



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 2002

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.

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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 directors present their first report and the audited financial statements of KanHan Technologies Group Limited (“KanHan” or the “Company”) for the period from 10th October, 2002 (date of incorporation) to 31st December, 2002 and the proforma financial statements of the Group for the year ended 31st December, 2002.

PROFORMA CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2002

		2002	2001
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	8,801	2,448
Direct costs		(791)	(198)
Gross profit		8,010	2,250
Other operating income		45	44
Research and development expenses		(100)	(2,067)
Administrative expenses		(3,975)	(5,011)
Selling and distribution expenses		(78)	(627)
Profit (loss) from operations	4	3,902	(5,411)
Finance costs	5	(181)	(23)
Profit (loss) for the year		3,721	(5,434)
Earnings (loss) per share – Basic	8	0.89cents	(1.38 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 GEM of 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 proforma 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.

Basis of consolidation

The proforma consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

Except for the Group Reorganization which is completed on 15th January, 2003, the results of subsidiaries acquired or disposed of during the year are included in the proforma consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. TURNOVER

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Sales of licensed software	8,560	2,319
Software maintenance	200	112
Software rental and subscription income	41	17
	<u>8,801</u>	<u>2,448</u>

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 the People's Republic of China (the "PRC") including Hong Kong, United States of America ("USA") and Taiwan. Segment information about these geographical markets is presented below:

	Revenue		Net profit (loss) for the year	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	5,273	1,983	4,800	1,730
The PRC	3,524	82	3,207	76
USA	–	251	–	230
Taiwan	–	132	–	121
Others	4	–	3	–
	<u>8,801</u>	<u>2,448</u>		
Segment results			8,010	2,157
Other operating income			45	44
Unallocated corporate expenses			(4,153)	(7,612)
Profit (loss) from operations			3,902	(5,411)
Interest on borrowings wholly repayable within five years			(181)	(23)
Net profit (loss) for the year			<u>3,721</u>	<u>(5,434)</u>

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\$2,585,000 as at 31st December, 2002 (2001: HK\$Nil) was attributable to sales to customers in the PRC. Accordingly, no analysis of the Group's assets and liabilities, capital additions or depreciation is presented.

4. PROFIT (LOSS) FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration	1,312	1,312
Retirement benefit scheme contributions	120	121
Other staff costs	<u>2,708</u>	<u>2,892</u>
Total staff costs	4,140	4,325
Less: amount capitalised in development expenditure	<u>(1,284)</u>	<u>(1,348)</u>
	2,856	2,977
Amortisation of development expenditure	354	103
Auditors' remuneration	200	55
Bad debts written off	–	93
Depreciation	238	366
Less: amount capitalised in development expenditure	<u>(13)</u>	<u>(41)</u>
	225	325
Loss on disposal of property, plant and equipment	154	113
Impairment of development expenditure	–	46
and after crediting:		
Interest income	<u>45</u>	<u>36</u>

5. FINANCE COSTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	10	–
Convertible notes	111	23
Loans from shareholders	57	–
Short term loans	<u>3</u>	<u>–</u>
	<u>181</u>	<u>23</u>

6. TAXATION

No tax is 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. Tax losses carried forward amounting to approximately HK\$10,148,000.

No provision for taxation has been made in the proforma financial statements for the year ended 31st December, 2001 as the Group incurred a loss for that year.

7. DIVIDEND

No dividend has been paid or declared by the Company or any of its subsidiaries during the years ended 31st December, 2002 and 2001.

8. EARNINGS (LOSS) PER SHARE

The computation of the basic earnings (loss) per share for the year is based on the profit for the year of approximately HK\$3,721,000 (2001: a loss of HK\$5,434,000) and on the weighted average number of 417,263,308 shares as if the Group Reorganisation completed on 1st January, 2001.

Diluted earnings (loss) per share is not presented as the conversion of the Company's outstanding convertible notes would result in an increase in earnings per share for the year ended 31st December, 2002 and a decrease in loss per share for the year ended 31st December 2001.

9. RESERVES

As at 31st December, 2002, the Company had no reserve available for distribution to its shareholders.

10. CHANGES IN EQUITY

	Share capital	Non- distributable reserve	Accumulated losses	Total
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	<i>(note i)</i>	<i>(note ii)</i>		
At 1st January, 2001	796	8,376	(5,324)	3,848
Issue of shares	24	375	–	399
Loss for the year	–	–	(5,434)	(5,434)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2001 and 1st January, 2002	820	8,751	(10,758)	(1,187)
Issue of shares	81	547	–	628
Profit for the year	–	–	3,721	3,721
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	<u>901</u>	<u>9,298</u>	<u>(7,037)</u>	<u>3,162</u>

Note:

- (i) The share capital represents the share capital of KanHan Technologies Inc. ("KanHan (BVI)"), the immediate holding company of other members of the Group prior to the group reorganisation as described in note 1.
- (ii) The non-distributable reserve represents share premium arising from issue of shares by KanHan (BVI).

PROGRESS AGAINST BUSINESS OBJECTIVES

In compliance with the rules of GEM, KanHan is required to present a comparison of actual business progress for the six months period ended 31st December, 2002 and the business objective for the same as set out in the prospectus. However, since the prospectus was dated 13th February, 2003, which is after the year end date, KanHan will review its business objectives and strategies on an ongoing basis and report in the next review period in the six months ended 30th June, 2003.

BUSINESS REVIEW AND PROSPECT

The year started off with a lot of excitements and achievements. One of the great achievements for the Group was its successful listing on GEM of the Stock Exchange on 25th February, 2003 after a year-long hard work. It is also the first SME which has received assistance from the Small Entrepreneur Research Assistance Programme (SERAP), a funding scheme operated by the Innovation and Technology Commission of the Hong Kong SAR Government, to gain listing status on GEM of the Stock Exchange showing off the Group's competence in the local IT industry.

Increasing Market Presence

With the increasing business contacts and communications between Hong Kong and the PRC, the Group has been actively seeking business opportunities in the local region. During the year, the Group had successfully entered into a 4-million contract with the region's largest client, the HKSAR Government, to provide Web-based real-time Simplified-Traditional Chinese translation on 220 web domains of all bureaux and departments of the Government.

Added to the excitement of the Group was its business agreement with the region's largest banking corporation, the HSBC Corporation, in November 2002, to provide real-time Web-based Simplified-Traditional Chinese translation on its Personal Internet Banking Services to facilitate business transactions across the border.

Research and Development

The Group's another flagship product-HanVOICE Server had also received positive response in the region. In June, 2002, HanVOICE Server was successfully launched in the region with the Trade Development Council as its first customer. The product was incorporated in Tdtrade.com to provide Web-based real-time telephone access to web content in Cantonese, Putonghua and English. We are so proud that the product is the first of its kind to provide real-time Web access through conventional telephones and mobile phones with no reconfiguration of existing Web infrastructure. We are also excited that the product launch has received extensive media coverage in the local region.

Since January, we have been putting immense efforts in the R&D of HanPhone product to facilitate web-to-phone conversion. During the year, our HanPhone product had been under continuous improvements and 80% of the functionalities had been fully completed. We expect that the HanPhone 1.0 will be successfully launched in the local market in the forthcoming year.

Sales and Marketing

In view of the extensive Chinese communities in the PRC, Taiwan and Hong Kong and other overseas countries, the Group has been aggressively building up its solid and quality client base in the Greater China Region. During the year, the Group had acquired more than 10 new corporate clients in the PRC, Taiwan and Hong Kong, including the Hong Kong & Shanghai Banking Corporation, South China Securities, the Hong Kong Observatory and the Society for the Blind in Hong Kong, the China Southern Airlines, NanFang Daily, the City Government of KaiPing in the PRC and the Ministry of Foreign Affairs in Taiwan.

We are also actively building up our own sales and marketing network in the extensive PRC market. Through establishing our own sales agents in Shenzhen and Guangzhou, the PRC, our Group is gradually building up our market presence in the huge PRC market.

PROSPECTS

We see 2003 as a year full of immense opportunities. The PRC's accession to the WTO and the advancements in 3G mobile handsets have created substantial market opportunities for our Group's unique Chinese communications software platform to provide real-time accurate translation tools between Simplified and Traditional Chinese.

PRC Opportunities

We plan to further expand our distribution network to the PRC, especially around the main city areas of Beijing and Guangzhou. Through an effective marketing penetration in the PRC, we are targeting to gradually build up our market presence in the huge PRC market, establishing our prestige among current and potential corporate clients and government bodies in the Greater China Region.

The Group's HanVoice and HanPhone web to phone technology platform have been generating tremendous interests in the PRC. The government sector is keen on adopting technology which enables the mass population to have access to the up-to-the minute information available from the Internet using conventional and mobile phones. Thus breaking the digital divide which prevents the under-privileged communities from using the Internet in knowledge acquisitions. Our HanVoice and HanPhone technologies are the first of its kind introduced to the PRC market with this aspiration and will stand to benefit from fast penetration into the government sector.

Strategic Alliance

Moreover, we are actively seeking strategic content providers and telecom operators to embark on the commercialization of our HanPhone Server in the service business, further popularizing information exchange via conventional telephones and mobile handsets.

MANGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

The Group experienced significant growth during the two financial years ended 31st December, 2002. The Turnover increased from approximately HK\$ 2,448,000 in 2001 to approximately HK\$8,801,000 in 2002, representing an increase of approximately 260%.

The gross profit margin for the two years ended 31st December, 2002 were approximately 92% and 91% respectively. The net losses for the year ended 31st December, 2001 was HK\$5,434,000 and the net profits for the year ended 31st December, 2002 was HK\$ 3,721,000 respectively.

Despite the Group's significant growth in business, operating expenses (excluding cost of sales) for the year ended 31st December 2002 reduced by 46% to HK\$4,153,000 as compare to HK\$7,705,000 for the year ended 31st December 2001. This signified that a leaner cost structure was in place to support a larger revenue base as compare to the previous year.

Operating profit of HK\$3,902,000 was achieved, in clear contrast to the previous year's operating loss of HK\$5,411,000. The improvement in operating profit was a result of the broadened revenue base and significant reduction in operating expenses. Profit from ordinary activities attributable to shareholders for the year ended 31st December 2002 was HK\$3,721,000 as compared to the loss from ordinary activities attributable to shareholders of HK\$5,434,000, a 168% improvement.

For the two years ended 31st December, 2001 and 31st December, 2002, approximately 81% and 60% 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 United States of America, Taiwan and the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

The Group has historically relied on shareholder's loan for its liquidity and capital requirements. Following completion of the Placing, the Group expects the net proceeds raised by the Placing will be sufficient to meet the future operating and capital expenditure cashflow requirements until the operations of the Group become mature and are capable of generating positive cashflows. It is also expected that the Group may raise bank borrowings should the need arise.

INDEBTEDNESS

Borrowings

As at the close of business on 31st December 2002, the Group had outstanding borrowings of approximately HK\$6,792,000. This can be further analysed as short-term borrowings of approximately HK\$3,485,000 and long-term borrowings of approximately HK\$3,307,000.

The short-term borrowing includes advances of HK\$150,000 from independent third parties and bears interest at 5% per annum; a 8% convertible note of a net amount of HK\$764,000, loan from the shareholders of approximately HK\$681,000 and secured bank overdrafts of HK\$1,890,000. The Group has repaid the outstanding amounts of the advances and secured bank overdrafts by internally generating cash flow received from debtors in January and the bank overdraft facility has been cancelled before listing. The 8% convertible note was abandoned upon the supplemental deed signed on 17th January 2003 and was agreed to be repayable on or before 31st March 2003. The loan from the shareholder bore interest at the rate of 8% per annum and to be repaid on or before 31st December 2003.

The long-term borrowings represented a 3% convertible note of HK\$1,800,000, and financial assistance from the government of approximately HK\$1,507,000. The convertible notes were issued by the Kanhan Technologies Inc. to Timeless Strategy Limited, a shareholder. Timeless Strategy Limited has converted the whole of the 3% note into 6,432,000 new shares of HK\$0.01 each in the Company on 21st February 2003. 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.

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.

USE OF PROCEEDS FROM LISTING

The Company was successfully listed on GEM on 25th February, 2003 through a placement. The net proceeds from such placement after deduction of the relevant expenses incurred were approximately HK\$14.7 million. The Group intends to apply such net proceeds for upgrading the existing products, marketing and development of the Group’s products, repayment of loans and additional working capital. The directors intend to use the net proceeds in the manner as disclosed in the prospectus.

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 Rules Governing the Listing of Securities in the GEM of the Stock Exchange (“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 Mo Wai Ming, Lawrence. 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.

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.

408,377,500 shares of HK\$0.01 each were allotted and issued by way of capitalize HK\$4,083,775 standing to the credit of the share premium account of the Company.

60,000,000 shares of HK\$0.01 each were allotted and issued pursuant to the completion of Placing on 25th February 2003.

CONTINGENT LIABILITIES

As at 31st December 2002, the group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31st December 2002, the Group had 13 full-time employees. Employee costs, excluding Director's emoluments, totaled HK\$2,828,000 (2001: HK\$3,013,000). 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 programmes 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

As at 25th February, 2003, the date on which the Company's shares were listed on the Stock Exchange, the interests of the directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of director	No. of shares held	
	Personal interests	Corporate interests
Mr. Mo Wai Ming, Lawrence	180,008,000	—
Ms. Wai Lai Yung	2,512,000	84,072,000*
Mr. Lee Chi Ming	1,432,000	—
Mr. Yuen Ka Lok, Ernest	1,432,000	—

* These shares are attributable to Ms. Wai Lai Yung in respect of her interest in Metrolink Holdings Limited ("Metrolink"), ZMGI Corporation ("ZMGI") and Golden Nugget Resources Limited ("Golden Nugget") which held 3,616,000, 40,432,000 and 40,024,000 shares in the Company respectively.

As at 31st December, 2002, none of the directors or their associates, had any interests in any securities of the Company or any of its associated corporations.

SHARE OPTIONS

Pursuant to the share option scheme adopted by KanHan (BVI) on 7th November, 2000 (the "Old Scheme"), the directors of KanHan (BVI) may at its discretion, grant options to eligible employees (including directors) and consultants of KanHan (BVI) from 30th November, 2000 to 30th November, 2003 to subscribe for shares in KanHan (BVI). Options under the Old Scheme was to be granted at a consideration of HK\$1 with an exercise price of US\$1 per share. Options granted are exercisable within 3 years from the date of grant.

Details of the options granted under the Old Scheme are as follows:

	Directors	Other employees and consultants	Total
	(Number of KanHan (BVI) Shares)		
At 1st January, 2001	160,000	860,000	1,020,000
Granted during the year	—	220,000	220,000
At 31st December, 2001	160,000	1,080,000	1,240,000
Cancelled during the year	(160,000)	(1,030,000)	(1,190,000)
At 31st December, 2002	—	50,000	50,000

On 24th January, 2003, a new share option scheme was adopted by the Company pursuant a written resolution of the Company (the “New Scheme”).

The purpose of the New Scheme is to provide eligible employees with 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. The Board of Directors may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The options must be accepted within 28 days from the date of grant. The total number of shares of the Company available for issue under the New Scheme is 48,643,200 share representing 10% of the issued share capital as at the date when the Company’s shares were listed. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the New Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board of Directors to each participant, which period shall commence on a day following the expiration of 12 months after the date on which the Company’s shares commence trading on GEM. Options might be granted at a consideration of HK\$1. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

The subscription price for the shares of the Company will be a price determined by the Board of Directors and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange’s daily quotations on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange’s daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares. The New Scheme will be valid and effective for a period of 10 years commencing on 24th January, 2003.

Upon adoption of the New Scheme, no further options will be granted under the Old Scheme.

DIRECTORS’ INTERESTS IN CONTRACTS

During the year ended 31st December, 2002, 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\$240,000.

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 25th February, 2003, the date on which the Company's shares were listed on the Stock Exchange, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of shares	Approximate percentage of holding
Mr. Mo Wai Ming, Lawrence	180,008,000	37.01%
Ms. Wai Lai Yung	86,584,000*	17.80%

* *These shares are attributable to Ms. Wai Lai Yung in respect of her interest in Metrolink, ZMGI and Golden Nugget which held 3,616,000, 40,432,000 and 40,024,000 shares in the Company respectively, and 2,512,000 shares held by her directly.*

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 the date of this report.

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.

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.

POST BALANCE SHEET EVENTS

- (a) Pursuant to a written resolution of the sole shareholder of the Company on 15th January, 2003, the following resolutions were passed:
- (i) the authorised share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares 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
 - (ii) an aggregate of 11,522,500 shares of HK\$0.01 each were allotted and issued, credited as fully paid to the then shareholders of KanHan (BVI) as consideration for the Company's acquisition of the entire issued capital of KanHan (BVI).
 - (iii) 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.
- (b) Pursuant to the prospectus dated 13th February, 2003 issued by the Company, the Company allotted and issued 60,000,000 new shares of HK\$0.01 each in the Company at issue price of HK\$0.33 per share, creating a share premium of HK\$19,200,000.
- (c) Upon creation of the share premium account as described in (b) above and pursuant to resolution passed in a special general meeting of the Company on 24th January, 2003, 408,377,500 shares of HK\$0.01 each in the Company were allotted and issued to those shareholders whose names appeared as the register of members on 23rd January, 2003 by way of capitalising a sum of HK\$4,083,775 standing to the credit of the share premium account of the Company.
- (d) On 21st February, 2003, Timeless Strategy converted the principal amount of HK\$1.8 million under a 3% convertible note issued by KanHan (BVI) into 6,432,000 shares of HK\$0.01 each in the Company;
- (e) The Group's bank overdraft facility which was secured by a property held by Comeasy was cancelled on 18th February, 2003 and the personal guarantee by Mr. Mo was then released.

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.

One audit committee meeting was held since its establishment. The work undertaken at that meeting was to review the Company's annual report, including the Company's balance sheet and the Group's proforma financial statements for the year ended 31st December, 2002 and to provide advice and comments thereon to the Board.

The audit committee is of the opinion that the balance sheet and the proforma financial statements reviewed comply with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

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

Hong Kong, 27 March, 2003

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication.