



**KANHAN TECHNOLOGIES GROUP LIMITED**

**看漢科技集團有限公司\***

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

**(Stock Code: 8175)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2004**

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*This announcement, for which the directors of KanHan Technologies Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. 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, 2004.

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3	<b>4,320</b>	2,984
Direct costs		<b>(1,645)</b>	(1,758)
Gross profit		<b>2,675</b>	1,226
Other operating income		–	47
Research and development expenses		<b>(2,460)</b>	(4,485)
Selling and distribution expenses		<b>(2,348)</b>	(3,525)
Administrative expenses		<b>(6,817)</b>	(9,960)
Loss from operations	5	<b>(8,950)</b>	(16,697)
Finance costs	6	–	(11)
Loss for the year		<b>(8,950)</b>	(16,708)
Loss per share – Basic	9	<b>(1.71 cents)</b>	(3.49 cents)

**CONSOLIDATED BALANCE SHEET**  
**AT 31ST DECEMBER, 2004**

	<i>Notes</i>	<b>2004</b> <b><i>HK\$'000</i></b>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		467	681
Development expenditure		—	339
		<u>467</u>	<u>1,020</u>
<b>CURRENT ASSETS</b>			
Inventories		200	—
Trade and other receivables		1,296	1,867
Amounts due from shareholders		—	3,971
Bank balances and cash		4,216	1,000
		<u>5,712</u>	<u>6,838</u>
<b>CURRENT LIABILITIES</b>			
Financial assistance from government		223	158
Other payables		2,211	3,360
		<u>2,434</u>	<u>3,518</u>
<b>NET CURRENT ASSETS</b>		<u>3,278</u>	<u>3,320</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,745</u>	<u>4,340</u>
<b>NON-CURRENT LIABILITIES</b>			
Financial assistance from government		1,196	1,301
		<u>1,196</u>	<u>1,301</u>
		<u>2,549</u>	<u>3,039</u>
<b>CAPITAL AND RESERVES</b>			
	<i>10</i>		
Share capital		5,837	4,864
Reserves		(3,288)	(1,825)
		<u>2,549</u>	<u>3,039</u>

Notes:

## 1. General

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.

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

The principal activity of the Company is investment holding company.

## 2. Basis of preparation of financial statements

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these HKFRSs in the financial statements for the year ended 31st December 2004. However, the Group is in the process of making an assessment of the impact of these new HKFRSs and so far concluded that the adoption of these HKFRSs would not have a significant impact on its results of operations and financial position.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

The financial statements have been prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

## 3. Turnover

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

	<b>2004</b>	2003
	<b><i>HK\$’000</i></b>	<i>HK\$’000</i>
Sales of licensed software	<b>2,956</b>	2,761
Software maintenance	<b>681</b>	200
Software rental and subscription income	<b>507</b>	23
Putonghua learning platform	<b>176</b>	–
	<b><u>4,320</u></b>	<u>2,984</u>

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

	2004			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	
<b>OPERATING RESULTS</b>				
Turnover	<u>4,186</u>	<u>92</u>	<u>42</u>	<u>4,320</u>
Segment results	<u>1,237</u>	<u>(672)</u>	<u>26</u>	<u>591</u>
Unallocated corporate expenses				<u>(9,541)</u>
Loss from operations				<u>(8,950)</u>
Finance costs				<u>–</u>
Loss for the year				<u><u>(8,950)</u></u>

	2004			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	
<b>ASSETS &amp; LIABILITIES</b>				
Assets	<u>6,061</u>	<u>118</u>		<u>6,179</u>
Liabilities	<u>3,598</u>	<u>32</u>		<u>3,630</u>
<b>OTHER INFORMATION</b>				
Depreciation	<u>296</u>	<u>–</u>		<u>296</u>
Amortisation	<u>258</u>	<u>–</u>		<u>258</u>
Capital expenditure	<u>319</u>	<u>56</u>		<u>375</u>

	2003			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	
<b>OPERATING RESULTS</b>				
Turnover	<u>2,874</u>	<u>69</u>	<u>41</u>	<u>2,984</u>
Segment results	<u>1,181</u>	<u>28</u>	<u>17</u>	<u>1,226</u>
Other operating income				47
Unallocated corporate expenses				<u>(17,970)</u>
Loss from operations				<u>(16,697)</u>
Finance costs				<u>(11)</u>
Loss for the year				<u><u>(16,708)</u></u>

	Hong Kong <i>HK\$'000</i>	2003 Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS &amp; LIABILITIES</b>			
Assets	7,852	6	7,858
Liabilities	4,819	–	4,819
<b>OTHER INFORMATION</b>			
Depreciation	224	–	224
Amortisation	357	–	357
Capital expenditure	906	–	906
<b>5. Loss from operations</b>			
		<b>2004</b> <b><i>HK\$'000</i></b>	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:			
Directors' remuneration		<b>1,670</b>	2,249
Retirement benefit scheme contributions for other staff		<b>153</b>	116
Other staff costs		<b>3,624</b>	3,229
Total staff costs		<b>5,447</b>	5,594
Allowance for bad and doubtful debts		–	1,625
Amortisation of development expenditure included in direct costs		<b>258</b>	357
Auditors' remuneration		<b>200</b>	300
Depreciation		<b>296</b>	224
Impairment loss on development expenditure included in research and development expenses		<b>81</b>	2,170
Loss on disposal of property, plant and equipment		<b>289</b>	229
and after crediting:			
Interest income		–	7
<b>6. Finance costs</b>			
		<b>2004</b> <b><i>HK\$'000</i></b>	2003 <i>HK\$'000</i>
Interest on:			
Bank borrowings wholly repayable within five years		–	7
Convertible notes		–	26
Loans from a shareholder, net of interest waived		–	(22)
		–	11

## 7. Taxation

No provision for taxation has been made in the financial statements for the year ended 31st December, 2004 as the Group incurred a tax loss for the year.

## 8. Dividend

No dividend has been paid or declared by the Company or any of its subsidiaries during the years ended 31st December, 2004 and 2003.

## 9. Loss per share

The computation of the basic loss per share for the year is based on the loss for the year of approximately HK\$8,950,000 (2003: HK\$16,708,000) and on the weighted average number of 523,645,377 shares (2003: 478,464,789 shares).

No diluted loss per share was presented as there were no dilutive potential ordinary shares outstanding.

## 10. Capital and reserves

	Share capital <i>HK\$ '000</i>	Share premium <i>HK\$ '000</i>	Special reserve <i>HK\$ '000</i> <i>(note a)</i>	Accumulated losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1st January, 2003	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
Issue of shares under the placing	973	8,027	–	–	9,000
Share issue expenses	–	(540)	–	–	(540)
Loss for the year	–	–	–	(8,950)	(8,950)
At 31st December, 2004	<u>5,837</u>	<u>19,323</u>	<u>10,084</u>	<u>(32,695)</u>	<u>2,549</u>

*Note:*

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. 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 to the Annual Report 2003.

## **BUSINESS REVIEW**

### **Software Sales Business**

Selling of software remained challenging in the market. Commercial customers still procrastinate their investment into website related projects. As such, sales performance of HanWEB is still behind our expectation. The repackaging of HanPhone and HanVoice Server for the Interactive Voice Response (“IVR”) applications has proven to be a good decision by the growing sales front log towards replacing ageing proprietary based IVR systems installed in major corporations for customer service applications. We were awarded two such projects in the fourth quarter of 2004 for Hong Kong SAR Government’s Hong Kong Public Library and Leisure and Cultural Services Department.

Chinese JAWS (CJAWS), a screen reader software for the visually impaired persons (“VIP”) that the Company invested into Chinese localisation from its English developer began to payoff. Purchase from various charitable organisations has been growing steadily since August 2004. More importantly, CJAWS beat its closest rival in an evaluation exercise among the different VIP organizations in recommending Hong Kong SAR Government to purchase CJAWS for the CyberPoint centres catered for community IT needs. The recommendation paves the way for CJAWS to become the de facto VIP software in Hong Kong.

### **Service Business**

#### *IVR/Fax Marketing Campaign Services*

As reported in the last quarterly report, the Group has suspended its Info-Tone plan in launching the fee based call phone business in Hong Kong while the focus is shifting to provide IVR/Fax based marketing campaign services using the established infrastructure. The popular OctopusCard company used the IVR service to collect user information through lucky draw incentive scheme on which users entered through telephone their personal information. Sunday, the mobile phone operator called 50,000 of their subscribers using the service’s automatic dial-out function to promote its year end special discount package.

#### *Putonghua Learning Platform*

The ePutonghua online learning platform has been evolving over the last year from an online learning resource into a structured learning program catered for learners of varied proficiency in Putonghua. Online examinations were introduced to the platform to allow self-assessment and promotion to next level of learning. Vocational Training Council (“VTC”) became our first major customer in deploying the learning platform to her staff and is in the process making it available for her students. The Institute of Professional Education and Knowledge of VTC has signed up to co-develop and resell the ePutonghua platform for corporate training.

Apart from the corporate training market which has begun to take shape due to the VTC partnership, the Company has started to formulate its selling strategy towards the primary and secondary school market. We have appointed a training provider to be a reseller for the market and results are encouraging with a few hundred student already signed up for the platform in the first quarter of 2005. These students are either funded by the school or paid by their parents.

## *DIY Ring-tone Service*

Despite of its innovation and being first introduced to the China's mobile market using Multimedia Message Service ("MMS") channel, the result is still lacking behind our expectation by a wide margin since its launch in the earlier part of 2004. Our launching partners, 21CN and TenCent are blaming it on the readiness of MMS as a stable and affordable channel in comparison to Short Message Service ("SMS"), the insufficient coherent marketing efforts to promote the basic service and the lack of pre-recorded contents. They nevertheless still like the platform and have renewed the partnership agreements for continuation of the service in their portals.

The Company has upgraded the platform to support multiple text-to-speech voices and background music and has begun to develop thematic based content to attract regular monthly subscriptions. The first such content will be on usage of English which will allow subscriber to receive a daily MMS message consisting of a spoken English phrase with its meaning in Chinese displayed in text. The Company has also started to meet up with new service and content providers whom have shown interest in bundling the platform into their existing services.

## **Research and Development**

Due to persistent demand for corporate fax server technology integration to the Web, our latest development effort has been the productization of the fax function in HanPhone. The fax function of HanPhone was taken out from HanPhone to become an independent HanFax product line. HanFax enables its user to send and receive faxes over the internet. Companies can choose from an entry system of one telephone line to a fax broadcasting server of T1 line supporting 23 channels for their staff to use the fax service wherever they are with an internet connection. Substantial efforts have also been devoted in developing the commercial IVR interface to the innovative HanPhone Server to mimic a traditional IVR system in the surface.

## **PRC Opportunities**

The Company is still in the process of discussing the business collaboration plan with YesMobile Holdings Company Limited ("YesMobile"), being a PRC and Hong Kong value-added mobile phone service provider in adopting the Company's DIY Ringtone technologies and IVR technologies to complement its service offerings to the market.

KanHan Technologies (China) Limited, our Guangzhou based office was not performing as planned as much efforts were invested into cultivating the DIY Ringtone business which did not generate the projected income. The Company has decided to increase the selling efforts of our traditional software including the DIY Ringtone technology as a software product for 2005.

## **RESULTS OF OPERATION**

For the year ended 31st December, 2004, the Group's turnover increased by approximately 45% to approximately HK\$4,320,000 (2003: approximately HK\$2,984,000). Most of the Group's sales during the year were derived from Hong Kong, accounting for approximately 97% of the Group's sales.

Licensed software business continued to be the Group's major source of income. Turnover from the sales of licensed software and the software related services including the software rental and subscription services and the provision of software maintenance service, achieved the growth of approximately 7% and 433% to approximately HK\$2,956,000 (2003: HK\$2,761,000) and HK\$1,188,000 (2003: HK\$223,000) respectively.

With our continuous efforts in promoting the ePutonghua Learning Platform ("ePutonghua"), we have witnessed the gradual built-up of the growth momentum of this business. Turnover of ePutonghua contributed approximately 4% of the Group's total turnover.

Operating expenses (excluding research and development expenses) for the year ended 31st December, 2004 decreased by 32% to approximately HK\$9,165,000 as compared to HK\$13,485,000 for the year ended 31st December, 2003. The decrease in operating expenses was mainly attributable to the decrease in marketing and promotional expenses and the professional costs. In addition, there was no substantial provision for bad and doubtful debts (2003: HK\$1,625,000) made during the year.

The management of the Group continues to adopt a prudent approach in capitalization of research and development expenses. A total of HK\$2,379,000 of research and development expenses incurred during the year and HK\$81,000 capitalized in previous year was expensed off during the year.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Financial resources**

As at 31st December, 2004, shareholders' funds of the Group amounted to approximately HK\$2,549,000 (2003: HK\$3,039,000). The Group had a total assets of approximately HK\$6,179,000 (2003: HK\$7,858,000), including cash and bank balances of approximately HK\$4,216,000 (2003: HK\$1,000,000). The Group's current liabilities amounted to approximately HK\$2,434,000 (2003: HK\$3,518,000) and it had no banking facilities available. As at 31st December, 2004, the Group had a current ratio of approximately 2.35:1 as compared to that of 1.94:1 at 31st December, 2003. The total liabilities over the shareholders' fund of the Group is 1.42 (2003: 1.59) as at 31st December, 2004. During the year ended 31st December, 2004, the Group financed its operations with its own working capital, internally generated cash flow and the net proceeds from the placing of shares.

## **INDEBTEDNESS**

### **Borrowings**

As at the close of business on 31st December, 2004, the Group had outstanding borrowings of approximately HK\$1,419,000. The long-term borrowings represented financial assistance from the government of approximately HK\$1,196,000. 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, 2004, 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\$1,994,000 (2003: HK\$6,028,000).

### **FOREIGN EXCHANGE RISK**

As at 31st December, 2004, the Group had no significant exposure to fluctuation in foreign exchange rate.

### **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**

On 14th August, 2004, the Company completed the placement of 97,286,400 new shares to YesMobile at the subscription price of HK\$9,000,000, representing approximately HK\$0.0925 per subscription share.

As at 31st December, 2004, the total issued share capital of the Company was HK\$5,837,184 divided into 583,718,400 shares of HK\$0.01 each.

### **CONTINGENT LIABILITIES**

As at 31st December, 2004, the Group had no material contingent liabilities.

## **EMPLOYEE INFORMATION**

As at 31st December, 2004, the Group had 24 (2003: 13) full-time employees. Employee costs, excluding Director's emoluments, totalled HK\$3,777,000 (2003: HK\$3,345,000). 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 programs including medical coverage and provident funds are also provided. In addition, training and development courses were offered throughout the Group to upgrade employees' skills and knowledge.

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

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

During the year, 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 5.34 to 5.45 of the GEM Listing Rules during the year ended 31st December, 2004.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the by-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 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprises Ms. Li Mo Ching, Joyce, Ms. Tam Cheuk Ling, Jacqueline and Mr. Kwok Chi Sun, Vincent, who are the independent non-executive directors of the Company.

The Group's audited results for the year ended 31st December, 2004 have been reviewed by the audit committee, which are of the opinion that the preparation of such results comply with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

As at the date of this announcement, the Board of the Company comprises Mr. Mo Wai Ming, Lawrence and Ms. Wai Lai Yung (who are executive Directors of the Company), Mr. Yuen Ka Lok, Ernest (who is non-executive Director of the Company), and Ms. Li Mo Ching, Joyce, Ms. Tam Cheuk Ling, Jacqueline and Mr. Kwok Chi Sun, Vincent (who are independent non-executive Directors of the Company).

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

Hong Kong, 18th March, 2005

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcement” page for 7 days from the day of its posting.*

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