Annual Report 2005

Angels Technology Company Limted

英 君 技 術 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

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

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 Stock Exchange.

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 Companies website in order to obtain up-to-date information on GEM-listed issuers.

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 "Stock Exchange 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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Board of Directors

Executive Directors
Mr. Yan, Daniel X.D. *(Chairman)*
Mr. Mak Shiu Chung, Godfrey
Mr. Lau, Andrew Kim

Independent Non-Executive Directors
Mr. Yang Xiaoping
Mr. Zhao Ming
Ms. Wu Xin
Mr. Kwok Chi Shing

Compliance Officer

Mr. Yan, Daniel X.D.

Company Secretary

Mr. Wong Choi Chak, FCCA, CPA

Authorised Representatives

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

Qualified Accountant

Mr. Wong Choi Chak, FCCA, CPA

Audit Committee Members

Mr. Yang Xiaoping
Mr. Zhao Ming
Ms. Wu Xin
Mr. Kwok Chi Shing

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
26/F., Floor, Tesbury Centre,
28 Queen's Road East,
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:
Arculli Fong & Ng
(in association with King & Wood, PRC Lawyers)

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

Stock Code

8112

The Group is engaged in expressway mechanical and electrical engineering projects, total solutions for expressway network toll collection system, as well as system integration and the development and promotion of new products for the information technology industry in the People's Republic of China (the "PRC").

The main projects that the Group has contracted in 2005 include:

1. Reconstruction of Guangzhou North Second Ring

2. Yunnan Chuda New Lane Project

3. Toll collection systems for Panyu-Linggang Bridges in Guangzhou

4. Fujian Funing II Car-plate Identification Project

5. Inner Mongolia Open-end System (4 districts)

6. Inner Mongolia Open-end System II (Hailaer)

7. Baotou-Dongsheng Expressway Toll Collection Software Project in Inner Mongolia

8. Wuhu Expressway Toll Collection Software Upgrade Project in Anhui

9. Inner Mongolia Portable Toll Collection Software

Product and Development

In 2005, the Group introduced to the market a system based on PDA portable toll collection equipment and concentrated its Research and development efforts in software upgrading and refining in this system, with an aim to broaden its application. Meantime, in respect of urban road traffic control, the Group had been developing the mobile phone-based traffic-fine payment system.

Prospect

The Group will continue to focus on expressway mechanical and electrical engineering projects as well as other IT related projects. According to the State expressway network construction plan, 2006 represents also the first year of the 11th Five-Year Plan of the State, and consequently a larger scale of expressway construction has been planned. As such, the Group will intensify its market tracking efforts for large traffic mechanical and electrical engineering projects. In the light of the increase in the number of single expressways in provinces nationwide, the development of province-based network toll collection systems may be another major task for us.

Besides, the Group pays close attention to the development of urban road traffic management projects in response to enormous business opportunities emerged during the preparation work for the upcoming 2008 Beijing Olympics. The Smart-Mover ITS Technology Co. Limited has launched the mobile phone – based comprehensive traffic information services system on 1 March 2005 in Beijing. This system will be upgraded to cover the business of traffic-fine payment by drivers, which will help reduce total traffic volume in the urban areas, alleviate traffic pressure and save up much valuable time for drivers. The Directors are convinced that the implementation of this new business will provide strong support for sustaining the healthy development of the Group.

Appreciation

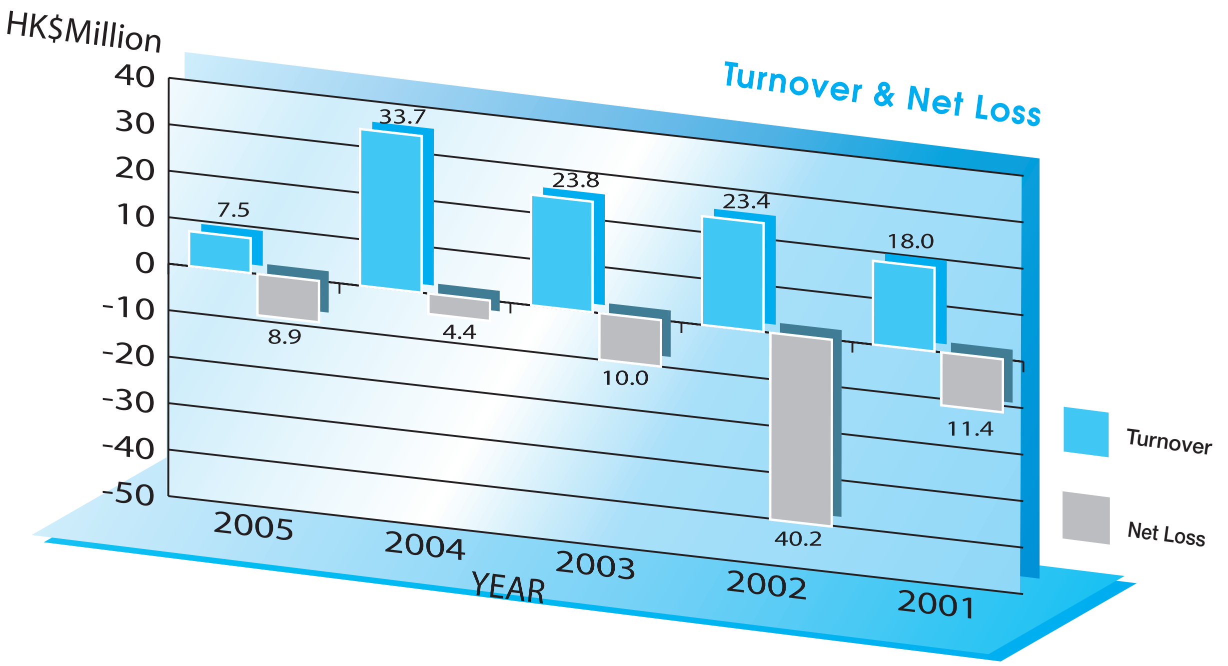
On behalf of the Board of Directors, I would like to express my gratitude to all our staff for their dedication and contribution. Our staff is beyond doubt the assets of the Group and the key to the Group's future success.

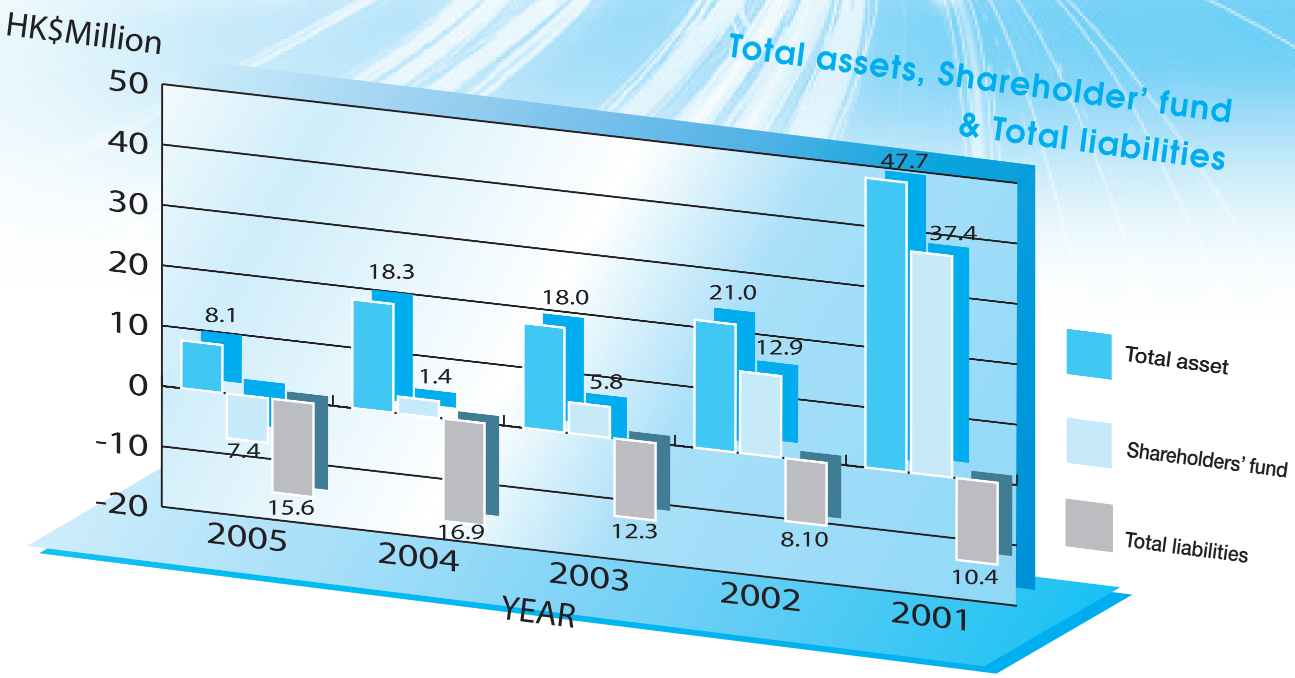
Yan, Daniel X.D.
Chairman

28 March 2006, Beijing

Financial Highlights

	2005 HK$'000	2004 HK$'000	Change
OPERATING RESULTS			
Turnover	7,495	33,701	-78%
Gross profit	463	10,478	-96%
Operating expenses	8,587	8,352	3%
Other operating expenses	–	2,221	N/A
Impairment of interest in an associate	571	2,748	-79%
Finance costs	180	138	30%
Share of losses of associates	132	1,433	-91%
Loss attributable to shareholders	(8,948)	(4,410)	103%
Loss per share – basic	(4.39 cents)	(2.16 cents)	103%
FINANCIAL POSITION			
Total assets	8,121	18,310	-56%
Cash and bank balances	1,413	4,365	-68%
Shareholders' funds	(7,437)	1,364	-645%
FINANCIAL RATIOS			
Current ratio	0.44	1.28	-66%
Gearing ratio	–	4.40	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 increasing number of companies participating in mechanical and electrical transportation projects and transportation technology solutions, the bid price for the such projects had become relatively low recently, and the profitability of such enterprises have decrease generally. Consequently, the profit of the Group has also been affected. For the year 2005, the Group generated an operating loss of approximately HK$8.6 million compared with an operating loss of approximately HK$2.8 million for the year ended 31 December 2004, representing an increase in losses by approximately HK$5.8 million. The Group's turnover for the year ended 31 December 2005 was approximately HK$7,495,000 (2004: HK$33,701,000), representing a decrease of approximately 78% comparing with last year. In respect our network toll collecting systems, turnover of HK$2,555,000 and HK$1,439,000 was derived from the projects of Yanshan-Pingyuanjie Expressway Toll Collection System in Yunnan Province and the Yuanjiang-Mohei Expressway Network Toll Collection System.

Consequently, the loss attributable to shareholders increased from approximately HK$4.4 million in 2004 to approximately HK$8.9 million in 2005. Distribution costs for 2005 was approximately HK$3,319,000 (2004: approximately HK$2,158,000). Administrative expenses decreased to approximately HK$5,268,000 in 2005 (2004: approximately HK$6,194,000). Indeed, the Group has been implementing cost measures to reduce operational costs. The increase in the loss attributable to shareholders as a result of the factors mentioned above was offset by the effect of aggressive cost reduction measures being put in place in the areas of headcount, professional fees and entertainment expenses. While staff cost remained to be the largest component of the operating costs, the total headcount was reduced to 22 as of 31 December 2005. 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.

In December 2005, the management of the Group performed an assessment on the recoverability of Smart-Mover ITS Technology Co. 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.

In January 2006, the Group entered a loan agreement provides for an unsecured loan of HK$4,500,000 at an interest rate of 12% per annum. The Group used the loan to repay 4% HK$4,000,000 convertible note issued by the company in favour of VC Finance Limited in January 2006.

In order to strengthen the cash flow of the Company, the Group has successfully placed 40,800,000 Placing Shares in March 2006. Those shares represented approximately 20% of the issued share capital of the company at the time of new issue and approximately 16.7% of the enlarged issued share capital of the company. The net proceeds of the placing would be used by the Group for general working capital.

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 vigiliant 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 2005, the Group had cash and cash equivalents amounting to a total of approximately HK$1.4 million. Additionally, the Group's gearing ratio was nil. This is based on the division of long-term debts by shareholders' funds. The Group's liquidity ratio is 0.44 with no bank borrowing.

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 2005, the Group did not have any material contingent liabilities.

Employee information

As at 31 December 2005, the Group employed a total of 22 full-time employees which 20 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 comprises of monthly salary, provident fund contributions, medical claims, training programmes, housing allowance and discretionary options based on their contribution to the Group.

During the year under review, the Group had not experienced any significant labour disputes 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 2005 and currently it has no plan for material investments or capital assets.

Executive Directors

Mr. YAN, Daniel X.D., aged 43, 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 37, 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. Mak Shiu Chung, Godfrey, aged 43, has over 15 years of experience in the field of corporate finance, specialising in advisory services for major transactions concerning different sectors. He has participated in various securities and financing activities in Asia. Mr. Mak returned to Hong Kong and joined the Hong Kong Government as an Administrative Officer in 1988. He started his corporate finance career at Morgan Grenfell in 1990. He holds a Bachelor of Science degree in Business Studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. Mr. Mak is a Member of the Hong Kong Securities Institute, a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators.

Independent Non-executive Directors

Mr. YANG Xiaoping, aged 43, 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 48, 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 36, 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.

Mr. Kwok Chi Shing, aged 43, is currently the partner of Lam, Kwok, Kwan & Cheng CPA Limited. He graduated from the University of Aberdeen, United Kingdom in 1986 with a Master of Arts Honour Degree in Accountancy with Economics. Mr. Kwok is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has extensive experience in corporate and financial management work especially for the real estate development and property management industries. He has extensive experience in public sector work both in Hong Kong and China and he was the president of the Hong Kong Association of Financial Advisors.

Senior Management

Mr. ZHU Jia Wei, aged 68, 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 43, 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. ZHU Quan, aged 43, 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. Mr. Zhu was a director of the Company from 11 January 2001 to 17 November 2005.

Mr. JIN Ji Dong, aged 43, 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 36, 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 42, 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 41, 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 a fellow member of the Association of Chartered Certified Accountants.

Ms. WANG Jia Ning, aged 57, 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.

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 2005.

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 7 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 2005 are set out in the consolidated income statement on page 27.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2005.

Plant and Equipment

Details of movements in plant and equipment of the Group are set out in Note 6 to the financial statements.

Share Capital

Details of movements in share capital of the Company are set out in Note 13 to the financial statements.

Reserves

Details of movements in reserves of the Group and the Company are set out in Note 15 to the financial statements.

Directors

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

Executive Directors

Mr. Yan, Daniel X.D.	
Mr. Mak Shiu Chung, Godfrey	– appointed on 27 January 2006
Mr. Lau, Andrew Kim	
Mr. Zhu Quan	– resigned on 17 November 2005
Ms. Shek Ying, Christine	– resigned on 17 November 2005

Independent Non-Executive Directors

Mr. Yang Xiaoping	
Mr. Zhao Ming	
Ms. Wu Xin	
Mr. Kwok Chi Shing	– appointed on 27 January 2006

In accordance with article 86(3) of the Articles of Association of the Company, Mr. Mak Shiu Chung, Godfrey and Mr. Kwok Chi Shing hold the office of Directors until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 87(1) of the Articles of Association of the Company, Mr. Zhao Ming will retire from office and Mr. Yan, Daniel X.D will voluntarily retire from office at the forthcoming annual general meeting and, both being eligible, offer themselves for re-election.

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 of independence. The Company considers that all of its independent non-executive Directors are independent.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 and 6.

Directors' Service Contracts

Mr. Yan, Daniel X.D. and Mr. Lau, Andrew Kim, the executive Directors of the Company have each entered into a service contract with the Company for a term of three years commencing from 7 April 2000. 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.

Mr. Mak Shiu Ching, Godfrey has not entered into any service contract with the Company since the date of his appointment as an executive Director of the Company. He has signed a director's appointment confirmation with no fixed term of appointment as an executive Director.

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 2005, 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)

	Number of ordinary shares					
Name	Personal interests (Note 2)	Corporate interests	Family interests	Other interests	Total	Percentage of issued share capital
Mr. Yan, Daniel X.D.	1,500,000 (L)	20,000,000 (L) (Note 4)	–	–	21,500,000(L)	10.54%
Mr. Lau, Andrew Kim	1,000,000 (L)	–	–	–	1,000,000(L)	0.49%

Notes:

1. 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.

2. These interests are the same interests as those described in Section (II) below.

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 20,000,000 shares of the Company owned by Sebastian.

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

As at 31 December 2005, 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".

			Consideration		
Name	**Date of grant**	**Number of underlying shares in respect of outstanding options at 31 December 2005**	**Price for grant (for all)** (HK$)	**Exercise price per share** (HK$)	**Exercisable period**
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

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

Save as disclosed above, as at 31 December 2005, 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".

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 2005	Granted/ exercised/ lapsed during the year	Cancelled during the year	Transferred during the year	Outstanding at 31 December 2005
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	–	–	1,000,000	4,388,000
					7,288,000	–	(400,000)	–	6,888,000

* executive Directors of the Company as at 31 December 2005

** Mr. Zhu Quan and Ms. Shek Ying, Christine resigned as executive Directors of the Company on 17 November 2005. Mr. Zhu Quan remained as an employee of the Company.

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

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

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

Directors' Interests 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 2005, 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 2005, 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
Lucky Team International Limited ("Lucky Team")	Beneficial Owner	56,900,000 (L) (Note 1)	27.89%
Li Gui Yan	Beneficial Owner	35,100,000 (L) (Note 2)	17.21%
Sebastian	Beneficial Owner	20,000,000 (L) (Note 3)	9.80%
Ms. Lau Ying Ying, Angela	Interest of Spouse	21,500,000 (L) (Note 4)	10.54%

Notes:

1. Lucky Team is a company incorporated in the British Virgin Islands with limited liability, which is 100% owned by Mr. Mak Shiu Chung, Godfrey who becomes an executive Director on 27 January 2006.
2. 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.
3. 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.
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.

As at 31 December 2005, 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%
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 Limited	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 will have the right to convert the 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 Holdings Limited, Melco International Development Limited holds 100% of Melco Financial Group Limited. Better Joy Overseas Limited 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. Subsequent to the balance sheet date, the Company has fully repaid the Note.
2. The letter "L" denotes a long position in the underlying shares.

Save as disclosed above, as at 31 December 2005, 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 corporations (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 other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2005. There had been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31 December 2005.

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 2005 and 2004 are as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2005	2004	2005	2004
The largest customer	42%	28%		
Five largest customers in aggregate	88%	83%		
The largest supplier			14%	9%
Five largest suppliers in aggregate			55%	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 Interests

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 2005 amounted to HK$Nil (2004: HK$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.

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 2005, 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.

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. Mr. Kwok Chi Shing joined the audit committee on 27 January 2006. 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 2005.

Events after the Balance Sheet Date

Details of events occurred after the balance sheet date are set out in Note 32 to the financial statements.

Auditors

There has been no change in the auditors of the Company in any of the preceding three years from the year ended 31 December 2005.

The financial statements have been audited by RSM Nelson Wheeler who retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting.

Corporate Governance

A report of the principle corporate governance practices adopted by the Company is set out on pages 19 to 22 of the annual report.

By order of the Board

Yan, Daniel X.D.
Chairman

28 March 2006, Beijing

Introduction

Subject to the deviations as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

Board of Directors and Board Meeting

The board of Directors, which currently comprises seven Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. Among the seven Directors, Mr. Mak Shiu Chung, Godfrey and Mr. Kwok Chi Shing were appointed as executive Director and independent non-executive Director respectively on 27 January 2006.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Yan, Daniel X.D. is the chairman of the board of Directors and an executive Director and Mr. Lau, Andrew Kim is the chief executive officer of the Company.

During the year ended 31 December 2005, the Company had three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Yang Xiaoping, Mr. Zhao Ming and Ms. Wu Xin are the independent non-executive Directors. Ms. Wu Xin's appointment is not for a fixed term and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or Ms. Wu Xin with a written notice of not less than one month unless both parties agree otherwise.

The term of appointment for Mr. Yang Xiaoping and Mr. Zhao Ming commenced from 11 January 2001 and both of them is not for a fixed term subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by the Company or Mr. Yang/Mr. Zhao with a written notice of not less than one month unless both parties agree otherwise.

Mr. Kwok Chi Shing was appointed as an additional independent non-executive Director on 27 January 2006. Mr. Kwok's appointment is not for a fixed term but he will be subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

During the year ended 31 December 2005, the board of Directors held a full board meeting for each quarter.

Details of the attendance of the board of Directors are as follows:-

Directors		Attendance
Mr. Yan, Daniel X.D.		4/4
Mr. Lau, Andrew Kim		4/4
Mr. Shek Ying, Christine	(resigned on 17 November 2005)	4/4
Mr. Zhu Quan	(resigned on 17 November 2005)	4/4

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Remuneration of Directors

The remuneration committee was established in September 2005. The chairman of the committee is Mr. Yang Xiaoping, an independent non-executive Director, and other members include Mr. Yan, Danial X.D. and Mr. Zhao Ming, the majority being independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations of the remuneration of non-executive Directors to the board. The remuneration committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held on 1 November 2005. Details of the attendance of the remuneration committee meeting are as follows:

Members	Attendance
Mr. Yang Xiaoping	1/1
Mr. Yan, Daniel X.D.	1/1
Mr. Zhao Ming	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

Nomination of Directors

The nomination committee was established in September 2005. The chairman of the committee is Mr. Yang Xiaoping, and other members include Mr. Yan, Danial X.D. and Mr. Zhao Ming, the majority being independent non-executive Directors.

The role and function of the nomination committee included selection and recommendation of Directors for appointment and removal.

The nomination committee would consider the past performance, qualification and general market conditions in selecting and recommending candidates for directorship during the year under review.

During the period under review, a meeting of the nomination committee was held on 10 November 2005 meeting for nomination of Directors. Details of the attendance of the meeting are as follows:

Members	Attendance
Mr. Yang Xiaoping	1/1
Mr. Yan, Daniel X.D.	1/1
Mr. Zhao Ming	1/1

During the meeting, the board of Directors recommended that all the existing Directors be retained by the Company. Further, in accordance with the Company's Articles of Association (subject to the proposed amendments at the forthcoming annual general meeting), Mr. Yan, Daniel X.D. and Mr. Zhao Ming will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing Articles of Association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. In order to comply with code provision A.4.2 of the Corporate Governance Practices, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years and the nomination committee recommended that Mr. Yan, Daniel X.D. should voluntarily retire at the forthcoming annual general meeting and offer himself for re-election.

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK$330,000 to the external auditors for their services including audit, due diligence and other advisory services.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. During the year ended 31 December 2005, the audit committee comprises three members, Mr. Yang Xiaoping, Mr. Zhao Ming, and Ms. Wu Xin. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Yang Xiaoping.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Yang Xiaoping	4/4
Mr. Zhao Ming	4/4
Ms. Wu Xin	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. Since 27 January 2006, Mr. Kwok Chi Shing became a member of the audit committee.

Directors' and Auditors Responsibilities for Financial Statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 23.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

Investors Relations

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Meetings are held with media and investors periodically. The Company also replied the enquires from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

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 25 to 60 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.

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 2005 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

28 March 2006

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	6	466	728
Interests in associates	8	–	2,756
Available-for-sale financial assets	9	829	805
		1,295	4,289
Current assets			
Amounts due from customers for contract works	10	36	1,901
Trade receivables	11	4,181	5,211
Deposits, prepayments and other receivables		1,196	1,812
Pledged bank deposit		–	732
Cash and bank balances	12	1,413	4,365
		6,826	14,021
Total assets		8,121	18,310
EQUITY			
Capital and reserves			
Share capital	13	20,400	20,400
Other reserves	15	35,385	35,238
Accumulated losses		(63,222)	(54,274)
Total equity		(7,437)	1,364
LIABILITIES			
Non-current liabilities			
Convertible note	20	–	4,000
Other payable		–	2,000
		–	6,000
Current liabilities			
Amounts due to customers for contract works	10	–	75
Trade payables	16	4,825	6,749
Accrued charges and other payables	17	5,478	2,882
Provision for warranty	18	1,255	1,240
Convertible note	20	4,000	–
		15,558	10,946
Total liabilities		15,558	16,946
Total equity and liabilities		8,121	18,310
Net current (liabilities)/assets		(8,732)	3,075
Total assets less current liabilities		(7,437)	7,364

Yan, Daniel X.D.
Director

Mak Shiu Chung, Godfrey
Director

The notes on pages 30 to 60 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	7	–	5,785
Interests in associates	8	–	–
		–	5,785
Current assets			
Deposits, prepayments and other receivables		12	12
Cash and bank balances		3	407
		15	419
Total assets		15	6,204
EQUITY			
Capital and reserves			
Share capital	13	20,400	20,400
Other reserves	15	40,926	40,926
Accumulated losses		(66,224)	(59,811)
Total equity		(4,898)	1,515
LIABILITIES			
Non-current liability			
Convertible note	20	–	4,000
Current liabilities			
Accrued charges and other payables	17	832	608
Amount due to a subsidiary	19	81	81
Convertible note	20	4,000	–
		4,913	689
Total liabilities		4,913	4,689
Total equity and liabilities		15	6,204

Yan, Daniel X.D.
Director

Mak Shiu Chung, Godfrey
Director

The notes on pages 30 to 60 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	5	7,495	33,701
Cost of services		(7,032)	(23,223)
Gross profit		463	10,478
Other revenue	21	59	4
Distribution costs		(3,319)	(2,158)
Administrative expenses		(5,268)	(6,194)
Impairment of interest in an associate	8	(571)	(2,748)
Other operating expenses		–	(2,221)
Operating loss	22	(8,636)	(2,839)
Finance costs	25	(180)	(138)
Share of losses of associates		(132)	(1,433)
Loss before taxation		(8,948)	(4,410)
Taxation	26	–	–
Loss attributable to shareholders	27	(8,948)	(4,410)
Loss per share – basic	29	(4.39) cents	(2.16) cents

The notes on pages 30 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Notes	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2004		20,400	35,238	(49,864)	5,774
Loss for the year		–	–	(4,410)	(4,410)
Balance at 31 December 2004	13 & 15	20,400	35,238	(54,274)	1,364
Balance at 1 January 2005		20,400	35,238	(54,274)	1,364
Currency translation differences	15	–	147	–	147
Loss for the year		–	–	(8,948)	(8,948)
Balance at 31 December 2005	13 & 15	20,400	35,385	(63,222)	(7,437)

The notes on pages 30 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000
Cash flows from operating activities		
Loss for the year	(8,948)	(4,410)
Adjustments for:		
Gain on disposal of plant and equipment	–	(3)
Interest income	(36)	(1)
Finance costs	180	138
Depreciation	337	254
Provision for doubtful debts	–	907
Impairment of deposit for software development	–	579
Impairment of interest in an associate	571	2,748
Share of losses of associates	132	1,433
Decrease in amount due from an associate	56	109
Decrease in pledged bank deposit	732	–
Decrease/(increase) in amounts due from/(to) customers for contract works	1,790	(4,368)
Decrease/(increase) in trade receivables	1,030	(1,775)
Decrease/(increase) in deposits, prepayments and other receivables	616	(63)
(Decrease)/increase in trade payables	(1,924)	2,826
Increase/(decrease) in accrued charges, other payables and provision for warranty	1,379	(1,383)
Cash used in operations	(4,085)	(3,009)
Interest paid	(158)	–
Net cash used in operating activities	(4,243)	(3,009)
Cash flows from investing activities		
Purchase of plant and equipment	(63)	(88)
Sale of plant and equipment	–	20
Purchase of an associate	–	(700)
Payment for software development costs	–	654
Interest received	36	1
Net cash used in investing activities	(27)	(113)
Cash flows from financing activities		
Issue of convertible note	–	4,000
Other finance costs paid	–	(60)
Advance from a director	1,210	–
Net cash generated from financing	1,210	3,940
Net (decrease)/increase in cash and bank balances	(3,060)	818
Cash and bank balances at 1 January	4,365	3,547
Exchange differences	108	–
Cash and bank balances at 31 December	1,413	4,365

The notes on pages 30 to 60 are an integral part of these consolidated financial statements.

1. General information

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in Notes 7 and 8 respectively.

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. The address of its registered office is Room 2712, 27/F., West Tower Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

As at 31 December 2005, the Group had capital deficiency of HK$7,437,000, reported a loss attributable to shareholders of HK$8,948,000 and a net cash outflow from operating activities of HK$4,243,000 for the year ended 31 December 2005. 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. Subsequent to the balance sheet date, the Company had entered into a Placing and Underwriting Agreement, pursuant to which the Company agreed conditionally to issue a total of 40,800,000 placing shares at a price of HK$0.10 each (the "Placing Shares"). The Placing Shares were issued on 22 March 2006 (see Note 32(b)). As a result the financial position of the Group has been strengthened. Therefore, the financial statements for the year ended 31 December 2005 are 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 consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention.

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised standards of HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 1, 7, 8, 10, 16, 17, 18, 21, 27, 28, 33 and 37 did not result in substantial changes to the Group's accounting policies.

In summary:

– HKAS 1 affects the presentation of share of net after tax results of associates and other disclosures.

– HKASs 7, 8, 10, 16, 17, 18, 21, 27, 28, 33 and 37 had no material effect on Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entitles has been re-evaluated based on the guidance to the revised standard.

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognitions and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for employee share options. Prior to this, the provision of share options to employees (including executive Directors) did not result in an expense in the consolidated income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods/expensed to the consolidated income statement. There were no share options granted by the Company after 7 November 2002 and had not been vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on these consolidated financial statements. The new accounting policy for employee share options are summarised in Note 2(m)(iii) to the consolidated financial statements.

The adoption of HKFRS 3, HKASs 36 and 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period ranging from 5 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2(e)(i)):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after 1 January 2005.

2. Summary of significant accounting policies (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (see Note 2(e)(i)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

2. Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2(e)(i)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. Summary of significant accounting policies (Continued)

(d) Foreign currencies translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. Summary of significant accounting policies (Continued)

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(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.

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2. Summary of significant accounting policies (Continued)

(g) Plant and equipment

Plant and equipment are stated at cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives at annual rates as follows:

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(f)).

(h) Investments

In prior years, the Group classified its club membership and unlisted investments, other than investments in subsidiaries and associates, as long-term investments.

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

From 1 January 2005 onwards, the Group classifies its long-term investments as available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. Summary of significant accounting policies (Continued)

(h) Investments (Continued)

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated income statement as gains or losses from investment securities.

(i) 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.

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.

2. Summary of significant accounting policies (Continued)

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheets.

(l) 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. Provisions are not recognised for future operating losses.

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.

(m) 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.

2. Summary of significant accounting policies (Continued)

(m) Employee benefits (Continued)

(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.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(n) 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, 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.

2. Summary of significant accounting policies (Continued)

(o) 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.

(p) 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 using the effective interest method.

(q) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

3. Financial risk management

The Group's principal financial instruments comprises cash and bank balances.

The main risks arising from the Group's financial instruments are interest rate, liquidity risk, foreign currency risk and credit risk. The Directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum the Group has not used any derivatives and other instrument for hedging purpose.

The Group does not hold or issue derivative financial instruments for trading purposes. The Directors review and agree policies for managing each of these risks and they are summarized as follows :

(a) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value and cash flow interest risks is minimal as the Group does not have any material long term financial assets or liabilities.

(b) Foreign currency risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HK$") and Renminbi ("RMB"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against RMB. There is insignificant fluctuation in the exchange rate between HK$ and RMB. At present, the Group believes its exposure to foreign exchange risk profile is minimal and will consider appropriate hedging measure in future as may be necessary.

(c) Credit risk

The carrying amounts of trade receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry significant exposure to credit risk. The Group has no significant concentration of credit risk.

(d) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

4. Significant accounting judgements and estimates

Judgements
In the process of applying the Group's accounting policies, managment has made the following judgements, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets
In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particulary in assessing (a) whether an event has occurred that may effect the asset value or such event effecting the asset value has not been in existence; (b) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (c) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by managment to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainly
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

Impairment test of assets
The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value increase of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. Turnover and segment information

The Group is principally engaged in the provision of transportation technology solutions in the PRC. Turnover recognised during the year are revenue from long-term systems integration contracts.

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.

6. Plant and equipment

	Group				
	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2004					
Cost	215	600	673	1,710	3,198
Accumulated depreciation	(64)	(322)	(368)	(1,533)	(2,287)
Net book value	151	278	305	177	911
Year ended 31 December 2004					
Opening net book value	151	278	305	177	911
Additions	5	29	54	–	88
Depreciation	(56)	(82)	(114)	(2)	(254)
Disposals	–	–	–	(17)	(17)
Closing net book value	100	225	245	158	728
At 31 December 2004					
Cost	164	520	724	1,589	2,997
Accumulated depreciation	(64)	(295)	(479)	(1,431)	(2,269)
Net book value	100	225	245	158	728
Year ended 31 December 2005					
Opening net book value	100	225	245	158	728
Exchange differences	2	4	6	–	12
Additions	–	4	59	–	63
Depreciation	(33)	(79)	(67)	(158)	(337)
Closing net book value	69	154	243	–	466
At 31 December 2005					
Cost	168	539	779	1,635	3,121
Accumulated depreciation	(99)	(385)	(536)	(1,635)	(2,655)
Net book value	69	154	243	–	466

7. Investments in subsidiaries

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted investments, at cost (Note (a))	16,917	16,917
Amounts due from subsidiaries (Note (b))	28,182	28,385
	45,099	45,302
Less: Impairment losses	(45,099)	(39,517)
	–	5,785

(a) Details of the subsidiaries at 31 December 2005 are as follows:

Company	Place of incorporation/ establishment and kind of legal entity	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, limited liability company	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, limited liability company	Investment holding in Hong Kong	903,000 ordinary shares of HK$1.0 each	100%
Angels Navimaster Co. Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Proville Consultancy Inc.	British Virgin Islands, limited liability company	Dormant	1 ordinary share of US$1	100%
Held indirectly:				
Angels Engineering Technology Limited	Hong Kong, limited liability company	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, wholly-foreign owned enterprise with limited liability	Dormant	US$600,000	100%
Beijing Angels Communications Technology Co., Ltd	The PRC, wholly-foreign owned enterprise with limited liability	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.

8. Interests in associates

	Group 2005 HK$'000	Group 2004 HK$'000
Beginning of the year	2,756	4,346
Share of associates' results		
– loss before taxation	(132)	(2,257)
– taxation	–	–
– minority interest	–	824
	2,624	2,913
Exchange difference	3	–
Acquisition of an associate	–	2,700
Waiver of payable for acquisition of an associate	(2,000)	–
Net movement of amount due from an associate	(56)	(109)
Impairment losses	(571)	(2,748)
End of the year	–	2,756

The interests in associates represent the following:

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net liabilities	(4,701)	(4,572)
Goodwill on acquisition of an associate	532	2,532
Loan receivable (Note (b))	7,488	7,488
Amount due from an associate	–	56
	3,319	5,504
Less: Impairment losses	(3,319)	(2,748)
	–	2,756

	Company 2005 HK$'000	Company 2004 HK$'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)	(15,960)
	–	–

8. Interests in associates (Continued)

(a) The Group's interests in its associates, all of which are unlisted, were as follows:

Company	Particulars of issued shares held	Place of incorporation and operation	Principal activities	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Loss HK$'000	Interest held directly	Interest held Indirectly
2004									
CTIA VSAT Network Limited ("CTIA")	5,000,000 ordinary shares of HK$1.0 each	Hong Kong	Investment holding	18,763	26,761	7,816	3,582	40%	–
Smart-Mover ITS Technology Co. Limited	Registered capital of RMB2,000,000	The PRC	Provision of traffic information service solution in Beijing	437	25	18	398	–	35%
2005									
CTIA VSAT Network Limited ("CTIA")	5,000,000 ordinary shares of HK$1.0 each	Hong Kong	Investment holding	17,260	27,904	9,101	1,837	40%	–
Smart-Mover ITS Technology Co. Limited	Registered capital of RMB2,000,000	The PRC	Provision of traffic information service solution in Beijing	206	94	–	377	–	35%

(b) Loan receivable from an associate is unsecured, interest free and due and demanded for repayment.

(c) The Group has not recognised losses amounting to HK$735,000 (2004: HK$Nil) for CTIA. The accumulated losses not recognised were HK$735,000 (2004: HK$Nil).

9. Available-for-sale financial assets

	Group
	2005
	HK$'000
Beginning of the year	805
Exchange difference	24
End of the year	829

There were no additions, disposals or impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets include the following:

	Group	
	2005	2004
	HK$'000	HK$'000
Club membership	348	338
Unlisted investments	481	467
	829	805

10. Long-term systems integration contracts in progress

	Group	
	2005	2004
	HK$'000	HK$'000
Cost incurred to date plus recognised profits to date	209	13,236
Less: progress billings	(173)	(11,410)
	36	1,826
Included in current assets/(liabilities) under the following captions:		
Amounts due from customers for contract works	36	1,901
Amounts due to customers for contract works	–	(75)
	36	1,826

At 31 December 2005, retention monies held by customers for contract works included in trade receivables of the Group under Note 11 amounted to HK$1,611,000 (2004: HK$1,250,000).

11. Trade receivables

At 31 December 2005, the ageing analysis of trade receivables were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 90 days	2,132	5,123
91 to 180 days	–	70
181 to 270 days	–	1,408
271 to 360 days	1,413	–
Over 360 days	2,936	910
	6,481	7,511
Less: Provision for doubtful debts	(2,300)	(2,300)
	4,181	5,211

The credit terms granted to customers vary and are generally at 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.

12. Cash and bank balances

At 31 December 2005, RMB1,318,000 (2004: RMB4,163,000) 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.

13. Share capital

	Authorised Ordinary shares of HK$0.10 each No. of shares	HK$'000
At 31 December 2004 and 2005	1,200,000,000	120,000

	Note	Issued and fully paid Ordinary shares of HK$0.10 each No. of shares	HK$'000
At 31 December 2004 and 2005		204,000,000	20,400

14. 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 share options 2005	2004
Beginning of the year	7,288,000	7,288,000
Cancelled during the year	(400,000)	–
End of the year	6,888,000	7,288,000

There were no option granted, forfeited, exercised or lapsed in 2004 and 2005.

At 31 December 2005, 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	2,500,000	9 August 2011
Other employees	1.28	4,388,000	9 August 2011
		6,888,000	

15. Other reserves

	Group			
	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1 January 2004 and 31 December 2004	37,010	(1,628)	(144)	35,238
Representing:				
Company and subsidiaries	37,010	(1,628)	(144)	35,238
At 1 January 2005	37,010	(1,628)	(144)	35,238
Currency translation differences	–	–	147	147
At 31 December 2005	37,010	(1,628)	3	35,385
Representing:				
Company and subsidiaries	37,010	(1,628)	–	35,382
Associates	–	–	3	3
	37,010	(1,628)	3	35,385

	Company		
	Share premium HK$'000	Contributed surplus HK$'000	Total HK$'000
At 1 January 2004 and 31 December 2004	37,010	3,916	40,926
At 1 January 2005 and 31 December 2005	37,010	3,916	40,926

16. Trade payables

At 31 December 2005, the ageing analysis of trade payables were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 90 days	3,391	5,154
91 to 180 days	–	44
181 to 270 days	–	–
271 to 360 days	22	–
Over 360 days	1,412	1,551
	4,825	6,749

17. Accrued charges and other payables

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Accrued charges and other payables	4,268	2,882	732	608
Advance from a director (Note)	1,210	–	100	–
	5,478	2,882	832	608

Note: The advance from a director is unsecured, interest free and has no fixed terms of repayment.

18. Provision for warranty

	Group
	HK$'000
At 1 January 2005	1,240
Unused amounts reversed (Note 22)	(21)
Exchange differences	36
At 31 December 2005	1,255

	2005	2004
	HK$'000	HK$'000
Analysis of provision for warranty		
Current	1,255	1,240

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

19. Amount due to a subsidiary

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

20. Convertible note

	Group and Company	
	2005	2004
	HK$'000	HK$'000
4% Convertible note (the "Note")	4,000	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 of the Company at any time during the conversion period (i.e. from 7 July 2004 to 6 January 2006).

(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 will 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.

20. Convertible note (Continued)

(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.

On 6 January 2006, the Company fully repaid the Note (Note 32(a)).

21. Other revenue

	Group	
	2005	2004
	HK$'000	HK$'000
Interest income	36	1
Gain on disposal of plant and equipment	–	3
Sundry income	23	–
	59	4

22. Operating loss

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

	Group	
	2005	2004
	HK$'000	HK$'000
Auditors' remuneration	320	320
Depreciation of plant and equipment (Note 6)	337	254
Impairment (included in other operating expenses)		
– deposit for software development	–	579
Operating lease rentals in respect of land and buildings	1,068	787
Provision for doubtful debts	–	907
Provision for warranty (Note 18)	(21)	(4)
Research and development costs	–	683
Staff costs (including directors' emoluments)		
– cost of services	503	390
– administrative and distribution expenses	2,855	3,050

23. Staff costs (including directors' emoluments)

	Group	
	2005	2004
	HK$'000	HK$'000
Wages and salaries	3,167	3,244
Unutilised annual leave	–	(13)
Termination benefits	62	78
Social security costs	13	28
Pension costs	116	103
	3,358	3,440

24. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Inducement fees HK$'000	Employee's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Mr. Yan, Daniel X.D. (i)	–	63	–	–	–	63
Mr. Lau, Andrew Kim (i)	–	63	–	–	–	63
Mr. Zhu Quan (ii)	–	81	–	–	–	81
Ms. Shek Ying, Christine (ii)	–	3	–	–	–	3
Mr. Yang Xiaoping	–	–	–	–	–	–
Mr. Zhao Ming	–	–	–	–	–	–
Mr. Wu Xin	–	–	–	–	–	–

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Inducement fees HK$'000	Employee's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Mr. Yan, Daniel X.D.	–	433	–	12	–	445
Mr. Lau, Andrew Kim	–	313	–	12	–	325
Mr. Zhu Quan	–	90	–	–	–	90
Ms. Shek Ying, Christine	–	126	–	6	–	132
Mr. Yang Xiaoping	20	–	–	–	–	20
Mr. Zhao Ming	20	–	–	–	–	20
Mr. Wu Xin	5	–	–	–	–	5

(i) During the year 2005, Mr. Yan, Daniel X.D. and Mr. Lau, Andrew Kim waived emoluments of HK$392,000 (2004: HK$Nil) and HK$392,000 (2004: HK$Nil) respectively.

(ii) Mr. Zhu Quan and Ms. Shek Ying, Christine resigned as Directors on 17 November 2005.

24. 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 one (Note (iii)) (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: three) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	901	681
Contributions to pensions schemes	27	21
	928	702

(i) The emoluments of these four (2004: three) highest paid individuals are less than HK$1,000,000.

(ii) No emoluments were paid or payable to these four (2004: three) individuals by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

(iii) Mr. Zhu Quan was resigned as Director on 17 November 2005. Included in the five highest paid individuals above for the year ended in December 2005 was director's emolument of HK$81,000 paid to Mr. Zhu Quan, which was included in Note 24(a) above.

25. Finance costs

	Group	
	2005 HK$'000	2004 HK$'000
Interest on convertible note	160	78
Other finance costs	20	60
	180	138

26. Taxation

(a) 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 2005 (2004: HK$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 2005 (2004: HK$Nil).

(b) The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2005 HK$'000	2004 HK$'000
Loss before taxation	(8,948)	(4,410)
Tax at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	(1,566)	(772)
Expenses not deductive for tax purposes	541	1,518
Utilisation of previously unrecognised tax losses	–	(799)
Tax losses for which no deferred income tax asset was recognised	1,025	53
Taxation charge	–	–

(c) At the balance sheet date the Group has unused tax losses of approximately HK$8,585,000 (2004: HK$4,767,000) 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 of HK$4,905,000 and HK$3,680,000 will expire on 31 December 2007 and 31 December 2010 respectively.

27. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$6,413,000 (2004: HK$6,092,000).

28. Dividend

The Directors do not recommend the payment of a dividend for the year (2004: HK$Nil).

29. Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK$8,948,000 (2004: HK$4,410,000).

The basic loss per share is based on the weighted average number of 204,000,000 (2004: 204,000,000) ordinary shares in issue during the year. A diluted loss per share for the years ended 31 December 2004 and 2005 has not been disclosed, as the convertible note outstanding during the years had an anti-dilutive effect on the basic loss per share for the years.

30. 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.

31. Commitments

(a) Capital commitments

At 31 December 2005, the Group had the following capital commitments:

	2005 HK$'000	2004 HK$'000
Contracted but not provided for		
– Software development costs	–	748
– Purchase of materials for projects	–	2,208
	–	2,956

31. Commitments (Continued)

(b) Operating lease commitments

At 31 December 2005, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2005 HK$'000	2004 HK$'000
Not later than one year	606	944
Later than one year but not later than five years	65	476
	671	1,420

32. Events after the balance sheet date

(a) On 5 January 2006, the Company entered into a loan agreement ("Loan Agreement") with Pacific Foundation Assets Management Limited (the "Lender"). The Loan Agreement provides an unsecured loan of HK$4,500,000 at interest rate of 12% per annum. The Company shall repay the loan together with interest outstanding on 5 January 2007 or such other date as may be agreed upon by the Lender and the Company.

The Loan Agreement contains specific performance obligations on Mr. Mak Shiu Chung, Godfrey ("Mr. Mak"). Mr. Mak is the beneficial owner of the entire issued share capital of Lucky Team International Limited ("Lucky Team"), which is in turn a substantial shareholder of the Company, holding approximately 27.89% of the issued share capital of the Company as at 31 December 2005. Subsequent to the balance sheet date, Mr. Mak appointed as executive Director of the Company. In particular, the Loan Agreement requires (so long as there remains any monies outstanding under the Loan Agreement) that Mr. Mak, by himself or together with Lukcy Team and/or other entities under his control, owns shares representing 20% or more of the total issued share capital of the Company. A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the Lender to accelerate the maturity of the indebtedness under the Loan Agreement.

On 6 January 2006, the Company used such loan to finance the repayment of the Note of HK$4,000,000 (Note 20).

(b) On 27 February 2006, the Company entered into a Placing and Underwriting Agreement with Pacific Foundation Securities Limited, pursuant to which the Company agreed conditionally to issue a total of 40,800,000 Placing Shares at a price of HK$0.10 each. On 22 March 2006, the Placing Shares were issued to seven individuals (the "Placees") who are not connected persons of the Company and are independent of and not connected with the directors, chief executive, substantial shareholders of the Company or its subsidiaries, or any of their respective associates as defined in the GEM Listing Rules. Anyone of the Placees will not become a substantial shareholder of the Company. The Board intends to use the net proceeds from the Placing of approximately HK$3,880,000 for the Group for general working capital purpose.

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, 25 April 2006 at 3 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 2005;

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 amendments, the following resolutions as ordinary resolutions:

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 option 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;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any other applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the directors of the Company under this Resolution.

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

B. "**THAT:**

(a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" shall have the same meaning as assigned to it under Ordinary Resolution 4A of this notice."

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

5. To consider and, if thought fit, pass with or without amendments, the following resolution as special resolution:

SPECIAL RESOLUTION

"THAT the Articles of Association of the Company be and are hereby amended in the following manner:

(a) by deleting Article 86(5) in its entirety and substituting therefor the following:

"86(5) The Company may by ordinary resolution remove any Director at any time before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim which such Director may have for damages for any breach of any contract of service between him and the Company)."

(b) by deleting Article 87(1) in its entirety and substituting therefor the following:

"87(1) At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.""

By order of the Board of
ANGELS TECHNOLOGY COMPANY LIMITED
Yan, Daniel X.D.
Chairman

Hong Kong, 31 March 2006

Notes:

1. A member holding two or more shares who is entitled to attend and vote at the Annual General Meeting 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 is contained in a circular of the Company dated 31 March 2006 which will be dispatched to members together with the annual report.

6. Mr. Mak Shiu Chung, Godfrey and Mr. Kwok Chi Shing will hold the office of a director until the Annual General Meeting and Mr. Zhao Ming and Mr. Yan, Daniel X. D. will retire at the Annual General Meeting and all of the above directors, being eligible, will offer themselves for re-election. Brief biographical details of the above directors are set out in Appendix II to the circular of the Company dated 31 March 2006.

As at the date hereof, the Board comprises:
Executive Directors:
Mr. Yan, Daniel X.D.
Mr. Mak Shiu Chung, Godfrey
Mr. Lau, Andrew Kim

Independent Non-executive Directors:
Mr. Yang Xiaoping
Mr. Zhao Ming
Ms. Wu Xin
Mr. Kwok Chi Shing