

ANNUAL REPORT 2003



**ANGELS** 

**Angels Technology Company Limited**

**英君技術有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (the “Directors”) of Angels Technology Company Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# CORPORATE PROFILE

## **Board of Directors**

### **Executive Directors**

Mr. Yan, Daniel X.D. (*Chairman*)  
Mr. Lau, Andrew Kim  
Mr. Zhu Quan  
Ms. Shek Ying, Christine

### **Independent Non-Executive Directors**

Mr. Yang Xiaoping  
Mr. Zhao Ming

## **Compliance Officer**

Mr. Yan, Daniel X.D.

## **Company Secretary**

Mr. Wong Choi Chak, ACCA, AHKSA

## **Authorised Representatives**

Mr. Yan, Daniel, X.D.  
Mr. Lau, Andrew Kim

## **Qualified Accountant**

Mr. Wong Choi Chak, ACCA, AHKSA

## **Audit Committee Members**

Mr. Yang Xiaoping  
Mr. Zhao Ming

## **Registered Office**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

## **Head Office and Principal Place of Business in Hong Kong**

Room 2712, 27th Floor  
West Tower, Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## **Principal Share Registrar and Transfer Office**

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House  
Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## **Hong Kong Branch Share Registrar and Transfer Office**

Abacus Share Registrars Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## **Principal Bankers**

The Hongkong & Shanghai Banking Corporation  
Bank of China (Hong Kong) Limited

## **Auditors**

RSM Nelson Wheeler  
Certified Public Accountants  
7th Floor, Allied Kajima Building  
138 Gloucester Road  
Hong Kong

## **Legal Advisers**

As to Hong Kong Law:  
Stephenson Harwood & Lo

As to Cayman Islands Law:  
Conyers Dill & Pearman, Cayman

## **Stock Code**

8112



## **Business Review**

The Group is devoted to the solution of mechanical and electrical transportation projects in the People's Republic of China (the "PRC"), the whole solution of Expressway networks toll collection system and system integration and R&D of new product in IT industry.

The main projects that the Group has contracted in year 2003 were:

1. "Yuxi – Yuanjiang Expressway toll collection system expansion" project in Yunnan province.
2. "Yuanjiang – Mohei Expressway toll collection system" project in Yunnan province.
3. The second phase of the "Huanan Expressway toll collection system" project in Guangdong province.
4. "Harbin ring Expressway (West Section) Supervising System" project in HelongJiang province.
5. "Yanshan – Pingyuanjie Expressway toll collection system" project in Yunnan province.
6. "Shenzhen – Shentou toll collection software" project in Guangdong province.
7. Signed several open-ended toll collection system projects in Hebei province, Hunan province, Helongjiang province, Inner-Mongolia etc in the PRC.
8. From the end of year 2002 to the beginning of year 2003, signed Fujian province Fuding-Ningde Expressway vehicle license identification system (44 lanes) and Fujian province Luoyuan – Changle Expressway vehicle license identification system (24 lanes), which were both finished in year 2003. At the same time, we completed Yunnan province Dali – Baoshan Expressway vehicle license identification system (40 lanes) in year 2003.
9. Signed a couple of contracts with the General Administration of Sport on the Intelligent Building Project of the Swimming Gymnasium, Diving Gymnasium, Water-Polo Gymnasium, Gymnasium and Guest House, GAS commission IT intelligent administrative system and DDN network access system.

## **Product and Development**

"The DY2000-Vehicle License Identification System" was widely adopted in year 2003. This product has been upgraded many times after continuing practice in order to fit for all kinds of special demand in different fields. After improvement, the adaptability of this product in environment of low light degree and high speed is much better than before. The product will have wide practical value in not only expressway toll collection system area, but also in other areas such as city communication management and customs inspection. Therefore, it can bring more benefit for our Group.



# CHAIRMAN'S STATEMENT

## ■ Prospect

The Group will still focus on mechanical and electrical transportation projects as well as the sale of products and the relevant project of IT industry. While sustaining the leading position in the mechanical and electrical transportation engineering of a single expressway, the Group will strive to develop and implement expressway network toll collection system projects in each province and several expressway networks. The Group has already joined the bid for the following projects, most of which are the expansion of the contracted projects of the Group, especially in network toll collection section. These projects are: "Shenzhen Expressway network toll system project" (including original system classification and the following system of accounts allocated by regions), "Guangzhou Expressway (East, south and west section) network toll collection system", "Guangdong province Fanyu Bridge network toll collection system", "Guangdong province Huanan Expressway network toll collection system" and "Yunnan province Yuxi - Yuanjiang, Yuanjiang - Mohei Expressway network toll collection system" etc.

According to the analysis of the practical experience in mechanical and electrical transportation projects, the Directors believe that the rapid development of this field is inevitable and anticipate a favourable result can be achieved in the next financial year while the long term growth prospect of the Group remains strong.

## ■ Appreciation

On behalf of the board of Directors (the "Board"), I would like to express my gratuities to all staff for their dedication and contribution. Our staff is the asset of the Group and they hold the key to the Group's future success.

**Yan, Daniel X.D.**  
*Chairman*

29 March 2004, Beijing

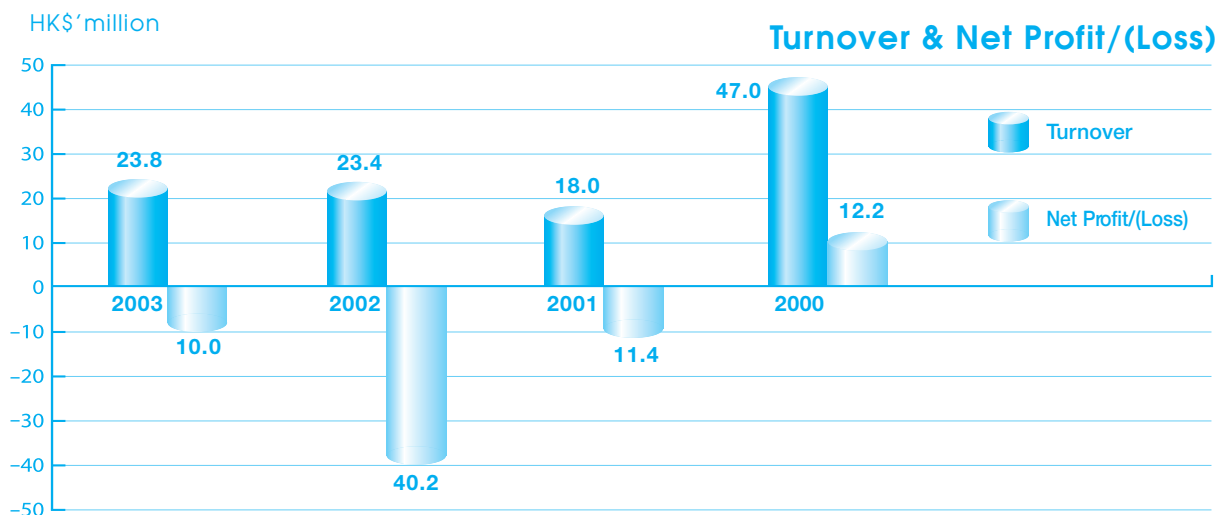


## Financial Highlights

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 | Change |
|--|------------------|------------------|--------|
| <b>OPERATING RESULTS</b>               |                  |                  |        |
| Turnover                               | 23,854           | 23,423           | 2%     |
| Gross profit                           | 6,189            | 2,892            | 114%   |
| Operating expenses                     | 11,065           | 14,348           | -23%   |
| Other operating expenses               | 3,976            | 26,874           | -85%   |
| Share of loss of an associated company | 1,155            | 1,912            | -40%   |
| Loss attributable to shareholders      | (10,006)         | (40,183)         | -75%   |
| Loss per share – basic                 | (5.10 cents)     | (21.32 cents)    | -76%   |
| <b>FINANCIAL POSITION</b>              |                  |                  |        |
| Total assets                           | 18,109           | 21,013           | -14%   |
| Cash and bank balances                 | 3,547            | 5,140            | -31%   |
| Shareholders' funds                    | 5,774            | 12,935           | -55%   |
| <b>FINANCIAL RATIOS</b>                |                  |                  |        |
| Current ratio                          | 0.82             | 1.7              | -52%   |
| Gearing ratio                          | N/A              | N/A              | N/A    |

## Financial Review

The number of companies participating in mechanical and electrical transportation projects is increasing in the PRC, which has brought keen competition to the industry. The Group has been implementing cost measures to reduce operational costs. Cost reduction measures have been put in place in the areas of headcount and professional fees. The cost of salary was approximately HK\$4,568,000 (2002: HK\$6,619,000), decreased by 31%. The SARS impact in the PRC, especially in Beijing led to delay the Group's turnaround momentum such that the results could have been better without SARS. The Group's turnover for the year ended 31 December 2003 was approximately HK\$23,854,000 (2002: HK\$23,423,000), increased by 2% comparing with last year. In respect of the network toll collection systems, turnover of HK\$8,869,000 and HK\$7,227,000 was derived from the projects of Jixi-Mudanjiang Expressway and Yuxi-Yuanjiang Expressway respectively. The gross profit margin increased from 12% to 26% was due to the successful cost measures in those projects.





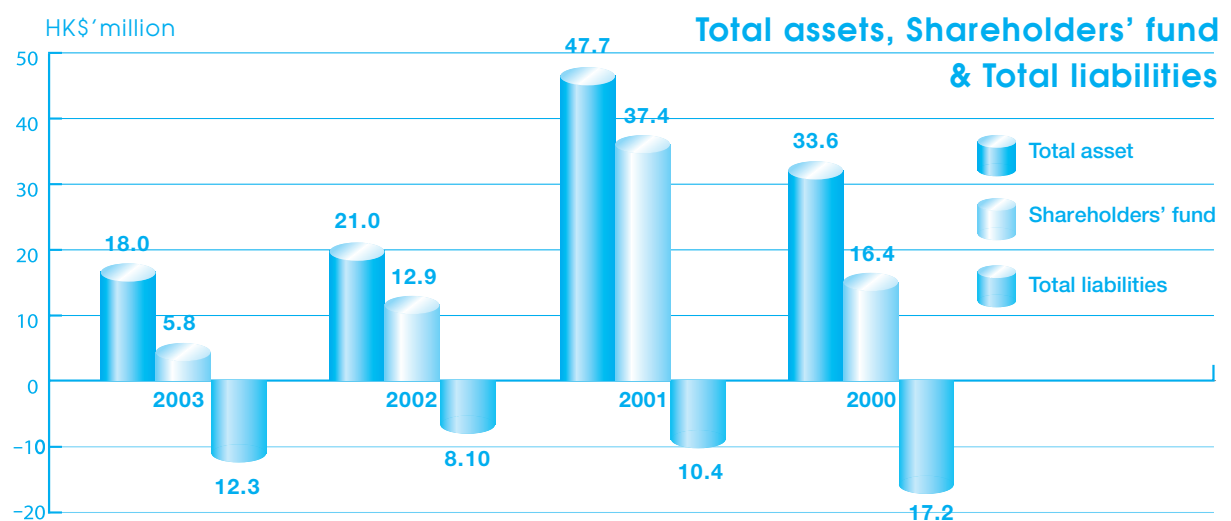
## MANAGEMENT'S DISCUSSION AND ANALYSIS

Consequently, loss attributable to shareholders for the year ended 31 December 2003 reduced to approximately HK\$10,006,000 as compared to approximately HK\$40,183,000 for the corresponding year ended 31 December 2002. Distribution costs for 2003 totaling approximately HK\$3,205,000 (2002: approximately HK\$3,937,000). Administrative expenses decreased to approximately HK\$7,860,000 in 2003 (2002: approximately HK\$10,411,000), which was due to the Group's concerted efforts to maximise operational efficiency and streamline operational expenses. The Group has taken actions to reduce the basic salary of its management and working staff, including the executive directors. Cost reduction measures have been put in place in the areas of headcount and professional fees, these cost-control measure proved to be effective in lowering the Group's overall administrative expenses.

The management is dedicated to the research and development of the traffic surveillance system. The intelligent traffic management system will enhance the ride of passengers. The Group will develop a new city traffic management solution base on the existing transportation technology solution and will represent a first move of this kind in the PRC. The Group has invested approximately HK\$1,738,000 for the year 2003.

The Company received the audited consolidated financial statements of the CTIA VSAT Network Limited together with its subsidiary (the "CTIA Group") for the year ended 31 December 2002 on 24 July 2003. According to the audited consolidated financial statements of the CTIA Group, as at 31 December 2002, the audited net liabilities of the CTIA Group amounted to HK\$5,385,477 which represent a diminution of HK\$9,772,048 (the "shortfall") when compared with the audited net asset value of the CTIA Group as at 31 December 2001 of HK\$4,386,571. The 40% of the short fall of approximately HK\$3,908,819, will be payable by the Excellent Idea Group Limited and its ultimate owner (together the "Indemnifiers") upon the Company's demand. The Company is currently negotiating with the Indemnifiers on the repayment term.

In August 2003, the Group has successfully placed 12,000,000 new shares, those shares represented approximately 6.25% of the issue share capital of the Company at the time of the new issue and approximately 5.88% of the enlarged issue share capital of the Company. The net proceeds were retained by the Group for general working capital purpose.







The Group's liquidity ratio was deteriorated in year 2003, which was due to comparatively more projects were contracted in the last quarter of the year 2003. These receipts were included in the amounts due to customer for contract works of the balance sheet. Based on the Hong Kong Statement of Statement Accounting Practice No.23 "HKSSAP", no revenue was recognised from these projects though we have done some foundation works on them. If the amounts due to customers for contract works are excluded, the Group's liquidity ratio is 1.08.

The Group adopts an aggressive business development strategy with the objective of playing an important role in the transportation technology solution industry in the PRC. The Group has been implementing cost reduction measures to reduce operational costs. The Directors will continue to be vigilant in controlling operating costs and maintaining operational efficiency with a view to maximising the profitability of the Group.

## Capital structure, liquidity and financial resources

In August 2003, the Group has successfully placed 12,000,000 new shares, those shares represented approximately 6.25% of the issue share capital of the Company at the time of the new issue and approximately 5.88% of the enlarged issue share capital of the Company. The net proceeds were retained by the Group for general working capital purpose.

As at 31 December 2003, the Group had cash and cash equivalents amounting to a total of approximately HK\$3.5 million. Additionally, the Group's gearing ratio was zero. This is based on the division of long-term debt by total assets. The Group's liquidity ratio is 0.82 with no bank borrowing.

The bank deposit of the Group is pledged to secure a performance bond issued by a subsidiary in connection with a contract signed with a customer. Other than the above, the Group did not have any charges on its assets during the year ended 31 December 2003.

## Foreign currency risk

The Group's sales and purchase are mainly transacted in Renminbi and the books are recorded in Hong Kong dollar. Since the exchange rate fluctuation between Hong Kong dollar and Renminbi is very small, the foreign exchange risk is very low and no hedging has been made.

## Contingent liabilities

As at 31 December 2003, the Group did not have any material contingent liabilities.

## Employee information

The Group employed 42 full time employees with included 39 members of staff employed in the PRC as at 31 December 2003. Remuneration of the staff comprised of monthly salary, provident fund contributions, medical claims, training programmes, housing allowance and discretionary options based on their contribution to the Group.

The Group has not experienced any significant labour disputes during the year under review which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

## Material acquisitions and significant investment

The Group has no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2003, it has no plan for material investments or capital assets.



# THE COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress in the year 2003 as measured against the statement of business objectives set out in the prospectus (the "Propectus") of the Company dated 22 August 2001. The administrative team of our Group will continue to check their aim and strategy, and adjust when necessary.

## **Business Objectives**

## **Actual Business Progress**

### **Transportation technology solutions**

- Implementation of "one-card-pass" electronic toll collection technology on part of the expressway networks in Guangdong province.
- Complete system design for "one-card-pass" electronic toll collection technology on the expressway networks in Yunnan Province.

Networking tolling project has been implemented section by section.

Finished. The project will be implemented section by section.

### **Freight logistics management information system**

- Complete the implementation of Guangzhou logistics management information system on most of the operating truck depots in Guangzhou.
- Promote the logistics management information system in other major cities in Southern China.

A significant capital is required for this project by the developer so the decision process is delayed then the development of the logistics management system has slowed down.

The movement of existing goods and the setting up of new yards has slowed down, as a result, the implementation of the project is delayed.

### **Research and development**

- To research on national standards of expressway systems integration.
- To research on the technology of automatic verification of vehicle registration numbers

Cooperate with the relevant specialists from national ITS center.

In the process of vehicle management test using RFTD technology.

### **Resources, employment and administration**

- Establish a software development center in Guangzhou, Guangdong province in the PRC.
- Expand the software development department.

This project is delayed because the slow progress of the logistics management projects.

Expanded.



## ■ Use of Proceeds

The net proceeds from the initial public offering (the "IPC Proceeds") had been applied in the following areas:

|   | Actual use<br>for the<br>year ended<br>31 December<br>2001<br>(Note 1)<br>HK\$ million | Actual use<br>for the<br>year ended<br>31 December<br>2002<br>(Note 2)<br>HK\$ million | Actual use<br>for the<br>year ended<br>31 December<br>2003<br>HK\$ million | Amount<br>utilised up<br>to<br>31 December<br>2003<br>HK\$ million | Adjusted<br>use of the<br>IPO<br>Proceeds<br>(Note 3)<br>HK\$ million |
|---|--|--|--|--|---|
| Transportation technology solutions             | 1.7  | 3.1  | 0.3  | 5.1  | 5.1   |
| Freight logistics management information system | 1.9  | 0.5  | –  | 2.4  | 2.4   |
| Research and development                        | 3.8  | 2.4  | 0.1  | 6.3  | 6.3   |
| Resources, employment and administration        | 0.1  | 0.1  | –  | 0.2  | 0.2   |
|   | 7.5  | 6.1  | 0.4  | 14.0   | 14.0  |

Notes:

1. Details have been set out in the 2001 Annual Report.
2. Details have been set out in the 2002 Annual Report.
3. Details of adjusted use of the IPO Proceeds have been set out in the announcement made by the Group on 21 November 2002.



# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## **Executive Directors**

Mr. YAN, Daniel X.D., aged 41, appointed on 7 April 2000, is the Chairman of the Company. Mr. Yan is primarily responsible for the Group's overall strategic planning, business development and sales and marketing since the establishment of Beijing Angels in 1996. Mr. Yan, being the founder of the Group, has over 15 years of experience in information technology industry in the PRC, particularly in the area of strategic planning, business development, sales and marketing. He holds a bachelor's degree in mathematics and computer science from the Capital University of Economics and Trade, the PRC.

Mr. LAU, Andrew Kim, aged 35, appointed on 7 April 2000, is an executive director of the Company. Mr. Lau is primarily responsible for the Group's overall strategic planning and formulation of corporate strategy of the Sales and Marketing Operation. Mr. Lau graduated from Dalian Maritime University, the PRC in 1992. Mr. Lau joined the Group in October 1996. Mr. Lau is the spouse of Ms. Shek Ying, Christine.

Mr. ZHU Quan, aged 41, appointed on 11 January 2001, is an executive director of the Company. Mr. Zhu is primarily responsible for the Group's research and development activities and management of the projects. Mr. Zhu holds a bachelor's degree in mathematics and computer science from the Capital University of Economics and Trade. Mr. Zhu joined the Group in May 1996 as the general manager.

Ms. SHEK Ying, Christine, aged 33, appointed on 11 January 2001, is an executive director of the Company. Ms. Shek is primarily responsible for the Group's overseas business development and cooperation with foreign business partners. Ms. Shek holds a bachelor's degree in English Language and Literature from Beijing Normal University. After graduation in 1992, Ms. Shek worked for an information technology company for approximately six years. Ms. Shek joined the Group in April 2000. Ms. Shek is the spouse of Mr. Lau, Andrew Kim.

## **Independent Non-executive Directors**

Mr. YANG Xiaoping, aged 41, appointed on 11 January 2001, is an independent non-executive director of the Company. Mr. Yang is currently an executive director of Hong Kong Fortune Limited, a company listed on the Stock Exchange.

Mr. ZHAO Ming, aged 46, appointed on 11 January 2001, is an independent non-executive director of the Company. Mr. Zhao is currently the executive director of Grandmass Enterprise Solution Limited, a company listed on the GEM. Mr. Zhao holds a Master's degree in Arts from the University of Texas at Austin, the US and a bachelor's degree in chemistry from Zhongshan University, the PRC.



## ■ Senior Management

Mr. ZHU Jia Wei, aged 66, is the chief technical consultant of the Group. Mr. Zhu joined the Group in 1996 as the chief technical consultant to provide technical support to the Group's products and services. After graduation from the faculty of computer science of Tsinghua University, the PRC in 1959, Mr. Zhu lectured at Tsinghua University and became a professor in 1986. Mr. Zhu was awarded the Outstanding Experts Award by the Ministry of Personnel of the PRC in 1988.

Dr. MIAO Yong Xiang, Michael, aged 41, is the general manager of the Group. Dr. Miao assists in establishing and implementing the corporate development strategies of the Company. Dr. Miao holds a doctorate's degree in Engineering Thermophysics from Odessa Lomonosov Technological Institute, Former Soviet Union. Dr. Miao joined the Group in November 2001 and has over 10 years of experience in information technology industry.

Mr. JIN Ji Dong, aged 41, is the head of the systems department of the Group. Mr. Jin is responsible for the systems architecture design and the preparation of tender documents. Mr. Jin holds a bachelor's degree in mathematics and computer science from the Capital University of Economics and Trade, the PRC. Before joining the Group in March 1997, Mr. Jin lectured as an assistant professor at the Capital University of Economics and Trade, the PRC.

Mr. YAN Xiao Qiang, aged 34, is the assistant general manager of the Group. Mr. Yan Xiao Qiang holds a bachelor's degree in electrical engineering from Harbin Industrial University, the PRC. Mr. Yan joined the Group in 1996 and is the brother of Mr. Yan, Daniel X.D.

Mr. TIAN Xiu Zhan, aged 40, is the head of the engineering department of the Group. Mr. Tian holds a master's degree in telecommunications engineering from Northern Jiaotong University, the PRC and a master's degree in electrical engineering from Zurich Federal Institute of Technology, Switzerland. Mr. Tian joined the Group in 1998 and has over 10 years of experience in software development.

Mr. Wong Choi Chak, aged 39, is the financial controller and company secretary of the Company. Mr. Wong has worked for various listed companies for over 10 years. Mr. Wong is primarily responsible for the Group's financial projection, finance control and accounting of the Group. Mr. Wong holds a bachelor's degree in Accounting from the University of Lincoln, England. Mr. Wong is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

Ms. WANG Jia Ning, aged 55, is the financial manager of the Group. Ms. Wang has over 20 years of experience in the accounting field in the PRC. Before joining the Group in 1996, Ms. Wang worked for a governmental institution as the head of the finance division.



# REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31 December 2003.

## **Principal Activities and Geographical Analysis of Operations**

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 12 to the financial statements.

No segment information is presented as substantially all the Group's turnover and contribution to operating results were derived from the provision of transportation technology solutions carried out in the PRC.

## **Results and Appropriations**

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 21.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003.

## **Fixed Assets**

Details of movements in fixed assets of the Group are set out in note 11 to the financial statements.

## **Share Capital**

Details of movements in the share capital of the Company are set out in note 23 to the financial statements.

## **Reserves**

Details of movements in the reserves of the Group and the Company are set out in note 25 to the financial statements.

## **Directors**

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

### **Executive Directors**

Mr. Yan, Daniel X.D.  
Mr. Lau, Andrew Kim  
Mr. Zhu Quan  
Ms. Shek Ying, Christine

### **Independent Non-Executive Directors**

Mr. Yang Xiaoping  
Mr. Zhao Ming

In accordance with the article 87(1) of the Articles of Association of the Company, Mr. Lau, Andrew Kim retires from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting. Mr. Lau does not have a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



## ■ Directors' Service Contracts

Each of the executive Director has entered into a service contract with the Company for a term of three years commencing from 7 April 2000 (in the cases of Mr. Yan, Daniel X.D. and Mr. Lau, Andrew Kim) and 11 January 2001 (in the cases of Mr. Zhu Quan and Ms. Shek Ying, Christine) respectively. The service contracts shall continue thereafter until terminated by either party giving the other not less than 90 days' notice after the expiration of the said initial fixed term.

## ■ Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporations

As at 31 December 2003, the interests and short positions of each Director and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the laws of Hong Kong) (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 any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### (I) Interests in shares of the Company (Note 1)

| Name                 | Number of ordinary shares      |                            |                  |                 | Total      | Percentage of issued share capital |
|----------------------|--------------------------------|----------------------------|------------------|-----------------|------------|------------------------------------|
|                      | Personal interests<br>(Note 2) | Corporate interests        | Family interests | Other interests |            |                                    |
| Yan, Daniel X.D.     | 1,500,000 (L)                  | 76,900,000 (L)<br>(Note 4) | -                | -               | 78,400,000 | 38.43%                             |
| Lau, Andrew Kim      | 1,000,000 (L)                  | 35,100,000 (L)<br>(Note 5) | -                | -               | 36,100,000 | 17.70%                             |
| Zhu Quan             | 1,000,000 (L)                  | -                          | -                | -               | 1,000,000  | 0.49%                              |
| Shek Ying, Christine | 400,000 (L)                    | -                          | -                | -               | 400,000    | 0.20%                              |

Notes:

- As defined in Section 311 of the SFO, a reference to interests in shares comprised in the relevant share capital of a listed corporation includes a reference to interests in shares so comprised, which are the underlying shares of equity derivatives.
- These interests are the same interests as those described in Section (II) below.
- The letter "L" denotes a long position in the shares.



## REPORT OF THE DIRECTORS

4. These shares are beneficially owned by Sebastian International Holdings Limited ("Sebastian"), a company incorporated in the British Virgin Islands. By virtue of his 100% shareholding in Sebastian, Mr. Yan, Daniel X.D. is deemed or taken to be interested in the 76,900,000 shares owned by Sebastian.
5. These shares are beneficially owned by Mitac International Holdings Limited ("Mitac"), a company incorporated in the British Virgin Islands. By virtue of his 100% shareholding in Mitac, Mr. Lau, Andrew Kim is deemed or taken to be interested in the 35,100,000 shares owned by Mitac.

### (II) Interests in equity derivatives (as defined in the SFO) in, or in respect of, underlying shares

As at 31 December 2003, the executive Directors have outstanding share options granted pursuant to the Company's share option scheme, details of which were set out below and in the section headed "Share Option Scheme".

| Name                 | Date of grant | Number of underlying shares in respect of outstanding options at 31 December 2003 | Consideration                    |                       | Exercisable period   |
|----------------------|---------------|---|----------------------------------|-----------------------|----------------------|
|                      |               |   | Price for grant (for all) (HK\$) | Exercise price (HK\$) |                      |
| Yan, Daniel X.D.     | 28.3.2002     | 1,500,000 (L)   | 10.00                            | 1.28                  | 10.8.2002 – 9.8.2011 |
| Lau, Andrew Kim      | 28.3.2002     | 1,000,000 (L)   | 10.00                            | 1.28                  | 10.8.2002 – 9.8.2011 |
| Zhu Quan             | 28.3.2002     | 1,000,000 (L)   | 10.00                            | 1.28                  | 10.8.2002 – 9.8.2011 |
| Shek Ying, Christine | 28.3.2002     | 400,000 (L)   | 10.00                            | 1.28                  | 10.8.2002 – 9.8.2011 |

Note: the letter "L" denotes a long position in the underlying shares.

Save as disclosed above, as at 31 December 2003, none of the Directors, Chief Executive of the Company or their associates had any interests in the shares or debentures of, or short positions in the shares of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be 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 they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

### Share Option Scheme

The Company adopted a share option scheme (the "Old Scheme") on 16 August 2001 which was terminated pursuant to a resolution passed at the annual general meeting held on 25 April 2003, and the summary of the principal terms of the Old Scheme is set out in Appendix IV of the prospectus of the Company dated 22 August 2001 under the section headed "Share Option Scheme".





Before 25 April 2003, options comprising a total of 8,288,000 underlying shares were granted under the Old Scheme to employees (including executive Directors) of the Group at an exercise price of HK\$1.28 per share with the option period from 10 August 2002 to 9 August 2011 (both dates inclusive) (first tranche of 50% exercisable from 10 August 2002 and the remaining tranche of 50% from 10 August 2003).

Details of share option movements during the year under the Old Scheme are as follows:

| Name                  | Date of grant | Exercise price (HK\$) | Exercisable period   | Closing price before date of grant (HK\$) | Number of Share Options       |                        |                                 |
|-----------------------|---------------|-----------------------|----------------------|---|-------------------------------|------------------------|---------------------------------|
|                       |               |                       |                      |   | Outstanding at 1 January 2003 | Lapsed during the year | Outstanding at 31 December 2003 |
| Yan, Daniel X.D.*     | 28.3.2002     | 1.28                  | 10.8.2002 – 9.8.2011 | 1.30                                      | 1,500,000                     | –                      | 1,500,000                       |
| Lau, Andrew Kim*      | 28.3.2002     | 1.28                  | 10.8.2002 – 9.8.2011 | 1.30                                      | 1,000,000                     | –                      | 1,000,000                       |
| Zhu Quan*             | 28.3.2002     | 1.28                  | 10.8.2002 – 9.8.2011 | 1.30                                      | 1,000,000                     | –                      | 1,000,000                       |
| Shek Ying, Christine* | 28.3.2002     | 1.28                  | 10.8.2002 – 9.8.2011 | 1.30                                      | 400,000                       | –                      | 400,000                         |
| Employees             | 28.3.2002     | 1.28                  | 10.8.2002 – 9.8.2011 | 1.30                                      | 4,388,000                     | (1,000,000)            | 3,388,000                       |
|                       |               |                       |                      |   | 8,288,000                     | (1,000,000)            | 7,288,000                       |

\* executive Directors of the Company

No options granted to Directors and the employees had been exercised or cancelled.

The Company's new share option scheme (the "New Scheme") was adopted at the annual general meeting held on 25 April 2003. A summary of the principal terms of the New Scheme is set out in the circular of the Company dated 31 March 2003.

Under the New Scheme, the Directors may, at their discretion, offer options to Participants (as defined in the circular of the Company dated 31 March 2003) to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No options have yet been granted under the New Scheme.

The options granted are not recognised in the financial statements until they are exercised.

## ■ Directors' Interest in Contracts

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



# REPORT OF THE DIRECTORS

## **Directors' and Chief Executive's Rights to Acquire Shares or Debt Securities**

Save as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporations", as at 31 December 2003, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and Chief Executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Chief Executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

## **Substantial Shareholders**

Other than interests disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporations" above, as at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed the following persons or corporations as having an interest of 5% or more of the issued share capital of the Company.

| <b>Name</b>           | <b>Capacity/<br/>Nature of interest</b> | <b>Number of Shares</b>    | <b>Percentage of<br/>issued share capital</b> |
|-----------------------|---|----------------------------|---|
| Sebastian             | Beneficial Owner                        | 76,900,000 (L)<br>(Note 1) | 37.70%  |
| Mitac                 | Beneficial Owner                        | 35,100,000 (L)<br>(Note 2) | 17.20%  |
| Lam Leung Hung        | Beneficial Owner                        | 12,896,000 (L)<br>(Note 3) | 6.32%   |
| Lau Ying Ying, Angela | Interest of Spouse                      | 78,400,000 (L)<br>(Note 4) | 38.43%  |

Notes:

1. Sebastian is a company incorporated in the British Virgin Islands with limited liability, and wholly owned by Mr. Yan, Daniel X.D, the Chairman and an executive Director of the Company.
2. Mitac is a company incorporated in the British Virgin Islands with limited liability, and wholly owned by Mr. Lau, Andrew Kim, an executive Director of the Company.
3. To the best knowledge of the Directors, this party is independent of and not connected with the Directors, Chief Executive, substantial shareholders or management shareholders of the Company or an associate of any of them.
4. Ms. Lau Ying Ying, Angela is deemed to be interested in these shares by virtue of the fact that she is the wife of Mr. Yan, Daniel X.D., the Chairman and an executive Director of the Company.

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any other persons who has interests in the shares or debentures of, or short positions in the shares of, the Company or any associated corporation (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.



## **Management Contracts**

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

## **Convertible Securities, Options, Warrants or Other Similar Rights**

Apart from the share options, details of which are set out above in the section headed "Share Option Scheme", the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2003. There had been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31 December 2003.

## **Major Customers and Suppliers**

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the years ended 31 December 2003 and 2002 are as follows:

|                                     | Percentage of the Group's total |      |           |      |
|-------------------------------------|---------------------------------|------|-----------|------|
|                                     | Sales                           |      | Purchases |      |
|                                     | 2003                            | 2002 | 2003      | 2002 |
| The largest customer                | 37%                             | 85%  |           |      |
| Five largest customers in aggregate | 88%                             | 95%  |           |      |
| The largest supplier                |                                 |      | 10%       | 73%  |
| Five largest suppliers in aggregate |                                 |      | 32%       | 82%  |

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

## **Competing Interest**

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

## **Distributable Reserves**

Distributable reserves of the Company at 31 December 2003 amounted to HK\$Nil (2002: HK\$12,426,000). Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provision of the Articles of Association of the Company and no distribution shall be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

## **Pre-emptive Rights**

No pre-emptive rights exist under the laws in the Cayman Islands, being the jurisdiction in which the Company is incorporated.

## **Purchase, Sale or Redemption of Shares**

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



# REPORT OF THE DIRECTORS

## **Sponsor's Interest**

Pursuant to an agreement dated 23 August 2002 entered into between the Company and Goldbond Capital (Asia) Limited ("Goldbond") (formerly known as Asia Investment Capital Limited), Goldbond was appointed by the Company as the Company's sponsor and was entitled to receive a fee for the period from 30 August 2002 to 31 December 2003.

Save as disclosed herein, none of Goldbond, its directors, employees or associates (as referred to in Rules 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 December 2003.

## **Compliance with the GEM Listing Rules**

The Company has complied with the GEM Listing Rules except that the independent non-executive Directors are not appointed for a specific term. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company.

## **Board Practices and Procedures**

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2003.

## **Audit Committee**

The Company established an audit committee on 16 August 2001 comprising the independent non-executive Directors, Mr. Yang Xiaoping and Mr. Zhao Ming. The written terms of reference of the audit committee comply with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and financial statements, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee of the Board will also be responsible for supervising and reviewing the financial reporting process and internal control system of the Group.

The audit committee held four meetings during the year ended 31 December 2003.

## **Auditors**

In January 2003, the Board of Directors accepted the resignation of PricewaterhouseCoopers, who acted as auditors of the Company for the year ended 31 December 2001 and Messrs. RSM Nelson Wheeler were appointed as auditors of the Company to fill in the casual vacancy. A resolution to re-appoint the auditors, Messrs. RSM Nelson Wheeler, will be proposed at the forthcoming annual general meeting.

By order of the Board

**Yan, Daniel X.D.**  
*Chairman*

29 March 2004, Beijing



# RSM! Nelson Wheeler

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## Certified Public Accountants

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ANGELS TECHNOLOGY COMPANY LIMITED**

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Directors are required to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

### **Basis of opinion**

We conducted our audit in accordance with 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



# AUDITORS' REPORT

## **Fundamental uncertainty relating to going concern**

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation made by the Directors. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ability of the Group to attain profitable and positive cash flow operations to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from a failure to attain profitable and positive cash flow operations. Details of the circumstances relating to this fundamental uncertainty are described in Note 2(a) to the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's results 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.

### **RSM Nelson Wheeler**

Certified Public Accountants  
Hong Kong

29 March 2004

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003



|  | Note | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------|------------------|------------------|
| Turnover                               | 3    | 23,854           | 23,423           |
| Cost of services                       |      | (17,665)         | (20,531)         |
| Gross profit                           |      | 6,189            | 2,892            |
| Other revenue                          | 3    | 1                | 59               |
| Distribution costs                     |      | (3,205)          | (3,937)          |
| Administrative expenses                |      | (7,860)          | (10,411)         |
| Other operating expenses               |      | (3,976)          | (26,874)         |
| Operating loss                         | 4    | (8,851)          | (38,271)         |
| Share of loss of an associated company |      | (1,155)          | (1,912)          |
| Loss before taxation                   |      | (10,006)         | (40,183)         |
| Taxation                               | 5    | -                | -                |
| Loss attributable to shareholders      | 6    | (10,006)         | (40,183)         |
| Loss per share – basic                 | 8    | (5.10) cents     | (21.32) cents    |



# CONSOLIDATED BALANCE SHEET

As at 31 December 2003

|   | Note | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------|------------------|------------------|
| <b>Non-current assets</b>                     |      |                  |                  |
| Fixed assets                                  | 11   | 911              | 1,160            |
| Interests in an associated company            | 13   | 4,346            | 5,336            |
| Long-term investments                         | 14   | 805              | 805              |
| Bank deposit                                  | 15   | 732              | –                |
| Deposits for software development             | 16   | 1,234            | –                |
|   |      | 8,028            | 7,301            |
| <b>Current assets</b>                         |      |                  |                  |
| Amounts due from customers for contract works | 17   | 443              | 2,569            |
| Trade receivables                             | 18   | 4,343            | 4,698            |
| Deposits, prepayments and other receivables   |      | 1,748            | 1,305            |
| Cash and bank balances                        | 19   | 3,547            | 5,140            |
|   |      | 10,081           | 13,712           |
| <b>Current liabilities</b>                    |      |                  |                  |
| Amounts due to customers for contract works   | 17   | 2,985            | 269              |
| Trade payables                                | 20   | 3,923            | 2,051            |
| Accrued charges and other payables            |      | 4,183            | 4,552            |
| Warranty provision                            | 21   | 1,244            | 1,206            |
|   |      | 12,335           | 8,078            |
| <b>Net current (liabilities)/assets</b>       |      | <b>(2,254)</b>   | <b>5,634</b>     |
| <b>Net assets</b>                             |      | <b>5,774</b>     | <b>12,935</b>    |
| <b>Financed by:</b>                           |      |                  |                  |
| Share capital                                 | 23   | 20,400           | 19,200           |
| Reserves                                      | 25   | (14,626)         | (6,265)          |
|   |      | 5,774            | 12,935           |

**Yan, Daniel X.D.**  
Director

**Lau, Andrew Kim**  
Director



# BALANCE SHEET

As at 31 December 2003



|   | Note | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------|------------------|------------------|
| <b>Non-current assets</b>                   |      |                  |                  |
| Investments in subsidiaries                 | 12   | 3,973            | 28,857           |
| Interests in an associated company          | 13   | 4,000            | 7,160            |
|   |      | 7,973            | 36,017           |
| <b>Current assets</b>                       |      |                  |                  |
| Deposits, prepayments and other receivables |      | 12               | 12               |
| Cash and bank balances                      |      | 251              | 122              |
|   |      | 263              | 134              |
| <b>Current liabilities</b>                  |      |                  |                  |
| Accrued charges and other payables          |      | 548              | 528              |
| Amounts due to subsidiaries                 | 22   | 81               | 81               |
|   |      | 629              | 609              |
| <b>Net current liabilities</b>              |      | <b>(366)</b>     | <b>(475)</b>     |
| <b>Net assets</b>                           |      | <b>7,607</b>     | <b>35,542</b>    |
| <b>Financed by:</b>                         |      |                  |                  |
| Share capital                               | 23   | 20,400           | 19,200           |
| Reserves                                    | 25   | (12,793)         | 16,342           |
|   |      | 7,607            | 35,542           |

**Yan, Daniel X.D.**  
Director

**Lau, Andrew Kim**  
Director



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

|                                      | Note    | Share capital<br>HK\$'000 | Total reserves<br>HK\$'000 | Total equity<br>HK\$'000 |
|--------------------------------------|---------|---------------------------|----------------------------|--------------------------|
| At 1 January 2002                    |         | 18,000                    | 19,363                     | 37,363                   |
| Acquisition of an associated company | 23 & 25 | 1,200                     | 14,760                     | 15,960                   |
| Issuing expenses                     | 25      | -                         | (205)                      | (205)                    |
| Loss for the year                    | 25      | -                         | (40,183)                   | (40,183)                 |
| At 31 December 2002                  | 23 & 25 | 19,200                    | (6,265)                    | 12,935                   |
| Issue of shares from placing         | 25      | 1,200                     | 1,800                      | 3,000                    |
| Issuing expenses                     | 25      | -                         | (155)                      | (155)                    |
| Loss for the year                    |         | -                         | (10,006)                   | (10,006)                 |
| At 31 December 2003                  |         | 20,400                    | (14,626)                   | 5,774                    |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003



|   | Note  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|-------|------------------|------------------|
| Net cash outflow from operating activities      | 26(a) | (2,952)          | (7,225)          |
| Investing activities                            |       |                  |                  |
| Purchase of fixed assets                        |       | (253)            | (245)            |
| Purchase of long-term investment                |       | –                | (338)            |
| (Payment)/refund for software development costs |       | (1,234)          | 280              |
| Interest received                               |       | 1                | 59               |
| Net cash outflow from investing activities      |       | (1,486)          | (244)            |
| Financing activities                            | 26(b) |                  |                  |
| Issue of ordinary shares                        |       | 3,000            | –                |
| Share issue expenses                            |       | (155)            | (205)            |
| Net cash inflow/(outflow) from financing        |       | 2,845            | (205)            |
| Decrease in cash and bank balances              |       | (1,593)          | (7,674)          |
| Cash and bank balances at 1 January             |       | 5,140            | 12,814           |
| Cash and bank balances at 31 December           |       | 3,547            | 5,140            |



# NOTES TO THE FINANCIAL STATEMENTS

## 1. General

- (a) The Company was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares were listed on the Growth Enterprise Market ("GEM") on 30 August 2001.
- (b) The Company is an investment holding company. The principal activities of its subsidiaries and an associated company are set out in Notes 12 and 13 respectively.

## 2. Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

### **(a) Basis of preparation**

The Group reported a loss attributable to shareholders of HK\$10,006,000 and a net cash outflow from operating activities of HK\$2,952,000 for the year ended 31 December 2003, and consolidated net current liabilities of HK\$2,254,000 at 31 December 2003.

The Directors have continued to tighten cost controls over operating costs to improve the cash flows, profitability and operations of the Group. The Directors believe that the Group will have sufficient working capital for its future operational requirements. Accordingly, the financial statements have been prepared on a going concern basis. Currently, the Group's operations are funded by its internal resources. The continuation of the Group's business depends upon the ability of the Group to attain profitable and positive cash flow operations to meet its future working capital and financial requirements.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to the classification of recorded asset amounts, with these assets being written down to their recoverable amounts, and to the amounts and classification of liabilities, to reflect the fact that the Group may be required to realise its assets and extinguish its liabilities other than in the normal course of business, additional liabilities may crystallise and the resulting amounts may differ materially from those stated in the financial statements. The effects of these adjustments have not been reflected in the financial statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the revised Hong Kong Statement of Standard Accounting Practice No. 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting the revised policies are set out below.



## 2. Principal accounting policies (Continued)

### (b) Consolidation

- (i) The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.
- (ii) Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast majority of votes at the meetings of the Board of Directors.
- (iii) The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.
- (iv) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.
- (v) In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Associated companies

- (i) An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.
- (ii) The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.
- (iii) Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.
- (iv) Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.
- (v) In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.



## NOTES TO THE FINANCIAL STATEMENTS

### 2. Principal accounting policies (Continued)

#### (d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

#### (e) Intangibles

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired associated company at the date of acquisition. Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a period of ten years.

##### (ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

##### (iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.



## 2. Principal accounting policies (Continued)

### (f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|  |     |
|--|-----|
| Leasehold improvements                   | 20% |
| Furniture, fixtures and office equipment | 20% |
| Computer equipment                       | 20% |
| Motor vehicles                           | 16% |

Major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated over the period to the next overhaul. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

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

### (g) Long-term investments

Long-term investments are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (h) Long-term systems integration contracts

When the outcome of a systems integration contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.



## NOTES TO THE FINANCIAL STATEMENTS

### 2. Principal accounting policies (Continued)

#### (h) Long-term systems integration contracts (Continued)

When the outcome of a systems integration contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract and the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers for contract works, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers for contract works, under current liabilities.

#### (i) Accounts receivable

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

#### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprises cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

#### (k) 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. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

##### (i) Warranty provision

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.





## 2. Principal accounting policies (Continued)

### **(k) Provisions (Continued)**

#### *(ii) Restructuring provision*

Restructuring provisions mainly comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided in advance.

### **(l) Employee benefits**

#### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

#### *(ii) Retirement benefits*

The Group contributes to Mandatory Provident Fund scheme ("MPF Scheme") which is available to all employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employees' basic salaries. Payments made to the MPF Scheme are charged as an expense to the income statement as they fall due.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on applicable rates in accordance with the relevant government regulations.

### **(m) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



# NOTES TO THE FINANCIAL STATEMENTS

## 2. Principal accounting policies (Continued)

### **(m) Deferred taxation (Continued)**

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and an associated company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### **(n) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### **(o) Revenue recognition**

(i) Revenue from long-term systems integration contracts is recognised on the percentage of completion method measured by reference to the percentage of costs incurred to date to the estimated total costs for each contract.

(ii) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles have passed.

(iii) Dividend income is recognised when the right to receive payment is established.

(iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### **(p) Operating leases**

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



## 3. Turnover, revenue and segment information

The Group is principally engaged in the provision of transportation technology solutions in the PRC. Revenues recognised during the year are as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Turnover   |                  |                  |
| Revenue from long-term systems integration contracts | 23,854           | 23,423           |
| Other revenue  |                  |                  |
| Interest income                                      | 1                | 59               |
| <b>Total revenue</b>                                 | <b>23,855</b>    | <b>23,482</b>    |

Turnover represents total value of services rendered to customers net of value-added tax and sales tax.

No segment information is presented as substantially all the Group's turnover and contribution to operating results were derived from the provision of transportation technology solutions carried out in the PRC.

## 4. Operating loss

Operating loss is stated after charging the following:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Auditors' remuneration   | 260              | 280              |
| Amortisation of goodwill   | –                | 653              |
| Depreciation of fixed assets   | 499              | 532              |
| Fixed assets written off   | 3                | –                |
| Impairment (included in other operating expenses)  |                  |                  |
| – deposits for software development (Note 16)  | –                | 5,935            |
| – fixed assets   | –                | 304              |
| – goodwill   | –                | 8,059            |
| – other receivable   | 187              | –                |
| Loss on disposal of fixed assets   | –                | 149              |
| Operating lease rentals in respect of land and buildings   | 1,101            | 1,418            |
| Provision for doubtful debts   | 2,048            | 470              |
| Provision for warranty (Note 21)   | 132              | 362              |
| Research and development costs   | 1,738            | 588              |
| Staff costs (including directors' emoluments) included in:   |                  |                  |
| – cost of services   | 406              | 350              |
| – administrative and distribution expenses   | 4,162            | 6,269            |
| Written off the amounts due from customers for contract works (included in other operating expenses) | –                | 10,704           |



# NOTES TO THE FINANCIAL STATEMENTS

## 5. Taxation

- (i) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the year ended 31 December 2003 (2002: Nil).

The subsidiaries, Beijing Angels Communications Technology Co., Ltd ("Beijing Angels") and Angels ITS (Guangzhou) Co., Ltd ("Guangzhou Angels"), operating in the PRC, are subject to an income tax rate of 33% on their taxable profit in accordance with the income tax law in the PRC. Beijing Angels was approved as a "Newly-established Advanced and New Technology Enterprise" and is therefore entitled to a reduced tax rate of 15%. Pursuant to a notice issued by State Taxation Bureau of Beijing Haidian District on 14 November 2000, tax holiday is granted to Beijing Angels. Beijing Angels is entitled to full exemption from PRC income tax from the years 2000 to 2002 followed by a 50% reduction in the income tax rate (i.e. 7.5%) for the years from 2003 to 2005. Guangzhou Angels has no estimated assessable profits for the year ended 31 December 2003 (2002: Nil).

- (ii) There was no material unprovided deferred taxation for the year.

## 6. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$30,780,000 (2002: HK\$22,627,000).

## 7. Dividend

The Directors do not recommend the payment of a dividend for the year (2002: Nil).

## 8. Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$10,006,000 (2002: HK\$40,183,000).

The basic loss per share is based on the weighted average number of 196,175,000 (2002: 188,515,000) ordinary shares in issue during the year. Diluted loss per share was not presented because there were no potential dilutive ordinary shares in existence during the year (2002: Nil).

## 9. Staff costs (including directors' emoluments)

|                         | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Wages and salaries      | 4,302            | 6,169            |
| Unutilised annual leave | (22)             | 36               |
| Termination benefits    | 87               | 91               |
| Social security costs   | 29               | 38               |
| Pension costs           | 172              | 285              |
|                         | 4,568            | 6,619            |



## 10. Directors' and senior management's emoluments

### (a) Directors' emoluments

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

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Fees:   |                  |                  |
| Executive directors   | -                | -                |
| Independent non-executive directors   | 40               | 40               |
| Other emoluments:   |                  |                  |
| Basic salaries, housing allowances, share options,<br>other allowances and benefits in kind |                  |                  |
| – Executive directors (Note)  | 877              | 1,384            |
| – Independent non-executive directors   | -                | -                |
| Contributions to pensions schemes   |                  |                  |
| – Executive directors   | 30               | 53               |
| – Independent non-executive directors   | -                | -                |
|   | 947              | 1,477            |

Note: This includes operating lease rental of HK\$26,000 (2002: HK\$286,000) paid by the Group for quarters provided to an executive director.

The executive directors received individual emoluments for the year ended 31 December 2003 of approximately HK\$325,000 (2002: HK\$425,000), HK\$325,000 (2002: HK\$425,000), HK\$99,000 (2002: HK\$121,000) and HK\$158,000 (2002: HK\$466,000) respectively.

No directors of the Company waived any emoluments and no emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.



## NOTES TO THE FINANCIAL STATEMENTS

### 10. Directors' and senior management's emoluments (Continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: two) individuals during the year are as follows:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, share options,<br>other allowances and benefits in kind | 396              | 970              |
| Contributions to pensions schemes   | 16               | 17               |
|   | 412              | 987              |

The emoluments of these two (2002: two) highest paid individuals are less than HK\$1,000,000.

No emoluments were paid or payable to these two individuals by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

### 11. Fixed assets

|                                 | Group                                 |   |                                   |                               |                   |
|---------------------------------|---------------------------------------|---|-----------------------------------|-------------------------------|-------------------|
|                                 | Leasehold<br>improvements<br>HK\$'000 | Furniture,<br>fixtures and<br>office<br>equipment<br>HK\$'000 | Computer<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Cost</b>                     |                                       |   |                                   |                               |                   |
| At 1 January 2003               | 564                                   | 576   | 613                               | 1,710                         | 3,463             |
| Additions                       | 159                                   | 24  | 70                                | –                             | 253               |
| Write off                       | (508)                                 | –   | (10)                              | –                             | (518)             |
| At 31 December 2003             | 215                                   | 600   | 673                               | 1,710                         | 3,198             |
| <b>Accumulated depreciation</b> |                                       |   |                                   |                               |                   |
| At 1 January 2003               | 512                                   | 232   | 265                               | 1,294                         | 2,303             |
| Charge for the year             | 60                                    | 90  | 110                               | 239                           | 499               |
| Write off                       | (508)                                 | –   | (7)                               | –                             | (515)             |
| At 31 December 2003             | 64                                    | 322   | 368                               | 1,533                         | 2,287             |
| <b>Net book value</b>           |                                       |   |                                   |                               |                   |
| At 31 December 2003             | 151                                   | 278   | 305                               | 177                           | 911               |
| At 31 December 2002             | 52                                    | 344   | 348                               | 416                           | 1,160             |



## 12. Investments in subsidiaries

|  | Company          |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted investments, at cost (Note (a)) | 16,917           | 16,917           |
| Amounts due from subsidiaries (Note (b)) | 25,573           | 23,940           |
|  | 42,490           | 40,857           |
| Less: Impairment losses                  | (38,517)         | (12,000)         |
|  | 3,973            | 28,857           |

(a) Details of the subsidiaries at 31 December 2003 are as follows:

| Company   | Place of incorporation/ establishment | Principal activities and place of operation                                      | Particulars of issued/ registered and paid up capital | Interest held |
|---|---------------------------------------|--|---|---------------|
| <b>Held directly:</b>                                     |                                       |  |   |               |
| Angels Intelligent Transportation Systems Company Limited | British Virgin Islands                | Investment holding in Hong Kong  | 9,041,767 ordinary shares of HK\$1.0 each             | 100%          |
| Angels Logistics Systems (Guangzhou) Company Limited      | British Virgin Islands                | Investment holding in Hong Kong  | 903,000 ordinary shares of HK\$1.0 each               | 100%          |
| <b>Held indirectly:</b>                                   |                                       |  |   |               |
| Angels Engineering Technology Limited                     | Hong Kong                             | Provision of management services to Group companies in Hong Kong and the PRC     | 10,000 ordinary shares of HK\$1.0 each                | 100%          |
| Angels ITS (Guangzhou) Co., Ltd                           | The PRC                               | Provision of freight logistics management information system services in the PRC | US\$600,000   | 100%          |
| Beijing Angels Communications Technology Co., Ltd         | The PRC                               | Provision of transportation technology solutions in the PRC                      | RMB1,000,000  | 100%          |

(b) The amounts due from subsidiaries are unsecured, interest free and not repayable within the next twelve months.



# NOTES TO THE FINANCIAL STATEMENTS

## 13. Interests in an associated company

|  | <b>Group</b>     |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net liabilities                         | (3,307)          | (2,152)          |
| Loan receivable (Note (b))                       | 7,488            | 7,488            |
| Amount due from an associated company (Note (c)) | 165              | –                |
|  | <b>4,346</b>     | <b>5,336</b>     |
|  | <b>Company</b>   |                  |
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted shares, at cost                         | 8,472            | 8,472            |
| Loan receivable                                  | 7,488            | 7,488            |
|  | 15,960           | 15,960           |
| Less: Impairment loss                            | (11,960)         | (8,800)          |
|  | <b>4,000</b>     | <b>7,160</b>     |

(a) Details of the associated company at 31 December 2003 are as follows:

| Company                               | Place of<br>incorporation<br>and operation | Principal<br>activities | Particulars of<br>issued shares held        | Interest<br>held directly |
|---------------------------------------|--|-------------------------|---|---------------------------|
| CTIA VSAT Network<br>Limited ("CTIA") | Hong Kong                                  | Investment<br>holding   | 5,000,000 ordinary<br>share of HK\$1.0 each | 40%                       |

(b) Loan receivable from an associated company is unsecured, interest free and repayable in 2005.

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

## 14. Long-term investments

|                               | <b>Group</b>     |                  |
|-------------------------------|------------------|------------------|
|                               | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Club membership, at cost      | 338              | 338              |
| Unlisted investments, at cost | 467              | 467              |
|                               | <b>805</b>       | <b>805</b>       |





## 15. Bank deposit

The bank deposit is pledged to secure a performance bond issued by a subsidiary in connection with a contract signed with a customer. The bank deposit is not repayable in the next twelve months.

## 16. Deposits for software development

|                     | Group            |                  |
|---------------------|------------------|------------------|
|                     | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| At 1 January        | –                | 6,215            |
| Additions           | 1,234            | –                |
| Refund              | –                | (280)            |
| Impairment (Note 4) | –                | (5,935)          |
| At 31 December      | 1,234            | –                |

## 17. Long-term systems integration contracts in progress

|  | Group            |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Cost incurred to date plus recognised profits to date                  | 1,593            | 2,765            |
| Less: progress billings  | (4,135)          | (465)            |
|  | (2,542)          | 2,300            |
| Included in current assets/(liabilities) under the following captions: |                  |                  |
| Amounts due from customers for contract works                          | 443              | 2,569            |
| Amounts due to customers for contract works                            | (2,985)          | (269)            |
|  | (2,542)          | 2,300            |

At 31 December 2003, retention monies held by customers for contract works included in trade receivables of the Group under Note 18 amounted to HK\$2,126,000 (2002: HK\$1,817,000).



# NOTES TO THE FINANCIAL STATEMENTS

## 18. Trade receivables

At 31 December 2003, the aging analysis of trade receivables were as follows:

|                                   | Group            |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Current to 90 days                | 2,915            | 2,573            |
| 91 to 180 days                    | 591              | –                |
| 181 to 270 days                   | –                | 3,527            |
| 271 to 360 days                   | 1,908            | –                |
| Over 360 days                     | 899              | 568              |
|                                   | 6,313            | 6,668            |
| Less: provision on doubtful debts | (1,970)          | (1,970)          |
|                                   | 4,343            | 4,698            |

The credit terms granted to customers vary and are generally the results of negotiations between the individual customers and the Group. Customers are generally required to pay at various intervals over the life of the projects.

## 19. Cash and bank balances

At 31 December 2003, RMB3,270,000 (2002: RMB5,344,000) of the Group's cash and bank balances were denominated in Renminbi and kept in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## 20. Trade payables

At 31 December 2003, the aging analysis of trade payables were as follows:

|                    | Group            |                  |
|--------------------|------------------|------------------|
|                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Current to 90 days | 1,806            | 1,404            |
| 91 to 180 days     | 379              | –                |
| 181 to 270 days    | –                | 6                |
| 271 to 360 days    | –                | –                |
| Over 360 days      | 1,738            | 641              |
|                    | 3,923            | 2,051            |



## 21. Warranty provision

|                                | Group<br>HK\$'000 |                  |
|--------------------------------|-------------------|------------------|
| At 1 January 2003              |                   | 1,206            |
| Additional provisions          |                   | 937              |
| Less: Unused amounts reversed  |                   | (805)            |
| Charged to income statement    |                   | 132              |
| Less: Amounts utilised         |                   | (94)             |
| At 31 December 2003            |                   | 1,244            |
|                                | 2003<br>HK\$'000  | 2002<br>HK\$'000 |
| Analysis of warranty provision |                   |                  |
| Current                        | 1,244             | 1,206            |

The Group gives 12-month warranties on certain contracts and undertakes to repair or replace items that fail to perform satisfactorily.

## 22. Amounts due to subsidiaries

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

## 23. Share capital

|                                      |      | Authorised<br>Ordinary shares of HK\$0.10 each            |          |
|--------------------------------------|------|---|----------|
|                                      |      | No. of shares   | HK\$'000 |
| At 31 December 2002 and 2003         |      | 1,200,000,000   | 120,000  |
|                                      |      | Issued and fully paid<br>Ordinary shares of HK\$0.10 each |          |
|                                      | Note | No. of shares   | HK\$'000 |
| At 1 January 2002                    |      | 180,000,000   | 18,000   |
| Acquisition of an associated company | (a)  | 12,000,000  | 1,200    |
| At 31 December 2002                  |      | 192,000,000   | 19,200   |
| Issue of shares from placing         | (b)  | 12,000,000  | 1,200    |
| At 31 December 2003                  |      | 204,000,000   | 20,400   |



# NOTES TO THE FINANCIAL STATEMENTS

## 23. Share capital (Continued)

- (a) On 16 April 2002, the Company entered into a conditional agreement in respect of the acquisition of a 40% equity interest in CTIA (Note 13). The acquisition was completed on 26 April 2002 and the consideration of HK\$14,400,000 was settled by way of the issue and allotment of 12,000,000 new shares of HK\$0.10 each of an issued price of HK\$1.20 per consideration share. These shares rank pari passu with the existing shares. On 26 April 2002, the market value of the shares in the Company was HK\$1.33 per share. Accordingly, the fair value of the share consideration was HK\$15,960,000.
- (b) On 26 August 2003, 12,000,000 new shares of HK\$0.10 each at placing price of HK\$0.25 per share were issued from placing. These shares rank pari passu with the existing shares. The proceeds from this placing was used for general working capital purpose.

## 24. Share options

Pursuant to a resolution passed on 16 August 2001, the Company's share option scheme was approved and adopted. Share options are granted to eligible employees, including executive Directors of the Company. A nominal consideration at HK\$10 was paid by the employees for each lot of share options granted. Movements in the number of share options outstanding during the year are as follows:

|                              | Number of options |           |
|------------------------------|-------------------|-----------|
|                              | 2003              | 2002      |
| At the beginning of the year | 8,288,000         | –         |
| Granted                      | –                 | 8,288,000 |
| Lapsed                       | (1,000,000)       | –         |
| At the end of the year       | 7,288,000         | 8,288,000 |

At 31 December 2003, the following options to subscribe for shares were outstanding under the Company's share option scheme:

|                 | Exercise price<br>per share<br>HK\$ | Number of<br>outstanding options | Expiry date   |
|-----------------|-------------------------------------|----------------------------------|---------------|
| Directors       | 1.28                                | 3,900,000                        | 9 August 2011 |
| Other employees | 1.28                                | 3,388,000                        | 9 August 2011 |
|                 |                                     | 7,288,000                        |               |



## 25. Reserves

|                                      | Group                        |                                |                                 |   |                   |
|--------------------------------------|------------------------------|--------------------------------|---------------------------------|---|-------------------|
|                                      | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Retained<br>profits/<br>(accumulated<br>losses)<br>HK\$'000 | Total<br>HK\$'000 |
| At 1 January 2002                    | 20,810                       | (1,628)                        | (144)                           | 325   | 19,363            |
| Acquisition of an associated company | 14,760                       | -                              | -                               | -   | 14,760            |
| Issuing expenses                     | (205)                        | -                              | -                               | -   | (205)             |
| Loss for the year                    | -                            | -                              | -                               | (40,183)  | (40,183)          |
| At 31 December 2002                  | 35,365                       | (1,628)                        | (144)                           | (39,858)  | (6,265)           |
| Representing:                        |                              |                                |                                 |   |                   |
| Company and subsidiaries             | 35,365                       | (1,628)                        | (144)                           | (37,946)  | (4,353)           |
| An associated company                | -                            | -                              | -                               | (1,912)   | (1,912)           |
|                                      | 35,365                       | (1,628)                        | (144)                           | (39,858)  | (6,265)           |
| At 1 January 2003                    | 35,365                       | (1,628)                        | (144)                           | (39,858)  | (6,265)           |
| Issue of shares from placing         | 1,800                        | -                              | -                               | -   | 1,800             |
| Issuing expenses                     | (155)                        | -                              | -                               | -   | (155)             |
| Loss for the year                    | -                            | -                              | -                               | (10,006)  | (10,006)          |
| At 31 December 2003                  | 37,010                       | (1,628)                        | (144)                           | (49,864)  | (14,626)          |
| Representing:                        |                              |                                |                                 |   |                   |
| Company and subsidiaries             | 37,010                       | (1,628)                        | (144)                           | (46,797)  | (11,559)          |
| An associated company                | -                            | -                              | -                               | (3,067)   | (3,067)           |
|                                      | 37,010                       | (1,628)                        | (144)                           | (49,864)  | (14,626)          |



## NOTES TO THE FINANCIAL STATEMENTS

### 25. Reserves (Continued)

|                                      | Company                      |                                    |                                   | Total<br>HK\$'000 |
|--------------------------------------|------------------------------|------------------------------------|-----------------------------------|-------------------|
|                                      | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 |                   |
| At 1 January 2002                    | 20,810                       | 3,916                              | (312)                             | 24,414            |
| Acquisition of an associated company | 14,760                       | –                                  | –                                 | 14,760            |
| Issuing expenses                     | (205)                        | –                                  | –                                 | (205)             |
| Loss for the year                    | –                            | –                                  | (22,627)                          | (22,627)          |
| At 31 December 2002                  | 35,365                       | 3,916                              | (22,939)                          | 16,342            |
| At 1 January 2003                    | 35,365                       | 3,916                              | (22,939)                          | 16,342            |
| Issue of shares from placing         | 1,800                        | –                                  | –                                 | 1,800             |
| Issuing expenses                     | (155)                        | –                                  | –                                 | (155)             |
| Loss for the year                    | –                            | –                                  | (30,780)                          | (30,780)          |
| At 31 December 2003                  | 37,010                       | 3,916                              | (53,719)                          | (12,793)          |



## 26. Notes to the consolidated cash flow statement

### (a) Reconciliation of operating loss to net cash outflow from operating activities

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Operating loss   | (8,851)          | (38,271)         |
| Interest income  | (1)              | (59)             |
| Depreciation   | 499              | 532              |
| Amortisation of goodwill   | –                | 653              |
| Fixed assets written off   | 3                | –                |
| Loss on disposal of fixed assets   | –                | 149              |
| Provision for doubtful debts   | 2,048            | 470              |
| Impairment of deposits for software development                                  | –                | 5,935            |
| Impairment of fixed assets   | –                | 304              |
| Impairment of goodwill   | –                | 8,059            |
| Impairment of other receivable   | 187              | –                |
| Written off the amounts due from customers<br>for contract works                 | –                | 10,704           |
| Operating loss before working capital changes                                    | (6,115)          | (11,524)         |
| Increase in amount due from an associated company                                | (165)            | –                |
| Increase in bank deposit   | (732)            | –                |
| Decrease in amounts due from/(to) customers for<br>contract works                | 4,842            | 5,467            |
| Increase in trade receivables  | (1,693)          | (488)            |
| (Increase)/decrease in deposits, prepayments and<br>other receivables            | (630)            | 1,873            |
| Decrease in receipt in advance   | –                | (66)             |
| Increase/(decrease) in trade payables  | 1,872            | (2,703)          |
| (Decrease)/increase in accrued charges, other payables and<br>warranty provision | (331)            | 216              |
| Net cash outflow from operating activities                                       | (2,952)          | (7,225)          |



# NOTES TO THE FINANCIAL STATEMENTS

## 26. Notes to the consolidated cash flow statement (Continued)

### (b) Analysis of changes in financing during the year

|                     | Share capital<br>HK\$'000 | Share premium<br>HK\$'000 |
|---------------------|---------------------------|---------------------------|
| At 1 January 2002   | 18,000                    | 20,810                    |
| Issue of shares     | 1,200                     | 14,760                    |
| Issuing expenses    | -                         | (205)                     |
| At 31 December 2002 | 19,200                    | 35,365                    |
| Issue of shares     | 1,200                     | 1,800                     |
| Issuing expenses    | -                         | (155)                     |
| At 31 December 2003 | 20,400                    | 37,010                    |

## 27. Retirement benefits scheme

Prior to 1 December 2000, the Group did not have any pension or retirement benefits scheme for its employees in Hong Kong. With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme ("MPF Scheme") under the Mandatory Provident Fund legislation regulated by the Mandatory Provident Fund Scheme Authority in Hong Kong and to make contributions for its eligible employees in Hong Kong at rates specified in the rules.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on applicable rates in accordance with the relevant government regulations.

The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes. No forfeited contributions are available to reduce contributions payable in future years.

## 28. Deferred taxation

Deferred tax assets are not recognised for tax losses carried forward due to uncertainty of realisation of the related tax benefit through the future taxable profits.





## 29. Commitments

### (a) Capital commitments

At 31 December 2003, the Group had the following capital commitments:

|                                      | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Contracted but not provided for      |                  |                  |
| – Software development costs         | 1,982            | –                |
| – Purchase of materials for projects | 1,472            | 7,407            |
|                                      | 3,454            | 7,407            |

### (b) Operating lease commitments

At 31 December 2003, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Not later than one year                           | 563              | 576              |
| Later than one year but not later than five years | 241              | 373              |
| Later than five years                             | –                | 36               |
|   | 804              | 985              |

## 30. Approval of financial statements

The financial statements were approved by the Board of Directors on 29 March 2004.



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Angels Technology Company Limited (the "Company") will be held at Room 2712, 27th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on Wednesday, 28 April 2004 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the reports of the directors and auditors for the year ended 31 December 2003;
2. To re-elect the retiring director and to fix the remuneration of directors; and
3. To re-appoint auditors and authorise the board of directors to fix their remuneration.
4. By way of special business, to consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:

A. **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot or issue shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or issued or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution:  
  
"Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;

# NOTICE OF ANNUAL GENERAL MEETING



- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any other applicable laws of the Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the directors of the Company under this Resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. **“THAT:**

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” shall have the same meaning as assigned to it under Ordinary Resolution 4A of this notice.”

- C. **“THAT:** conditional upon Resolutions 4A and 4B above being passed, the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in Resolution 4B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution 4A, provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution.”



# NOTICE OF ANNUAL GENERAL MEETING



- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
  - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
  - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
  - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.



## NOTICE OF ANNUAL GENERAL MEETING

- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

By order of the Board  
**Wong Choi Chak**  
Company Secretary

Hong Kong, 30 March 2004

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's principal office at Room 2712, 27th Floor, West Tower, Shun Tak Centre, 168 – 200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.
3. A form of proxy for the meeting will be enclosed with the annual report.
4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. In relation to proposed Resolutions 4A, 4B and 4C above, approval is being sought from the members for the grant to the directors of a general mandate to authorise the issue and repurchase of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The explanatory statement required by GEM Listing Rules in connection with the repurchase mandate will be dispatched to members together with the annual report.