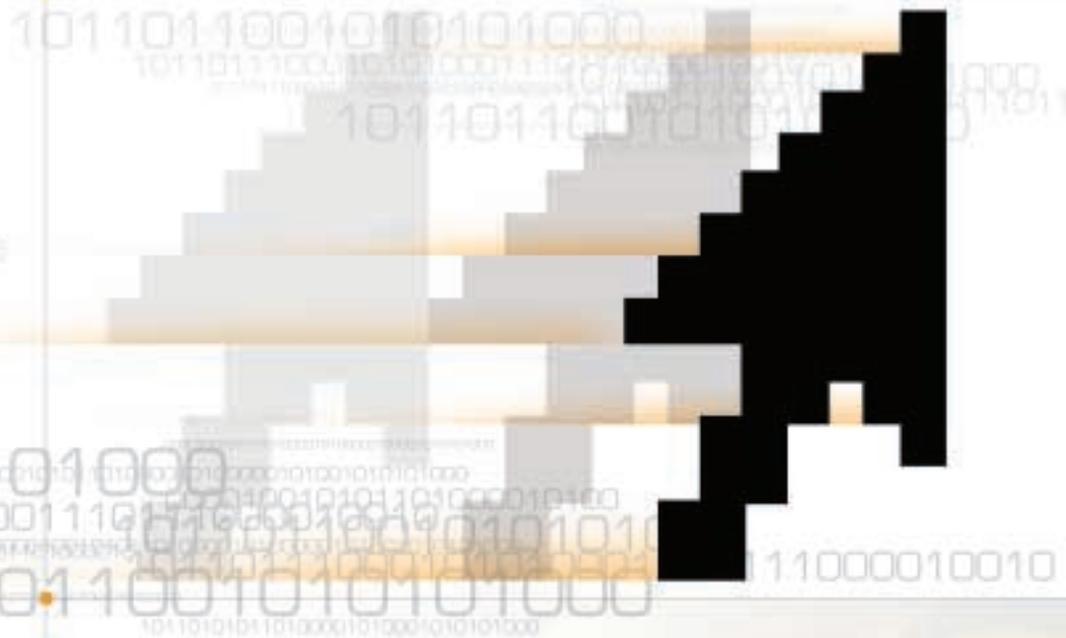




看漢科技集團有限公司

KanHan Technologies Group Limited

(incorporated in the Cayman Islands with limited liability)



annual report 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM 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 the 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 reports 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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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Corporation Information

BOARD OF DIRECTORS

Executive Directors

Mo Wai Ming, Lawrence
(Chairman and Chief Executive Officer)
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

Sun Kam Fai, Zacky

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 006
Ground Floor, Tech Centre,
72 Tat Chee Avenue,
Kowloon Tong,
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

INVESTOR RELATIONS CONSULTANT

Porda International (Finance) PR Co., Ltd.

WEBSITE ADDRESS

www.kanhan.com

STOCK CODE

8175

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 and Chief Executive Officer 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

Corporate Structure



Financial Highlights

For the year ended 31st December

RESULTS

Turnover

(Loss) profit from ordinary activities
attributable to shareholders

2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
416	2,448	8,801
(5,324)	(5,434)	3,721

ASSETS AND LIABILITIES

Total assets

Total liabilities

Balance (deficiency) of shareholders' funds

As at 31st December

2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
4,200	3,057	11,713
(352)	(4,244)	(8,551)
3,848	(1,187)	3,162

Note: Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group on 15th January, 2003. The shares of the Company were listed on the GEM on 25th February, 2003. The Group resulting from the group reorganisation is regarded as a continuing entity. Accordingly, the proforma financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The results for two years ended 31st December, 2000 and 2001, and the assets and liabilities as at 31st December, 2000 and 2001 have been extracted from the Company's prospectus dated 13th February, 2003.

Chairman's Statement

On behalf of the board of directors, I am pleased to present the first annual report and the audited financial statements of KanHan Technologies Group Limited (the "Company" or "Kanhan") for the period from 10th October, 2002 (date of incorporation) to 31st December, 2002 and the proforma audited consolidated results of the Company and its subsidiaries (the "Group") for the financial year ended 31st December, 2002.

RESULTS FOR THE YEAR

The Group's turnover for the year ended 31st December, 2002 was HK\$8,801,000, representing an increase of 260% from that of previous year. The net profit attributable to shareholders for the year ended 31st December, 2002 was HK\$3,721,000, representing an increase of 168%, as compared to last year's figures.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2002.

BUSINESS REVIEW

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

Increasing Market Presence

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

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

Chairman's Statement

Research and Development

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

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

Sales and Marketing

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

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

PROSPECTS

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

Chairman's Statement

PRC Opportunities

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

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

Strategic Alliance

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

APPRECIATION

I would like to thank the Board of Directors for their valuable advice and effort. 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 devotion and hard work.

Lawrence Mo

Chairman and Chief Executive Officer

27th March, 2003

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 proforma 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 2001" and "fiscal 2002" are to the years ended, and as at, 31st December, 2001 and 2002, respectively.

RESULTS OF OPERATION

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

The gross profit margin for the two years ended 31st December, 2002 were approximately 92% and 91% respectively. The net losses for fiscal 2001 was HK\$5,434K and the net profits for fiscal 2002 was HK\$3,271K respectively.

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

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

For the two years ended 31st December, 2001 and 31st December, 2002, approximately 81% and 60% respectively of the Group's turnover were derived from sales made in the Hong Kong market with the remaining balance attributable to sales made in international markets including the United States of America, Taiwan and the PRC.

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

Management Discussion and Analysis

Taxation

The Group principally conducts its business in Hong Kong and is thus subjected to Hong Kong profits tax rate of 16%. No Tax is payable on the profit for fiscal 2002 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. Tax losses carried forward amounting to approximately HK\$10,148K.

No provision for Hong Kong profits tax has been made in the proforma financial statements for fiscal 2001 as the Group incurred a tax loss for the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

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

INDEBTEDNESS

Borrowings

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

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

The long-term borrowings represented a 3% convertible note of HK\$1,800K, and financial assistance from the government of approximately HK\$1,507K. The convertible notes were issued by the Kanhan Technologies Inc to Timeless Strategy Limited, a shareholder. Timeless Strategy Limited has

Management Discussion and Analysis

converted the whole of the 3% note into 6,432,000 new shares of HK\$0.01 each in the Company on 21st February, 2003. The financial assistance from the government was provided by The Innovation and Technology Fund ("ITF"). The fund is non-interest bearing and repayable to ITF when revenue is generated from the specific product.

DISTRIBUTABLE RESERVES

As at 31st December, 2002, there were no reserves available for distribution to the shareholders of the Company as at that date.

WORKING CAPITAL

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

USE OF PROCEEDS FROM LISTING

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

FOREIGN EXCHANGE RISK

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

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

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

Management Discussion and Analysis

CAPITAL STRUCTURE

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

Pursuant to a written resolution of a sole shareholder of the Company held on 15th January, 2003, the authorized share capital of the Company was increased to HK\$20,000,000 divided into 2,000,000,000 shares by the creation of an additional 1,961,000,000 shares to rank pari passu with the existing shares in all respects; and an aggregate of 11,622,500 shares were allotted and issued, credited as fully paid to the then shareholders of KanHan Technologies Inc as a consideration for the Company to acquire 11,622,500 shares of US\$0.01 each in the share capital of KanHan Technologies Inc.

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

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

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

CONTINGENT LIABILITIES

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

Management Discussion and Analysis

EMPLOYEE INFORMATION

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

The Group also adopted employee share option scheme to provide the eligible employees 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.

Progress Against Business Objectives

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

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Mo Wai Ming, Lawrence, Chairman and Chief Executive Officer, age 43

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 helped 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 operations 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 electronic publishing products in these markets. 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 the 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 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 45

Ms. Wai has been a director of 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 46

Mr. Lee has been working in the Information Technology industry for over 24 years. Since 1992, he has been working 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 40

Mr. Sun, is the Qualified Accountant and Company Secretary 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 39

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 the 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 50

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 39

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 the Hong Kong Polytechnic in 1987 and is a member of FCCA and HKSA.

SENIOR MANAGEMENT

Mr. Tsang Yiu Kwan, Odie, product manager, age 32

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. Tso Yuk, language technology development manager, age 27

Mr. Tso is the language technology development manager of the Company responsible for language customization and research. He joined the Group in July 2000. He graduated from the Hong Kong Baptist University with a degree on English Language and Literature in 1999. He specialised in Linguistics, which gives him a sound academic background for his role in the Group. Prior to his employment with the Group, he worked for Stareastnet.com as the marketing executive from 1999 to 2000. Mr. Tso also has almost one and a half years of broadcasting experience as a presenter in Radio Television Hong Kong.

Mr. Szeto Wai, business development manager, age 31

Mr. Szeto is the Business Development Manager of the Company. He joined the Group in May, 2000 and 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 44

Ms. Lau is the administration manager of the Company. She joined the Group in January, 2000 and is responsible for general administration, human resources, accounting and financial control. Ms. Lau graduated from the Heriot-Watt University, U.K. with a Master's 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 27

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 their first report and the audited financial statements of the Company for the period from 10th October, 2002 (date of incorporation) to 31st December, 2002 and the proforma financial statements of the Group for the year ended 31st December, 2002.

REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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 GEM, 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 proforma financial statements of the Group, based on the group structure following the Group Reorganisation, are set out on pages 33 to 60 of this report.

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activity of its principal subsidiaries is the provision of communications software platforms.

RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the proforma consolidated income statement on page 33.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the authorised and issued share capital of the Company since its incorporation are set out in note 5 to the balance sheet of the Company.

Directors' Report

RESERVES

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Mo Wai Ming, Lawrence	(appointed on 10th October, 2002)
Ms. Wai Lai Yung	(appointed on 23rd January, 2003)
Mr. Lee Chi Ming	(appointed on 23rd January, 2003)
Mr. Sun Kam Fai, Zacky	(appointed on 10th October, 2002)

Non-executive director:

Mr. Yuen Ka Lok, Ernest	(appointed on 23rd January, 2003)
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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, Mr. Mo Wai Ming, Lawrence and Mr. Sun Kam Fai, Zacky 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 the Company's Articles of Association.

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

Directors' Report

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 one month's 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' INTERESTS IN SHARES OF THE COMPANY

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

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

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

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

SHARE OPTIONS

Particulars of the Company's and its subsidiary's share option scheme are set out in note 23 to the proforma financial statements.

Directors' Report

The following table discloses movements in the share option of KanHan Technologies Inc., a subsidiary of the Company, during the year:

Directors	Outstanding at beginning of year	Cancelled during the year	Outstanding at end of year
Mr Mo Wai Ming, Lawrence	100,000	(100,000)	–
Ms Wai Lai Yung	60,000	(60,000)	–
	160,000	(160,000)	–

No share option has been granted by the Company under the Company's share option scheme up to the date of this report.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31st December, 2002, the Group entered into a tenancy agreement with Comeasy Communication Limited ("Comeasy") in which Mr. Mo Wai Ming, Lawrence has a beneficial interest. The rental expenses paid during the year to Comeasy amounted to HK\$480,000. Moreover, the Group paid consultancy fee to Yorkshire Capital Limited in which Ms. Wai Lai Yung has a beneficial interest. The consultancy fee paid during the year amounted to HK\$240,000.

Save as disclosed above:

- (i) no contracts of significance subsisted at the end of the year or at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no transactions which are required to be disclosed as connected transactions in accordance with the requirements of GEM Listing Rules.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

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

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

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

SPONSOR'S INTERESTS

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

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

COMPETING INTERESTS

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

Directors' Report

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 proforma financial statements, in respect of the year ended 31st December, 2002:

- (i) The Group's single product is computer software which it develops 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 44% and 89%, respectively, of the Group's total turnover.

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

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

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

POST BALANCE SHEET EVENTS

Details of significant events occurring after balance sheet date are set out in note 28 to the proforma financial statements.

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.

Directors' Report

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

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

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

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 10th October, 2002.

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board

Lawrence Mo

Chairman and Chief Executive Officer

27th March, 2003

Auditors' Report

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
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Hong Kong

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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 balance sheet and accompanying notes on pages 27 to 30 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 to you.

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 Company's circumstances, 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 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.

OPINION

In our opinion the balance sheet and accompanying notes give a true and fair view of the state of the Company's affairs as at 31st December, 2002 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, 27th March, 2003

Balance Sheet

At 31st December, 2002

	NOTE	HK\$'000
Share capital	5	–

The balance sheet and accompanying notes on pages 27 to 30 were approved and authorised for issue by the Board of Directors on 27th March, 2003 and are signed on its behalf by:

Mo Wai Wing, Lawrence
DIRECTOR

Sun Kam Fai, Zacky
DIRECTOR

Notes to the Balance Sheet

1. GENERAL

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

The Company did not trade during the period ended 31st December, 2002.

The Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 25th February, 2003.

2. BASIS OF PREPARATION OF BALANCE SHEET

The balance sheet was prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

3. RESULT FOR THE PERIOD

The Company did not derive any income during the period. The expenses for the period which were necessary to maintain the Company, including auditors' remuneration of HK\$10,000 were borne by KanHan Technologies Limited which became a subsidiary of the Company on 15th January, 2003.

4. TAXATION

No provision for taxation has been made in the balance sheet as the Company had no income for the period.

Notes to the Balance Sheet

5. SHARE CAPITAL

	Number of shares	Amount HK\$
Authorised:		
At the date of incorporation and at 31st December, 2002	39,000,000	390,000
Issued and nil paid:		
At the date of incorporation	1	–
On 13th November, 2002	99,999	–
At 31st December, 2002	100,000	–

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 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.

Changes in the share capital of the Company subsequent to 31st December, 2002 are set out in note 6.

Notes to the Balance Sheet

6. POST BALANCE SHEET EVENTS

- (a) Pursuant to a written resolution of the sole shareholder of the Company on 15th January, 2003, the following resolutions were passed:
- (i) the authorised share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares to HK\$20,000,000 divided into 2,000,000,000 shares by the creation of an additional 1,961,000,000 shares to rank pari passu with the existing shares in all respects; and
 - (ii) an aggregate of 11,522,500 shares of HK\$0.01 each were allotted and issued, credited as fully paid to the then shareholders of KanHan Technologies Inc. (“KanHan (BVI)”) as consideration for the Company’s acquisition of the entire issued capital of KanHan (BVI).
 - (iii) a sum of HK\$1,000 being part of the amount credited to the share premium account of the Company to be applied to pay up in full at par the 100,000 nil paid shares held by Mr. Mo.
- (b) Pursuant to the prospectus dated 13th February, 2003 issued by the Company, the Company allotted and issued 60,000,000 new shares of HK\$0.01 each in the Company at an issue price of HK\$0.33 per share, creating a share premium of HK\$19,200,000.
- (c) Upon creation of the share premium account as described in (b) above and pursuant to 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.
- (d) On 21st February, 2003, Timeless Strategy Limited, a shareholder of the Company, 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.

Auditors' Report on Proforma Financial Statements

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
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香港中環干諾道中111號
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**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 proforma financial statements on pages 33 to 60 which have been prepared in accordance with the basis of preparation set out in note 1 to the proforma financial statements and with the accounting policies set out in note 3 to the proforma financial statements which comply with accounting principles generally accepted in Hong Kong except that the effects of the group reorganisation entered into after the balance sheet date have been accounted for using merger accounting which is not in accordance with the requirements of Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" ("SSAP 27") issued by the Hong Kong Society of Accountants. Although the group reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that financial statements should not incorporate a combination which occurs after the date of the most recent balance sheet included in the financial statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of the proforma financial statements on the basis of preparation set out in note 1 to the proforma financial statements and in accordance with the accounting policies set out in note 3 to the proforma financial statements. In preparing such proforma financial statements 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 to you.

Auditors' Report on Proforma Financial Statements

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 proforma financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the proforma financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 whether the proforma financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the proforma financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In the opinion the proforma financial statements for the year ended 31st December, 2002 have been properly prepared in accordance with the basis of preparation set out in note 1 to the proforma financial statements and with the accounting policies set out in note 3 to the proforma financial statements and the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 27th March, 2003

Proforma Consolidated Income Statement

For the year ended 31st December, 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Turnover	4	8,801	2,448
Direct costs		(791)	(198)
Gross profit		8,010	2,250
Other operating income		45	44
Research and development expenses		(100)	(2,067)
Administrative expenses		(3,975)	(5,011)
Selling and distribution expenses		(78)	(627)
Profit (loss) from operations	6	3,902	(5,411)
Finance costs	7	(181)	(23)
Profit (loss) for the year		3,721	(5,434)
Earnings (loss) per share – Basic	11	0.89 cents	(1.38 cents)

Proforma Consolidated Balance Sheet

At 31st December, 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	228	607
Development expenditure	13	2,866	1,917
		3,094	2,524
CURRENT ASSETS			
Trade and other receivables	14	8,467	175
Amount due from a related company	15	44	36
Bank balances and cash		108	322
		8,619	533
CURRENT LIABILITIES			
Other payables		1,459	1,046
Amounts due to related companies	16	300	69
Short term loans	17	150	–
Loans from a shareholder	18	681	–
8% convertible note	19	764	–
Bank overdrafts		1,890	50
		5,244	1,165
NET CURRENT ASSETS (LIABILITIES)			
		3,375	(632)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		6,469	1,892
NON-CURRENT LIABILITIES			
3% convertible note	20	1,800	1,800
Financial assistance from government	21	1,507	1,279
		3,307	3,079
		3,162	(1,187)
CAPITAL AND RESERVES			
Share capital	22	901	820
Reserves		2,261	(2,007)
		3,162	(1,187)

The proforma financial statements on pages 33 to 60 were approved and authorised for issue by the Board of Directors on 27th March, 2003 and are signed on its behalf by:

Mo Wai Wing, Lawrence
DIRECTOR

Sun Kam Fai, Zacky
DIRECTOR

Proforma Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

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

Note:

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

Proforma Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES		
Profit (loss) for the year	3,721	(5,434)
Adjustments for:		
Depreciation	225	325
Amortisation of development expenditure	354	103
Interest income	(45)	(36)
Interest expense	181	23
Loss on disposal of property, plant and equipment	154	113
Impairment of development expenditure	–	46
Operating profit (loss) before working capital changes	4,590	(4,860)
(Increase) decrease in trade and other receivables	(8,292)	295
Increase in amount due from a related company	(8)	(13)
Increase in other payables	413	773
Increase in amounts due to related companies	231	44
NET CASH USED IN OPERATING ACTIVITIES	(3,066)	(3,761)
INVESTING ACTIVITIES		
Additions to development expenditure	(1,290)	(1,389)
Purchase of property, plant and equipment	(13)	(369)
Interest received	45	36
Proceeds from disposal of property, plant and equipment	–	18
NET CASH USED IN INVESTING ACTIVITIES	(1,258)	(1,704)
FINANCING ACTIVITIES		
Loans from a shareholder	969	–
Net proceeds from issue of convertible notes	764	1,800
Proceeds from issue of shares	628	399
Proceeds from financial assistance from government	228	1,279
Proceeds from short term loans	150	–
Repayment to a shareholder	(288)	–
Interest paid	(181)	(23)
NET CASH FROM FINANCING ACTIVITIES	2,270	3,455

Proforma Consolidated Cash Flow Statement (Continued)

For the year ended 31st December, 2002

	2002 HK\$'000	2001 HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,054)	(2,010)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	272	2,282
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	(1,782)	272
ANALYSIS OF THE CASH AND CASH EQUIVALENTS		
Bank balances and cash	108	322
Bank overdrafts	(1,890)	(50)
	(1,782)	272

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised SSAPs. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (CONTINUED)

Cash flow statements

Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest received and interest paid, which were previously presented under a separate heading, are classified as investing cash flows and financing cash flows respectively.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the proforma financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The proforma financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong except that the effects of the Group Reorganisation entered into after the balance sheet date have been accounted for using merger accounting which is not in accordance with the requirements of SSAP27. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

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 proforma income statement on a straight-line basis over the 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 property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	33 $\frac{1}{3}$ %

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

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 tangible and intangible 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. Impairment losses 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.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the proforma financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

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

Retirement benefits scheme

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

4. TURNOVER

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

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

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.

Geographical segments

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

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

5. SEGMENT INFORMATION (CONTINUED)

The assets and liabilities of the Group at the balance sheet date were substantially located in Hong Kong and substantially employed at the head office level in Hong Kong except for a balance of trade receivable of approximately HK\$2,585,000 as at 31st December, 2002 (2001: HK\$Nil) was attributable to sales to customers in the PRC. Accordingly, no analysis of the Group's assets and liabilities, capital additions or depreciation is presented.

6. PROFIT (LOSS) FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration (note 8)	1,312	1,312
Retirement benefit scheme contributions	120	121
Other staff costs	2,708	2,892
Total staff costs	4,140	4,325
Less: amount capitalised in development expenditure	(1,284)	(1,348)
	2,856	2,977
Amortisation of development expenditure	354	103
Auditors' remuneration	200	55
Bad debts written off	-	93
Depreciation	238	366
Less: amount capitalised in development expenditure	(13)	(41)
	225	325
Loss on disposal of property, plant and equipment	154	113
Impairment of development expenditure	-	46
and after crediting:		
Interest income	45	36

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

7. FINANCE COSTS

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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) DIRECTORS

	2002 HK\$'000	2001 HK\$'000
Directors' fee	–	–
Other emoluments:		
Salaries and other allowances	1,300	1,300
Retirement benefits scheme contributions	12	12
	1,312	1,312

During each of the two years ended 31st December, 2002, only one director received emoluments from the Group, details of which are set out above. The other directors of the Company did not receive any emolument.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) DIRECTORS (Continued)

The directors' remuneration was within the following bands:

	2002	2001
	Number of directors	Number of directors
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	1	1

The above emoluments included operating lease rentals of HK\$480,000 (2001: HK\$480,000) paid for a director's quarter for the year ended 31st December, 2002.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived any emoluments for each of the two years ended 31st December, 2002.

(b) EMPLOYEES

The five highest paid individuals included one (2001: one) director of the Company, details of whose emolument are set out above. The emoluments of the remaining four (2001: four) individuals, which fall within the band of nil to HK\$1,000,000 for each of the two years ended 31st December, 2002, are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	1,162	1,438
Retirement benefit scheme contributions	44	46
	1,206	1,484

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

9. TAXATION

No tax is payable on the profit for the year ended 31st December, 2002 arising in Hong Kong since the estimated assessable profit is wholly absorbed by tax losses brought forward. Tax losses carried forward amounting to approximately HK\$10,148,000 (2001: HK\$16,635,000).

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

Details of the deferred taxation asset not recognised are set out in note 24.

10. DIVIDEND

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

11. EARNINGS (LOSS) PER SHARE

The computation of the basic earnings (loss) per share for the year is based on the profit for the year of approximately HK\$3,721,000 (2001: a loss of HK\$5,434,000) and on the weight average number of 420,000,000 (2001: 417,263,308) shares as if the Group Reorganisation completed on 1st January, 2001.

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

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, 2002	182	237	544	963
Additions	–	4	9	13
Disposals	(179)	(23)	–	(202)
At 31st December, 2002	3	218	553	774
DEPRECIATION				
At 1st January, 2002	34	66	256	356
Provided for the year	10	45	183	238
Eliminated on disposals	(42)	(6)	–	(48)
At 31st December, 2002	2	105	439	546
NET BOOK VALUE				
At 31st December, 2002	1	113	114	228
At 31st December, 2001	148	171	288	607

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

13. DEVELOPMENT EXPENDITURE

	HK\$'000
THE GROUP	
COST	
At 1st January, 2001	1,258
Additions	1,429
Transfer to property, plant and equipment	(498)
At 31st December, 2001 and 1st January, 2002	2,189
Additions	1,303
At 31st December, 2002	3,492
AMORTISATION AND IMPAIRMENT	
At 1st January, 2001	123
Provided for the year	103
Impairment during the year	46
At 1st January, 2002	272
Provided for the year	354
At 31st December, 2002	626
NET BOOK VALUE	
At 31st December, 2002	2,866
At 31st December, 2001	1,917

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

14. 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\$7,731,000 (2001: HK\$4,000) and an aged analysis of which is as follows:

0 - 30 days
31 - 60 days
Over 90 days

THE GROUP	
2002	2001
HK\$'000	HK\$'000
3,387	4
4,140	–
204	–
7,731	4

15. AMOUNT DUE FROM A RELATED COMPANY

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

The amount was unsecured, non-interest bearing and was fully settled subsequent to the balance sheet date.

16. AMOUNTS DUE TO RELATED COMPANIES

Name of related company
Metrolink Holdings Limited (“Metrolink”)
Yorkshire Capital Limited (“Yorkshire”)

2002	2001
HK\$'000	HK\$'000
62	69
238	–
300	69

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

16. AMOUNTS DUE TO RELATED COMPANIES (CONTINUED)

As at 31st December, 2002, Metrolink owned less than 10% interest in KanHan (BVI). Ms. Wai Lai Yung, a director of the Company, is also a director of Yorkshire.

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

17. SHORT TERM LOANS

The amounts were advanced by independent third parties. They were unsecured, interest bearing at 5% per annum and repayable on 31st January, 2003. The amounts were fully settled subsequent to 31st December, 2002.

18. LOANS FROM A SHAREHOLDER

These are 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.

19. 8% CONVERTIBLE NOTE

On 22nd April, 2002, a 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 has agreed to abandon its Conversion Right and the 8% Note will be repayable on or before 31st March, 2003.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

20. 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 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.

21. FINANCIAL ASSISTANCE FROM GOVERNMENT

The Innovation and Technology Fund ("ITF") of the HKSAR 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, the funding will not be repaid to the ITF within the next twelve months from 31st December, 2002. Accordingly, the balance is classified as a non-current liability.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

22. SHARE CAPITAL

	Number of shares	Shown in the financial statements	
		Amount US\$	HK\$
Ordinary shares of US\$0.01 each			
At 1st January, 2001	10,277,000	102,770	796,468
Issue of shares	303,500	3,035	23,521
At 31st December, 2001 and 1st January, 2002	10,580,500	105,805	819,989
Issue of shares	1,042,000	10,420	81,181
At 31st December, 2002	11,622,500	116,225	901,170

Note: For the year ended 31st December, 2002 and 2001. KanHan (BVI) allotted and issued 1,042,000 and 303,500 shares of US\$0.01 each respectively, at prices ranging from US\$0.01 to US\$1.33 per share to provide additional working capital for KanHan (BVI). These shares ranked pari passu with the then existing shares of KanHan (BVI) in all respects.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

23. SHARE OPTIONS

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

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

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

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

23. SHARE OPTIONS (CONTINUED)

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

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

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

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

24. DEFERRED TAXATION ASSET NOT RECOGNISED

At the balance sheet date, the major components of the deferred taxation assets (liabilities) not recognised in the financial statements are as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Taxation losses available to set off future profits	1,624	2,112
Development expenditure claimed as tax deductible expense	(208)	(221)
Excess of tax allowance over depreciation	(25)	(60)
	1,391	1,831

The amount of potential deferred taxation credit (charge) for the year is as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses (utilised) arising	(488)	1,474
Development expenditure claimed as tax deductible expense	13	(11)
Differences between tax allowance and depreciation	35	(46)
	(440)	1,417

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

25. OPERATING LEASE COMMITMENTS

The Group made approximately HK\$705,000 (2001: HK\$758,000) minimum lease payments under operating leases during the year in respect of office premises.

The Group as lessee

At the balance sheet date, the Company and the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

Within one year
In the second to fifth year inclusive

THE GROUP	
2002	2001
HK\$'000	HK\$'000
643	406
514	–
1,157	406

Leases and rentals are generally fixed throughout the lease period.

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

26. 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 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

27. RELATED PARTY TRANSACTIONS

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

Name of company	Nature of transactions	2002	2001
		HK\$'000	HK\$'000
Metrolink	Interest expenses paid on advances	57	–
Timeless Strategy and its affiliate	Interest expenses paid on convertible notes	111	23
Timeless Strategy and its affiliate	Sales of licensed software	236	–
Timeless Strategy and its affiliate	Research and development expenses paid	–	1,400
Yorkshire	Consultancy fee paid	240	–

In addition, rental expenses of HK\$480,000 (2001: HK\$480,000) were paid to Comeasy Communication Limited (“Comeasy”), a company in which Mr. Mo Wai Ming, Lawrence, (“Mr Mo”) has a beneficial interest. The amount has been included in the directors’ emoluments in note 8.

As at 31st December, 2002, the bank overdrafts of approximately HK\$1,890,000 (2001: HK\$Nil) are personally guaranteed by Mr. Mo and secured by a property held by Comeasy.

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

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

28. POST BALANCE SHEET EVENTS

- (a) Pursuant to a written resolution of the sole shareholder of the Company on 15th January, 2003, the following resolutions were passed:
- (i) the authorised share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares to HK\$20,000,000 divided into 2,000,000,000 shares by the creation of an additional 1,961,000,000 shares to rank pari passu with the existing shares in all respects; and
 - (ii) an aggregate of 11,522,500 shares of HK\$0.01 each were allotted and issued, credited as fully paid to the then shareholders of KanHan (BVI) as consideration for the Company's acquisition of the entire issued capital of KanHan (BVI).
 - (iii) a sum of HK\$1,000 being part of the amount credited to the share premium account of the Company to be applied to pay up in full at par the 100,000 nil paid shares held by Mr. Mo.
- (b) Pursuant to the Prospectus issued by the Company, the Company allotted and issued 60,000,000 new shares of HK\$0.01 each in the Company at issue price of HK\$0.33 per share, creating a share premium of HK\$19,200,000.
- (c) Upon creation of the share premium account as described in (b) above and pursuant to resolution passed in a special general meeting of the Company on 24th January, 2003, 408,377,500 share of HK\$0.01 each in the Company were allotted and issued to those shareholders whose names appeared as the register of members on 23rd January, 2003 by way of capitalising a sum of HK\$4,083,775 standing to the credit of the share premium account of the Company.
- (d) On 21st February, 2003, Timeless Strategy converted the principal amount of HK\$1.8 million under a 3% convertible note issued by KanHan (BVI) into 6,432,000 shares of HK\$0.01 each in the Company;
- (e) The Group's bank overdraft facility which was secured by a property held by Comeasy was cancelled on 18th February, 2003 and the personal guarantee by Mr. Mo was then released.

Notes to the Proforma Financial Statements

For the year ended 31st December, 2002

29. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation	Form of entity	Nominal value of issued ordinary capital	Attributable equity interest to the Company		Principal activities
				Directly %	Indirectly %	
KanHan (BVI)	British Virgin Islands	Limited liability company	Ordinary US\$116,225	100	–	Investment holding
KanHan (HK)	Hong Kong	Limited liability company	Ordinary HK\$200,000	–	100	Provision of communications software platforms

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the first annual general meeting of the shareholders of KanHan Technologies Group Limited (the “Company”) will be held at Room 4703, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, on Wednesday, 21st May, 2003 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, 2002.
2. to re-elect Directors;
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

Notice of Annual General Meeting

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.

By Order of the Board
Sun Kam Fai, Zacky
Company Secretary

Hong Kong, 27th March, 2003

Principal Office:

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

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.