

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you have sold or transferred all your shares in Satellite Devices Corporation (the "Company"), you should at once hand this prospectus with the accompanying application from to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

If you are in any doubt as to any respect about this prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, together with the Application Form, the Excess Application Form and copies of documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this prospectus, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance in Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any of these documents.

Dealings in the share of the Company may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your licensed securities dealer, bank manager, solicitor, professional adviser for details of those settlement arrangements and how such arrangements may effect your rights and interests.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Securities Clearing Company Limited ("HKSCC") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares (as defined herein) on the Stock Exchange, the Offer 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 Offer Shares on the Stock Exchange 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.



SATELLITE DEVICES CORPORATION

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

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 HELD ON RECORD DATE

Financial adviser to Satellite Devices Corporation



KINGSTON CORPORATE FINANCE LIMITED

Underwriter to the Open Offer



KINGSTON 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 21 July 2006 (or such other date as may be agreed between the Company and the Underwriter):

- (a) there develops, occurs, exists or comes into force any events whereby in the reasonable opinion of the Underwriter, the success of the Open Offer or the business or financial condition or prospects of the Group would, may be or is likely to be adversely affected or which makes it inadvisable or inexpedient to proceed with the Open Offer, including:
 - (i) the introduction of any new law or regulation or any change in existing laws or regulations (or any change in the judicial interpretation thereof) whether in Hong Kong or elsewhere; or
 - (ii) 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
 - (iii) any change or deterioration (whether or not permanent) in local, national or international securities market conditions; or
 - (iv) 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
 - (v) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; or
 - (vi) any suspension in the trading of the shares of the Company 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
 - (vii) 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 the Underwriting 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 the Underwriting Agreement was untrue or inaccurate in any respect which adversely affect the success of the 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 of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the shares of the Company have been dealt with on an ex-entitlements basis commencing from Monday, 26 June 2006. Shareholders should also note that dealings in such shares 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 (which is expected to be Friday, 21 July 2006), 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 the shares of the Company, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

The latest time for acceptance of and payment for the Offer Shares is 4:00 p.m. on Tuesday, 18 July 2006. The procedure for acceptance or transfer of the Open Offer is set out on pages 13 to 14 of this prospectus.

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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EXPECTED TIMETABLE

The expected timetable of the Open Offer is set out below:

2006

Record Date	Friday, 30 June
Register of members reopens	Monday, 3 July
Prospectus Documents expected to be despatched	Monday, 3 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
Despatch of refund cheques in respect of wholly or partly unsuccessful excess applications and, when applicable, refund cheques in respect of monies received in respect of acceptances of the Offer Shares if the Underwriting Agreement is terminated before becoming unconditional	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 Old Shares ends	4:00 p.m. on Friday, 28 July
Last day of availability of odd lot facility	Friday, 28 July
Free exchange of Old Share certificates for New Share certificates ends	Wednesday, 2 August

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

Dates or deadlines specified in this prospectus for events in the timetable are for indicative purpose only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be published by way of public announcement.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER

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 noon and 4:00 p.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 Business 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 acceptance of and payment for the Offer Shares does 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.

DEFINITIONS

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

“Acquisition”	the acquisition by the Company from the Vendor of the entire issued share capital of HKR pursuant to the Sale and Purchase Agreement
“Announcement”	the announcement dated 25 November 2005 made by the Company in relation to, among others, the (1) Loan Capitalisation; (2) Capital Reorganisation; (3) Open Offer; and (4) Acquisition
“Application Form(s)”	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares
“Acceptance Date”	a date to be agreed between the Underwriter and the Company being the last day for Qualifying Shareholders to apply for the Offer Shares
“Arcon”	Arcon 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
“Capital Reduction”	the 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
“Capital Reorganisation”	the Capital Reduction, the Share Consolidation, the Share Subdivision and the change in the board lot size
“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”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)

DEFINITIONS

“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 Shares to be issued upon the conversion rights of the Convertible Note having been exercised
“Convertible Note(s)”	the convertible notes 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
“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 held on 20 April 2006 at which, among others, the Capital Reorganisation, Open Offer and the Acquisition have been approved
“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”	such 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 on 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
“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

DEFINITIONS

“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 Open Offer
“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”	29 June 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 Old 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 which was repaid pursuant to the Loan Capitalisation Deed
“Loan Capitalisation Deed”	the deed dated 7 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 Loan Shares as full repayment of the Loan
“Loan Capitalisation”	the Loan of HK\$6,758,586.32 which was repaid pursuant to the Loan Capitalisation Deed
“Loan Share”	67,585,863 Old Shares subscribed by the Creditor pursuant to the Loan Capitalisation Deed
“New Share(s)”	the ordinary share(s) of HK\$0.01 each in the existing share capital of the Company after the Capital Reorganisation became effective on 22 June 2006
“Offer Share(s)”	395,101,116 New Shares 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 Open Offer

DEFINITIONS

“Old Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company in existence prior to 22 June 2006, being the effective date of the Capital Reorganisation
“Open Offer”	the 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 the terms of which are summarised herein
“Posting Date”	3 July 2006 or such later date as may be agreed between the Company and the Underwriter for the despatch of the Prospectus Documents
“PRC”	the People’s Republic of China
“Prospectus Documents”	the Open Offer prospectus, the Application Form and the Excess Application Form
“Qualifying Shareholders”	such Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown in the register of members are in Hong Kong
“Record Date”	30 June 2006, being the date by reference to which entitlements to the Open Offer have been determined
“Registrar”	Computershare Hong Kong Investor Services Ltd. of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, the Company’s Hong Kong share registrar
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 10 October 2005 entered into between the Company and the Vendor in respect of the Acquisition
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of Old Shares or, where the context so requires, after the Capital Reorganisation becoming effective, holder(s) of New Shares
“Share Consolidation”	the consolidation of every 5 issued and unissued Old Shares into 1 Consolidated Share

DEFINITIONS

“Share Subdivision”	the subdivision of every authorised but unissued Consolidated Share into 50 New Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 Acquisition
“Underwriting Agreement”	the underwriting agreement dated 10 October 2005 entered into between the Company and the Underwriter in relation to the Open Offer
“Vendor”	Chung Chiu Limited, a company incorporated in the British Virgin Islands, which is ultimately owned by a family trust
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent”	percentage



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:*

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

3 July 2006

To Shareholders

Dear Sir or Madam,

**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 HELD ON RECORD DATE**

INTRODUCTION

It was announced on 22 June 2006 that the order for the Capital Reorganisation had been granted by the Grand Court of the Cayman Islands on 16 June 2006. Copies of the court order and the minutes containing the particulars required under the Companies Law were filed and duly registered with the Registrar of Companies in the Cayman Islands on 22 June 2006. Accordingly, all the conditions precedent for the implementation of the Capital Reorganisation have been fulfilled and the Capital Reorganisation has become effective on 22 June 2006.

It was announced on 25 November 2005 that the Board intended to raise approximately HK\$23.73 million (net of expenses of approximately HK\$1.95 million) by issuing 395,101,116 Offer Shares at a price of HK\$0.065 per Offer Share by way the Open Offer, payable in full on application, on the basis of three Offer Shares for every New Share held on the Record Date.

Under the Listing Rules, the Open Offer is required to be made conditional on the approval of the Shareholders. On 27 March 2006, a circular containing details regarding, among other things, the Open Offer and a notice of the EGM was despatched to the Shareholders. A copy of such circular is available for inspection at such place and time as set out in the section headed "Documents available for Inspection" in Appendix III to this prospectus. At the EGM, resolutions were duly passed by the Shareholders to approve, among others, the Open Offer.

LETTER FROM THE BOARD

This prospectus sets out further information regarding the Open Offer, including information on dealings and application for the Offer Shares and other financial information in respect of the Group.

OPEN OFFER

Issue statistics

Basis of the Open Offer	:	Three Offer Shares for every New Share held on the Record Date
Subscription Price	:	HK\$0.065 per Offer Share
Number of New Shares in issue immediately after the Capital Reorganisation became 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 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 New Shares of the Company.

Qualifying Shareholders

The 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 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.

LETTER FROM THE BOARD

In order to be qualified for the 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 Open Offer.

The Board would like to stress that whether or not the controlling Shareholder will take up his/her full entitlement in the Open Offer is immaterial to and would not cause any adverse uncertainties to the intention of the Independent Shareholders in subscribing for the Offer Shares to which they will be entitled under the Open Offer as the fundamental benefit and economic profit derived from the Acquisition is the most crucial consideration to the Shareholders in this regard. As discussed, the total net proceeds to be raised from the Open Offer will be utilised to satisfy the partial consideration of the Acquisition that is expected, in the opinion of the Board, to further strengthen the business foundation and thereby the earnings base of the Group, which will eventually benefit the Company and its Shareholders as a whole.

Closure of register of members

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

Subscription Price

HK\$0.065 per Offer Share is to be paid 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 the recent closing prices of the shares of the Company 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 Capital Reorganisation had already become effective on that day;

LETTER FROM THE BOARD

- (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 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 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 Capital Reorganisation had already become effective on those days; and
- (v) a discount of approximately 59.4% to the adjusted closing price of HK\$0.16 per New Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Directors consider that the Subscription Price of the Offer Shares was arrived at after arm's-length negotiations with the Underwriter after having taken into account i) the recent price performance of the shares of the Company; and ii) the offering of an opportunity to the existing Shareholders to participate in the 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 Capital Reorganisation becoming effective.

Under the GEM Listing Rules, the Open Offer is required to be made conditional, among other things, on the approval of the Independent Shareholders. At the EGM held on 20 April 2006 Arcon and its associate(s), being the connected parties within the meaning of the GEM Listing Rules, abstained from voting in the meeting on the resolution regarding the Open Offer which was conducted by way of poll.

Fractions of Offer Shares

The Company will not allot fractions of the Offer Shares. Any Offer Shares created from the aggregation of fractions of Offer Shares will be taken up by the Underwriter and/or by the Qualifying Shareholders who have applied for the excess Offer Shares.

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 Open Offer to the Excluded Shareholders, if any, and the details of the Excluded Shareholders, if any, 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 Open Offer will not be available to such Shareholder; 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 Shareholder.

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 Open Offer.

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

APPLICATION FOR EXCESS OFFER SHARES

Qualifying Shareholders are entitled to apply for any unsold entitlements and any Offer Shares provisionally allotted but not taken up by the Qualifying Shareholders by completing the Excess Application Forms for excess Offer Shares and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Shareholders with their shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholder should note that the aforesaid arrangement in relation to the allocation of the excess Offer Shares will not be extended to beneficial owners individually. The Shareholders with their New Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant New Shares in the name of the beneficial owner(s) prior to the Record Date. Arrangement in this regard has been set out in the circular of the Company dated 27 March 2006.

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.

LETTER FROM THE BOARD

Certificates for the Offer Shares

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be despatched 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 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.

PROCEDURE FOR ACCEPTANCE

An Application Form and an Excess Application Form enclosed with the Prospectus will entitle you to accept any number of Offer Shares allocated to you based on your shareholding as at the Record Date. Qualifying Shareholders should note that in addition to their pro rata assured allotment, Qualifying Shareholders will be able to apply for excess Offer Shares at the Subscription Price which are not taken up by other Qualifying Shareholders and any entitlements of the Excluded Shareholders. If you are a Qualifying Shareholder and you wish to take up your entitlement of Offer Shares as specified in the enclosed Application Form or apply for excess Offer Shares as specified in Excess Application Form or you wish to take up any number less than your assured entitlement, you must complete, sign and lodge the Application Form and/or Excess Application Form in accordance with the instructions printed thereon, together with remittance for the aggregate Subscription Price in respect of such number of Offer Shares you have accepted with Computershare Hong Kong Investor Services Ltd., Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "Registrar"), the branch share registrar and transfer office of the Company in Hong Kong, by not later than 4:00 p.m. on Tuesday, 18 July 2006. All remittance must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Satellite Devices Corporation – PAF" and crossed "Account Payee Only" for application of Offer Shares under assured allotment and if applicable, made payable to "Satellite Devices Corporation – EAF" and crossed "Account Payee Only" for application of excess Offer Shares.

It should be noted that unless the Application Form and/or Excess Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Tuesday, 18 July 2006, that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions or the excess applications are unsuccessful, the (relevant part of) subscription monies will be refunded, without interest, by sending a cheque made out to the relevant Shareholders named on the Application Form (or in the case of joint Shareholders, to the first named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholder(s) to the address specified in the register of members of the Company on or before Tuesday, 25 July.

LETTER FROM THE BOARD

The Application Form contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements under the Open Offer.

The Excess Application Form contains full information regarding the procedures to be followed if you wish to apply for excess Offer Shares in addition to your assured entitlements under the Open Offer.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Any Application Form and/or Excess Application Form in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form and the Excess Application Form are for use only by the person(s) named therein and are not transferable.

No receipt will be issued in respect of any subscription monies for the Offer Shares received.

Application for listing

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

FUND RAISING ACTIVITIES IN THE 12 MONTHS IMMEDIATELY PRIOR TO 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

LETTER FROM THE BOARD

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 21 July 2006 (or such other date as may be agreed between the Company and the Underwriter):

- (a) there develops, occurs, exists or comes into force any events whereby in the reasonable opinion of the Underwriter, the success of the Open Offer or the business or financial condition or prospects of the Group would, may be or is likely to be adversely affected or which makes it inadvisable or inexpedient to proceed with Open Offer, including:**
 - (i) the introduction of any new law or regulation or any change in existing laws or regulations (or any change in the judicial interpretation thereof) whether in Hong Kong or elsewhere;**
 - (ii) 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**
 - (iii) any change or deterioration (whether or not permanent) in local, national or international securities market conditions; or**
 - (iv) 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**
 - (v) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; or**

LETTER FROM THE BOARD

- (vi) any suspension in the trading of the shares of the Company 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 SFC); or
 - (vii) 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 the Underwriting 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 the Underwriting Agreement was untrue or inaccurate in any respect which adversely affect the success of the Open Offer.

Save for all reasonable costs, charges and expenses which may be incurred in connection with the Open Offer, upon the giving of notice termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the 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 Open Offer

The 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 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 Open Offer and the passing by the Shareholders at the EGM of the relevant resolution to approve the 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;

LETTER FROM THE BOARD

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 the shares of the Company 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 21 July 2006;
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 Open Offer to become unconditional (or such other date as may be agreed between the Company and the Underwriter), the 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 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 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 Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed.

LETTER FROM THE BOARD

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.

SHAREHOLDING STRUCTURE OF THE COMPANY

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

	Existing shareholding structure as at the Latest Practicable Date		Immediately after completion of the Open Offer			
			Assuming all Qualifying Shareholdings take up their entitlements		Assuming no Qualifying Shareholders take up their entitlements	
	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>
Arcon	58,408,800	44.35%	233,635,200	44.35%	58,408,800	11.09%
Creditor	13,517,172	10.26%	54,068,688	10.26%	13,517,172	2.56%
Underwriter ⁽¹⁾	0	0.00%	0	0.00%	395,101,116	75.00%
Vendor ⁽¹⁾	0	0.00%	0	0.00%	0	0.00%
Other Shareholders ⁽²⁾	59,774,400	45.39%	239,097,600	45.39%	59,774,400	11.35%
Total	131,700,372	100.00%	526,801,488	100.00%	526,801,488	100.00%

Immediately after completion of the
Open Offer and issue of
Convertible Note of approximately HK\$61.52 million
in relation to the Acquisition

Shareholder	(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)	
	<i>Number of New Shares</i>	<i>%</i>	<i>Number of New Shares</i>	<i>%</i>
	Arcon	233,635,200	20.46%	58,408,800
Creditor	54,068,688	4.73%	13,517,172	1.18%
Underwriter ⁽¹⁾	0	0.00%	395,101,116	34.60%
Vendor ⁽³⁾	615,200,000	53.87%	615,200,000	53.87%
Other Shareholders ⁽²⁾	239,097,600	20.94%	59,774,400	5.23%
Total	1,142,001,488	100.00%	1,142,001,488	100.00%

LETTER FROM THE BOARD

- 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 288,000,000 underwritten Offer Shares, representing approximately 54.67% of the enlarged issued share capital of the Company immediately upon completion of the 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 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 Code on Takeovers and Mergers and Share Repurchase issued by the SFC do not control 30% or more of the voting power at a general meeting of the Company.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The estimated net proceeds from the 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 Acquisition and HK\$1.85 million for marketing of the brands to be acquired under the Acquisition and the remaining balance of HK\$3.40 million for general working capital of the Company. The Directors consider that the 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 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.

RECENT DEVELOPMENT OF THE GROUP

In order to maintain the Company's competitiveness, the management has directed the in-house engineering team to improve the services by concentrating on certain developments. The Group also tried to monitor some of the newly introduced solutions offered by our competitors to stay ahead in the market. The Group is also updating the electronic maps in Hong Kong and Shenzhen, the PRC with a view to providing more accurate tracking of vehicles.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECTS

Leveraging on its own name, the Group will continue to provide services and product solutions of the location-based technology and innovations to its clientele in Hong Kong. Despite the private car market recorded a growth in 2005 and the Directors believe that this trend will continue 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 function variety. However, the Directors have seen encouraging results from the reduction in overhead and operating expenses of the Company in the past two years and the Directors expect to streamline the operating cost structure in order to improve operational efficiency.

In view of the current positive economic growth in Hong Kong, the management has been looking for acquisitions of profitable businesses. The group is currently working on an acquisition of a retailing business, HKR, which is engaged in distribution in the licensed retail sales of apparel and accessories under European brand names. HKR currently markets and sells its licensed products to consumers through a network of 4 single-branded outlets in Hong Kong and a shopping mall in Taipei.

The Directors consider that there is a potential synergy in distribution capabilities after the acquisition.

With HKR's capabilities in distributing products through its own-managed retail network, the Group believes that HKR can contribute to the financial performance of the Group. The Directors also consider that the growth opportunities in licensing other brands will benefit the Group and the shareholders.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this prospectus.

On behalf of the Board
Leung Tak Wah
Executive Director

A. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 MARCH 2006

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 March 2006:

	2006	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,359	1,442	14,779
Cost of location-based technology devices and applications	(520)	(522)	(13,130)
	839	920	1,649
Other revenues	204	29	2
Reversal of provision for doubtful debts	2,498	–	–
Reversal of write-down of inventories	176	–	–
Waiver of other payables	252	133	–
Waiver of accrued salary payable to a director	–	248	1,488
Write off of property, plant and equipment	(5,827)	–	–
Advertising and promotion costs	–	(5)	(4,018)
Staff costs	(2,188)	(2,628)	(4,217)
Depreciation	(11,194)	(11,772)	(11,966)
Other charges	–	(1,378)	(26,077)
Other operating expenses	(2,486)	(2,710)	(3,960)
Loss before taxation	(17,726)	(17,163)	(47,099)
Taxation	–	–	–
Loss attributable to shareholders	<u>(17,726)</u>	<u>(17,163)</u>	<u>(47,099)</u>
Basic loss per share	<u>14.49 cents</u>	<u>14.52 cents</u>	<u>39.90 cents</u>

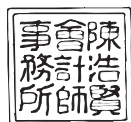
Note 1: Basic loss per share for years ended 31 March 2004 and 2005 are restated after taking into consideration of the consolidation of shares by way of every five existing shares into one new consolidated share.

No dividends have been paid or declared by the Company for the three years ended 31 March 2006. There were neither extraordinary nor exceptional items during each of the three years ended 31 March 2006.

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. The Company's auditors have not issued any qualified opinion on the Group's financial statements for the year ended 31 March 2006.

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.

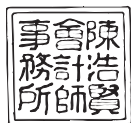
Except for the failure to recognise impairment loss as mentioned in the above paragraph, in our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the Group's loss and cash flows for the year then ended and have been properly 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.



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. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

The following is a summary of the audited consolidated accounts of the Company for the year ended 31 March 2006 as extracted from the 2006 annual report of the Company.

Consolidated Income Statement

For the year ended 31 March 2006

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

Consolidated Balance Sheet*As at 31 March 2006*

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

Balance Sheet*As at 31 March 2006*

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

Consolidated Statement of Changes in Equity*For the year ended 31 March 2006*

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

Consolidated Cash Flow Statement*For the year ended 31 March 2006*

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

Notes to the Financial Statements

1 General information

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

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

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

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

At 31 March 2006, the Group's net current liabilities exceeded its current assets by approximately HK\$1,055,000 and the net liabilities of the Group amounted to approximately HK\$5,826,000. As more detailed in note 29 below, subsequent to the balance sheet date, the directors of the Company proposed a capital reorganisation of the Company's share capital and an open offer to qualifying shareholders for subscription on the basis of three offer shares for every new share (being share of HK\$0.01 each in the share capital of the Company upon the capital reorganisation become effective). Details of the proposed capital reorganisation and proposed open offer are disclosed in the Company's circular dated 27 March 2006. The estimated net proceeds from the proposed open offer will be approximately HK\$23.73 million which is intended to be applied as to approximately HK\$18.48 million for the partial payment of the consideration for a proposed acquisition (details of which are also disclosed in the Company's circular dated 27 March 2006) and as to approximately HK\$1.85 million for marketing the brands to be acquired under the proposed acquisition and the remaining balance of approximately HK\$3.40 million for general working capital of the Company. All the proposed capital reorganisation, proposed open offer and proposed acquisition were approved by the shareholders of the Company on 20 April 2006.

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

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

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

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date

HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

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

- (a) The adoption of HKAS 1 requires the disclosure of judgments (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.
- (b) The adoption of HKAS 24 affects the identification of related parties and the disclosure of related party transactions. These related party disclosures are presented in note 26 to the financial statements.
- (c) The adoption of HKFRS 2 has resulted in a change in accounting policy for share options. Prior to this, no recognition and measurement of share-based payment transactions in which share options granted over shares in the Company were required until such options were exercised, at which time the share capital and share premium were credited with the proceeds received.

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

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

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²

HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining Whether an Arrangement Contains a Lease ²
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market-Waste, Electrical and Electronic Equipment ³
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁵
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁶

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

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

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

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

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

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

3 Critical accounting judgments and key source of estimation uncertainty

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

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

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

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

4 Principal accounting policies

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

(a) Group accounting

(i) Consolidation

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

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

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

(ii) *Associates*

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

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

(b) Property, plant and equipment

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

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

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

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

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

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

(c) Operating leases

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

(d) Inventories

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

(e) Financial instruments*Trade and other receivables*

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

Cash and cash equivalents

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

Other payables

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

Share capital

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

(f) Impairment

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

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

(g) Provisions

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

(h) Taxation

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

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

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

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

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

(i) Related parties

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

(j) Foreign currencies

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

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

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

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

(k) Employee benefits

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

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

(l) Share-based payments

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

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

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

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

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

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

(m) Research and development costs

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

(n) Revenue recognition

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

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

5 Revenue

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

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

6 Loss before taxation

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

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

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

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

7 Taxation

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for the years ended 31 March 2006 and 2005.
- (b) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.
- (c) The taxation for the year can be reconciled to loss before taxation per the consolidated income statement as follow:

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

8 Loss attributable to shareholders

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

9 Loss per share

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

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

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

10 Directors' and senior management's emoluments

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

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

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

Notes:

1. Mr. Tsoi and Mr. Huang resigned on 31 August 2005
2. Ms. Yu was appointed on 26 August 2005
3. Mr. Lo was appointed on 13 September 2005
4. Mr. Liu resigned on 8 February 2006

5. Mr. Chan resigned on 15 September 2005
6. Mr. Sum was appointed on 26 August 2005
7. Mr. Lum was appointed on 13 September 2005
8. Mr. Wan was appointed on 8 February 2006
9. Mr. Ku resigned on 29 June 2004

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

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	675	1,041
Retirement benefits scheme contributions	31	38
	<u>706</u>	<u>1,079</u>

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

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

11 Retirement benefit costs

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

12 Property, plant and equipment

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

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

13 Investment in subsidiaries

	Company	
	2006	2005
	HK\$'000	HK\$'000
Amounts due from subsidiaries (note (b))	97,629	92,414
Less: provision	(97,629)	(92,414)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	-	-

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

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Interest held
Shares held directly:-				
Satellite Devices (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$3	100%
Satellite Devices Intelligence (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$1	100%
Shares held indirectly:-				
Satellite Devices Limited	Hong Kong	Design, development and sale of location based technology devices and applications in Hong Kong	Ordinary HK\$5,000,000	100%
衛科導航技術(深圳)有限公司 (“Satellite Devices Technology (Shenzhen) Company Limited”)	The People’s Republic of China excluding Hong Kong (the “PRC”)	Provision of technical support services in the PRC	Registered capital HK\$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$1	100%
Satellite Devices Intelligence Limited	Hong Kong	Inactive	Ordinary HK\$1	100%

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

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

14 Investments in associates

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Share of net assets	1,474	1,474
Amount due to an associate (<i>note (b)</i>)	(1,470)	(1,470)
	<u>4</u>	<u>4</u>

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

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

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

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

15 Inventories

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

16 Trade receivables

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

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

17 Cash and cash equivalents

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

18 Amount due to a fellow subsidiary

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

19 Amount due to a director

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

20 Share capital

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

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

21 Share options

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

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

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

22 Reserves

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

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

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

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

23 Other loan

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

24 Deferred taxation

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

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

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

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

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

25 Financial risk management

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

(a) Credit risk

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

(b) Currency risk

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

(c) Interest rate risk

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

26 Related party transactions

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Office rental expenses paid and payable to Arcon Technology Limited	<u> -</u>	<u> 16</u>

27 Commitments**(a) Commitment under operating leases**

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	93	166
In the second to fifth years inclusive	<u> 77</u>	<u> 9</u>
	<u> 170</u>	<u> 175</u>

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

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Contracted but not provided for	-	540
Authorised but not contracted for	<u> -</u>	<u> -</u>
	<u> -</u>	<u> 540</u>

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

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

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

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

28 Litigation

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

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

29 Post balance sheet events

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

- (i) proposed capital reorganisation (“Capital Reorganisation”) – (i) every five existing issued and unissued shares of HK\$0.10 each in the share capital of the Company be consolidated into one share of HK\$0.50 each (the “Consolidated Share”) in the capital of the Company (the “Share Consolidation”); (ii) the issued share capital of the Company be reduced (the “Capital Reduction”) by cancelling paid-up capital to the extent of HK\$0.49 on each Consolidated Share in the capital of the Company in issue on the date the Capital Reduction become effective (the “Effective Date”) so that each issued share in the capital of the Company shall be treated as one fully-paid up share of HK\$0.01 each in the capital of the Company (the “New Share”); (iii) the authorised but unissued share capital of the Company be sub-divided by subdividing each of the authorised but unissued shares of HK\$0.50 each in the capital of the Company into fifty new shares of HK\$0.01 each; and (iv) the credit amount arising from the Capital Reduction be applied to a distributable reserve of the Company where it may be utilised by the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at the Effective Date. The Capital Reorganisation had become effective on 22 June 2006;
- (ii) proposed open offer (“Open Offer”) – conditional upon the Capital Reorganisation having become effective and other conditions set out in the Circular being satisfied, the issue by way of open offer of 395,101,116 shares of HK\$0.01 each in the share capital of the Company upon the Capital Reorganisation (the “Offer Shares”) to the Qualifying Shareholders (as defined in the Circular) for subscription on the basis of three Offer Shares for every one share of HK\$0.01 at a price of HK\$0.065 per Offer Share; and
- (iii) the proposed acquisition of HKR as mentioned in note 27 above.

E. STATEMENT OF INDEBTEDNESS OF THE GROUP

Borrowings

At the close of business on 31 May 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 had the following borrowings:

	<i>Note</i>	The Group <i>HK\$'000</i>	HKR <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trust receipt loans	<i>a</i>	–	6,009	6,009
Bank overdrafts	<i>a</i>	–	2,572	2,572
Bank loan	<i>a</i>	–	1,791	1,791
Finance lease	<i>a</i>	–	546	546
Other loan	<i>b</i>	4,775	–	4,775
Amount due to director	<i>c</i>	271	–	271
		5,046	10,918	15,964

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.

The bank borrowings and finance lease were repayable as follows:

	Bank borrowings <i>HK\$'000</i>	Finance lease <i>HK\$'000</i>	Total <i>HK\$'000</i>
Within 1 year or on demand	9,562	187	9,749
After 1 year but within 5 years	810	359	1,169
	10,372	546	10,918

- 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 amount due to a director is unsecured, interest-free and have no fixed terms of repayment.

Save as disclosed above and apart from intra-group liabilities, as at the close of business of 31 May 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.

F. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there were no material change in the financial or trading position or prospects of the Group subsequent to 31 March 2006, being the date to which the last audited financial statements of the Company were made up.

G. 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 Group, including internally generated funds, the available credit facilities and the estimated net proceeds of the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

The following are the statement of audited 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 audited consolidated balance sheet of the Group as at 31 March 2006, which has been extracted from the annual report of the Group for the year ended 31 March 2006.

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 31 March 2006.

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 as at 31 March 2006 and any future financial periods.

Audited consolidated net tangible assets of the Group as at 31 March 2006			Audited consolidated net tangible assets of the Group per Share before the Open offer (note 1) HK cents
<i>HK\$'000</i>			<i>HK cents</i>
<u>(5,826)</u>			<u>(4.42)</u>
Audited 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 cents
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK cents</i>
<u>(5,826)</u>	<u>23,730</u>	<u>17,904</u>	<u>3.40</u>

Note:

1. The adjusted consolidated net tangible assets per Share before the Open Offer is calculated based on the 131,700,372 new shares.
2. The unaudited proforma adjusted consolidated net tangible assets of the Group per Share immediately after the Open Offer is calculated based on the 131,700,372 new shares together with the 395,101,116 Offer Shares.



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ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

TO THE DIRECTORS OF SATELLITE DEVICES CORPORATION

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Satellite Devices Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the 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 might have affected the financial information presented, for inclusion in Appendix II of the prospectus dated 3 July 2006 (the "Prospectus"). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out on pages 52 of the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets 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") and with reference to AG7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets 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 unaudited pro forma statement of adjusted consolidated net tangible assets 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Rules.

Our work does not constitute an assurance engagement performed 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 unaudited pro forma statement of adjusted consolidated net tangible assets.

The unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2006 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company 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 unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Rules.

Graham H.Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong

3 July 2006

1. RESPONSIBILITY STATEMENT

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

1. the information contained in this prospectus 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 prospectus 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 and immediately following completion of the Open Offer (assuming all Qualifying Shareholders take up their entitlements) were as follows:

<i>Authorised :</i>	<i>HK\$</i>
100,000,000,000 New Shares (after the Capital Reorganisation became effective on 22 June 2006)	1,000,000,000
 <i>Issued and fully paid :</i>	
131,700,372 New Shares as at the Latest Practicable Date	1,317,003.72
395,101,116 Offer Shares (assuming all Qualifying Shareholders take up their entitlements)	3,951,011.16
526,801,488 New Shares upon completion of the Open Offer (assuming all Qualifying Shareholders take up their entitlements)	5,268,014.88

All of the Offer Shares and New Shares will rank pari passu in all respects, including in particular as to dividend, voting rights and return on capital, with all the shares of the Company in issue as at the date of allotment and issue of the Offer Shares and New Shares. All of the Offer Shares and New Shares will be listed on the Stock Exchange. There are no arrangement under which future dividends are waived or agreed to be waived.

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 or conversion right affecting the shares of the Company has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

No part of the share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

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 register 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 New Shares interested or deemed to be interested	Approximate percentage of the issued share capital of the Company
Kingston Securities (<i>note 1</i>)	Beneficial owner	395,101,116	75.00% (<i>Note 6</i>)
Arcon (<i>note 2</i>)	Beneficial owner	58,408,800	44.35% (<i>Note 5</i>)
Kingston Finance Limited (<i>note 2</i>)	Security interest in shares	58,408,800	44.35% (<i>Note 5</i>)
Fung Chan Man Alex (<i>note 3</i>)	Beneficial owner	85,000,000	16.14% (<i>Note 6</i>)
Lai Chun Kong (<i>note 3</i>)	Beneficial owner	85,000,000	16.14% (<i>Note 6</i>)
Everlasting Bright Investments Ltd (<i>note 3</i>)	Beneficial owner	68,000,000	12.91% (<i>Note 6</i>)
The Creditor (<i>note 4</i>)	Beneficial owner	13,517,172	10.26% (<i>Note 5</i>)

Notes:

1. Kingston Securities has conditionally agreed to underwrite 395,101,116 Offer Shares pursuant to the Underwriting Agreement. As per notices made pursuant to S.324 of Part XV of the SFO (“Notices”) received by the Company, Chu Yuet Wah and Ma Siu Fong each is deemed to be interested in the 395,101,116 Offer Shares underwritten by Kingston Securities.
2. The 58,408,800 New Shares are held by Arcon, a company wholly-owned by Arcontech Corporation. Accordingly, Arcontech Corporation is deemed to be interested in the 58,408,800 New Shares. Arcon had granted a security interest over the 58,408,800 New Shares as security of Kingston Finance Limited.
3. Each of Fung Chan Man Alex, Lai Chun Kong and Everlasting Bright Investments Ltd has entered into a sub-underwriting agreement with Kingston Securities to sub-underwrite 85,000,000, 85,000,000 and 68,000,000 Offer Shares respectively. As per the Notices received, Lau Chun Fat George is deemed to be interested in 68,000,000 Offer Shares as a result of him being beneficially interested in the entire share capital of Everlasting Bright Investments Ltd.
4. The 13,517,172 New Shares are held by the Creditor, a company wholly-owned by Wu Ling Yee. Accordingly, Wu Ling Yee is deemed to be interested in the 13,517,172 New Shares.
5. The percentage holding is calculated based on the total existing issued share capital of 131,700,372 New Shares.
6. The percentage holding is calculated based on the number of shares interested or deemed to be interested over 526,801,488 New Shares of the Company, being the enlarged issued share capital of the Company assuming the Open Offer has completed as at the Latest Practicable Date.

*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 prospectus and are or may be material:

- (a) the Loan Capitalisation Deed;
- (b) the Sale and Purchase Agreement;
- (c) the Supplemental Agreement; and
- (d) the 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, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claims of material importance was known to the Directors to be 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

Ms. Yu Wai Yin, Vicky has entered into a service contract with the Company for an initial term of one year commencing from 26 August 2005 and thereafter may be terminated by either party upon a three-month prior written notice. Under the service contract, Ms. Yu is entitled to receive a monthly fee of HK\$10,000.

Mr. Sum Chun Ho has entered into a service contract with the Company for an initial term of one year commencing from 26 August 2005 and thereafter may be terminated by either party upon an one-month prior written notice. Under the service contract, Mr. Sum is entitled to receive a monthly fee of HK\$5,000.

Save as disclosed above, 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).

8. DIRECTORS' INTERESTS IN ASSETS

No contract or arrangement in which any Directors is materially interested and which is significant in relation to the business of the Group subsisted as at the Latest Practicable Date.

As at the Latest Practicable Date, the Directors were not interested, directly or indirectly in any assets which have been, since 31 March 2006 (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 2006, being the date to which the latest published audited financial statements of the Company were made up.

10. QUALIFICATION OF EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice contained in this prospectus.

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

Graham H.Y. Chan & Co. has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion herein of its report and letter, as the case may be, or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Graham H. Y. Chan & Co. was not interested beneficially or otherwise in any shares of the Company or shares in any of the Company's subsidiaries or associated companies and did not have any right, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any shares of the Company or shares in any of the Company's subsidiaries or associated companies nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. EXPERT'S INTERESTS IN ASSETS

Save as disclosed in this prospectus, as at the Latest Practicable Date, Graham H.Y. Chan & Co.:

- (a) was not interested, directly or indirectly in any assets which have been, since 31 March 2006 (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) does 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. DIRECTORS AND SENIOR MANAGEMENT

- (a) The executive Directors

Mr. Lo Mun Lam, Raymond, aged 53, is the executive Director of the Group. He is the chairman of a private equity firm with interests in various business sectors. He has over 26 years of management experience, including banking and finance, manufacturing and distribution of radio-telecom related products, hospitality management, portfolio management in real estate and direct investments. He served previously as the Honorary Treasurer of the Hong Kong Council of Social Services, the Treasurer of the Harvard Club of Hong Kong

and the Chief Financial Officer of the Canadian Foundation for the Preservation of Chinese Cultural and Historical Treasures. He is also a fellow of Institute of Chartered Accountants in England & Wales; a member of the Institute of Chartered Accountants of Ontario, Canada; a member of the Hotel & Catering International Management Association of the United Kingdom and a counselor of Real Estate of the United States of America.

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

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

- (b) The independent non-executive Directors
- (i) Mr. Wan Kwok Pan has over 10 years of experience in the field of electronics applications. He holds a Master's Degree in Business Administration from The University of Hong Kong.
 - (ii) Mr. Sum Chun Ho has over 10 years of experience in the field of professional accounting. He holds a Master's Degree in Business (Accounting) from Monash University. He is currently the sole proprietor of Messrs. C.H. Sum & Co., Certified Public Accountants (Practising).
 - (iii) Mr. Lum Pak Sum is a professional accountant. He holds a master degree in business administration from the University of Warwick, United Kingdom and a Bachelor of Laws degree (Honours) from the University of Wolverhampton, United Kingdom. He has over 18 years of experience in financial field, the money market and capital market.

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.

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

Please refer to paragraph (a) above for his bibliography.

13. PARTICULARS OF DIRECTORS

Name	Address
Lo Mun Lam, Raymond	Flat A4, 8/F. Dragon Court 6 Dragon Terrace Tin Hau Hong Kong
Leung Tak Wah	Flat 7, 23/F., Block R Sunshine City Ma On Shan Shatin Hong Kong
Yu Wai Yin, Vicky	1/F., No. 53 Fung Shue Wo Village Tsing Yi Hong Kong
Wan Kwok Pan	Flat E, 17/F., Tower 4 Vista Paradiso Ma On Shan Shatin Hong Kong
Sum Chun Ho	Flat E, 10/F., Block 8 Metro City, Phase 2 Tseung Kwan O Hong Kong
Lum Pak Sum	19E, Greendale Court Phase V, Discovery Bay Lantau Hong Kong

14. LEGAL EFFECT

The Prospectus Documents and all applications for the Offer Shares and excess Offer Shares contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong.

15. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

16. DOCUMENT DELIVERED TO THE REGISTRARS OF COMPANIES

A copy of each of the Prospectus Documents, having attached thereto the written consent referred to under the heading “Expert and Consent” in this Appendix, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance.

17. MISCELLANEOUS

- The registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Cayman Islands and the principal place of business of the Company in Hong Kong is at Room 2019, 20/F., Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong.
- The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- The English text of this prospectus and form of proxy shall prevail over the Chinese text in the case of inconsistency.

18. 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 during normal business hours on long weekday other than Sunday, Saturday and public holidays, up to and including 17 July 2006:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (c) the annual reports of the Company for the two years ended 31 March 2006;
- (d) the interim report of the Company for the six months ended 30 September 2005;
- (e) the accountants’ report from Graham H. Y. Chan & Co. on the pro forma financial information as set out in Appendix II to this prospectus;
- (f) the letter of consent referred to in the paragraph headed “Qualification of Expert and Consent” in this appendix; and
- (g) the circular of the Company dated 27 March 2006 in relation to, among other things, the Open Offer.

19. CORPORATE INFORMATION**Executive Directors**

Lo Mun Lam, Raymond
Leung Tak Wah
Yu Wai Yin, Vicky

Independent non-executive Directors

Wan Kwok Pan
Sum Chun Ho
Lum Pak Sum

Company Secretary

Leung Tak Wah

Qualified Accountant

Leung Tak Wah

Registered Office

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

Principal Office in Hong Kong

Room 2019, 20/F
Fortune Commercial Building
362 Sha Tsui Road
Tsuen Wan
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 in relate to the Open Offer

Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP
39/F., Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Legal Adviser in Cayman Islands in relation to the Open Offer

Conyers Dill & Pearman
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

Auditors

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)
Unit 1, 15/F., The Center
99 Queen's Road Central
Hong Kong

Principal Banks

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

Authorised Representatives

Lo Mun Lam, Raymond
Leung Tak Wah

Stock code

8172