debenture of the Company and associated corporation

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any long position in the shares and debenture of the Company or any of its associated corporations.

Long position in the underlying shares of the Company and associated corporation under equity derivatives

(i) Physically settled equity derivatives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any long position in physically settled equity derivatives of the Company or any of its associated corporations.

(ii) Cash settled equity derivatives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any long position in cash settled equity derivatives of the Company or any of its associated corporations.

(iii) Other equity derivatives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any long position in other equity derivatives of the Company or any of its associated corporations.

Short position in the shares and debenture of the Company and associated corporation

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any short position in the shares and debenture of the Company or any of its associated corporations.

Short position in the underlying shares of the Company and associated corporation under equity derivatives

(i) Physically settled equity derivatives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any short position in physically settled equity derivatives of the Company or any of its associated corporations.

(ii) Cash settled equity derivatives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any short position in cash settled equity derivatives of the Company or any of its associated corporations.

(iii) Other equity derivatives

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company was interested in any short position in other equity derivatives of the Company or any of its associated corporations.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

Substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group. As at the Latest Practicable Date, the interests and short positions of the substantial shareholders of the Company in the shares and underlying shares (in respect of positions held pursuant to equity derivatives) of the Company as recorded in the registered required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in the shares of the Company

Name	Nature of interest	Number of ordinary shares interested	Approximate percentage of existing issued share capital
Chu Yuet Wah *(note 1)*	Interest of controlled corporation	455,069,716	69.11%
Ma Siu Fong *(note 1)*	Interest of controlled corporation	455,069,916	69.11%
Kingston Securities Limited *(note 1)*	Beneficial owner	395,101,116	60.00%
Arcrontech Corporation *(note 2)*	Interest of controlled corporation	295,050,000	44.81%
Acron Solutions (BVI) Limited *(note 2)*	Beneficial owner	295,050,000	44.81%
Kingston Finance Limited *(note 2)*	Security interest in shares	295,050,000	44.81%
Fung Chan Man Alex *(note 3)*	Beneficial owner	85,000,000	12.91%
Lai Chun Kong *(note 3)*	Beneficial owner	85,000,000	12.91%
Everlasting Bright Investments Ltd *(note 3)*	Beneficial owner	68,000,000	10.33%
Lau Chun Fat George *(note 3)*	Interest of controlled corporation	68,000,000	10.33%
Executive Talent Limited *(note 4)*	Beneficial owner	32,575,863	4.95%
Wu Ling Yee *(note 4)*	Interest of controlled corporation	32,575,863	4.95%

Notes:

1. Kingston Securities Limited is deemed to be interested in 395,101,116 shares in the Company by virtue of the Underwriting Agreement, representing approximately a total of 75.00% of the enlarged issued share capital of the Company after the completion of the Proposed Open Offer. Chu Yuet Wah is deemed to be interested in 455,069,916 shares in the Company as a result of her being beneficially interested in 51% of the share capital of Kingston Securities Limited. Ma Siu Fong is deemed to be interested in 455,069,916 shares in the Company as a result of her being beneficially interested in 49% of the share capital of Kingston Securities Limited.

2. Acrontech Corporation is deemed to be interested in 295,050,000 shares in the Company as a result of it being beneficially interested in the entire share capital of Acron Solutions (BVI) Limited, which in turn holds 295,050,000 shares in the Company. Acron Solutions (BVI) Limited had granted a security interest over 295,050,000 shares as security of Kingston Finance Limited.

3. Fung Chan Man Alex, Lai Chun Kong and Everlasting Bright Investments Ltd are deemed to be interested in 85,000,000, 85,000,000 and 68,000,000 shares in the Company respectively by virtue of a sub-underwriting agreement entered with Kingston Securities Limited to sub-underwriter 238,000,000 underwritten Offer Shares, representing approximately a total of 45.19% of the enlarged issued share capital of the Company after the completion of the Proposed Open Offer. Lau Chun Fat George is deemed to be interested in 68,000,000 shares in the Company as a result of him being beneficially interested in the entire share capital of Everlasting Bright Investments Ltd.

4. Wu Ling Yee is deemed to be interested in 32,575,863 shares in the Company as a result of her being beneficially interested in the entire share capital of Executive Talent Limited, which in turn holds 32,575,863 shares in the Company.

Long position in the underlying shares of the Company and associated corporation under equity derivatives

(i) Physically settled equity derivatives

As at the Latest Practicable Date, none of the substantial shareholders of the Company was interested in any long position in physically settled equity derivatives of the Company or any of its associated corporations.

(ii) Cash settled equity derivatives

As at the Latest Practicable Date, none of the substantial shareholders of the Company was interested in any long position in cash settled equity derivatives of the Company or any of its associated corporations.

Short position in the shares of the Company and associated corporation

As at the Latest Practicable Date, none of the substantial shareholders of the Company was interested in any short position in the shares and debenture of the Company or any of its associated corporations.

Short position in the underlying shares of the Company and associated corporation under equity derivatives

(i) Physically settled equity derivatives

As at the Latest Practicable Date, none of the substantial shareholders of the Company was interested in any short position in physically settled equity derivatives of the Company or any of its associated corporations.

(ii) Cash settled equity derivatives

As at the Latest Practicable Date, none of the substantial shareholders of the Company was interested in any short position in cash settled equity derivatives of the Company or any of its associated corporations.

Save as disclosed above, as at the Latest Practicable Date, none of the substantial shareholders of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

Other Persons

Long position and short position in the shares and underlying shares of the Company

So far as is known to the Directors, as at the Latest Practicable Date, no other persons had any interests or short positions in the shares or underlying shares (in respect of positions held pursuant to equity derivatives) of the Company according to the registers required to be kept by the Company under the SFO.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

(a) the Loan Capitalisation Deed;

(b) the Sale and Purchase Agreement;

(c) the Supplemental Agreement; and

(d) Underwriting Agreement.

Save as disclosed above, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance pending or threatened against any member of the Group.

6. COMPETING BUSINESSES OR INTERESTS

As at the Latest Practicable Date, the Directors were not aware of any business or interest of the Directors or any management shareholder (as defined under the GEM Listing Rules) of the Company and their respective associates (as defined under the GEM Listing Rules) that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors of the Company will not be varied in consequence of the Proposed Acquisition.

8. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, the Directors were not interested, directly or indirectly in any assets which have been, since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, being the date to which the latest published audited financial statements of the Company were made up.

10. QUALIFICATIONS OF EXPERTS AND CONSENTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular.

Name	**Qualification**
Graham H.Y. Chan & Co.	Certified Public Accountants
Cheung & Siu	Certified Public Accountants

Guangdong Securities Limited	Licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities

Graham H.Y. Chan & Co., Cheung & Siu and Guangdong Securities Limited have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective report and letter, as the case may be, or references to their respective names in the form and context in which they respectively appear.

11. EXPERT'S INTERESTS IN ASSETS

As at the Latest Practicable Date, Graham H.Y. Chan & Co., Cheung & Siu and Guangdong Securities Limited:

(a) were not interested, directly or indirectly in any assets which have been, since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group; and

(b) do not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

12. PROPOSED ACQUISITION OF HKR

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

The consideration for the Proposed Acquisition is HK$80 million and 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 the 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.

13. MISCELLANEOUS

(a) The secretary, qualified accountant and compliance officer of the Company is Leung Tak Wah.

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 member of the Hong Kong Institute of Certified Public Accountants and a member of Institute of Certified Management Accountants. He has over 15 years of experience in Accounting.

(b) The Company has established an audit committee with written terms of reference in accordance with Rule 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financing reporting process and internal control systems of the Group. The audit committee comprises Wan Kwok Pan, Sum Chun Ho and Lum Pak Sum, who are independent non-executive Directors. Their further details are set out below:

(i) Mr. Wan has over 10 years of experience in the fields of Electronics applications services. He holds a Master's Degree in Business Administration from The University of Hong Kong.

(ii) Mr. Sum has over 10 years of experience in the fields of professional accounting services. He holds a Master's Degree in Accounting from Monash University. He is currently the sole proprietor of Messrs C.H. Sum & Co., Certified Public Accountants (Practising).

(iii) Mr. Lum is a professional Accountant. He holds a master degree in business administration from the University of Warwick, UK and a Bachelor of Laws degree (Honours) from the University of Wolverhampton UK. He has over 18 years experience in financial field, the money market and capital market.

(c) The registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Cayman Islands and the principal place of business of the Company in Hong Kong is at Unit 5, 20/F., Jupiter Tower, 9 Jupiter Street, North Point.

(d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Ltd. at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the Loan Capitalisation Deed;

(c) the Sale and Purchase Agreement;

(d) the Supplemental Agreement;

(e) Underwriting Agreement;

(f) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(g) the annual reports of the Company for the year ended 31 March 2005;

(h) the interim report of the Company for the six months ended 30 September 2005;

(i) the accountants' report on Hip Kin Retailing Limited for the three years ended 31 December 2005, the text of which is set out in Appendix II to this circular;

(j) the comfort letter on the pro forma financial information as set out in Appendix III to this circular;

(k) the letters of consent referred to in the section headed "Qualifications of Experts and Consents" in this appendix; and

(l) this Circular.

15. CORPORATE INFORMATION

Registered Office

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

Principal Office

Unit 5, 20/F.,
Jupiter Tower
No. 9 Jupiter Street, North Point
Hong Kong

Principal Registrar and transfer Office

Computershare Hong Kong Investors Services Ltd.
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Adviser in Hong Kong

O'Melvery & Myers
31st Floor, AIG Tower
1 Connaught Road
Central
Hong Kong

Legal Adviser in Cayman Islands

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

Auditors

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)
Unit 1, 15/F., The Center
99 Queen's Road Central
Hong Kong

Cheung & Siu
Certified Public Accountants (Practicing)
Room A, 15/F.,
Fortis Bank Tower
77-79 Gloucester Road
Wan Chai
Hong Kong

Principal Banks

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Citibank N.A.

Authorised Representatives

Lo Mun Lam, Raymond
Leung Tak Wah

SATELLITE DEVICES CORPORATION

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

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of Satellite Devices Corporation (the "Company") will be held at 10:00 a.m. on Thursday, 20 April 2006 at Chater Room I, Function Room Level, The Ritz Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

SPECIAL RESOLUTION

1 (A) **"THAT** conditional upon (i) compliance with any conditions which the Grand Court of the Cayman Islands (the "Court") may impose, (ii) the confirmation of the Capital Reduction (as defined below) by the Court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the court order confirming the Capital Resolution (as defined below) and the minutes approved by the Court containing the particulars required under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands; and (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and permission to deal in, shares of HK$0.01 each in the issued share capital of the Company upon the Capital Reduction (as defined below) the date on which becomes effective (the "**Effective Date**"):

(a) every five (5) issued and unissued shares of HK$0.10 each in the share capital of the Company be consolidated into one (1) share of HK$0.50 each (the "**Consolidated Share**") in the capital of the Company (the "**Share Consolidation**");

(b) subject to and forthwith upon the Share Consolidation taking effect:

(i) the issued share capital of the Company be reduced 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 Effective Date (the "**Capital Reduction**") 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**") and any liability of the holders of New Shares to make any further contribution to the capital of the Company on each such New Share shall be treated as satisfied, such New Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company;

(ii) all factions of the New Shares to which holders of issued shares of HK$0.50 each in the share capital of the Company would otherwise be entitled to be aggregated, sold and retained for the benefit of the Company; and

(iii) the authorised but unissued share capital of the Company shall 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 (50) new shares of HK$0.01 each in the capital of the Company (the "**Subdivision**");

(c) subject to and forthwith upon the Capital Reduction being effective, 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 "**Application of Credit**")."

(B) **"THAT** the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Capital Reduction, the Share Consolidation, the Subdivision and the Application of Credit, including but not limited to making an application to the Grand Court of the Cayman Islands for a court order confirming the Capital Reduction."

ORDINARY RESOLUTIONS

2 (A) **"THAT** subject to the passing of special resolution numbered 1 set out in the notice convening this extraordinary general meeting and conditional upon:

(a) the Capital Reduction, the Share Consolidation and the change in the board lot size having become effective (together the "**Capital Reorganisation**");

(b) the signing by or on behalf of all of the directors of the Company (the "**Directors**") of one printed copy of each of the Open Offer (as defined below) prospectus, the application form to be used for the application of the Offer Shares (as defined below) and the form of application for excess Offer Shares (as defined below) (together, the "**Prospectus Documents**") and the certification by any two Directors (or by their agents);

(c) the passing of ordinary resolution numbered 3 set out in the notice convening this extraordinary general meeting;

(d) the delivery of the signed copy by all the Directors of each of the Prospectus Documents to Kingston Securities Limited (the "**Underwriter**") on or before the date to be agreed between the Company and the Underwriter for the despatch of the Prospectus Documents (the "**Posting Date**");

(e) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by any two Directors (or by their agents duly authorised in writing) in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the GEM Listing Rules on or before the Posting Date;

(f) compliance by the Company with all its obligations under the underwriting agreement dated 10 October 2005 entered into between the Company and the Underwriter (the "**Underwriting Agreement**") in respect of its offer of shares of HK$0.10 each in the capital of the Company prior to the Share Consolidation and delivery of documents to the Underwriter;

(g) compliance with the relevant legal procedures and requirements under Cayman Islands laws, which include, among other things, the sanction of the Cayman Islands court, to effect the Capital Reduction;

(h) the Listing Committee of the Stock Exchange (1) granting or agreeing to grant listing of, and permission to deal in, the Offer Shares (as defined below) either unconditionally or subject to such conditions which the Underwriter in its absolute opinion accepts and the satisfaction of such conditions (if any), and (2) not having been withdrawn or revoked such listing and permission before 4:00 p.m. on 2 March 2006, or such other time or date as the Underwriter may agree in writing with the Company as the last date for application of and payment for Offer Shares (as defined below) which is to be determined with reference to the timing of completion of the Capital Reorganisation;

(i) the Underwriting Agreement not being terminated in accordance with its terms; and

(j) the posting of the Prospectus Documents to the shareholders, (1) whose names appear on the register of members of the Company as at the close of business on the date by reference to which entitlements to the proposed issue of the Offer Shares (as defined below) by way of Open Offer (as defined below) will be determined, and (2) whose addresses as shown in the register of members are in Hong Kong (the "**Qualifying Shareholders**"),

the issue by way of open offer (the "**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 (excluding those Shareholders with registered addresses outside Hong Kong) for subscription on the basis of an assured allotment of three (3) offer shares for every one (1) share of HK$0.01 held on such date as the Underwriter may agree in writing with the Company as the date and to be determined with reference to the time of completion of the Capital Reorganisation."

(B) **"THAT** the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Open Offer."

3 **"THAT** subject to the passing of special resolution numbered 1 set out in the notice convening this extraordinary general meeting:

(A) the conditional sale and purchase agreement dated 10 October 2005 and made between the Company and Chung Chiu Limited (the "**Vendor**") (a copy of which has been produced to this meeting marked "**A**" and initialled by the Chairman of this meeting for the purpose of identification) (the "**Agreement**") pursuant to which the Company would, subject to the terms and conditions therein contained, acquire from the Vendor the entire issued share capital of Hip Kin Retailing Limited (the "**Transaction**") for an aggregate consideration of HK$80,000,000 (the "**Consideration**") which is to be satisfied as follows: (i) as to HK$40,000,000 in cash, or by the issue of a series of non-interest bearing, 3-year convertible notes in substantially the same form as that contained in Appendix C to the Agreement (the "**Convertible Notes**") to the Vendor or as it may direct in writing, in lieu of part or all the cash consideration of HK$40,000,000 subject to the terms and conditions; and (ii) as to the remaining balance of HK$40,000,000 by the issue of Convertible Notes to the Vendor or as it may direct in writing, provided that the Convertible Notes shall not be convertible within the first six months form the date of its issuance, be and are hereby ratified, confirmed and approved;

(B) the Transaction contemplated in the Agreement be and is hereby approved;

(C) the directors of the Company be and are hereby authorised actions to implement and give effect to the proposals, arrangements, terms and transactions contemplated in the Transaction, the Agreement, and to do all acts and things and to execute all documents, instruments and agreements which may in their opinion be necessary or desirable for the purpose of implementing and giving effect to the Transaction and the Agreement."

4. **"THAT** subject to the passing of ordinary resolution numbered 3 set out in the notice convening this extraordinary general meeting, the directors of the Company be and are hereby authorised to issue the Convertible Notes and allot and issue shares of the Company to the holder of the Convertible Notes or as it may direct upon the exercise of the conversion rights under the Convertible Notes on and subject to the terms and conditions of the Agreement

By the Order of the Board
Leung Tak Wah
Executive Director

Hong Kong, 27 March 2006

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

Head office and principal place of business in Hong Kong:
Unit 5, 20/F.,
Jupiter Tower
No. 9 Jupiter Street, North Point
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person to represent the member.

2. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Shares as if he is solely entitled thereto, but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members in respect of such Share shall alone be entitled to vote in respect thereof.

3. A form of proxy for use at the meeting is enclosed with the Circular.

4. The form of proxy and power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be delivered to the office of Computershare Hong Kong Investor Services Ltd. of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish. If a member who has lodged a form of proxy attends the meeting, his form of proxy will be deemed to have been revoked.