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**ANGELS**

**ANGELS TECHNOLOGY COMPANY LIMITED**

**英君技術有限公司**

**(Stock Code : 8112)**

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

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005**

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## HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2005 was approximately HK\$7.5 million, representing a decrease of approximately 78 per cent. as compared with that of the year ended 31 December 2004.
  - The Group recorded a loss attributable to shareholders of approximately HK\$8.9 million for the year ended 31 December 2005.
  - The Directors do not recommend the payment of dividend for the year ended 31 December 2005.
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## ANNUAL RESULTS

The board of Directors (the “Board”) is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to the “Group”) for the year ended 31 December 2005 together with the comparative figures for the year ended 31 December 2004 as follows:

|  | <i>Note</i> | <b>2005</b><br><b>HK\$'000</b> | <b>2004</b><br><b>HK\$'000</b> |
|--|-------------|--------------------------------|--------------------------------|
| Turnover                               | 3           | 7,495                          | 33,701                         |
| Cost of services                       |             | <u>(7,032)</u>                 | <u>(23,223)</u>                |
| Gross profit                           |             | 463                            | 10,478                         |
| Other revenue                          | 3           | 59                             | 4                              |
| Distribution costs                     |             | (3,319)                        | (2,158)                        |
| Administrative expenses                |             | (5,268)                        | (6,194)                        |
| Impairment of interest in an associate |             | (571)                          | (2,748)                        |
| Other operating expenses               |             | <u>-</u>                       | <u>(2,221)</u>                 |
| Operating loss                         | 4           | (8,636)                        | (2,839)                        |
| Finance costs                          | 5           | (180)                          | (138)                          |
| Share of losses of associates          |             | <u>(132)</u>                   | <u>(1,433)</u>                 |
| Loss before taxation                   |             | (8,948)                        | (4,410)                        |
| Taxation                               | 6           | <u>-</u>                       | <u>-</u>                       |
| Loss attributable to shareholders      |             | <u><u>(8,948)</u></u>          | <u><u>(4,410)</u></u>          |
| Loss per share – basic                 | 11          | <u><u>(4.39)cents</u></u>      | <u><u>(2.16)cents</u></u>      |

**Condensed Consolidated Balance Sheet**

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

Notes:

## 1. General and basis of preparation

(a) The Company was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares were listed on the GEM on 30 August 2001.

(b) As at 31 December 2005, The Group has 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. 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 Standard (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention.

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 2 below.

## 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 | Investment 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 entities has been re-evaluated based on the guidance to the revised standard.

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 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:

- 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.

(c) The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2005. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## **2. Significant accounting judgements and estimates**

### **Judgements**

In the process of applying the Group's accounting policies, management 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, particularly 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 management 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 uncertainty**

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.

### 3. Turnover, revenue and segment information

The Group is principally engaged in the provision of transportation technology solutions in the People's Republic of China (the "PRC"). Revenues recognised during the year are as follows:

|  | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Turnover   |                         |                         |
| Revenue from long-term systems integration contracts | 7,495                   | 33,701                  |
| Other revenue  |                         |                         |
| Interest income                                      | 36                      | 1                       |
| Gain on disposal of plant and equipment              | -                       | 3                       |
| Sundry Income  | 23                      | -                       |
|  | 59                      | 4                       |
| Total revenue  | <u>7,554</u>            | <u>33,705</u>           |

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

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

### 4. Operating loss

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

|  | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Auditors' remuneration                                     | 320                     | 320                     |
| Depreciation of plant and equipment                        | 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                                     | (21)                    | (4)                     |
| Research and development costs                             | -                       | 683                     |
| Staff costs (including directors' emoluments) included in: |                         |                         |
| - cost of services   | 503                     | 390                     |
| - administrative and distribution expenses                 | 2,855                   | 3,050                   |



## 5. Finance costs

|                              | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Interest on convertible note | 160                     | 78                      |
| Other finance costs          | 20                      | 60                      |
|                              | <u>180</u>              | <u>138</u>              |

## 6. 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<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Loss before taxation   | <u>(8,948)</u>          | <u>(4,410)</u>          |
| Tax at Hong Kong profits tax rate of 17.5% (2004:17.5%)          | (1,566)                 | (772)                   |
| Expenses not deductible for tax purpose                          | 541                     | 1,518                   |
| Utilisation of previously unrecognised tax losses                | -                       | (799)                   |
| Tax losses for which no deferred income tax asset was recognised | <u>1,025</u>            | <u>53</u>               |
| Taxation charge  | <u>-</u>                | <u>-</u>                |

- (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.

## 7. Trade receivables

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

|                                   | <i>2005</i><br><i>HK\$'000</i> | <i>2004</i><br><i>HK\$'000</i> |
|-----------------------------------|--------------------------------|--------------------------------|
| 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                     | <u>2,936</u>                   | <u>910</u>                     |
|                                   | 6,481                          | 7,511                          |
| Less: provision on doubtful debts | <u>(2,300)</u>                 | <u>(2,300)</u>                 |
|                                   | <u>4,181</u>                   | <u>5,211</u>                   |

The credit term 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.

## 8. Trade payables

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

|                    | <i>2005</i><br><i>HK\$'000</i> | <i>2004</i><br><i>HK\$'000</i> |
|--------------------|--------------------------------|--------------------------------|
| 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      | <u>1,412</u>                   | <u>1,551</u>                   |
|                    | <u>4,825</u>                   | <u>6,749</u>                   |

## 9. Other reserves

Movements in other reserves for the Group during the year were as follows:

|  | Share<br>premium<br><i>HK\$'000</i> | Capital<br>reserve<br><i>HK\$'000</i> | Exchange<br>reserve<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------------|---------------------------------------|--|--------------------------|
| At 1 January 2004 and 31 December 2004 | <u>37,010</u>                       | <u>(1,628)</u>                        | <u>(144)</u>                           | <u>35,238</u>            |
| Representing:                          |                                     |                                       |  |                          |
| Company and subsidiaries               | <u>37,010</u>                       | <u>(1,628)</u>                        | <u>(144)</u>                           | <u>35,238</u>            |
| At 1 January 2005                      | 37,010                              | (1,628)                               | (144)                                  | 35,238                   |
| Currency translation differences       | <u>-</u>                            | <u>-</u>                              | <u>147</u>                             | <u>147</u>               |
| At 31 December 2005                    | <u>37,010</u>                       | <u>(1,628)</u>                        | <u>3</u>                               | <u>35,385</u>            |
| Representing:                          |                                     |                                       |  |                          |
| Company and subsidiaries               | <u>37,010</u>                       | <u>(1,628)</u>                        | <u>-</u>                               | <u>35,382</u>            |
| Associates                             | <u>-</u>                            | <u>-</u>                              | <u>3</u>                               | <u>3</u>                 |
|  | <u>37,010</u>                       | <u>(1,628)</u>                        | <u>3</u>                               | <u>35,385</u>            |

## 10. Dividend

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

## 11. 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.

## **MODIFIED OPINION**

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

In forming the auditors' opinion, the auditors have considered the adequacy of the disclosure 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 flows 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 1( b ) above. The auditors consider that the fundamental uncertainty has been adequately disclosed in the financial statements and the auditors' opinion is not qualified in this respect.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

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

## *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 such projects had become relatively low recently, and the profitability of such enterprises have decreased 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 of 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-Mohel 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 vigilant in controlling operating costs and maintaining operational efficiency with a view to maximising the profitability of the Group.

### **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.

### **Prospects**

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 sees 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 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 the enormous business opportunities emerged during the preparation work for the upcoming 2008 Beijing Olympics. 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.

## **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 22 full-time employees which included 20 members of staff employed in the PRC. The Group has entered into employment contracts with all of its employees. The remuneration package for its staff comprises 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 operation. The Directors consider the Group's relationship with its employees to be good.

## **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 ended 31 December 2005.

The audit committee has reviewed the annual results for the year ended 31 December 2005.

## **Material acquisitions and significant investment**

The Group has 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 investment or capital assets.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Subject to the deviation disclosed hereof, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules during the period under review:-

(1) Under the code provision A4.2. every director should be subject to retirement by rotation at least once every three years. The existing article of association of Company provides that the chairman of the Board shall not be subject to retirement by rotation. Accordingly, Mr. Yan, Daniel X.D being the chairman of the Board will retire voluntarily and, being eligible, will stand for re-election at the forthcoming annual general meeting and the Company will seek the approval of the shareholders at the forthcoming annual general meeting for the amendment of the articles of association and the Company to the effect that all Directors will be subject to retirement by rotation at least once every three years in order to comply the Code.



(2) Under the code provision B.1.1 a listed issuer should establish a remuneration committee with specific written of reference which deal clearly with its authority and duties. It was not until September, 2005 that the Company established a remuneration committee as required under the code provision B 1.1.

### **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.

By order of the Board  
**Yan, Daniel X.D.**  
*Chairman*

28 March 2006, Beijing

### **At the date of this announcement, 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

*This announcement will remain on the "Latest Company Announcements" page of the GEM website with the domain name of [www.hkgem.com](http://www.hkgem.com) for at least seven days from its date of posting.*