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## **KANHAN TECHNOLOGIES GROUP LIMITED**

**看漢科技集團有限公司**

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

### **ANNOUNCEMENT OF A MAJOR TRANSACTION**

The Company has signed an Agreement on 2 December, 2003 with Global for an Equity Line of Credit of up to HK\$100,000,000. The Agreement is subject to Completion. Under the Agreement the Company can require Global to invest in Shares, which will be issued at ninety percent of the average closing share price in the Drawdown Pricing Period. The Agreement provides that Global will be issued with warrants to subscribe for shares in the Company equivalent to 25 percent of the number of Shares issued upon Drawdown. The warrants will have a term of three years and an exercise price equivalent to the market price of the Company's shares on the date of pricing of the Shares. An application to the Stock Exchange will be made for the listing of and permission to deal in any Shares issued. There is no intention to apply to list the warrants. Under the Agreement Global covenants not to hold in excess of 4.9% of the issued share capital of the Company at any time.

Multiple Drawdowns are permitted under the Agreement. The warrants are not included in Global's limit on holding 4.9% of the Company's shares. Based on the closing price of HK\$0.99 as at 3 December, 2003 the holding of 4.9% of the Company's shares involves an amount of approximately HK\$ 25 million. The Company has no knowledge as to whether Global will dispose of any Shares during the term of the Agreement, consequently the Directors cannot give any assurance that the Equity Line will be drawn down to its maximum limit of HK\$ 100 million. Based on the maximum aggregate drawdown of HK\$ 100 million and with reference to the management accounts as of 30 September, 2003 the Directors consider that the Agreement will constitute a Major Transaction under Chapter 19 of the GEM Listing Rules. Accordingly the Directors will in due course comply with the requirements of Chapter 19 including but not limited to shareholder approval and make the required disclosures and announcements. Separate announcements will be made upon each Drawdown. Furthermore, the Company will comply with the relevant GEM Listing Rules including, but not limited to, those in Chapter 21 relating to the grant of warrants.

At the request of the Company trading in the shares of the Company on the Stock Exchange was suspended as from 9:30 a.m. on Thursday 4 December, 2003 pending release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company from 9:30 a.m. on Monday 15 December, 2003.

The directors (the “Directors”) of KanHan Technologies Group Limited (the “Company”) are pleased to announce that it has signed a written agreement on 2 December, 2003 (the “Agreement”) subject to final written completion (the “Completion”), with GEM Investment Advisors Inc. acting on behalf of a strategic investor, the GEM Global Yield Fund (“Global”). GEM Investment Advisors Inc. acts in the capacity of investment adviser to Global. Under the Agreement Global covenants not to hold in excess of 4.9 percent of the issued share capital of the Company at any time. Each of GEM Investment Advisors Inc. and Global is not a connected person of the Company under the meaning of the GEM Listing Rules, is an independent third party and has no existing shareholding in the Company or other interest or relationship with the Company, apart from the Agreement. Global was identified as a potential investor in the Company by business contacts of the Directors. Global is a discretionary fund with approximately 15 corporate shareholders. The Directors consider the terms of the Agreement to be in the ordinary and usual course of business, on normal commercial terms and fair and reasonable to the shareholders as a whole. Completion requires the signature by both the Company and Global on further documentation regarding the issue of Shares to Global.

Under the Agreement, Global will provide a financing facility (the “Equity Line of Credit” or the “Equity Line”) to the Company by investing, at the sole discretion of the Company, up to HK\$100,000,000 in new ordinary shares to be issued by the Company to Global over three years from the date of Completion (the “Shares”). After Completion the Company may at its sole discretion at any time issue a notice to Global (a “Drawdown Notice”) that it intends to exercise the Equity Line (a “Drawdown”). Under the Agreement, following the issue of a Drawdown Notice by the Company Global will purchase the Shares at a price equivalent to ninety percent of the average closing price of listed shares in the Company during the fifteen consecutive trading days immediately prior to the date of the Drawdown (the “Drawdown Pricing Period”). There is no provision in the Agreement that would invalidate the Agreement in the event that Global owns more than 4.9% of the issued shares of the Company. There is no provision in the Agreement that restricts Global as to the amount of warrants on shares in the Company that it may be hold.

Multiple Drawdowns may be made during the term of the Agreement until their aggregate value is equal to the maximum limit of the Equity Line. Based on the closing share price of HK\$ 0.99 as at 3 December, 2003 the holding of 4.9 percent of the Company’s shares involves a drawdown of approximately HK\$ 25 million. Based on the maximum aggregate drawdown under the Equity Line of HK\$ 100 million and the recent trading price of HK\$ 0.99 the number of Shares that could be issued under the Agreement would be approximately 101 million Shares, amounting to approximately 17 percent of the enlarged issued share capital of the Company. However, under the Agreement Global covenants not to hold in excess of 4.9 percent of the Company’s issued share capital at any time. The Agreement provides that Global will be granted warrants to subscribe for shares in the Company equivalent to 25 percent of the number of Shares issued to Global. The warrants will have a term of three years and an exercise price equivalent to the market price of the Company’s shares on the date of pricing of the Shares. The warrants are not included in Global’s limit on holding 4.9% of the Company’s shares. There is no present intention to apply to list the warrants.

The Company will apply to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for listing and permission to deal in the Shares on the Stock Exchange. Completion is expected within approximately five weeks of the date of this announcement. Based on its current share price, the Company will not be able to draw down the entire amount of the Equity Line unless Global disposes of part or all of its initial and subsequent shareholdings. The Company has no knowledge as to whether Global will dispose of any Shares during the term of the Agreement, consequently the Directors cannot give any assurance that the Equity Line will be drawn down to its limit of HK\$ 100 million.

Global may terminate the Equity Line of Credit in the event of material adverse changes in certain circumstances of the Company. Such circumstances include material changes in the operations, financial conditions and prospects of the company and a material reduction in the shareholdings of the Directors in the Company.

The Directors consider that, based on the results disclosed in the Company's third quarterly report for the nine months ended 30 September, 2003, the Company should be able to continue operating successfully even if the Agreement is terminated prior to full drawdown of the Equity Line of Credit. Shares will be issued under a general mandate regarding issue of shares up to 20 percent of the existing issued share capital granted at the annual general meeting of the Company held on 21 May, 2003. The Directors will seek a special mandate to issue such shares which exceed the amount covered in the general mandate. The Shares will rank *pari passu* in all respects with the ordinary shares in issue at the date of issue of the Shares, including the right to receive a dividend or other distribution thereafter made, declared or paid.

The Directors consider that the HK\$ 100 million Equity Line under the Agreement will constitute a Major Transaction under Chapter 19 of the GEM Listing Rules, with reference to the management accounts as of 30 September, 2003. The Company will comply with the requirements of Chapter 19 of the GEM Listing Rules for a Major Transaction including, but not limited to, shareholder approval and make the required disclosures and announcements. Separate announcements will be made upon each Drawdown. Furthermore, the Company will comply with the relevant GEM Listing Rules including, but not limited to, those in Chapter 21 relating to the grant of warrants. The impact of an initial maximum Drawdown under the Agreement on the public float, based on an issue price for the Shares of HK\$ 0.99, is a likely increase in the public float of approximately 25 million shares increasing the public float to approximately 28 percent of the issued share capital. The Company will ensure compliance with the minimum prescribed percentage of 25 percent of the issued shares in public hands as required by Rule 11.23 of the GEM Listing Rules.

The Company is principally engaged in developing and marketing a patented server based font technology for its real time on-line communications software platform for the Chinese language. The Directors consider that the proposed use of funds to be raised will be in line with the Company's principal business and business objectives as stated in the Prospectus and there will be no change in the Company's principal business and business objectives. Approximately HK\$ 3 million to HK\$ 15 million will be used to develop business alliances, partnerships, or make acquisitions of assets in the PRC which would benefit by using the Company's software platform. These businesses or assets are intended to operate in the fields of logistics, popular entertainment, or the provision database information and to be located in Guangdong Province, Beijing or Shanghai. Approximately HK\$ 5 million to HK\$ 10 million will be used as working capital to develop the Company's text to speech technology in applications for consumer markets in the PRC and Hong Kong. The Company's current intention is to drawdown up to HK\$ 25 million under the Equity Line and therefore the maximum drawdown limit of HK\$ 100 million under the Agreement may not be reached. The Directors believe that opportunities available to the Company in its principal business in the PRC in the field of software for mobile phone systems, fixed line phone systems, and for developing and marketing interactive voice response products justify enlarging the capital base of the Company. The Directors state that no agreements have been reached or signed in respect of the aforementioned business opportunities and that announcements will be made once agreements have been signed and the Company will comply with the relevant GEM Listing Rules as appropriate.

GEM Investment Advisors Inc. has offices at New York in the United States and is investment adviser to Global. GEM Investment Advisors Inc., its affiliated companies and Global comprise the GEM Group, a privately held US-based equity investment group that was founded in 1993 and has offices in Dallas, New York, London and

Beijing. The GEM Group provides funding or serves as an investor in identifying and structuring financing for acquisitions and other special situations. The GEM Group has completed over 135 investments or transactions in quoted and unquoted companies in diverse industries and transactional structures, in 13 different countries and representing over US\$ 2 billion in capital. The purpose of Global's investment in the Company is for capital gain. Global's Shares will be held directly.

At the request of the Company trading in the shares of the Company on the Stock Exchange was suspended as from 9:30 a.m. on Thursday 4 December, 2003 pending release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on Monday 15 December, 2003.

Made by the order of the Board, the Directors collectively and individually accept responsibility for the accuracy of this announcement.

By order of the Board  
**Sun Kam Fai, Zacky**  
Company Secretary

Hong Kong, 12 December, 2003

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumption that are fair and reasonable.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*