

Angels Technology Company Limited

英君技術有限公司

(Incorporated in the Cayman Islands with limited liability)

ANGELS



ANNUAL REPORT 2004

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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 and together with its subsidiaries, (the “Group”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this 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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02 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
 Ms. Wu Xin

Compliance Officer

Mr. Yan, Daniel X.D.

Company Secretary

Mr. Wong Choi Chak, ACCA, CPA

Authorised Representatives

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

Qualified Accountant

Mr. Wong Choi Chak, ACCA, CPA

Audit Committee Members

Mr. Yang Xiaoping
 Mr. Zhao Ming
 Ms. Wu Xin

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:
 Fong & Ng
(in association with King & Wood, PRC Lawyers and Goodmans)

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

Stock Code

8112

CHAIRMAN'S STATEMENT 03

Business review

The Group is engaged in the provision of solutions to mechanical and electrical transportation projects in the People's Republic of China (the "PRC"), including solutions for expressway networks toll collection system and system integration. The Group is also engaged in the research and development of new products in the information technology industry.

The main projects that the Group has contracted in 2004 including:

1. Guangzhou Expressway network toll collection system
2. Guangzhou Fanyu Bridge toll collection system.
3. The backup management platform of three expressways from Guangzhou Huanan Road -Fanyu Bridge-North Third Ring.
4. Three newly built pathways and the back server expansion project of Guangzhou Fanyu Bridge.
5. Anhui Huizhou-Hangzhou Expressway toll collection software project.

Product and development

In 2004, the Group still focused on developing the expressway monitoring software system. This product may be widely used in mechanical and electrical expressway projects, as well as expressway toll software systems. At the same time, the Group also cooperated with various companies to develop PDA hand-held tolling equipment which is mainly used in the expressway emergency toll collection business, an area which is expected to have a bright future prospect.

Prospect

The Group will continue to focus on mechanical and electrical transportation projects as well as the sales of products and the development of new products in the information technology industry. In the second half of 2004, the State Council of the PRC approved the future development outlook of expressway, to expand the existing expressway total from 34,000 km to about 85,000 km, expecting investment up to RMB2,000 billion. Some major main stream highways will strive to be finished within the next 10 years, which will greatly promote the strong development of mechanical and electrical expressway engineering and create unprecedented market potential. Given this favourable potential environment, the Group will aggressively seek the opportunity to develop and implement solutions of single or multiple expressway toll, communication and monitoring systems for the expressways of all provinces.

Meanwhile, the Group also closely monitors the opportunity for the development of urban traffic management projects, especially by taking advantages of the great business opportunities available during Beijing prepares for the Olympic Games before 2008. The indirectly owned associated company of the Group – Smart-Mover ITS Technology Co., Limited has launched the mobile phone based Comprehensive Traffic Information Service System on 1 March 2005 in Beijing City. It will contain more contents, and will provide road users for traffic information and positioning data from Beijing Public Security Bureau of Traffic Administration via short messaging. The Directors have reasons to believe that the development of this business will provide strong support for sustaining the healthy development of the Group.

04 CHAIRMAN'S STATEMENT

■ Appreciation

On behalf of the Board of Directors, I would like to express my gratitude to all our 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 2005, Beijing

MANAGEMENT'S DISCUSSION AND ANALYSIS 05

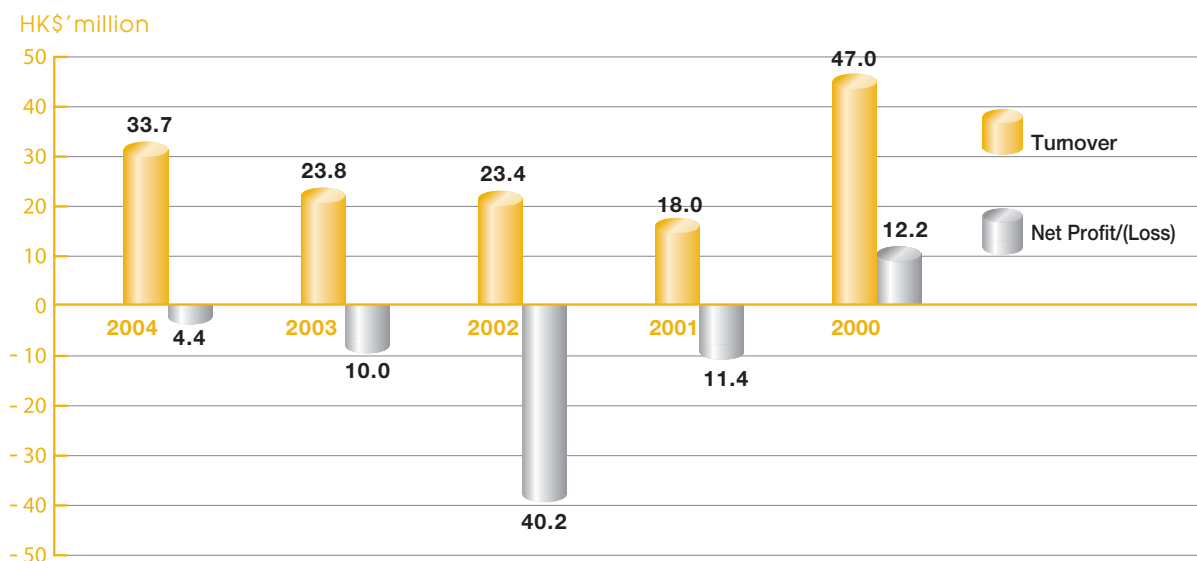
Financial Highlights

	2004 HK\$'000	2003 HK\$'000	Change
OPERATING RESULTS			
Turnover	33,701	23,854	41%
Gross profit	10,478	6,189	69%
Operating expenses	8,352	11,065	-25%
Other operating expenses	2,221	3,976	-44%
Impairment of interest in an associated company	2,748	N/A	N/A
Finance costs	138	N/A	N/A
Share of losses of associated companies	1,433	1,155	24%
Loss attributable to shareholders	(4,410)	(10,006)	-56%
Loss per share – basic	(2.16 cents)	(5.10 cents)	-58%
FINANCIAL POSITION			
Total assets	18,310	18,109	1%
Cash and bank balances	4,365	3,547	23%
Shareholders' funds	1,364	5,774	-76%
FINANCIAL RATIOS			
Current ratio	1.28	0.82	56%
Gearing ratio	4.40	N/A	N/A

Financial Review

The Group is one of the leading companies engaged in the business of provision of transportation technology solutions in respect of mechanical and electrical transportation projects in the PRC. Due to the successful cost control measures to reduce operational cost and the increase of traffic projects secured by the Group this year, the Group generated an operating loss of approximately HK\$2.84 million compared with an operating loss of approximately HK\$8.85 million for the year ended 31 December 2003, representing a sharp decrease of approximately HK\$6.01 million. The Group's turnover for the year ended 31 December 2004 was approximately HK\$33,701,000 (2003: HK\$23,854,000), increased by approximately 41% comparing with last year. In respect of our leading network toll collecting systems, turnover of HK\$6,996,000 and HK\$5,416,000 was derived from the projects of Guangdong Expressway (East, south, and west section network toll collection system) and Harbin ring Expressway (West Section) Supervising System.

Turnover & Net Profit/(Loss)



06 MANAGEMENT'S DISCUSSION AND ANALYSIS

Consequently, the loss attributable to shareholders decreased from approximately HK\$10.0 million to approximately HK\$4.4 million was due to effective cost control in those projects. Distribution costs for 2004 totalling was approximately HK\$2,158,000 (2003: approximately HK\$3,205,000). Administrative expenses decreased to approximately HK\$6,194,000 in 2004 (2003: approximately HK\$7,860,000) which was due to the Group's effective measures taken to maximise operational efficiency and streamline operational expenses.

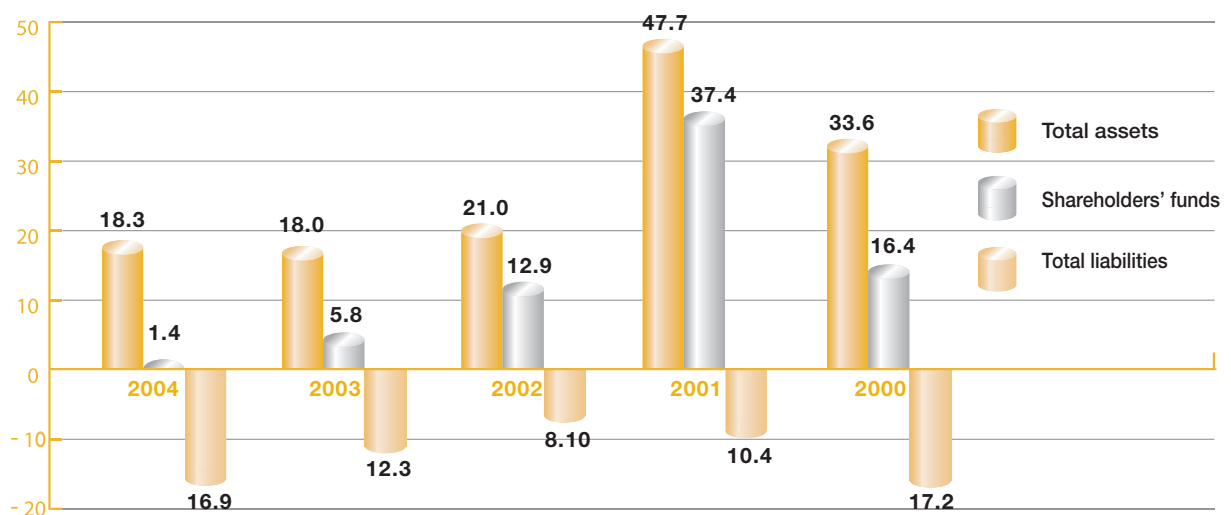
The management understands that research and development of traffic surveillance software system is very important to our Group. New and efficient software for transportation system e.g. network tolling system can increase our profit margin sharply. The Group has invested approximately HK\$683,000 in transportation area for the year 2004.

In July, 2004, the Group has successfully issued a convertible note (the "Note") for a principal amount of HK\$4,000,000 to VC Finance Limited. The Note bears interest at the rate of 4% per annum and the Noteholder shall have the right to convert the Note into Shares (the "Share") of HK\$ 0.10 each of the Company at any time during the period commencing from 7 July 2004 and ending upon on a date falling 18 months therefrom. Assuming the full conversion of the Note at the initial conversion price of HK\$0.37, the Note will be convertible into approximately 10,810,810 Shares (subject to adjustment), representing approximately 5.3% of the issued share capital of the Company and approximately 5.03% of the enlarged issued share capital of the Company. The net amount received by the Company after deducting the expenses incidental to the issue of the Note was approximately HK\$3,850,000. The net proceeds were retained by the Group for general working capital purpose.

In October, 2004, the Group has acquired 35% equity interest in Smart-Mover ITS Technology Co. Limited ("Smart-Mover") (a start-up business) for a total consideration of HK\$2,700,000. Smart-Mover is principally engaged in the provision of traffic information service solutions in Beijing. It is engaged in feeding traffic information and positioning data from the Beijing Public Security Bureau of Traffic Administration via short-messaging (SMS) and multimedia. This service is successfully launched on 1 March 2005.

Total assets, Shareholders' funds & Total liabilities

HK\$'million



MANAGEMENT'S DISCUSSION AND ANALYSIS 07

In December, 2004, the management of the Group performed an assessment on the recoverability of investment in CTIA VSAT Network Limited. The assessment was based on the value in use of the asset using the present value of estimated future cash flow. As a result of this assessment, the Group has made a full provision on this investment.

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

As at 31 December 2004, the Group had cash and cash equivalents amounting to a total of approximately HK\$4.4 million. Additionally, the Group's gearing ratio was 4.4. This is based on the division of long-term debts by shareholders' funds. The Group's liquidity ratio is 1.28 with no bank borrowing.

The Group's bank deposit of approximately HK\$0.7 million 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 2004.

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 2004, the Group did not have any material contingent liabilities.

Employee information

As at 31 December 2004, the Group employed a total of 33 full-time employees which 30 members of staff were employed in the PRC. The Group has entered into employment contracts with all of its employees. The remuneration package for its 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 had 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

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2004 and currently it has no plan for material investments or capital assets.

08 PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. YAN, Daniel X.D., aged 42, 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 北京安卓思通信技術發展有限公司(Beijing Angels Communication Technology Co., Ltd.) 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 36, 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 42, 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 34, 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 42, appointed on 11 January 2001, is an independent non-executive director of the Company. Mr. Yang is currently an executive director of Chia Tai Enterprises International Limited, a company listed on the Stock Exchange.

Mr. ZHAO Ming, aged 47, appointed on 11 January 2001, is an independent non-executive director of the Company. Mr. Zhao is currently the executive director of Co-winner Enterprise Limited, a company listed on 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.

Ms. Wu Xin, aged 35, appointed on 30 September 2004, is an independent non-executive director of the Company. She holds a Master degree in Business Administration majoring in Finance from York University, Toronto, Canada and is a Chartered Financial Analyst. She has been involved in the financial and securities industries for over 11 years. At present Ms. Wu is a director of PrimeCapital Asia Limited, Beijing.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

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Senior Management

Mr. ZHU Jia Wei, aged 67, 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 42, 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 42, 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 35, 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 41, 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 40, 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 Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Ms. WANG Jia Ning, aged 56, 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.

10 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 2004.

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 13 to the financial statements.

No segment information is presented as all the Group's turnover and contribution to operating results were substantially 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 2004 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 2004.

Fixed Assets

Details of movements in fixed assets of the Group are set out in note 12 to the financial statements.

Share Capital

Details of movements in the share capital of the Company are set out in note 25 to the financial statements.

Reserves

Details of movements in the reserves of the Group and the Company are set out in note 27 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
Ms. Wu Xin – appointed on 30 September 2004

In accordance with article 86(3) of the Articles of Association of the Company, Ms. Wu Xin holds the office of a Director until the forthcoming annual general meeting and, being eligible, offers herself for re-election at the forthcoming annual general meeting.

In accordance with article 87(1) of the Articles of Association of the Company, Mr. Yang Xiaoping retires from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS

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The independent non-executive Directors are not appointed for a fixed term but they are subject to retirement by rotation and re-election at the annual general meeting pursuant to the articles of association of the Company. The Company has received from each of the independent non-executive Directors an annual confirmation independence. The Company considers that all of its independent non-executive Director are independent.

Directors' Service Contracts

Each of the executive Directors 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 2004, 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 5.46 to 5.67 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 (Note 2)	Corporate interests (Note 4)	Family interests	Other interests		
Mr. Yan, Daniel X.D.	1,500,000 (L)	76,900,000 (L) (Note 4)	-	-	78,400,000	38.43%
Mr. Lau, Andrew Kim	1,000,000 (L)	35,100,000 (L) (Note 5)	-	-	36,100,000	17.70%
Mr. Zhu Quan	1,000,000 (L)	-	-	-	1,000,000	0.49%
Ms. 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.

12 REPORT OF THE DIRECTORS

3. The letter "L" denotes a long position in the shares.
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 of the Company 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 of the Company owned by Mitac.

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

As at 31 December 2004, 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 2004	Consideration		Exercisable period
			Price for grant (for all) (HK\$)	Exercise price per share (HK\$)	
Mr. Yan, Daniel X.D.	28.3.2002	1,500,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011
Mr. Lau, Andrew Kim	28.3.2002	1,000,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011
Mr. Zhu Quan	28.3.2002	1,000,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011
Ms. 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 2004, none of the Directors and Chief Executive of the Company had any interests or short positions in the shares, underlying shares or debentures 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 5.46 to 5.67 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".

REPORT OF THE DIRECTORS 13

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

Name	Date of grant	Exercise price per share (HK\$)	Exercisable period	Closing price before date of grant (HK\$)	Number of Share Options		
					Outstanding at 1 January 2004	Granted/ exercised/ cancelled/ lapsed during the year	Outstanding at 31 December 2004
Mr. Yan, Daniel X.D.*	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1,500,000	–	1,500,000
Mr. Lau, Andrew Kim*	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1,000,000	–	1,000,000
Mr. Zhu Quan*	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1,000,000	–	1,000,000
Ms. 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	3,388,000	–	3,388,000
					7,288,000	–	7,288,000

* executive Directors of the Company

No option granted to Directors and the employees under the Old Scheme had been exercised, cancelled or lapsed during the year.

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.

14 REPORT OF THE DIRECTORS

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.

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 2004, 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 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed the following persons or corporations (other than the directors or Chief Executive of the Company) as having an interest of 5% or more of the issued share capital of the Company.

Name	Capacity/ Nature of interest	Number of Shares	Percentage of issued share capital
Sebastian	Beneficial Owner	76,900,000 (L) (Note 1)	37.70%
Mitac	Beneficial Owner	35,100,000 (L) (Note 2)	17.20%
Mr. Lam Leung Hung	Beneficial Owner	12,000,000 (L) (Note 3)	5.89%
Ms. Lau Ying Ying, Angela	Interest of Spouse	78,400,000 (L) (Note 4)	38.43%
Atlantis Investment Management Ltd A/C GAM Trading No. 24	Investment Manager	11,000,000 (L) (Note 6)	5.39%

REPORT OF THE DIRECTORS 15

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, the party is independent of and not connected with the Directors, Chief Executive, substantial shareholders or management shareholders of the Company or any 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 spouse of Mr. Yan Daniel X.D., the Chairman and an executive Director of the Company.
5. The letter "L" denotes a long position in the shares.
6. As far as the Directors are aware, the long position of Atlantis Investment Management Ltd A/C GAM Trading No. 24 in the shares of the Company has been reduced to below 5% as at 31 December 2004.

As at 31 December 2004, the following persons (other than the Directors or Chief Executives of the Company) had interests in the underlying shares of equity derivatives (being a convertible note) issued by the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Number of Underlying Shares	Percentage of issued share capital
Mr. Ho Yau Lung Lawrence	Interest of a controlled corporation	10,810,810 (L)	5.30%
Ms. Lo Sau Yan Sharen	Family Interest	10,810,810 (L)	5.30%
VC Finance Limited	Beneficial Owner	10,810,810 (L)	5.30%
VC Finance Group Limited	Interest of a controlled corporation	10,810,810 (L)	5.30%
Value Convergence Holdings Limited	Interest of a controlled corporation	10,810,810 (L)	5.30%
Melco Financial Group Limited	Interest of a controlled corporation	10,810,810 (L)	5.30%
Melco International Development Limited	Interest of a controlled corporation	10,810,810 (L)	5.30%
Better Joy Overseas Ltd	Interest of a controlled corporation	10,810,810 (L)	5.30%

Notes:

1. The Company has issued a convertible note for a principal amount of HK\$4 million ("Note") to VC Finance Limited on 7 July 2004. The noteholder shall have the right to convert its Note into shares of the company at any time during the period commencing from 7 July 2004 and ending upon on a date falling 18 months therefrom. The beneficial owner of VC Finance Limited is Value Convergence Holdings Limited, the shares of which are listed on GEM. Melco Financial Group Limited holds 67.57% of Value Convergence Holding Ltd, Melco International Development Limited holds 100% of Melco Financial Group Limited. Better Joy Overseas Ltd holds 36.35% of Melco International Development Limited and Mr. Ho Yan Lung Lawrence holds 77% of Better Joy Overseas Ltd. Ms. Lo Sau Yan Sharen is deemed to be interested in these shares by virtue of the fact that she is the spouse of Mr. Ho Yau Lung, Lawrence.
2. The letter "L" denotes a long position in the underlying shares.

16 REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2004, the Directors are not aware of any other persons who have interests and/or short positions in the shares, underlying shares and debentures 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 and the convertible note, details of which are set out above in the section headed "Share Option Scheme" and section headed "Capital structure, liquidity and financial resources", the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2004. There had been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31 December 2004.

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 2004 and 2003 are as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2004	2003	2004	2003
The largest customer	28%	37%		
Five largest customers in aggregate	83%	88%		
The largest supplier			9%	10%
Five largest suppliers in aggregate			32%	32%

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 any interest in business which competes or may compete with the business of the Group.

Distributable Reserves

Distributable reserves of the Company at 31 December 2004 amounted to HK\$Nil (2003: HK\$Nil). 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.

REPORT OF THE DIRECTORS 17

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

Neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's shares during the year.

Compliance with the GEM Listing Rules

Throughout the year ended 31 December 2004, 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 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2004.

Code of Conduct Regarding Securities Transactions by Directors

During the year ended 31 December 2004, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors of the Company, the Company is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

Sponsor's Interests

Pursuant to a sponsor agreement dated 23 August 2002 made between the Company and Goldbond Capital (Asia) Limited ("Goldbond"), Goldbond was appointed as the sponsor of the Company as required by GEM Listing Rules at a fee for the period from 30 August 2002 to 31 December 2003. The sponsor agreement expired on 31 December 2003. The Company did not appoint any compliance adviser (as defined in Rule 6A.01 of the GEM Listing Rules) thereafter.

Audit Committee

The Company established an audit committee on 16 August 2001, comprising the independent non-executive Directors, namely Mr. Yang Xiaoping, Mr. Zhao Ming and Ms. Wu Xin. The written terms of reference of the audit committee comply with the GEM Listing Rules. The primary duties of the audit committee of the Company are to review the Company's annual reports and financial statements, half-year reports and quarterly reports and to provide advices 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 of the Company held four meetings during the year. The audit committee has reviewed the annual results for the year ended 31 December 2004.

18 REPORT OF THE DIRECTORS

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 2005, Beijing

RSM! Nelson Wheeler

羅 申 美 會 計 師 行

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 Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

20 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 2004 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 2005

CONSOLIDATED INCOME STATEMENT 21

For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	3	33,701	23,854
Cost of services		(23,223)	(17,665)
Gross profit		10,478	6,189
Other revenue	3	4	1
Distribution costs		(2,158)	(3,205)
Administrative expenses		(6,194)	(7,860)
Impairment of interest in an associated company	14	(2,748)	-
Other operating expenses		(2,221)	(3,976)
Operating loss	4	(2,839)	(8,851)
Finance costs	5	(138)	-
Share of losses of associated companies		(1,433)	(1,155)
Loss before taxation		(4,410)	(10,006)
Taxation	6	-	-
Loss attributable to shareholders	7	(4,410)	(10,006)
Loss per share – basic	9	(2.16) cents	(5.10) cents

22 CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Fixed assets	12	728	911
Interests in associated companies	14	2,756	4,346
Long-term investments	15	805	805
Pledged bank deposit		-	732
Deposit for software development	16	-	1,234
		4,289	8,028
Current assets			
Amounts due from customer for contract works	17	1,901	443
Trade receivables	18	5,211	4,343
Deposits, prepayments and other receivables		1,812	1,748
Pledged bank deposit	19	732	-
Cash and bank balances	20	4,365	3,547
		14,021	10,081
Current liabilities			
Amounts due to customers for contract works	17	75	2,985
Trade payables	21	6,749	3,923
Accrued charges and other payables		2,882	4,183
Warranty provision	22	1,240	1,244
		10,946	12,335
Net current assets/(liabilities)		3,075	(2,254)
Total assets less current liabilities		7,364	5,774
Non-current liabilities			
Convertible note	24	4,000	-
Other payable		2,000	-
		6,000	-
Net assets		1,364	5,774
Financed by:			
Share capital	25	20,400	20,400
Reserves	27	(19,036)	(14,626)
Shareholders' funds		1,364	5,774

Yan, Daniel X.D.
Director

Lau, Andrew Kim
Director

BALANCE SHEET 23

As at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Investments in subsidiaries	13	5,785	3,973
Interest in an associated company	14	–	4,000
		5,785	7,973
Current assets			
Deposits, prepayments and other receivables		12	12
Cash and bank balances		407	251
		419	263
Current liabilities			
Accrued charges and other payables		608	548
Amount due to a subsidiary	23	81	81
		689	629
Net current liabilities		(270)	(366)
Total assets less current liabilities		5,515	7,607
Non-current liability			
Convertible note	24	4,000	–
Net assets		1,515	7,607
Financed by:			
Share capital	25	20,400	20,400
Reserves	27	(18,885)	(12,793)
Shareholder's funds		1,515	7,607

Yan, Daniel X.D.
Director

Lau, Andrew Kim
Director

24 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Note	Share capital HK\$'000	Total reserves HK\$'000	Total equity HK\$'000
At 1 January 2003		19,200	(6,265)	12,935
Issue of shares for placing	27	1,200	1,800	3,000
Issuing expenses	27	-	(155)	(155)
Loss for the year		-	(10,006)	(10,006)
At 31 December 2003	25 & 27	20,400	(14,626)	5,774
Loss for the year	27	-	(4,410)	(4,410)
At 31 December 2004	25 & 27	20,400	(19,036)	1,364

CONSOLIDATED CASH FLOW STATEMENT 25

For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Net cash outflow from operating activities	28(a)	(3,009)	(2,952)
Investing activities			
Purchase of fixed assets		(88)	(253)
Sale of fixed assets		20	-
Purchase of an associated company		(700)	-
Refund/(payment) for software development costs		654	(1,234)
Interest received		1	1
Net cash outflow from investing activities		(113)	(1,486)
Financing activities	28(b)		
Issue of ordinary shares		-	3,000
Issue of convertible note		4,000	-
Share issue expenses		-	(155)
Other finance costs paid		(60)	-
Net cash inflow from financing		3,940	2,845
Increase/(decrease) in cash and bank balances		818	(1,593)
Cash and bank balances at 1 January		3,547	5,140
Cash and bank balances at 31 December		4,365	3,547

26 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 of The Stock Exchange of Hong Kong Limited ("GEM") on 30 August 2001.
- (b) The Company is an investment holding company. The principal activities of its subsidiaries and associated companies are set out in Notes 13 and 14 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\$4,410,000 and a net cash outflow from operating activities of HK\$3,009,000 for the year ended 31 December 2004.

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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

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

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS 27

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.

28 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.

NOTES TO THE FINANCIAL STATEMENTS 29

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.

30 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.

NOTES TO THE FINANCIAL STATEMENTS 31

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.

32 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 associated companies, 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.

NOTES TO THE FINANCIAL STATEMENTS 33

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:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Revenue from long-term systems integration contracts	33,701	23,854
Other revenue		
Interest income	1	1
Gain on disposal of a fixed asset	3	–
	4	1
Total revenue	33,705	23,855

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

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

4. Operating loss

Operating loss is stated after charging/(crediting) the following:

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration	320	260
Depreciation of fixed assets	254	499
Fixed assets written off	–	3
Impairment (included in other operating expenses)		
– deposit for software development (Note 16)	579	–
– other receivable	–	187
Operating lease rentals in respect of land and buildings	787	1,101
Provision for doubtful debts	907	2,048
Provision for warranty (Note 22)	(4)	132
Research and development costs	683	1,738
Staff costs (including directors' emoluments) included in: (Note 10)		
– cost of services	390	406
– administrative and distribution expenses	3,050	4,162

5. Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest on convertible note	78	–
Other finance costs	60	–
	138	–

34 NOTES TO THE FINANCIAL STATEMENTS

6. 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 2004 (2003: 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 2004 (2003: Nil).

- (ii) At the balance sheet date the Group has unused tax losses of approximately HK\$4,767,000 (2003: HK\$6,282,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire on 31 December 2007.

7. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$6,092,000 (2003: HK\$30,780,000).

8. Dividend

The Directors do not recommend the payment of a dividend for the year (2003: Nil).

9. Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$4,410,000 (2003: HK\$10,006,000).

The basic loss per share is based on the weighted average number of 204,000,000 (2003: 196,175,000) ordinary shares in issue during the year. A diluted loss per share for the year ended 31 December 2004 has not been disclosed, as the convertible note outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

A diluted loss per share in the year ended 31 December 2003 has not been shown as there were no potential dilutive ordinary shares in existence during that year.

NOTES TO THE FINANCIAL STATEMENTS 35

10. Staff costs (including directors' emoluments)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	3,244	4,302
Unutilised annual leave	(13)	(22)
Termination benefits	78	87
Social security costs	28	29
Pension costs	103	172
	3,440	4,568

11. 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:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive Directors	–	–
Independent non-executive Directors	45	40
Other emoluments:		
Basic salaries, housing allowances, share options, other allowances and benefits in kind		
– Executive Directors (Note)	962	877
– Independent non-executive Directors	–	–
Contributions to pensions schemes		
– Executive Directors	30	30
– Independent non-executive Directors	–	–
	1,037	947

Note: This includes operating lease rental of HK\$Nil (2003: HK\$26,000) paid by the Group for quarters provided to an executive Director.

The executive Directors received individual emoluments for the year ended 31 December 2004 of approximately HK\$445,000 (2003: HK\$325,000), HK\$325,000 (2003: HK\$325,000), HK\$90,000 (2003: HK\$99,000) and HK\$132,000 (2003: HK\$158,000) 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.

36 NOTES TO THE FINANCIAL STATEMENTS

11. 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 two (2003: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: two) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	681	396
Contributions to pensions schemes	21	16
	702	412

The emoluments of these three (2003: two) highest paid individuals are less than HK\$1,000,000.

No emoluments were paid or payable to these three (2003: 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.

12. Fixed assets

	Group				
	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 January 2004	215	600	673	1,710	3,198
Additions	5	29	54	–	88
Write off	(56)	(109)	(3)	–	(168)
Disposal	–	–	–	(121)	(121)
At 31 December 2004	164	520	724	1,589	2,997
Accumulated depreciation					
At 1 January 2004	64	322	368	1,533	2,287
Charge for the year	56	82	114	2	254
Write off	(56)	(109)	(3)	–	(168)
Disposal	–	–	–	(104)	(104)
At 31 December 2004	64	295	479	1,431	2,269
Net book value					
At 31 December 2004	100	225	245	158	728
At 31 December 2003	151	278	305	177	911

NOTES TO THE FINANCIAL STATEMENTS 37

13. Investments in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost (Note (a))	16,917	16,917
Amounts due from subsidiaries (Note (b))	28,385	25,573
Less: Impairment losses	45,302 (39,517)	42,490 (38,517)
	5,785	3,973

(a) Details of the subsidiaries at 31 December 2004 are as follows:

Company	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/ registered and paid up capital	Interest held
Held directly:				
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%
Angels Navimaster Co. Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Proville Consultancy Inc.	British Virgin Islands	Dormant	1 ordinary share of US\$1	100%
Held indirectly:				
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.

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14. Interests in associated companies

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net liabilities	(4,572)	(3,307)
Goodwill on acquisition of an associated company	2,532	-
Loan receivable (Note (b))	7,488	7,488
Amount due from an associated company (Note (c))	56	165
	5,504	4,346
Less: Impairment losses	(2,748)	-
	2,756	4,346
	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	8,472	8,472
Loan receivable (Note (b))	7,488	7,488
	15,960	15,960
Less: Impairment losses	(15,960)	(11,960)
	-	4,000

(a) Details of the associated companies at 31 December 2004 are as follows:

Company	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held	
				directly	Indirectly
CTIA VSAT Network Limited ("CTIA")	Hong Kong	Investment holding	5,000,000 ordinary shares of HK\$1.0 each	40%	-
Smart-Mover ITS Technology Co. Limited	the PRC	Provision of traffic information service solution in Beijing	RMB2,000,000	-	35%

(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.

NOTES TO THE FINANCIAL STATEMENTS 39

15. Long-term investments

	Group	
	2004 HK\$'000	2003 HK\$'000
Club membership, at cost	338	338
Unlisted investments, at cost	467	467
	805	805

16. Deposit for software development

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	1,234	–
Additions	–	1,234
Refund	(655)	–
Impairment (Note 4)	(579)	–
	–	1,234

17. Long-term systems integration contracts in progress

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost incurred to date plus recognised profits to date	13,236	1,593
Less: progress billings	(11,410)	(4,135)
	1,826	(2,542)
Included in current assets/(liabilities) under the following captions:		
Amounts due from customers for contract works	1,901	443
Amounts due to customers for contract works	(75)	(2,985)
	1,826	(2,542)

At 31 December 2004, retention monies held by customers for contract works included in trade receivables of the Group under Note 18 amounted to HK\$1,250,000 (2003: HK\$2,126,000).

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18. Trade receivables

At 31 December 2004, the aging analysis of trade receivables were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	5,123	2,915
91 to 180 days	70	591
181 to 270 days	1,408	–
271 to 360 days	–	1,908
Over 360 days	910	899
	7,511	6,313
Less: Provision on doubtful debts	(2,300)	(1,970)
	5,211	4,343

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. Pledged 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 performance bond will be expired on 30 June 2005.

20. Cash and bank balances

At 31 December 2004, RMB4,163,000 (2003: RMB3,270,000) 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.

21. Trade payables

At 31 December 2004, the aging analysis of trade payables were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	5,154	1,806
91 to 180 days	44	379
181 to 270 days	–	–
271 to 360 days	–	–
Over 360 days	1,551	1,738
	6,749	3,923

NOTES TO THE FINANCIAL STATEMENTS 41

22. Warranty provision

	Group HK\$'000	
At 1 January 2004	1,244	
Less: Unused amounts reversed	(4)	
At 31 December 2004	1,240	
	2004	2003
	HK\$'000	HK\$'000
Analysis of warranty provision		
Current	1,240	1,244

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

23. Amount due to a subsidiary

The amount due to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

24. Convertible note

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
4% Convertible note (the "Note")	4,000	-

Pursuant to the Subscription Agreement dated 21 June 2004 entered into by the Company and an independent third party, VC Finance Limited (the "Subscriber"), the Company has agreed to issue and the Subscriber has agreed to subscribe for the Note with a principal amount of HK\$4,000,000. At 31 December 2004, the Note was issued.

Principal terms of the Note are set out below:

(a) Interest

The Note bears interest at 4% per annum of the principal amount of the Note and is payable semi-annually in arrear on 30 June and 31 December in each year.

(b) Conversion period

The Noteholder will have the right to convert the Note into shares at any time during the conversion period (i.e. from 7 July 2004 to 6 January 2006).

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24. Convertible note (Continued)

(c) Conversion price

The Note will be convertible into shares ("Conversion Shares ") at an initial conversion price of HK\$0.37 per share ("Conversion Price"). The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of shares, the making of a free distribution of shares, the declaration of a dividend in shares and other dilutive events.

(d) Ranking of conversion shares

Conversion Shares will rank pari passu in all respects with the shares then in issue on the relevant date of exercise of the conversion rights.

(e) Maturity

The Note shall not become due nor repayable until the maturity date i.e. 6 January 2006 ("Maturity Date") unless previously redeemed or converted, the Company will redeem the Note at its principal amount, plus accrued interest, on the Maturity Date.

(f) Early redemption

Commencing three months after the issue of the Note and prior to the Maturity Date, the Company may by notice to the Noteholder (which notice will be irrevocable), redeem all of the Note from time to time at its full amount outstanding, together with accrued interest thereon. If the 10-day average closing price of the shares over the 10 trading days up to and including the date of the notice shall be higher than the Conversion Price, the Company shall pay to the Noteholder the difference of that average closing price and the Conversion Price, multiplied with the number of Conversion Shares that would have been issued to the Noteholder had it exercised its conversion right on that day.

(g) Voting rights

The Noteholder will not have right to attend or vote in any shareholders' meeting of the Company by virtue of the Note alone.

NOTES TO THE FINANCIAL STATEMENTS 43

25. Share capital

		Authorised Ordinary shares of HK\$0.10 each	
		No. of shares	HK\$'000
At 31 December 2003 and 2004		1,200,000,000	120,000
		Issued and fully paid Ordinary shares of HK\$0.10 each	
	Note	No. of shares	HK\$'000
At 1 January 2003		192,000,000	19,200
Issue of shares from placing	(a)	12,000,000	1,200
At 31 December 2003 and 2004		204,000,000	20,400

- (a) 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.

26. 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	
	2004	2003
At the beginning of the year	7,288,000	8,288,000
Granted	-	-
Lapsed	-	(1,000,000)
At the end of the year	7,288,000	7,288,000

At 31 December 2004, the following options to subscribe for shares were outstanding under the Company's share option scheme:

	Exercise price per share HK\$	Number of 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	

44 NOTES TO THE FINANCIAL STATEMENTS

27. Reserves

	Group				
	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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)
At 1 January 2004	37,010	(1,628)	(144)	(49,864)	(14,626)
Loss for the year	-	-	-	(4,410)	(4,410)
At 31 December 2004	37,010	(1,628)	(144)	(54,274)	(19,036)
Representing:					
Company and subsidiaries	37,010	(1,628)	(144)	(49,774)	(14,536)
Associated companies	-	-	-	(4,500)	(4,500)
	37,010	(1,628)	(144)	(54,274)	(19,036)

	Company			
	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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)
At 1 January 2004	37,010	3,916	(53,719)	(12,793)
Loss for the year	-	-	(6,092)	(6,092)
At 31 December 2004	37,010	3,916	(59,811)	(18,885)

NOTES TO THE FINANCIAL STATEMENTS 45

28. Notes to the consolidated cash flow statement

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

	2004 HK\$'000	2003 HK\$'000
Operating loss	(2,839)	(8,851)
Gain on disposal of a fixed asset	(3)	–
Interest income	(1)	(1)
Depreciation	254	499
Fixed assets written off	–	3
Provision for doubtful debts	907	2,048
Impairment of deposit for software development	579	–
Impairment of interest in an associated company	2,748	–
Impairment of other receivable	–	187
Operating profit/(loss) before working capital changes	1,645	(6,115)
Decrease/(increase) in amount due from an associated company	109	(165)
Increase in bank deposit	–	(732)
(Increase)/decrease in amounts due from/(to) customers for contract works	(4,368)	4,842
Increase in trade receivables	(1,775)	(1,693)
Increase in deposits, prepayments and other receivables	(63)	(630)
Increase in trade payables	2,826	1,872
Decrease in accrued charges, other payables and warranty provision	(1,383)	(331)
Net cash outflow from operating activities	(3,009)	(2,952)

46 NOTES TO THE FINANCIAL STATEMENTS

28. Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital HK\$'000	Share premium HK\$'000	Convertible note HK\$'000
At 1 January 2003	19,200	35,365	-
Issue of shares	1,200	1,800	-
Issuing expenses	-	(155)	-
At 31 December 2003	20,400	37,010	-
Issue of convertible note	-	-	4,000
At 31 December 2004	20,400	37,010	4,000

29. 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.

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30. Commitments

(a) Capital commitments

At 31 December 2004, the Group had the following capital commitments:

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
– Software development costs	748	1,982
– Purchase of materials for projects	2,208	1,472
	2,956	3,454

(b) Operating lease commitments

At 31 December 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	944	563
Later than one year but not later than five years	476	241
	1,420	804

31. Approval of financial statements

The financial statements were approved by the Board of Directors on 29 March 2005.

48 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 Tuesday, 10 May 2005 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 2004;
2. To re-elect the retiring directors 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 49

- (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.”

50 NOTICE OF ANNUAL GENERAL MEETING

- 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.”

By order of the Board
Wong Choi Chak
Company Secretary

Hong Kong, 31 March 2005

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.
6. In accordance with the articles of association of the Company, Ms. Wu Xin will hold the office of a director until the annual general meeting and Mr. Yang Xiaoping will retire at the annual general meeting and both directors, being eligible, will offer themselves for re-election. Brief biographical details of both Directors are set out in Appendix II to the circular of the Company dated 31 March 2005.

As at the date hereof, the Board comprises:

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

Ms. Wu Xin