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KANHAN TECHNOLOGIES GROUP LIMITED
看 漢 科 技 集 團 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2003

The Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("the Stock Exchange") 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 Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the directors of KanHan Technologies Group Limited collectively and individually accept full 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 for the purpose of giving information with regard to KanHan Technologies Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") is pleased to present their annual report and the audited consolidated financial statements of KanHan Technologies Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December, 2003.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2003

	NOTES	**2003** ***HK$'000***	2002 *HK$'000*
Turnover	*2*	**2,984**	8,801
Direct costs		**(1,758)**	(791)
Gross profit		**1,226**	8,010
Other operating income		**47**	45
Research and development expenses		**(4,485)**	(100)
Selling and distribution expenses		**(3,525)**	(78)
Administrative expenses		**(9,960)**	(3,975)
(Loss) profit from operations	*4*	**(16,697)**	3,902
Finance costs	*5*	**(11)**	(181)
(Loss) profit for the year		**(16,708)**	3,721
(Loss) earnings per share – Basic	*8*	**(3.49 cents)**	0.89 cents

Notes:

1. **GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Company was incorporated in the Cayman Islands on 10th October, 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 15th January, 2003. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 13th February, 2003 (the "Prospectus").

The shares of the Company were listed on the GEM on 25th February, 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

The Company is an investment holding company. The principal activity of its principal subsidiaries is provision of communications software platforms.

In the current year, the Group adopted SSAP 12 (revised) "Income Taxes" issued by the HKSA which is effective for the current year's financial statements. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (revised) has not had any material impact on the financial statements.

2. **TURNOVER**

Turnover comprises revenue from the following activities in the Group's server-based language technology business:

	2003	2002
	HK$'000	*HK$'000*
Sales of licensed software	**2,761**	8,560
Software maintenance	**200**	200
Software rental and subscription income	**23**	41
	2,984	8,801

3. SEGMENT INFORMATION

Business segments

As the Group is solely engaged in the development of server-based language technologies during the year, the assets and revenue of the Group as at the balance sheet date and during the year were solely deployed in and derived from this business segment. Accordingly, segmental analysis of information by business segment is not meaningful.

Geographical segments

The Group's operations are located in Hong Kong. The Group reports its primary segment information by geographical location of its customers who are principally located in Hong Kong, Taiwan and the People's Republic of China (the "PRC") other than Hong Kong. Segment information about these geographical markets is presented below:

	Revenue		**(Loss) profit for the year**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**2,874**	5,273	**1,181**	4,800
The PRC, other than HK	**69**	3,524	**28**	3,207
Taiwan	**41**	–	**17**	–
Others	**–**	4	**–**	3
	2,984	8,801		
Segment results			**1,226**	8,010
Other operating income			**47**	45
Unallocated corporate expenses			**(17,970)**	(4,153)
(Loss) profit from operations			**(16,697)**	3,902
Finance costs			**(11)**	(181)
(Loss) profit for the year			**(16,708)**	3,721

The assets and liabilities of the Group at the balance sheet date were substantially located in Hong Kong and substantially employed at the head office level in Hong Kong except for a balance of trade receivable of approximately HK$6,000 as at 31st December, 2003 (2002: HK$2,585,000 attributable to sales to customers in the PRC) which was attributable to sales to customers in Taiwan. Accordingly, no analysis of the Group's assets and liabilities, capital additions or depreciation is presented.

4. (LOSS) PROFIT FROM OPERATIONS

	2003	2002
	HK$'000	*HK$'000*
(Loss) profit from operations has been arrived at after charging :		
Directors' remuneration	**2,249**	1,312
Retirement benefit scheme contribution for other staff	**116**	120
Other staff costs	**3,229**	2,708
Total staff costs	**5,594**	4,140
Less:amount capitalized in development expenditure	**–**	(1,284)
	5,594	2,856
Allowance for bad and doubtful debts	**1,625**	–
Amortisation of development expenditure included in direct costs	**357**	354
Auditors' remuneration	**300**	200
Depreciation	**224**	238
Less: amount capitalized in development expenditure	**–**	(13)
	224	225
Impairment loss on development expenditure included in research and development expenses	**2,170**	–
Loss on disposal of property, plant and equipment		
and after crediting:	**229**	154
Interest income	**7**	45

5. FINANCE COSTS

	2003	2002
	HK$'000	*HK$'000*
Interest on :		
Bank borrowings wholly repayable within five years	**7**	10
Convertible notes	**26**	111
Loans from a shareholder, net of interest waived	**(22)**	57
Short-term loans	**–**	3
	11	181

6. TAXATION

No provision for taxation has been made in the financial statements for the year ended 31st December, 2003 as the Group incurred a tax loss for that year.

No tax was payable on the profit for the year ended 31st December, 2002 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

7. DIVIDEND

No dividend has been paid or declared by the Company or any of its subsidiaries during the years ended 31st December, 2003 and 2002.

8. (LOSS) EARNINGS PER SHARE

The computation of the basic loss per share for the year is based on the loss for the year of approximately HK$16,708,000 (2002: a profit of HK$3,721,000) and on the weight average number of 478,464,789 (2002:420,000,000) shares as if the Group Reorganisation had been effective since 1st January, 2002.

Diluted (loss) earning per share is not presented as the conversion of the Company's convertible notes would result in a (decrease) increase in (loss) earnings per share.

9. RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium and accumulated profit of the Company are available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

	Share capital	**Share Premium**	**Special reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)	*(Note a)*	*(Note b)*		
THE GROUP					
At 1st January 2002	820	8,751	–	(10,758)	(1,187)
Issue of shares	81	547	–	–	628
Profit for the year	–	–	–	3,721	3,721
At 31st December, 2002	901	9,298	–	(7,037)	3,162
Arising from Group Reorganisation	(786)	(9,298)	10,084	–	–
Issue of shares by way of capitalisation	4,085	(4,085)	–	–	–
Issue of shares upon conversion of convertible notes	64	1,740	–	–	1,804
Issue of shares under the placing	600	19,200	–	–	19,800
Share issue expenses	–	(5,019)	–	–	(5,019)
Loss for the year	–	–	–	(16,708)	(16,708)
At 31st December, 2003	4,864	11,836	10,084	(23,745)	3,039

Notes:

(a) The balance of the share capital and share premium at 31st December, 2002 represented the share capital and share premium of KanHan Technologies Inc. ("KanHan (BVI)") which was acquired by the Company on 15th January, 2003 pursuant to the Group Reorganisation as set out in note 1.

(b) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan (BVI) at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group Reorganisation as set out in note 1.

EXTRACT FROM AUDITOR'S REPORT

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in notes 1 and 24 to the financial statements which explain that the Company has entered into an agreement subject to completion 1
with a discretionary fund for the provision of an equity financing facility for up to HK$100,000,000 in new ordinary shares to be issued by the Company over three years from the date of completion and which may be drawn down at the sole discretion of the Company.

The financial statements have been prepared on a going concern basis, the validity of which depends on the completion of the agreement and the financing facility being obtained. The financial statements do not include any adjustments that would result from a failure to obtain such funding. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect. 2

PROGRESS AGAINST BUSINESS OBJECTIVES

Business objectives for the review period as set out in the Prospectus	Actual business progress for the review period
1. Product Upgrades	– HanWEB was updated with a version supporting application developers in form of APIs coded in C++ and JAVA
	– HanVoice was enhanced to support computer telephony and the HanPhone development allows telephone users to dial into and listen from the Internet websites. 3
2. Marketing of HanVoice	– Soft launch of HanVoice/HanPhone through the "SARS Info-line" project in May, 2003
	– Joint seminar with Society for the Blind on "Digital Voice Library Building a Digital Inclusive Society" in October, 2003
	– Launch of FBWin paid phone service for online football information in November, 2003

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3. Development of HanVoice Server	–	HanVoice and HanPhone were expanded to support multi-vendor text-to-speech technologies, giving customer choice of voices
	–	Voice recognition function was incorporated.
	–	Support of VoiceXML is under development
	–	A special version of HanVoice was produced to support text and music to ring-tone conversion for distribution on GPRS network to mobile phones
4. General promotion and marketing	–	Most of the scheduled work in mid year were cancelled due to the SARS outbreak
	–	Marketing activities were resumed in November to promote the football phone fee-based phone service
	–	The Guangzhou based sales and marketing office was setup in April 2003
5. Repayment of Loans	–	All outstanding loans have been paid-off
	–	Arrangement made with Metrolink Holdings Ltd. to forfeit all interest payment for an immediate settlement of the outstanding loan in April.

The net proceeds raised from the Group's Initial Public Offering (IPO) on the GEM board of The Stock Exchange after deduction of related expenses pursuant to the IPO, were approximately HK$14.7 million. The net proceeds were applied in the following areas:

	Use of the net proceeds as set out in the Prospectus	**The Actual net proceeds utilized up to 31 December 2003**
	HK$ million	*HK$ million*
Upgrading the Group's products	2.0	1.9
Marketing & development of Han Voice Server	2.0	1.8
General Promotion and Marketing	6.0	4.6
Repayment of loans	1.6	1.6
Working Capital	3.1	2.1
Total :	14.7	12.0

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. In accordance with the actual development of the market, the Group has made corresponding amendments to its business objectives.

BUSINESS REVIEW AND PROSPECT

During first three quarters of last year, the Group's business activities were very slow, primarily due to the SARS-led economic consequences. Business began to pick up since fall with encouraging pace. During last quarter, along with better traditional business advancement, the Group aimed at developing consumer information phone, DIY ring-tone service and e-learning applications, capitalizing on the Group's technology advancement.

Non Traditional Business

Info-Tone Payment and Delivery Gateway

Football fee-based information phone ("Football Phone") is a telephone information service that punters can call in for a host of information including betting odds, football scores and professional advices (tips) on games played in most major European leagues. KanHan has entered a contract with a team of experienced sport betting editors in providing text based content. We then use our HanPhone technology to generate human voice based on input contents into Cantonese and Putonghua to reach callers. In a way, HanPhone may be considered as a vertical application of an advanced IVRS, which can then be linked to computer processors for data processing applications. The current phone and payment system is being supported by telecommunication operators.

During the soft launch period, the response was encouraging. In early December actual launch, the Football Phone had generated a lot of interests from content providers. This first non-traditional business generates a two-fold implication to the Group; it gave our technology team an opportunity to develop a comprehensive set of IVRS requirements, secondly, it built a rather solid phone infrastructure for future reselling and deployment. The Company is now engaged in an advanced negotiation stage with a major local retail chain for a membership fee-based payment mechanism. This mechanism will speed up the re-imbursement cycle to content providers while giving a pre-payment advantage to the Group as this system works on a pre-payment mode by using our HanPhone platform for value top-up.

We believe such system will appeal to other content providers using our new system which we plan to launch in mid 2004 if all the terms are being finalized and agreed upon. We don't know if the new system could replace the existing post-payment method being offered by existing telecommunication operators but we believe we may recruit a good number of content providers at the time of the launch.

"Info-Tone" will be the brand name for the payment and service gateway that will provide a variety of contents to members on a fee-based basis. The Football Phone will be migrated into Info-Tone as one type of content, along with other third party content providers which are yet to join. While Info-Tone will be targeted to consumers, the same intelligent HanPhone system infrastructure can also be used by corporate customers for their automated call centre and other IVRS applications on an outright purchase or rental basis.

I am happy to report that the popular Octopus Cards payment system has become the infrastructure of Info-Tone's first corporate customer to handle their lucky draw and related activities during first quarter of 2004.

DIY Ring-tone Service

"DIY Ring-tone" service is the world's first do-it-yourself ring-tone download services. By uploading favorite song, music and voice to the Internet based platform, users have options to choose certain pre-defined section of the sound files in the ring-tone format via WAP PUSH, MMS, GPRS or WEB channels technology to designated mobile phones. Similarly, text messages entered through a service page in the Internet can also be converted into speech prior to making a ring-tone presentation format. Users are charged on a per-usage basis with income to be shared between KanHan, the platform and mobile phone operators. The DIY Ring-tone format supports a wide range of popular handsets found in the PRC market.

Two of the major PRC portal companies have signed up to become the distributor of the Group's creative DIY Ring-tone service in PRC in December last year and early first quarter 2004. They are 21CN.com, the portal company operated by China Telecom and Tencent.com, the leading PRC mobile messaging service provider operating under the brand name "QQ". Both portals have launched their respective services already.

Putonghua Learning Platform

The Group's Putonghua Learning Platform (PTH) is the world's first attempt in combining the latest text-to-speech ("TTS") technology and online learning experience into a comprehensive online resources for Putonghua learners. The PTH platform empowers students to learn at their own pace and time. This platform has a "virtual teacher" by means of using TTS technology which is readily available to help learners to convert text into Putonghua for practice. To make the language learning process lively, voice magazine, games and tests are being built in on top of its basic language learning process. This PTH platform is a subscription model and the Group has entered a partnership arrangement with ESD Services Limited of Hutchison to launch the service via their portal www.esdlife.com in February 2004.

The Group will continue to recruit partners to distribute the product and services, both locally and overseas.

Traditional Business

The Group sold its HanWEB products to large government and commercial accounts: Airport Authority Hong Kong, HangSeng Bank, ESD Services Ltd., Octopus Cards Ltd, Hong Kong Exchange and Clearing Ltd., Kowloon Motor Bus, University of Science and Technology, Shenzhen Commercial Bank and Taiwan's United Daily newspaper group.

The Group also delivered to the Hong Kong Society of the Blind ("HKSB") the world's first Digital Voice Library system to the visually impaired person. This project is the Group's first large scale deployment of HanVoice and HanPhone technology for public usage. Together with our development on the football phone using HanPhone applications, the Group has already gained a lot of insight in building applications which can potentially work with or replace the IVRS, a market which is a much needed tool for commercial, government and retailing organizations.

Research and Development

The Group continues its main R&D focus in the integration of the latest speech technologies with the Internet and particularly in the mobile phone platform via 2.5G and 3G network. There are developments underway that will combine SMS, voice and IVR into new service provisioning to mobile phone users that the Group hopes to launch towards end of 2004.

PRC Opportunities

The KanHan Technologies China Limited, a wholly-owned subsidiary of the Group will be operational in April 2004. The Guangzhou based company will be located in the Guangzhou Huanghuagang Science & Technology Park's office premises. In recognizing the Group's innovative technologies and its potential application opportunities in PRC, we are being offered a two-year rent-free program with various tax exemption and concession benefits.

The Guangzhou office will be expanded in business and headcount terms to cover both traditional & non-traditional businesses. The Group's DIY Ring-tone service has a head-start in 2004 with the distribution agreements in place with 21CN.com and Tencent.com. The Group also discusses with a number of other prominent portals on new applications with the DIY Ring-tone technologies.

The Group is optimistic that its innovative TTS HanPhone technology will be a good contender for the IVRS replacement and call centre automation markets.

MANGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31st December, 2003, the Group's turnover decreased from approximately HK$ 8,801K[1] in fiscal 2002 to approximately HK$2,984K in fiscal 2003, representing a decrease of approximately 66%.

The gross profit margin for the two years ended 31st December, 2003 and 2002 were approximately 41% and 91% respectively. The audited loss attributable to shareholders for the year ended 31st December, 2003 was HK$16,708K (loss per share of HK$3.49 cents per share) and the net profits for the year ended 31st December, 2002 was HK$3,721K (earning per share of HK$0.89 cents per share). The loss resulted principally from the expenses incurred in the Group's operating, research and development activities.

Operating expenses (excluding cost of sales) for the year ended 31st December 2003 increased by 333% to HK$17,970K as compare to HK$4,153K for the year ended 31st December 2002. The increase in operating expenses was principally attributable to the increase of professional cost by the Group in business operations to ensure the Group has adequate professional guidance after the successful listing of the Company on GEM of the Stock Exchange on 25th February 2003; increase in research and development expenses; and the marketing and promotional expenses incurred in conjunction with the non-traditional business development during the last quarter of the year.

1 As used in this results announcement, the letter "K" appearing immediately after a dollar amount denotes rounding to the nearest $1,000; as an example, $250,499 may be rounded to "$250K".

For the two years ended 31st December, 2002 and 31st December, 2003, approximately 60% and 96% respectively of the Group's turnover were derived from sales made in the Hong Kong market with the remaining balance attributable to sales made in international markets including Taiwan and the PRC other than Hong Kong.

The management of the Group took a prudent approach in capitalization research and development expenses and the evaluation of outstanding accounts receivables. A total of HK$2,315K of the research and development expenses incurred during the year and HK$2,170K capitalized in previous year was expenses off during the year; and made provisions for bad and doubtful debts of HK$1,625K for trade receivables outstanding as at 31st December, 2003.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

As at 31st December 2003, shareholders' funds of the Group amounted to approximately HK$3,039K (2002:HK$3,162K). The Group had a total assets of approximately HK$7,858K (2002:HK$11,713K), including cash and bank balances of approximately HK$1,000K (2002:HK$108K). The Group's current liabilities amounted to approximately HK$3,518K (2002: HK$5,244K) and it had no banking facilities available. As at 31st December 2003, the Group had a current ratio of approximately 1.94:1 as compared to that of 1.64:1 at 31st December 2002. The total liabilities over the shareholders' fund of the Group is 1.59 (2002: 2.70) as at 31st December 2003. During the year ended 31st December, 2003, the Group financed its operations with its own working capital, internally generated cash flow and the net proceeds from the completion of the Placing on 25th February, 2003.

INDEBTEDNESS

Borrowings

As at the close of business on 31st December 2003, the Group had outstanding borrowings of approximately HK$1,459K. The long-term borrowings represented financial assistance from the government of approximately HK$1,301K. The financial assistance from the government was provided by The Innovation and Technology Fund ("ITF"). The fund is non-interest bearing and repayable to ITF when revenue is generated from the specific product.

DISTRIBUTABLE RESERVES

As at 31st December 2003, the Company's reserves available for distribution to shareholders represent the aggregate of share premium and contributed surplus less accumulated losses, amounting to approximately HK$6,028,000 (2002: Nil).

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the net proceeds from the issue of Shares under the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

Since most of the income and expenditure of the Group were denominated in Hong Kong dollars, and most of the assets and liabilities were denominated in Hong Kong dollars, the Directors are of the view that the Group is not significantly exposed to any foreign currency exchange risk.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

CAPITAL STRUCTURE

The Company was incorporated on 10th October 2002 with an authorized share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each. At the date of incorporation, one subscriber share of HK$0.01 each were allotted and issued, credited as nil paid, to the initial shareholder to provide the initial share capital of the Company and such share was then transferred to Mr. Mo Wai Ming, Lawrence ("Mr. Mo"). On 13th November 2002, the Company further allotted and issued 99,999 shares nil paid to Mr Mo.

Pursuant to a written resolution of a sole shareholder of the Company held on 15th January 2003, the authorized share capital of the Company was increased to HK$20,000,000 divided into 2,000,000,000 shares by the creation of an additional 1,961,000,000 shares to rank pari passu with the existing shares in all respects; and an aggregate of 11,622,500 shares were allotted and issued, credited as fully paid to the then shareholders of KanHan Technologies Inc. as a consideration for the Company to acquire 11,622,500 shares of US$0.01 each in the share capital of KanHan Technologies Inc. A sum of HK$1,000 being part of the amount credited to the share premium account of the Company to be applied to pay up in full at par the 100,000 nil paid shares held by Mr. Mo.

Pursuant to a resolution passed in a special general meeting of the Company on 24th January, 2003, 408,377,500 shares of HK$0.01 each were allotted and issued to those shareholders whose names appeared on the register of members on 23rd January, 2003 by way of capitalizing a sum of HK$4,083,775 standing to the credit of the share premium account of the Company.

Pursuant to the Prospectus issued by the Company, the Company allotted and issued 60,000,000 new shares of HK$0.01 each in the Company at an issue price of HK$0.33 per share, creating a share premium account of the Company.

On 21st February 2003, Timeless Strategy Limited, a shareholder of the Company, has converted the whole of the principal amount of HK$1.8million under the 3% convertible note issued by KanHan Technologies Inc into 6,432,000 shares of HK$0.01 each in the Company.

CONTINGENT LIABILITIES

As at 31st December 2003, the group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31st December 2003, the Group had 13 full-time employees. Employee costs, excluding Director's emoluments, totaled HK$3,345K (2002: HK$ 2,828K). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds were also provided. In addition, training and development course were offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopted employee share option scheme to provide the eligible employees a performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

At 31st December, 2003, the interests of the directors of the Company and their associates in the shares and share options of the Company, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and the Stock exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, or which are required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities in the GEM of the Stock Exchange ("GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name	Capacity	No of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Mo Wai Ming, Lawrence	Beneficial owner	180,008,000	37.1%
Ms. Wai Lai Yung	Beneficial owner	2,512,000	0.52%
	Held by controlled corporations*	84,072,000	17.28%
Mr. Lee Chi Ming	Beneficial owner	1,432,000	0.29%
Mr. Yuen Ka Lok, Ernest	Beneficial owner	1,432,000	0.29%

* Ms. Wai Lai Yung beneficially owns 50% issued capital of Metrolink Holdings Limited ("Metrolink"), 21.25% issued capital of ZMGI Corporation ("ZMGI") and 100% issued capital of Golden Nugget Resources Limited ("Golden Nugget") which held 3,616,000, 40,432,000 and 40,024,000 shares in the Company respectively.

Save as disclosed above, and other than nominee shares in certain subsidiaries held in trust for the Group, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations.

SHARE OPTIONS

No share option has been granted by the Company under the Company's share option scheme since the date of adoption.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31st December, 2003, the Group entered into a tenancy agreement with Comeasy Communication Limited ("Comeasy") in which Mr. Mo Wai Ming, Lawrence has a beneficial interest. The rental expenses paid during the year to Comeasy amounted to HK$480,000. Moreover, the Group paid consultancy fee to Yorkshire Capital Limited in which Ms. Wai Lai Yung has a beneficial interest. The consultancy fee paid during the year amounted to HK$490,000. The Group paid legal and secretarial fee to Messers. Yuen & Partners in which Mr. Yuen Ka Lok, Ernest is a partner. The legal and secretarial fee paid during the year amounted to HK$131,000.

Save as disclosed above:

(i) no contracts of significance subsisted at the end of the year or at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and

(ii) there were no transactions which are required to be disclosed as connected transactions in accordance with the requirements of GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Name	**Capacity**	**Number of issued ordinary shares held**	**Percentage of the issued share capital of the Company**
Alexandra Global Investment Fund I, Ltd.	Beneficial owner	75,010,000	15.42%
Alexandra Investment Manager, LLC	Beneficial owner	75,010,000	15.42%
Mr. Lai Kui Sing, Andy	Held by controlled corporations *(note i)*	44,048,000	9.05%
Metrolink	Beneficial owner	3,616,000	0.74%
	Held by controlled corporations *(note ii)*	40,432,000	8.31%
ZMGI Corporation	Beneficial owner	40,432,000	8.31%
Golden Nugget	Beneficial owner	40,024,000	8.23%

Notes:

(i) Mr. Lai Kui Sing, Andy beneficially owns 50% issued capital of Metrolink and beneficially owns 21.25% issued capital of ZMGI Corporation.

(ii) Metrolink beneficially owns 42.5% issued capital of ZMGI Corporation.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 13th February, 2003 entered into between the Company and South China Capital Limited ("South China"), South China acts as the Company's continuing sponsor for a period commencing from 25th February, 2003 to 31st December, 2005 and South China received, and will receive, fees for acting as the Company's continuing sponsor.

Neither the sponsor of the Company, South China, nor its directors, employees or associates (as referred to Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) as at 31st December, 2003.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of 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 right.

MAJOR CUSTOMERS AND SUPPLIERS

With reference to the Group's financial statements, in respect of the year ended 31st December, 2003:

(i) The Group's single product is computer software which is developed internally. Accordingly, information on the Group's major suppliers is not meaningful.

(ii) The Group's largest customer and the five largest customers accounted for 21.3% and 64.1%, respectively, of the Group's total turnover.

In the opinion of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Other than in connection with the Company's initial public offering on the GEM, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its shares on GEM on 25th February, 2003.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 24th January, 2003 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee comprises Mr. Ho Siu Kau and Mr. Lai Chau Ming, who are the independent non-executive directors of the Company.

Four audit committee meetings were held since its establishment. The primary duties of the audit committee are to review the Company's annual and quarterly financial reports and to provide advice and comments thereon to the Board of Directors.

The Group's audited results for the year ended 31st December, 2003 have been reviewed by the audit committee, which are of the opinion that the preparation of such results complies with applicable accounting standards, GEM Listing rules, and that adequate disclosures have been made.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Mo Wai Ming, Lawrence
Chairman and Chief Executive Officer

Hong Kong, 23rd March, 2004