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看漢科技集團有限公司

KanHan Technologies Group Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2003

Innovations to Global
Languages Communication

e-putonghua
learning platform

Info-Tone IVR
payment service

Dial to the
Internet technology

Bridging the Digital Divide

DIY ring-tone

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This report, 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS
Chairman & CEO
Mo Wai Ming, Lawrence

EXECUTIVE DIRECTORS
Wai Lai Yung
Lee Chi Ming
Sun Kam Fai, Zacky

NON-EXECUTIVE DIRECTORS
Yuen Ka Lok, Ernest

INDEPENDENT NON-EXECUTIVE DIRECTORS
Lai Chau Ming
Ho Siu Kau

COMPANY SECRETARY
Ng Tim Tak

QUALIFIED ACCOUNTANT
Sun Kam Fai, Zacky

COMPLIANCE OFFICER
Mo Wai Ming, Lawrence

AUDIT COMMITTEE
Ho Siu Kau (Committee Chairman)
Lai Chau Ming

AUTHORISED REPRESENTATIVES
Mo Wai Ming, Lawrence
Sun Kam Fai, Zacky

SPONSOR
South China Capital Limited

AUDITORS
Deloitte Touche Tohmatsu

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Caledonian Bank & Trust Limited
Caledonian House,
P.O. Box 1043,
George Town
Grand Cayman
Cayman Islands

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Kowloon
Hong Kong

SHARE REGISTRARS
Standard Registrars Limited
G/F., Bank of East Asia
Harbour View Centre,
56 Gloucester Road,
Wanchai,
Hong Kong

PRINCIPAL BANKERS
The Hong Kong and Shanghai Banking
Corporation Limited
1 Queen's Road Central,
Hong Kong

WEBSITE ADDRESS
www.kanhan.com

STOCK CODE
8175

Corporate Structure

KanHan Technologies Group Limited
(Cayman Islands)
Investment holding

↓ *100%*

KanHan Technologies Inc.
(BVI)
Investment holding

↓ *100%*

KanHan Technologies Limited
(HK)
Provision of communications software platforms

Corporate Profile

Established in 1999, **KanHan Technologies Group Limited** is a global leader in Asian Language infrastructure development for wireless devices such as PDAs and 2G and 3G mobile phones and PCs.

"With our HanVOICE server and patented HanFont Technology, our Group endeavors to become the market leader in web-based Chinese, Japanese and Korean (CJK) text to text and text to speech communications business."

Lawrence Mo, Chairman & CEO of KanHan Technologies Group Limited

AWARDS

- The Hong Kong Awards for Industry, the Hong Kong Science & Technology Park Certificate of Merit in Technological Achievement, 2002
- The Hong Kong Awards for Industry; Federation of Hong Kong Industries Consumer Product Design Award, 2002
- The Hong Kong Awards for Industry, the Hong Kong Science & Technology Park Technological Achievement Award, 2001
- The Hong Kong Computer Society; IT Excellence Product Silver Award, 2001
- 2003 Asia- Pacific Technology Fast 500 Programme of Deloitte Touche Tohmatsu – 7th position

Financial Highlights

	For the year ended 31st December,			
	2000	2001	2002	**2003**
	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS				
Turnover	416	2,448	8,801	**2,984**
(Loss) profit from ordinary activities attributable to shareholders	(5,324)	(5,434)	3,721	**(16,708)**

ASSETS AND LIABILITIES

	As at 31st December,			
	2000	2001	2002	**2003**
	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	4,200	3,057	11,713	**7,858**
Total liabilities	(352)	(4,244)	(8,551)	**(4,819)**
Balance (deficiency) of shareholders' funds	3,848	(1,187)	3,162	**3,039**

Notes:

1. The Company was incorporated in the Cayman Islands on 10th October, 2002 and became the holding company of the Group on 15th January, 2003 as a result of the Group Reorganisation.

2. The results for each of the three years ended 31st December, 2000, 2001 and 2002 and the assets and liabilities as at 31st December, 2000, 2001 and 2002 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence throughout the years concerned.

Chairman's Statement

2003 was a difficult year for KanHan Technologies Group Limited (the "Company" or "KanHan") and together with its subsidiaries, the "Group". I have no doubt that last year went down the KanHan corporate history as a year of high anxiety and turbulence. The momentum of the successful listing of KanHan on the Growth Enterprise Market ("GEM") Board of the Stock of Exchange of Hong Kong on 25th February, 2003 was more than offset by the depressed local economy initiated by the SARS-led fear and stagnant economic growth.

About a fortnight's time since our listing, the SARS epidemic has begun to unfold its damaging character towards both health and economy in the local society. Most businesses dwindled to a virtual halt in the ensuing eight months, and for KanHan, no exception. The Group slowed down its business expansion plans, not by choice but by accepting the tough economic reality. Company resources were conserved and the management awaited for the "right" time to act for aggressive sales and marketing plan.

During the SARS period, the management had quality time to formulate a new strategy. The new strategy calls for building a balanced portfolio between selling middleware software into a good mix of "Business-to-Business", "Business-to-Consumer" and "Business-to-Business-to-Consumer" models. The management believed that the Group should try to convert its innovative voice technologies and expertise into a consumer model, building a part of the Group's revenue based on subscription and per usage fees.

The Group began to develop three consumer oriented services in late last year against the backdrop of early stage economic recovery, using the same core KanHan technology. These consumer services are football fee-based information phone, do-it-yourself (DIY) ring-tone service and Putonghua online learning. New investment was committed into the content production, technology integration and service promotion.

The Company regards the consumer services as non-traditional business while the traditional business consists of selling of middleware software based on license fees and software maintenance model.

On the traditional business side, the Group still managed to install its flagship product HanWEB, a simplified and traditional Chinese translation platform, to a number of large commercial and government organizations.

The Group also delivered to The Hong Kong Society for the Blind ("HKSB") the world's first Digital Voice Library system to the visually impaired persons (VIPs) by using our award winning HanVoice/HanPhone technology. The technology assists the VIP and under-privileged communities to overcome information gap via phone enabled technology, allowing callers using conventional and mobile phone to listen to the latest information from the Internet websites and e-books. The service also includes Braille encoded version and all the text information are being converted into Cantonese, Putonghua or English in a real-time mode.

Chairman's Statement

This project is the Group's first large scale deployment of HanVoice/HanPhone technology for public use. It also serves as an excellent testimonial to the robustness of our in-house developed system in serving large scale commercial applications in the Interactive Voice Response System ("IVRS") market.

RESULTS FOR THE YEAR

For the year ended December 31, 2003, the Group recorded a turnover of HK$2,984,000, representing a decrease of 66% from that of previous year. The net loss attributable to shareholders was HK$16,708,000.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2003.

OUTLOOK

For the 2004 operations, the Group is confident that we could demonstrate our technology innovation and leadership by winning more government and commercial contracts. Our front log for orders to be closed looks healthy. Our Hong Kong operations provide a stable platform for us to growth in traditional and non-traditional businesses with PRC being an upside potential for us to explore more business and alliance for the benefit of the growth of the Group.

I am delighted to report that the Group is working hard with the Hong Kong SAR Government to facilitate, using our technology, on their launch of a pilot sound portal ("Sound Portal"). Sound Portal is a means thereby citizens can surf government website by phone, calling into the portal for the latest updates from the government websites starting from March, 2004. The Group is optimistic that with the success of HKSB and Sound Portal projects, we will establish the Group as a strong contender to any large scale commercial deployment of automatic call centre and IVRS applications.

APPRECIATION

I would like to thank the Board of Directors for their contribution to the Group during such a sombre economy last year. I would also like to thank our shareholders and business partners for their continued support, and to express my deepest gratitude to all staff for their dedication, devotion and hard work.

Mo Wai Ming, Lawrence
Chairman & CEO

23rd March, 2004

Business Review

During the 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 into 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 actual launch in early December, the Football Phone had generated a lot of interests from content providers. This first non-traditional business generated 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.

Business Review

I am happy to report that the popular OctopusCards payment system has become the infrastructure of Info-Tone's first corporate customer to handle their lucky draw and related activities during the 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 favourite 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 the PRC in December last year and early first quarter of 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 already launched their respective services.

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, The Hong Kong University of Science and Technology, Shenzhen Commercial Bank and Taiwan's United Daily newspaper group.

Business Review

The Group also delivered to HKSB the world's first Digital Voice Library system to the VIP. 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 IVRS 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 the 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 business 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.

Management Discussion and Analysis

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements of the Group and related notes. The Group's business models for its current and future products are still at an emerging stage and the turnover and income potential from many of the Group's products is unproven. The Group's lack of operating history means that an analysis of the combined historic financial statements in relation to the Group may not be meaningful. As a result, the Group's past results of operations do not reflect its future prospects and period-to-period comparisons of its operating results should not be relied on as an indication of future performance. References below to "fiscal 2002" and "fiscal 2003" are to the years ended, and as at, 31st December 2002 and 2003, respectively.

RESULTS OF OPERATION

For the year ended 31st December, 2003, the Group's turnover decreased from approximately HK$8,801 K 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 compared 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.

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 of research and development expenses and the evaluation of outstanding accounts receivables. A total of HK$2,315K of 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.

Management Discussion and Analysis

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.

Details of the deferred taxation asset not recognised are set out in note 27.

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$6,028K (2002: Nil).

Management Discussion and Analysis

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 was 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.

Management Discussion and Analysis

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$1,800K under the 3% convertible note issued by KanHan Technologies Inc. into 6,432,000 shares of HK$0.01 each in the Company.

As announced on 12th December, 2003, the Company signed an agreement with a discretionary fund which is currently subject to completion, which would provide a financing facility to the Company by investing, at the sole discretion of the Company, up to HK$100 million in new ordinary shares to be issued by the Company to the fund over three years from the date of completion. Under the agreement, following the issue of a drawdown notice by the Company, the fund will purchase the shares at a price equivalent to 90% of the average closing price of listed shares in the Company during the 15 consecutive trading days immediately prior to the date of drawdown. The agreement also provides that the fund will be granted warrants to subscribe for shares of the Company equivalent to 25% of the number of shares issued to the fund. The warrant will have a term of three years and an exercise price equivalent to the market price of the Company's shares on the date of pricing of the shares. At the date of this report, the Company is still in the process of negotiations of the terms of the equity financing facility with the discretionary fund.

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 incentive for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

Progress Against Business Objectives

Business objectives for the review period as set out in the Prospectus	Actual business progress for the review period
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
Marketing of HanVoice	– Soft launch of HanVoice/HanPhone through the "SARS Info-line" project in May, 2003 – Joint seminar with The Hong Kong 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
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
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
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

Progress Against Business Objectives

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:

	Notes	Use of the net proceeds as set out in the Prospectus HK$ million	The Actual net proceeds utilized up to 31 December 2003 HK$ million
Upgrading the Group's products	1	2.0	1.9
Marketing & development of Han Voice Server	2	2.0	1.8
General Promotion and Marketing	3	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.

Note 1: Upgrading the Group's products – the Group understood that there are market needs on the Interactive Voice Response System ("IVRS") which is an extension of our HanPhone server. The Group made a decision to step up the development effort in order to speed up the time to market. This HanPhone IVRS brought in inquiry in last quarter of 2003 and brought business in first quarter of 2004.

Note 2: Marketing & development of Han Voice Server – Similar to note 1, the step up development effort and cost results in winning sales orders and getting market shares in first quarter of 2004.

Note 3: General Promotion and Marketing – Since the group was engaged in expanding our technology offering to the consumer market, additional promotion expenses were needed. Primarily, the promotion expenses were geared towards the FBwin and DIY ring tone services. Directly and indirectly, additional sales lead and revenue were generated in first quarter of 2004.

Note 4: Implementation schedule: The Group tried to test the market in Shanghai by appointing a reseller there but the result wasn't encouraging. However, with the DIY ring tone business appeared to be more promising, the Group re-directed its resources to get business alliances in Guangdong province. Hence, the plan to set up representative offices in Beijing and Shanghai would have to be postponed. Moreover, the Group set up a wholly-owned foreign enterprise in Guangzhou and expect to be operational by April 2004.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Mo Wai Ming, Lawrence, Chairman & CEO, age 44

Mr. Mo is the chairman of the board. Prior to founding KanHan Technologies Inc., Lawrence was Managing Director of the Hong Kong branch of a Taiwan based software technology company, DynaLab Inc. which was engaged in the development and sales of solutions on local language computing for Chinese, Japanese, Korean and for electronic and Internet publishing. Mr. Mo is an expert in Chinese, Japanese, Korean language font technology for PC and professional publishing market. As the chief executive, Mr. Mo has overall responsibility for the operations and performance of the Group.

Mr. Mo founded his first company in 1989 from which Microsoft licensed the Chinese font technology in 1991 for its Chinese Windows 3.0 product for screen display and printing. That company was acquired in 1991 by DynaLab Taiwan Inc. of which Lawrence spent the last 9 years helping grow DynaLab business in Japan, China and international market. During this nine-year tenure in DynaLab, he was responsible for the strategic planning and new business development of the organization.

In his last three years at DynaLab he managed an operation team working in the Japanese, Taiwan, China and Hong Kong markets doing product research and development, product localization, foreign OEM technology management and business plan development for these markets for electronic publishing products. In his dual role as the country manager for both Hong Kong and Shanghai, DynaLab Hong Kong succeeded in becoming the dominant Chinese solution supplier to both the Windows and Macintosh market place.

Prior to 1989, Mr. Mo worked for 6 years in Digital Equipment Corporation's Hong Kong operation in various sales and sales management positions with the last job as the Large Projects Manager for Hong Kong. He won the Decathlon award for being the outstanding salesperson three times. Before that, he was an application programmer in a local software house for 18 months since his return to Hong Kong from University of Toronto, Canada with a degree in Science majoring in Computer Science in 1982.

As well as font technology, Mr. Mo has been involved in product and business development for a number of software technologies serving professional publishing and portable document applications for Asian languages. He is the inventor of HanWeb Font Technology. As an expert in Chinese computing, he was appointed as a member of the Hong Kong SAR Government's Chinese Language Interface Advisory Committee in May, 1999. Mr. Mo founded the Group in September, 1999.

Directors and Senior Management Profile

Ms. Wai Lai Yung, age 46

Ms. Wai has been a director of the KanHan (BVI) since 7th November, 2000, responsible for company secretarial work. Ms. Wai is a Certified Public Accountant and an associate member of the Hong Kong Society of Accountants. She is a director of Yorkshire Capital Limited which provides business consultancy and accounting services to the Group. She was employed by Yorkshire Capital Limited in 1993. Ms. Wai was employed full time by Yorkshire Capital Limited and devoted approximately 5% of her time to the Group as company secretary and Executive Director. In the future, she is expected to devote approximately 20% of her time to the Group. She is involved in the daily operations of the Group.

Mr. Lee Chi Ming, age 47

Mr. Lee has been working in the information technology industry for over 24 years. Since 1992, he has worked as the Asia Pacific head for several major multinational IT vendors. Mr. Lee worked as the vice president of sales and marketing department of Asia Pacific of Advanced Micro Devices, a US company from 1999 until August, 2002, and was responsible for developing and directing the sales and marketing strategies and activities. Prior to 1999, he worked at Compaq Computer, where he held positions including the director of network and systems integration services, managing director for the East Asia Group division. He was a director of the Asia group in Madge Networks Asia Limited. He was appointed as Director of the Group in October, 2002.

Mr. Lee graduated from the University of Alberta, Canada, with a Bachelor's degree in computer science in 1980.

Mr. Sun Kam Fai, Zacky, age 41

Mr. Sun, is the Qualified Accountant of the Company and is responsible for overseeing the financial performance of the Group. He is a Certified Public Accountant, a fellow of the Association of the Chartered Certified Accountants, an Associate of the Australian Society of Certified Public Accountants and an Associate of Hong Kong Society of Accountants. He was appointed as Director of the Group in October, 2002. From July, 2000 to October, 2001, Mr. Sun was employed by Far East Gateway Limited as a business solutions director.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTOR

Mr. Yuen Ka Lok, Ernest, age 40

Mr. Yuen is the non-executive Director of the Company, Mr. Yuen is a solicitor and a partner of Messrs. Yuen & Partners. He has over 10 years of extensive experience in general litigation and commercial work. Mr. Yuen received his Bachelor's degree of Commerce from University of Toronto in 1984. Mr. Yuen is a member of the Law Society of Hong Kong. He was appointed as Director of the Group in 29th July, 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Chau Ming, age 51

Mr. Lai has been a non-executive Director since 1996 of Man Sang Holdings, Inc.. Mr. Lai served from 1972 to 1996, latterly as a senior manager of Sun Hung Kai & Co. Limited in stockbroking. Mr. Lai has over 30 years' experience in investment, financial management and brokerage. Mr. Lai is currently employed as an Associate Director of the sales department of an international brokerage firm since July 1996.

Mr. Ho Siu Kau, age 40

Mr. Ho is a Certified Public Accountant in Hong Kong and is currently a partner in an audit firm, namely Ho, Sneddon, Chui. Prior to his joining Ho, Sneddon, Chui, Mr. Ho was an auditor at PriceWaterhouse (now known as PriceWaterhouseCoopers) from 1988 to 1994. Mr. Ho is experienced in audit and accounting. Mr. Ho graduated from Hong Kong Polytechnic in 1987 and is a member of FCCA and HKSA.

SENIOR MANAGEMENT

Mr. Tsang Yiu Kwan, Odie, Product Manager, age 33

Mr. Tsang is the Product Manager of the Company. He joined the Group in November, 2000 and is responsible for product quality control, networking and system administration. Mr. Tsang graduated from The Boston Conservatory in Boston, USA with a Master's degree. He was awarded a scholarship for overseas studies from Composers and Authors Society of Hong Kong Ltd. Prior to joining the Company, he worked in the Excel Computer Wholesale, Inc. in US for three years from 1997 to 2000 specializing in networking.

Directors and Senior Management Profile

Mr. Szeto Wai, Business Development Manager, age 32

Mr. Szeto is the Business Development Manager of the Company. He joined the Group in May, 2000 and he is responsible for the sales and marketing of the Company's products including new business and sales channel development. Mr. Szeto graduated from the City University of Hong Kong with a degree in Accountancy. He also received formal training on film production with a certificate from Hong Kong Directors' Guild. Mr. Szeto has marketing and sales experience in Internet and communication solution in serving companies like Tricom and Linkage Online. Prior to joining the Company, Mr. Szeto was the Marketing and Sales Manager for Stareastnet.com in sales and marketing department from 1999 to 2000.

Ms. Lau Shui Ying, Administration Manager, age 45

Ms. Lau is the Administration Manager of the Company. She joined the Group in January, 2000 and she is responsible for general administration, human resources, accounting and financial control. Ms. Lau graduated from Heriot-Watt University, U.K. with a Master degree in Business Administration. Ms. Lau has over 15 years of experience in various management discipline including product quality control, quality system development, process engineering and project management. Prior to joining the Company, she was product manager of Motorola Semiconductors Hong Kong Limited. Ms. Lau has ample experience in ISO9000, QS9000 and software quality control.

Mr. Lee Jih Kang, Michael, Senior Software Engineer, age 28

Mr. Michael Lee is the Senior Software Engineer of the Group. He joined the Group in March, 2000. He is responsible for supervising software development projects of the Company in addition to participating in the design and development of these projects. Mr. Lee graduated from the University of Toronto, Canada with a bachelor degree in Applied Science in 1998. Prior to joining the Company in March 2000, he worked for Premiere Technologies in Hong Kong as a technical support engineer from 1998 to 2000.

Directors' Report

The directors present the annual report and the audited financial statements of the Group for the year ended to 31st December, 2003.

GROUP REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 10th October, 2002 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 are set out in the prospectus issued by the Company dated 13th February, 2003.

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

Details of the principal activities of its subsidiaries are set out in note 13 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 31.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the authorised and issued share capital of the Company are set out in note 24 to the financial statements.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Mo Wai Ming, Lawrence	
Ms. Wai Lai Yung	(appointed on 23rd January, 2003)
Mr. Lee Chi Ming	(appointed on 23rd January, 2003)
Mr. Sun Kam Fai, Zacky	

Non-executive director:

Mr. Yuen Ka Lok, Ernest	(appointed on 23rd January, 2003)

Independent non-executive directors:

Mr. Lai Chau Ming	(appointed on 23rd January, 2003)
Mr. Ho Siu Kau	(appointed on 23rd January, 2003)

In accordance with Articles 108 (a) and (b) of the Company's Articles of Association, Ms. Wai Lai Yung and Mr. Lee Chi Ming shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The non-executive director has no fixed term of office but is subject to retirement by rotation and, being eligible, offers himself for re-election, in accordance with Articles 108(a) and (b) of the Company's Articles of Association.

The independent non-executive directors have been appointed for a fixed term of one year.

Each of the executive directors has entered into a service contract with the Company for an initial term of one year commencing 1st January, 2003, which will continue thereafter until terminated by either party by giving three months' prior written notice.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

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	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Mo Wai Ming, Lawrence	Beneficial owner	180,008,000	37.01%
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"), 45.45% 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

Particulars of the Company's share option schemes are set out in note 25 to the financial statements.

No share options have 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 a 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.

During the year, the Group paid legal fees of approximately HK$131,000 to Messrs. Yuen & Partners for consultancy services in which Mr. Yuen Ka Lok, Ernest is a partner of Messrs. Yuen & Partners.

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.

Directors' Report

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 44.25% issued capital of ZMGI Corporation.

(ii) Metrolink beneficially own 88.5% issued capital of ZMGI Corporation.

Other than as disclosed above, the Company had not been notified of any other interests or short positions in the issued share capital of the Company as at 31st December, 2003.

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.

Directors' Report

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

CHAIRMAN
Mo Wai Ming, Lawrence
23rd March, 2004

Auditors' Report

德勤‧關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 31 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to

Auditors' Report

whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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 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.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 23rd March, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000
Turnover	4	**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	6	**(16,697)**	3,902
Finance costs	7	**(11)**	(181)
(Loss) profit for the year		**(16,708)**	3,721
(Loss) earnings per share– Basic	11	**(3.49 cents)**	0.89 cents

Consolidated Balance Sheet

At 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**681**	228
Development expenditure	14	**339**	2,866
		1,020	3,094
CURRENT ASSETS			
Trade and other receivables	15	**1,867**	8,467
Amounts due from shareholders	16	**3,971**	–
Amount due from a related company	17	**–**	44
Bank balances and cash		**1,000**	108
		6,838	8,619
CURRENT LIABILITIES			
Other payables		**3,518**	1,459
Amounts due to related companies	18	**–**	300
Short-term loans	19	**–**	150
Loans from a shareholder	20	**–**	681
8% convertible note	21	**–**	764
Bank overdrafts		**–**	1,890
		3,518	5,244
NET CURRENT ASSETS		**3,320**	3,375
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,340**	6,469
NON-CURRENT LIABILITIES			
3% convertible note	22	**–**	1,800
Financial assistance from government	23	**1,301**	1,507
		1,301	3,307
		3,039	3,162

Consolidated Balance Sheet

At 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000
CAPITAL AND RESERVES			
Share capital	24	**4,864**	901
Reserves		**(1,825)**	2,261
		3,039	3,162

The financial statements on pages 31 to 63 were approved and authorised for issue by the Board of Directors on 23rd March, 2004 and are signed on its behalf by:

Mo Wai Ming, Lawrence	**Sun Kam Fai, Zacky**
DIRECTOR	DIRECTOR

Balance Sheet

At 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	13	**8,150**	–
CURRENT ASSETS			
Other receivables		**9**	–
Amounts due from shareholders	16	**3,971**	–
Bank balances		**269**	–
		4,249	–
CURRENT LIABILITIES			
Other payables		**1,507**	–
NET CURRENT ASSETS		**2,742**	–
		10,892	–
CAPITAL AND RESERVES			
Share capital	24	**4,864**	–
Reserves	26	**6,028**	–
		10,892	–

Mo Wai Ming, Lawrence
DIRECTOR

Sun Kam Fai, Zacky
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Share capital HK$'000 (note a)	Share premium HK$'000 (note a)	Special reserve HK$'000 (note b)	Accumulated losses HK$'000	Total HK$'000
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) For the purpose of the preparation of the financial statements, 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.

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003	2002
	HK$'000	HK$'000
OPERATING ACTIVITIES		
(Loss) profit for the year	**(16,708)**	3,721
Adjustments for:		
Allowance for bad and doubtful debts	**1,625**	–
Amortisation of development expenditure	**357**	354
Depreciation	**224**	225
Impairment loss on development expenditure	**2,170**	–
Interest expense	**11**	181
Interest income	**(7)**	(45)
Loss on disposal of property, plant and equipment	**229**	154
Operating cash flows before movements in working capital changes	**(12,099)**	4,590
Decrease (increase) in trade and other receivables	**4,975**	(8,292)
Decrease (increase) in amount due from a related company	**44**	(8)
Increase in other payables	**1,905**	413
(Decrease) increase in amounts due to related companies	**(300)**	231
Cash used in operation	**(5,475)**	(3,066)
Interest received	**7**	45
NET CASH USED IN OPERATING ACTIVITIES	**(5,468)**	(3,021)
INVESTING ACTIVITIES		
Additions to development expenditure	**–**	(1,290)
Purchase of property, plant and equipment	**(906)**	(13)
CASH USED IN INVESTING ACTIVITIES	**(906)**	(1,303)

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 HK$'000	2002 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	**19,800**	628
Share issue expenses	**(5,019)**	–
Increase in amounts due from shareholders	**(3,971)**	–
(Repayment of) net proceeds from issue of 8% convertible note	**(764)**	764
(Repayment of) loans from a shareholder	**(681)**	969
(Repayment of) proceeds from short-term loans	**(150)**	150
(Repayment of) proceeds from financial assistance from government	**(48)**	228
Interest paid	**(11)**	(181)
Repayment to a shareholder	**–**	(288)
NET CASH FROM FINANCING ACTIVITIES	**9,156**	2,270
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,782**	(2,054)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**(1,782)**	272
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**1,000**	(1,782)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**1,000**	108
Bank overdrafts	**–**	(1,890)
	1,000	(1,782)

Notes to the Financial Statements

For the year ended 31st December, 2003

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 are 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 of the Stock Exchange on 25th February, 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the 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 the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The principal activity of the Company is investment holding company. Details of the principal activities of its subsidiaries are set out in note 13.

The directors have given careful consideration to the going concern status of the Group in light of the Group's loss of approximately HK$16,708,000 for the year and net cash outflow of approximately HK$5,468,000 from operating activities for the year. The directors are satisfied that provided the agreement with the discretionary fund as set out in note 24 is completed and the equity financing facility can be obtained, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the HKSA, the term HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA:

SSAP12 (Revised) "Income taxes"

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised 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. Details of the result of this change in policy are set out in note 27.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Sales of licensed software are recognised when goods are delivered and the right to use the licence is established.

Revenue from maintenance service contracts, which is received or receivable from customers when the maintenance service contracts are entered into, is amortised and credited to the income statement on a straight line basis over the respective term of the maintenance service contract.

Software rental income and subscription income from software application are derived from providing software application to customers. The income is recognised when services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	33⅓%
Furniture, fixtures and office equipment	20%
Computer equipment	33⅓%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life when the project is completed and put into commercial use.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

4. 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

5. 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.

Notes to the Financial Statements

For the year ended 31st December, 2003

5. SEGMENT INFORMATION (CONTINUED)

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, the People's Republic of China (the "PRC") other than Hong Kong, and Taiwan. 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 Hong Kong	**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.

Notes to the Financial Statements

For the year ended 31st December, 2003

6. (LOSS) PROFIT FROM OPERATIONS

	2003 HK$'000	2002 HK$'000
(Loss) Profit from operations has been arrived at after charging:		
Directors' remuneration (note 8)	**2,249**	1,312
Retirement benefit scheme contributions for other staff	**116**	120
Other staff costs	**3,229**	2,708
Total staff costs	**5,594**	4,140
Less: amount capitalised 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 capitalised 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	**229**	154
and after crediting:		
Interest income	**7**	45

7. FINANCE COSTS

	2003 HK$'000	2002 HK$'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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) DIRECTORS

	2003 HK$'000	2002 HK$'000
Executive directors:		
Directors' fee	**100**	–
Salaries and other allowances	**2,027**	1,300
Retirement benefits scheme contributions	**22**	12
Non-executive director:		
Directors' fee	**–**	–
Salaries and other allowances	**–**	–
Retirement benefits scheme contributions	**–**	–
Independent non-executive directors:		
Directors' fee	**100**	–
Salaries and other allowances	**–**	–
Retirement benefits scheme contributions	**–**	–
Total emoluments	**2,249**	1,312

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Details of emoluments by individual are as follows:

	2003	2002
	HK$'000	HK$'000
Director A	**1,372**	1,312
Director B	**727**	–
Director C	**50**	–
Director D	**50**	–
Director E	**50**	–
Director F	**–**	–
Director G	**–**	–
	2,249	1,312

The above emoluments included operating lease rentals of HK$480,000 (2002: HK$480,000) paid for a director's quarter for the year ended 31st December, 2003.

(b) EMPLOYEES

The five highest paid individuals included two (2002: one) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2002: four) individuals, which fall within the band of nil to HK$1,000,000 for each of the two years ended 31st December, 2003, are as follows:

	2003	2002
	HK$'000	HK$'000
Salaries and other benefits	**1,082**	1,162
Retirement benefit scheme contributions	**29**	44
	1,111	1,206

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during each of the two years ended 31st December, 2003.

Notes to the Financial Statements

For the year ended 31st December, 2003

9. 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 the year.

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

The taxation can be reconciled to the loss per the income statement as follows:

	2003		2002	
	HK$'000	**%**	HK$'000	%
(Loss) profit for the year	**(16,708)**		3,721	
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	**(2,924)**	**(17.5)**	595	16.0
Tax effect of expenses that are not deductible in determining taxable profit	**508**	**3.0**	19	0.5
Tax effect of income that is not taxable in determining taxable profit	**(1)**	**–**	(7)	(0.2)
Tax effect of utilisation of tax losses not previously recognised	**–**	**–**	(607)	(16.3)
Tax effect of unused tax losses not recognised	**2,417**	**14.5**	–	–
Taxation and effective tax rate for the year	**–**	**–**	–	–

10. 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.

11. (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 weighted 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) earnings 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.

Notes to the Financial Statements

For the year ended 31st December, 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
THE GROUP				
COST				
At 1st January, 2003	3	218	553	774
Additions	661	59	186	906
Disposals	(220)	(22)	(55)	(297)
At 31st December, 2003	444	255	684	1,383
DEPRECIATION				
At 1st January, 2003	2	105	439	546
Provided for the year	52	46	126	224
Eliminated on disposals	(11)	(2)	(55)	(68)
At 31st December, 2003	43	149	510	702
NET BOOK VALUES				
At 31st December, 2003	401	106	174	681
At 31st December, 2002	1	113	114	228

Notes to the Financial Statements

For the year ended 31st December, 2003

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	HK$'000
Unlisted shares at cost	**3,162**	–
Amounts due from subsidiaries	**10,988**	–
	14,150	–
Allowance for amounts due from subsidiaries	**(6,000)**	–
	8,150	–

Details of the Company's subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation	Form of legal equity	Issued and fully paid up ordinary share capital	Proportion of ownership interest and voting power held		Principal activity
				Directly	Indirectly	
				%	%	
KanHan Technologies Inc. ("KanHan (BVI)")	British Virgin Islands	Limited company	US$116,225	100	–	Investment holding
KanHan Technologies Limited ("KanHan (HK)")	Hong Kong	Limited company	HK$200,000	–	100	Provision of communication software platforms

The amounts due from subsidiaries are unsecured and non-interest bearing. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets.

None of the subsidiaries had any debt capital outstanding at the end of the year or at any time during the year.

Notes to the Financial Statements

For the year ended 31st December, 2003

14. DEVELOPMENT EXPENDITURE

	HK$'000
THE GROUP	
COST	
At 1st January, 2003 and 31st December, 2003	3,492
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	626
Provided for the year	357
Impairment loss recognised	2,170
At 31st December, 2003	3,153
NET BOOK VALUES	
At 31st December, 2003	339
At 31st December, 2002	2,866

The development expenditure is amortised over the estimated useful lives of the projects of 3 years.

15. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 30 to 120 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK$1,652,000 (2002: HK$7,731,000), an aged analysis of which is as follows:

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
0– 30 days	**1,111**	3,387
31– 60 days	**347**	4,140
61– 90 days	**7**	–
Over 90 days	**187**	204
	1,652	7,731

Notes to the Financial Statements

For the year ended 31st December, 2003

16. AMOUNTS DUE FROM SHAREHOLDERS

Prior to the Company's shares listed on the GEM of the Stock Exchange, the then shareholders of the Company agreed to reimburse certain of the Company's share issue expenses incurred in connection with its listing. During the year, the Company received reimbursements of approximately HK$1,048,000 from these shareholders, and had remaining amounts totalling approximately HK$3,971,000 reimbursable from these shareholders at 31st December, 2003. Subsequent to 31st December, 2003, the shareholders settled approximately HK$3,106,000.

The amounts are unsecured, non-interest bearing and repayable on demand.

17. AMOUNT DUE FROM A RELATED COMPANY

The amount represented an amount due from Cyber Systems Limited, the then ultimate holding company of KanHan (BVI) and KanHan (HK), prior to the Group Reorganisation.

The amount was unsecured, non-interest bearing and was fully settled during the year ended 31st December, 2003.

18. AMOUNTS DUE TO RELATED COMPANIES

	2003	2002
	HK$'000	HK$'000
Name of related company		
Metrolink Holdings Limited ("Metrolink")	–	62
Yorkshire Capital Limited ("Yorkshire")	–	238
	–	300

Metrolink is a substantial shareholder of the Company. Ms. Wai Lai Yung, a director of the Company, is also a director of Yorkshire.

The amounts were unsecured, non-interest bearing and were fully repaid during the year.

19. SHORT-TERM LOANS

The amounts were advanced by independent third parties. They were unsecured, interest bearing at 5% per annum and were fully repaid during the year.

20. LOANS FROM A SHAREHOLDER

These were unsecured loans from Metrolink. The loans were interest bearing at 12% per annum and were repayable between April 2002 and August 2002 (the "Due Dates"). If the loans were not repaid on the relevant Due Dates, interest would be charged at 24% per annum on the amount outstanding as from the relevant Due Dates. On 1st August, 2002, a supplementary agreement was entered into between the Group and Metrolink such that the Due Dates were extended to 31st December, 2003 (the "Extended Due Date"). The interest rate was also changed to 8% per annum for the period from 1st August, 2002 to the Extended Due Date. During the year, Metrolink had waived the interest expense of approximately HK$36,000 and the loans were fully repaid.

21. 8% CONVERTIBLE NOTE

On 22nd April, 2002, an 8% convertible note with a face amount of HK$1 million and a maturity date of 31st March , 2003 (the "8% Note") was issued by KanHan (BVI) to Timeless Strategy Limited ("Timeless Strategy"). Pursuant to the terms of the 8% Note, Timeless Strategy had the right to convert the principal amount of the 8% Note together with accrued interest thereon into shares of KanHan (BVI) (the "Conversion Right") anytime prior to its maturity date. On 17th January, 2003, KanHan (BVI) and Timeless Strategy entered into a supplemental deed pursuant to which Timeless Strategy agreed to abandon its Conversion Right and the 8% Note was fully repaid during the year.

22. 3% CONVERTIBLE NOTE

On 3rd August, 2001, a 3% convertible note with a face amount of HK$1.8 million and a maturity date of 3rd August, 2003 (the "3% Note") was issued by KanHan (BVI) to Timeless Strategy. Pursuant to the terms of the 3% Note, the 3% Note was partly repayable in cash and partly convertible into shares of KanHan (BVI) based on a pre-determined formula should there be capital injections into KanHan (BVI). On 9th October, 2002, KanHan (BVI) and Timeless Strategy entered into a deed, pursuant to which Timeless Strategy agreed that on the listing of the Company's shares on the GEM of the Stock Exchange it would convert the entire principal amount of the 3% Note together with accrued interest thereon into 6,432,000 new shares of HK$0.01 each in the Company. On 21st February, 2003, the 3% convertible note with approximately HK$4,000 accrued interest was converted into 6,432,000 shares of the Company, the remaining portion of the accrued interest of approximately HK$80,000 was settled by cash.

23. FINANCIAL ASSISTANCE FROM GOVERNMENT

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated.

In the opinion of the directors, HK$158,000 will be repayable to the ITF within the next twelve months from 31st December, 2003 by reference to the forecast revenue generated from the specific product. Accordingly, HK$158,000 has been included in other payables under current liabilities and the remaining balance is classified as a non-current liability.

24. SHARE CAPITAL

	Number of shares	**Amount** HK$
Ordinary shares of HK$0.01		
Authorised:		
At the date of incorporation and at 31st December, 2002	39,000,000	3,900,000
Increase in authorised share capital on 15th January, 2003	1,961,000,000	19,610,000
At 31st December, 2003	2,000,000,000	20,000,000
Issued and fully paid:		
At the date of incorporation	1	–
Issue of shares on 13th November, 2002	99,999	–
At 31st December, 2002	100,000	–
Issue of shares upon Group Reorganisation	11,522,500	115,225
Issue of shares by way of capitalisation	408,377,500	4,083,775
Credited as fully paid from share premium	–	1,000
Issue of shares under the placing on 13th February, 2003	60,000,000	600,000
Issue of shares upon conversion of convertible notes	6,432,000	64,320
At 31st December, 2003	486,432,000	4,864,320

Notes to the Financial Statements

For the year ended 31st December, 2003

24. SHARE CAPITAL (CONTINUED)

For the purpose of the preparation of the financial statements, the balance of the share capital shown in the consolidated balance sheet at 31st December, 2002 represented the issued capital of KanHan (BVI) which was acquired by the Company on 15th January, 2003 pursuant to the Group Reorganisation.

Details of changes in the Company's share capital for the period from 10th October, 2002 (date of incorporation) to 31st December, 2003 are as follows:

(a) The Company was incorporated on 10th October, 2002 with an authorised 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 was allotted and issued, credited as nil paid, to the initial shareholder 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 at nil to Mr. Mo.

(b) 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;

(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); and

(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.

(c) 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 in the Company were allotted and issued to those shareholders whose names appeared on 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.

24. SHARE CAPITAL (CONTINUED)

(d) 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 of HK$19,200,000.

(e) 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.

These shares rank pari passu with the existing shares in all respects. The proceeds from these shares issued above were used for upgrading the Group's products, general promotion and marketing, repayment of loans from a shareholder and the provision of additional working capital.

As announced on 12th December, 2003, the Company signed an agreement with a discretionary fund which is currently subject to completion, which would provide a financing facility to the Company by investing, at the sole discretion of the Company, up to HK$100,000,000 in new ordinary shares to be issued by the Company to the fund over three years from the date of completion. Under the agreement, following the issue of a drawdown notice by the Company, the fund will purchase the shares at a price equivalent to 90% of the average closing price of listed shares in the Company during the 15 consecutive trading days immediately prior to the date of drawdown. The agreement also provides that the fund will be granted warrants to subscribe for shares of the Company equivalent to 25% of the number of shares issued to the fund. The warrants will have a term of three years and an exercise price equivalent to the market price of the Company's shares on the date of pricing of the shares. At the date of this report, the Company is still in the process of negotiations of the terms of the equity financing facility with the discretionary fund.

25. SHARE OPTIONS

On 24th January, 2003, a new share option scheme was adopted by the Company pursuant to 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 shares representing 10% of the issued share capital as at 31st December, 2003. 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 Company (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. 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 24th January, 2003.

During the year, no share options have been granted under the New Scheme.

26. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY				
At date of incorporation and 1st January, 2003	–	–	–	–
Arising from Group Reorganisation	–	3,047	–	3,047
Issue of shares by way of capitalisation	(4,085)	–	–	(4,085)
Issue of shares upon conversion of convertible notes	1,740	–	–	1,740
Issue of shares under the placing	19,200	–	–	19,200
Share issue expenses	(5,019)	–	–	(5,019)
Loss for the year	–	–	(8,855)	(8,855)
At 31st December, 2003	11,836	3,047	(8,855)	6,028

The contributed surplus of the Company arose from the Group Reorganisation on 15th January, 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' funds of KanHan (BVI).

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

Notes to the Financial Statements

For the year ended 31st December, 2003

27. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation HK$'000	**Development expenditure** HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1st January, 2001				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	55	307	(362)	–
– as restated	55	307	(362)	–
(Credit) charge to income	(30)	152	(122)	–
At 31st December, 2002	25	459	(484)	–
(Credit) charge to income	(34)	(442)	476	–
Effect of change in tax rate	2	43	(45)	–
Net (credit) charge to income	(32)	(399)	431	–
At 31st December, 2003	(7)	60	(53)	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2003 **HK$'000**	2002 HK$'000
Deferred tax liabilities	**53**	484
Deferred tax assets	**(53)**	(484)
	–	–

27. DEFERRED TAX (CONTINUED)

At 31 December 2003, the Group has unused tax losses of approximately HK$21,237,000 (2002: HK$10,148,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$303,000 (2002: HK$3,021,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$20,934,000 (2002: HK$7,127,000) due to the unpredictability of future profit streams.

28. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2003, the 3% convertible note together with accrued interest totalling approximately HK$4,000 was converted into 6,432,000 shares of the Company at HK$0.01 each.

29. OPERATING LEASE COMMITMENTS

The Group made approximately HK$758,334 (2002: HK$705,000) minimum lease payments under operating leases during the year in respect of office premises and staff quarters.

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office premises and a director's quarter under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003	2002
	HK$'000	HK$'000
Within one year	**611**	643
In the second to fifth years inclusive	**96**	514
	707	1,157

Leases are negotiated for an average term of two years and rentals are fixed throughout the lease period.

The Company had no operating lease commitments at the balance sheet date.

30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all its qualifying employees. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes the lower of 5% or HK$1,000 of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The total cost charged to income of approximately HK$162,000 (2002: HK$132,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2003, contributions of approximately HK$21,000 (2002: HK$19,000) due in respect of the reporting period had not been paid over to the schemes.

31. RELATED PARTY TRANSACTIONS

Other than those disclosed in notes 16 to 18, the Group had significant transactions with related companies as follows:

Name of company	Nature of transactions	**2003** **HK$'000**	2002 HK$'000
Metrolink	Net interest expenses (waived) paid on advances (note a)	**(22)**	57
Messrs. Yuen & Partners*	Legal fees paid (note b)	**131**	–
Timeless Strategy and its affiliate	Interest expenses paid on convertible notes (note a)	**26**	111
Timeless Strategy and its affiliate	Rental expenses paid (note a)	**11**	15
Timeless Strategy and its affiliate	Sales of licensed software (note c)	**–**	236
Yorkshire	Consultancy fee paid (note b)	**490**	240

* Mr. Yuen Ka Lok, Ernest, a director of the Company, is also a partner of Messrs. Yuen & Partners.

In addition, rental expenses of HK$480,000 (2002: HK$480,000) were paid to Comeasy Communication Limited ("Comeasy"), a company in which Mr. Mo has a beneficial interest.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

As at 31st December, 2002, the bank overdrafts of approximately HK$1,890,000 were personally guaranteed by Mr. Mo and secured by a property held by Comeasy. The bank overdraft facility was cancelled on 18th February, 2003 and the personal guarantee by Mr. Mo was then released.

Notes:

(a) The interest expenses and rental expenses are charged by reference to the prevailing market rates.

(b) The transactions were carried out in accordance with terms determined and agreed by both parties.

(c) The sales were carried out at cost plus a percentage profit mark-up.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of KanHan Technologies Group Limited (the "Company") will be held at Unit006, G/F., Tech Centre, 72 Tat Chee Avenue, Kowloon Tong, Hong Kong, on Friday, 21st May, 2004 at 10:00 a.m. for the following purposes:–

1. to receive and consider the audited financial statements and the reports of the Directors and auditors of the Company and its subsidiaries for the year ended 31st December, 2003;

2. to consider the retirement by rotation and re-election of Directors and to fix their remuneration;

3. to appoint auditors and authorize the Directors to fix their remuneration; and

as special business, to consider and, if though fit, to pass the following resolutions ("Resolutions") as ordinary resolutions:

4. **THAT**:

   (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate of:

(i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

(ii) (if the Directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution).

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable law of the Cayman Islands to be held; and

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

Notice of Annual General Meeting

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company).

5. **THAT**:

(e) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(f) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(g) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable law of Cayman Island to be held; and

Notice of Annual General Meeting

(iii) the passing of any ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

6. **THAT** the Directors be and they are hereby authorized to exercise the authority referred to in paragraph (a) of Resolution no.4 set out in the notice convening this meeting in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

7. to consider and approve as special resolutions, the amendments of the articles of association of the Company (the "Articles") based on their existing context and in accordance with Appendix 3 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") as revised and effective from 31st March 2004. Details of the amendments to the Articles are set out as follows with the proposed changes marked up for easy reference:

(a) Article 107 (c) be amended as follow:

"A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he **or any of his associate(s)** has any material interest, and if he shall do so, his vote shall not be counted (nor is he to be counted in the quorum for the resolution) but this prohibition shall not apply to any of the following matters, namely

(i) the giving of any security or indemnity either

(aa) to the Director **or his associate(s)** in respect of money lent or obligations incurred or undertaken by him or **any of them** at the request of or for the benefit of the Company or any of its Subsidiaries;

(bb) to a third party in respect of a debt or obligation of the Company or any of its Subsidiaries for which the Director **or his associate(s)** has himself/**themselves** assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

Notice of Annual General Meeting

(ii) any proposal concerning any offer of Shares or Debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director **or his associate(s)** is/**are** or is/**are** to be interested as a participants in the underwriting or sub-underwriting of the offer;

(iii) any proposal concerning any other company in which the Director **or his associate(s)** is/**are** interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director **or his associate(s)** is/**are** beneficially interested in the shares of that company, provided that, the **Director and**, his Associates is not, beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest **or that of any of his associate(s)** is derived) or of the voting rights;

(iv) any proposal or arrangement concerning the benefit of employee of the Company or any of it Subsidiaries including:

a. the adoption, modification or operation of any employee's share scheme or any share incentive scheme or share option scheme under which the Director or his associate(s) may benefit;

b. the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its Subsidiaries and does not provide in respect of any Director **or his associate(s), as such** any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or his associate(s) is / are interested in the same manner as other holders of Shares or Debentures or other securities of the Company by virtue only of his their interest in Shares or Debentures or other securities of the Company.

(b) Article 113 be amended as follow:

"No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible to the office of Director at any general meeting, unless notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The latest date for lodgement of such notices will not be more than 7 clear

Notice of Annual General Meeting

days prior to that date of the meeting appointed for such election and the minimum length of the period during which such notices to the Company may be given at least 7 clear days. **The period for lodgment of the notices will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.**

(c) Article 79 be amended as follows:

"Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares **and unless specifically required under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or any other applicable laws, rules or regulations to be by poll**, at any general meeting on a show of hands every Shareholder who is present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representatives) or by proxy shall (save as provided otherwise in this Article) have one (1) vote..."

(d) The following paragraph be added to Article 84 as a second paragraph of Article 84:

"That, where any shareholder is, under these GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

By Order of the Board
Ng Tim Tak
Company Secretary

Hong Kong, 23rd March, 2004

Principal Office:
Unit 006,
G/F., Tech Centre,
72 Tat Chee Avenue,
Kowloon Tong,
Hong Kong

Notice of Annual General Meeting

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's Hong Kong branch share registrar and transfer office, Standard Registrars Limited G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.

3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.