KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

CHARACTERISTIC OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("the Stock Exchange") has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the directors of KanHan Technologies Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to KanHan Technologies Group Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

CHAIRMAN'S STATEMENT

I am pleased to announce the un-audited interim results of KanHan Technologies Group Limited and its subsidiaries for the six months ended 30th June, 2004.

The Group was presented with both business opportunities and technology difficulties during the first and second quarters of 2004. It had a good start at the beginning of this year but faced some technology difficulties in fixing certain applications of the Hong Kong Government Sound Portal and the Chinese JAWS applications. The software difficulties were subsequently resolved and smooth operation resumed. The episode accounted for the moving of revenue and front log into the second half of this year. The Chinese JAWS software, for example, which is an application software to help the vision impaired in using computers, has now been rescheduled for launch in the third quarter. Notwithstanding the technology difficulites faced by the engineers, the group believes revenue is deferred to the third and fourth quarters.

Despite the less than satisfactory results in the first half of 2004, the Group expects to enter into the second half with an enlarged capital base and to effect close alignment and alliance with a partner to launch DIY Ring-tone and Info-IVR services in China's vibrant SMS and MMS market. As expected in any mobile phone or telecommunication markets, technological expertise is only a part of the formula of success, the other is extensive market reach and effective sales and marketing programs.

The Group has entered into a conditional Subscription Agreement on 30th July, 2004 with YesMobile Holdings Company Limited ("YesMobile") to place 97,286,400 new shares at the aggregated subscription price of HK$9,000,000.

YesMobile is a value added mobile service operator in China who provides short message service and mobile contents to individual customers and enterprises. It also provides other value-added services such as download portal and interactive voice portals in the PRC, Taiwan and Hong Kong. The subscription is scheduled to be completed on 14th August, 2004.

REVIEW OF OPERATIONS

Comparison of business objective with actual business progress

Business objectives for the review period as set out in the Prospectus	Actual business progress for the review period
1. Product Upgrades	– HanPhone/HanVoice Server has been upgraded with an administrative layer to produce a similar look and feel to traditional interactive voice response systems
	– A filter version of HanWeb has been developed for Microsoft IIS webserver to provide potential clients more flexibility in developing another Chinese Interface
2. Marketing of HanVoice	– Official launch of HKSAR Government's sound portal in May 2004
	– Press release of Octopus' subscription to HanVoice/HanPhone rental service
3. Development of HanVoice Server	– Outbound call and fax server functions have been developed and integrated into the HanVoice/HanPhone Server system
	– HanVoice server has been extended to support KanHan's newly introduced on-line Putonghua Learning Platform and DIY Ring-tone service
4. General Promotion and Marketing	– There were not much general promotional activities done in the first half of 2004
5. Repayment of Loans	– All outstanding loans have been paid-off

USE OF PROCEEDS

Use of proceeds from the Company's initial public offering ("IPO")

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange on 25th February, 2003, after deduction of the related issue expenses, were applied during the period ended 30th June, 2004 in accordance with the proposed application set out in the Prospectus, as follows:

	Proposed amount to be used up to 30th June, 2004 as per Prospectus *HK$ million*	**Actual net proceeds utilised up to 30th June, 2004** *HK$ million*
Upgrading the Group's Products	1.5	2.0
Marketing and Development of HanVoice server	1.5	2.0
General Promotion and Marketing	3.1	5.2
Repayment of Loans	1.6	1.6
Working Capital	2.5	2.5
	10.2	13.3

The Group originally planned to utilize approximately HK$10.2 million to achieve its business objectives for the period from 25th February, 2003 to 30th June, 2004. As illustrated in the above table, the Group has accelerated its use of proceeds and incurred a total of approximately HK$13.3 million for the said period. Save for the aforesaid accelerated use of proceeds, there is no change in the application of proceeds for implementation of business and development strategies as stated in the Prospectus of the Company.

INTERIM RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") of KanHan Technologies Group Limited (the "Company") would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "the Group") for the six months period ended 30th June, 2004, together with the comparative figures for the corresponding period in 2003 as follows:–

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th June, 2004

		Three months ended 30th June,		**Six months ended 30th June,**	
		2004	2003	**2004**	2003
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**699**	190	**2,830**	831
Direct costs		**(443)**	(260)	**(897)**	(513)
Gross profit (loss)		**256**	(70)	**1,933**	318
Other operating income		**–**	5	**–**	44
Selling and distribution expenses		**(505)**	(399)	**(818)**	(542)
Administrative expenses		**(1,511)**	(1,907)	**(2,865)**	(2,957)
Loss from operations	*4*	**(1,760)**	(2,371)	**(1,750)**	(3,137)
Finance costs		**–**	36	**–**	(4)
Loss before taxation		**(1,760)**	(2,335)	**(1,750)**	(3,141)
Taxation	*5*	**–**	–	**–**	–
Loss for the period		**(1,760)**	(2,335)	**(1,750)**	(3,141)
Loss per share – Basic	*6*	**0.36 cents**	0.48 cents	**0.36 cents**	0.65 cents

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2004

	Notes	30th June, 2004 HK$'000	(Audited) 31st December, 2003 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	7	**659**	681
Development expenditure	8	**1,574**	339
		2,233	1,020
CURRENT ASSETS			
Trade receivables	9	**1,921**	1,652
Other receivables, prepayments and deposits		**484**	215
Amount due from shareholders	10	**865**	3,971
Bank balances and cash		**355**	1,000
		3,625	6,838
CURRENT LIABILITIES			
Trade and other payables		**3,268**	3,518
		3,268	3,518
NET CURRENT ASSETS		**357**	3,320
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,590**	4,340
NON-CURRENT LIABILITIES			
Financial assistance from government		**1,301**	1,301
		1,301	1,301
		1,289	3,039
CAPITAL AND RESERVES			
Share capital		**4,864**	4,864
Reserves		**(3,575)**	(1,825)
		1,289	3,039

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	Six months ended 30th June, 2004	Six months ended 30th June, 2003
	HK$'000	*HK$'000*
Net cash used in operating activities	**(2,253)**	(6,435)
Net cash used in investing activities	**(1,498)**	(680)
Net cash outflow before financing activities	**(3,751)**	(7,115)
Net cash inflow from financing activities	**3,106**	13,850
(Decrease)/ Increase in cash and cash equivalents	**(645)**	6,735
Cash and cash equivalents at beginning of the period	**1,000**	108
Cash and cash equivalents at end of the period	**355**	6,843
Analysis of the balances of cash and cash equivalents:		
Bank balance and cash	**355**	6,843

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital	Share premium	Special reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2003					
At 1st January, 2003	901	9,298	–	(7,037)	3,162
Loss for the 6 months ended 30th June, 2003	–	–	–	(3,141)	(3,141)
Arising from Group reorganization	(786)	(9,298)	10,084	–	–
Issue of shares by way of capitalization	4,085	(4,085)	–	–	–
Issues 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)
At 30th June, 2003	4,864	11,836	10,084	(10,178)	16,606

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
2004					
At 1st January, 2004	**4,864**	**11,836**	**10,084**	**(23,745)**	**3,039**
Loss for the 6 months ended 30th June, 2004	–	–	–	**(1,750)**	**(1,750)**
At 30th June, 2004	**4,864**	**11,836**	**10,084**	**(25,495)**	**1,289**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

These unaudited condensed consolidated accounts should be read in conjunction with the annual financial statements for the year ended 31st December, 2003 ("2003 annual financial statements"). The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the 2003 annual financial statements. These condensed accounts have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

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

2. Turnover

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

	Three months ended 30th June,		Six months ended 30th June,	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of licensed software	**327**	152	**2,273**	753
Software maintenance	**176**	33	**317**	66
Software rental and subscription income	**125**	5	**149**	12
	628	190	**2,739**	831
Putonghua learning platform	**71**	–	**91**	–
	699	190	**2,830**	831

3. Segmental Information

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

Geographical segments	Revenue Six months ended 30th June, 2004 HK$'000	2003 HK$'000	Net loss Six months ended 30th June, 2004 HK$'000	2003 HK$'000
Hong Kong	**2,774**	788	**1,882**	302
The PRC, other than Hong Kong	**56**	43	**51**	16
	2,830	831		
Segment Results			**1,933**	318
Other revenue			**–**	44
Unallocated expenses			**(3,683)**	(3,499)
Loss from operations			**(1,750)**	(3,137)
Finance cost			**–**	(4)
Net loss for the period			**(1,750)**	(3,141)

4. Loss from Operations

Loss from operations has been arrived at after charging:

	Three months ended 30th June, 2004 HK$'000	2003 HK$'000	Six months ended 30th June, 2004 HK$'000	2003 HK$'000
Amortisation of development expenditure	**64**	104	**129**	209
Depreciation	**78**	56	**153**	117

5. Taxation

No provision for Hong Kong profits tax has been made in the account as the Group had no assessable profits in Hong Kong for the six months period ended 30th June, 2004 (2003: Nil).

6. Loss Per Share

The computation of the Group's basic loss per share for the three months ended 30th June, 2004 is based on the Group's loss attributable to shareholders of approximately HK$1,760,000 (2003: a loss of approximately HK$2,335,000) and on the weighted average number of 486,432,000 shares (three months ended 30th June, 2003: 486,432,000 shares)

The computation of the Group's basic loss per share for the six months period ended 30th June, 2004 is based on the Group's loss attributable to shareholders of approximately HK$1,750,000 (2003: a loss of approximately HK3,141,000) and on the weighted average number of 486,432,000 shares (six months ended 30th June, 2003: 486,432,000 shares).

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

7. Property, Plant and Equipment

The Group	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1st January, 2004	444	255	684	1,383
Additions	–	36	98	134
Disposals	–	(3)	–	(3)
At 30th June, 2004	444	288	782	1,514
Depreciation				
At 1st January, 2004	43	149	510	702
Provided for the period	74	27	52	153
Eliminated on disposals	–	–	–	–
At 30th June, 2004	117	176	562	855
Net book value				
At 30th June, 2004	327	112	220	659
At 31st December, 2003	401	106	174	681

8. Research and Development Expenditure

The Group	*HK$'000*
COST	
At 1st January, 2004	3,492
Addition during the period	1,364
At 30th June, 2004	4,856
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	3,153
Provided for the period	129
At 30th June, 2004	3,282
NET BOOK VALUE	
At 30th June, 2004	1,574
At 31st December, 2003	339

9. Trade Receivables

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

	The Group	
	30th June, 2004	31st December, 2003
	HK$'000	*HK$'000*
0-30 days	**654**	1,111
31-60 days	**1,020**	347
61-90 days	**12**	7
Over 90 days	**235**	187
	1,921	1,652

10. Amounts Due from Shareholders

Prior to the Company's shares listed on the GEM of the Stock Exchange, the shareholders of the Company agreed to reimburse certain of the Company's share issue expenses incurred in connection with its listing.

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

11. Dividend

No dividend has been paid or declared by the Company or any of its subsidiaries for the six months period ended 30th June, 2004 and 2003.

12. Related Party Transactions

During the period, the Group had transactions with related companies. The transactions with these companies during the period are as follows:

Name of Company	**Nature of transactions**	**Six months ended 30th June, 2004** ***HK$'000***	Six months ended 30th June, 2003 *HK$'000*
Metrolink Holdings Limited	Net interest expenses (waived) paid on advances	**–**	(22)
Timeless Strategy and its affiliate	Interest expenses paid on convertibles notes	**–**	24
Timeless Strategy and its affiliate	Rental expenses paid	**–**	11
Yorkshire Capital Ltd.	Consultancy fee paid *(note a)*	**200**	190
Messrs. Yuen & Partners *(note b)*	Legal fees paid	**68**	32
Comeasy Communication Ltd.	Quarter rental expenses paid	**240**	240
		508	475

Notes:

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

(b) Mr. Yuen Ka Lok, Ernest, an independent non-executive director of the Company, is also a partner of Messrs. Yuen & Partners.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue for the six months ended 30th June, 2004 amounted to HK$2,830,000 (2003: HK$831,000) representing about 241% increase as compared to that of previous period in 2003. The net loss for the period amounted to approximately HK$1,750,000 (2003: net loss of approximately HK$3,141,000).

The loss resulted principally from the expenses incurred in the Group's operating, research and development activities.

The total operating expenses of the Group for the period was approximately HK$3,683,000, which is about 5% increase as compared with that of the corresponding period in 2003. The increase was mainly due to the increase in selling and distribution expenses incurred in developing the non-traditional products development.

BUSINESS REVIEW AND OUTLOOK

Traditional Business

The Hong Kong market has been responding slower than expected to CEPA and China's relaxing of travel restrictions on individual travellers to Hong Kong. As such, HanWeb's translation software for simplex and complex Chinese translation have been selling slower than expected. However, front log remains healthy.

The Group continues to recruit non-traditional resellers, and website advertising and design companies continue to be the Group's focus. Selling in these venues tends to take longer time. On the other hand, our sales and marketing department continues to refine our selling strategies to cover total solution selling ("TTS") to get us into the doors of large corporations in Hong Kong. Reception has been encouraging. Capitalising on KanHan's strengths in Chinese character translation, information technology and text-to-speech technology, TTS is an effort to fend off value-added service competitors.

We successfully won and delivered phase one of the first turnkey service contract for the creation of the website for the Department of Health's newly launched centre for health protection. The website aims at educating Hong Kong citizens and raising their awareness about health issues. It also provides information to medical professionals on handling of contagious diseases. The Group believed that this website could serve as a bridge between Hong Kong, the World Health Organzation and China in respect to the provision and dissemination of healthcare information. KanHan is the prime contractor offering its project management skills and HanWeb, while the bulk of design and programming work were done by other contractors. Adopting similar tactics, KanHan won a pilot project in building a mobile access interface for PDA and mobile phone/device users for selected Hong Kong Government websites. KanHan as the project manager provided the voice technology component while the actual Web to mobile format conversion work was outsourced to other contractors. We are confident that this new total service sales strategy will not only boost our product sales but will also open up many more web related technology business opportunities for the Group.

The HKSAR Government launched the region's first government sound portal using KanHan's HanVoice/HanPhone technology in May 2004. Together with the voice library of the Hong Kong Society for the Blind and OctopusCards' lucky draw application, KanHan's voice technology has garnered a strong credibility and endorsement and is poised for a full commercial launch in the traditional interactive voice response (IVR) application market in the second half of the year.

The Group's business was affected by the delay of the shipment of Chinese JAWS. Chinese JAWS is a screen reader software for assisting the visually impaired in using computers. The English JAWS, which dominates the international market, is a product of a U.S. firm. We entered into a joint development agreement with the U.S. firm in 2003 to produce the Chinese version of JAWS with Cantonese and Putonghua ability targeting initially Hong Kong and subsequently the Taiwan and PRC markets. There are approximately 500 copies of English JAWS used in Hong Kong that we plan to upgrade with the Chinese version to users for personal use and to non-government agencies. There are around 75,000 visually impaired persons in Hong Kong according to government data. In this regard, we are the leader in Asia in software deployment targeting the visually impaired.

Non Traditional Business

Leveraging its advanced technologies, the Group continued her efforts in the second quarter to develop its consumer-based business.

Info-Tone Payment and Delivery Gateway

There is a delay in the completion of the payment and service gateway that allows the provision of a variety of voice contents to members for a fee. Our content partners will begin a full testing cycle of the system in August. We rescheduled our target date for soft launch to the last quarter of this year.

As to the corporate front of Info-Tone, Octopus Cards Limited is our first customer to apply Info-Tone interactive voice response infrastructure ("IVRS") on rental basis in lucky draw. Our customers have told us that IVRS is useful to them in many different business areas, hence the Group will formulate a strategic plan to market the product after we complete our capital structure.

DIY Ring-tone Service

Since the service's soft launch in February by 21CN.com, a China Telecom portal company based in Guangzhou, despite only scant promotion, there is a gradual increase in traffic indicating growing interest in the service among potential users. Tencent, the leading PRC mobile messaging service provider did two limited scale trial launches during Valentine's Day and April Fool's Day and decided afterwards to do a full service launch in August to complement Tencent's massive Olympic 2004 promotion campaign.

The slower than expected growth in the mobile MMS service market in China has made major portal companies cautious in spending money on marketing including 21CN.com. We are however optimistic that our partnership with Tencent, leveraging their massive marketing prowess, will raise market awareness considerably in the coming months hence boost the usage level of the DIY Ring-tone service in the coming year.

Putonghua Learning Platform

The Group's Putonghua Learning Platform ("PTH" and "E-LEARNING") has been upgraded with more recorded contents targeting individual industries such as hotel and China trade. The integration with voice recognition enables users to test their ability on their own. Its completely redesigned appearance makes learning to use PTH easier and the product more attractive to new users. KanHan has agreed with the Hong Kong Science & Technology Park Corporation and the Hong Kong Productivity Council to deliver Putonghua training to their clients. And the IT Training & Development Centre division of the Vocational Training Council has agreed with KanHan to resell PTH or KanHan's E-LEARNING program.

In the latter half of the year, the Group will focus on sales and marketing to the primary schools and general consumer markets. We have witnessed the gradual built-up of the growth momentum of the PTH business that we are hopeful it will become a major revenue contributor of the Group by year end.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

During the six months ended 30th June, 2004, the Group's operation was mainly financed by the net proceeds of the placing of shares in February 2003 and the internal financial resources of the Group.

During the period, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies and investment.

As at 30th June, 2004, (i) the Group had no significant exposure to fluctuation in exchange rates and any related hedges; (ii) the Group had no banking facilities; and (iii) the group had no significant investment held. It is expected that the Group may raise bank borrowings should the need arise.

As announced on 12th December, 2003, the Company signed an agreement (subject to completion) with a discretionary fund in that the fund 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.

On 30th July, 2004, the Company entered into a conditional Subscription Agreement with YesMobile Holdings Company Limited ("the Subscriber") to place 97,286,400 new Shares at the Subscription Price of aggregate HK$9,000,000, representing approximately HK$0.0925 per Subscription Share. Under the agreement, the Completion of the Subscription is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Subscription Shares on or before 14th August, 2004; the Company shall use its best endeavors to procure that the condition shall become fulfilled or satisfied as soon as practicable and in any event not later than 14th August, 2004 or such other date as the Subscriber and the Company may agree in writing. The Directors of the Company believes that the Subscriber will create synergy with the Group to explore the markets in the PRC once it becomes the Company's shareholder. The net proceeds of the Subscription are estimated to be approximately HK$8,700,000. The Directors presently intend to apply such net proceed for general working capital purpose.

The Board is of the opinion that the Group has sufficient working capital for its present requirement, and is satisfied that provided the Subscription Agreement is completed, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

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.

CONTINGENT LIABILITIES

As at 30th June, 2004, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 30th June, 2004, the Group had 19 full-time employees. All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programmes including medical coverage and provident funds were also provided. In addition, training and development course were offered throughout the Group to upgrade employee skill and knowledge.

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

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 30th June, 2004, 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, as of 30th June, 2004, none of the Directors and chief executive or their associates had any interests in any securities in the Company or its associated corporations. None of the Directors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities of the Company.

SHARE OPTIONS

As at 30th June, 2004, no share option has been granted by the Company under the share option scheme.

DIRECTORS' INTERESTS IN CONTRACTS

In the six months period ended 30th June, 2004, the Group has a tenancy agreement with a related company in which Mr. Mo Wai Ming, Lawrence is one of the directors. The rental expenses paid during the period to the related company amounted to HK$240,000. The Group paid consultancy fee, a total of HK$200,000 during the six months period ended 30th June, 2004, to a related company in which Ms. Wai Lai Yung is the director. The Company paid legal and secretarial fee, a total of HK$68,000 during the six months period ended 30th June, 2004, to a law firm in which Mr. Yuen Ka Lok, Ernest is a partner.

Save as disclosed above:

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

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, 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 Shing, 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 Shing, Andy beneficially owns 50% issued capital of Metrolink and beneficially owns 44.25% issued capital of ZMGI Corporation.

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

SPONSOR'S INTERESTS

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

Neither the sponsor of the Company, South China, nor its directors, employees or associates (as referred to Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) as at 30th June, 2004.

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 business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Options" above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

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

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

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 Ms. Li Mo Ching, Joyce and Ms. Tam Cheuk Ling, Jacqueline, who are the independent non-executive directors of the Company.

The Group's unaudited results for the six months period ended 30th June, 2004 have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock exchange and other legal requirements, and that adequate disclosure has been made.

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

Hong Kong, 10th August, 2004