

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you have sold or transferred all your shares in KanHan Technologies Group Limited (the "Company"), you should at once hand this Prospectus with the accompanying application forms to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

If you are in any doubt as to any aspect of this Prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this Prospectus, together with copies of the application form and the form of application for excess Offer Shares (as defined herein), have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any of these documents.

Dealings in the Shares (as defined herein) may be settled through CCASS (as defined herein) and you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange (as defined herein), the Offer Shares will be accepted as eligible securities by HKSCC (as defined herein) for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and HKSCC take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.



KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

**OPEN OFFER OF 443,458,360 OFFER SHARES
AT HK\$0.08 PER OFFER SHARE
ON THE BASIS OF ONE OFFER SHARE FOR
EVERY TWO SHARES HELD ON THE RECORD DATE
PAYABLE IN FULL ON APPLICATION**

Financial adviser to the Company



INCUB Corporate Finance Limited

Underwriters to the Open Offer



**華富嘉洛證券有限公司
Quam Securities Company Limited**



**博大資本國際有限公司
Partners Capital International Limited**

The latest time for acceptance and payment for the Offer Shares is 4:00 p.m. on Tuesday, 11 December 2007. The procedures for acceptance of the Offer Shares are set out on pages 20 to 21 of this Prospectus.

If, prior to the Latest Time for Termination (as defined herein) (provided that if the date of the Latest Time for Termination shall be a business day on which a storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the reasonable opinion of Partners Capital on behalf of the Underwriters (as defined herein), the success of the Open Offer (as defined herein) would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Partners Capital on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group (as defined herein) as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Partners Capital on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Partners Capital on behalf of the Underwriters is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Partners Capital on behalf of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement (as defined herein) or the Prospectus Documents (as defined herein) or other announcements or circulars in connection with the Open Offer.

Partners Capital on behalf of the Underwriters shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement (as defined herein).

If Partners Capital on behalf of the Underwriters terminates the Underwriting Agreement, the Open Offer will not proceed.

Shareholders (as defined herein) should note that the Shares (as defined herein) have been dealt in on an ex-entitlement basis commencing from Monday, 19 November 2007 and that dealing in Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on Friday, 14 December 2007) will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

CHARACTERISTICS OF GEM

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 of the Stock Exchange 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. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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SUMMARY OF THE OPEN OFFER

The following information is derived from, and should be read in conjunction with, the full text of this Prospectus:

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| Basis of the Open Offer: | One Offer Share for every two Shares held on the Record Date |
| Number of existing Shares in issue: | 886,916,720 Shares as at the Latest Practicable Date |
| Number of Offer Shares to be issued: | 443,458,360 Offer Shares |
| Subscription Price: | HK\$0.08 per Offer Share payable in full on application |
| Undertaking of Undertaking Parties: | Mr. Lau, Mr. Yang, Mr. Yip, Mr. Pang, Mr. Ma, Mr. Mo and Ms. Au have irrevocably undertaken to subscribe their respective entitlements under the Open Offer |
| Number of Underwritten Shares: | Not more than 247,666,974 Offer Shares |
| Right of excess application: | The Qualifying Shareholders will have the right to apply for excess Offer Shares |
| Basis of entitlement: | Offer Shares will be allotted in the proportion of one Offer Share for every two Shares held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Prohibited Shareholders |
| Amount to be raised by the Open Offer: | approximately HK\$35.48 million before expenses |
| Underwriters: | Quam Securities and Partners Capital |

EXPECTED TIMETABLE

The expected timetable of the Open Offer is set out below:

2007

| | |
|--|---|
| Record Date | Monday, 26 November |
| Despatch of the Prospectus Documents | Monday, 26 November |
| Register of members re-opens | Tuesday, 27 November |
| Latest time for acceptance of, and payment for, the Open Offer | 4:00 p.m. on Tuesday, 11 December |
| Latest Time for Termination | 4:00 p.m. on Friday, 14 December |
| Expected time for the Open Offer to become unconditional | on or before 4:00 p.m. on Friday, 14 December |
| Announcement of results of the Open Offer on the Stock Exchange's website | Monday, 17 December |
| Certificates for the Offer Shares to be despatched on or before | Tuesday, 18 December |
| Despatch of refund cheques in respect of excess unsuccessful applications | Tuesday, 18 December |
| Dealings in fully-paid Offer Shares commence on | Thursday, 20 December |

All times stated in this Prospectus refer to Hong Kong times. Dates stated in this Prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable for the Open Offer will be announced as and when appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OFFER SHARES

The latest time for acceptance of and payment for the Offer Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Tuesday, 11 December 2007. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same business day;
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Tuesday, 11 December 2007. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on Tuesday, 11 December 2007, the dates mentioned in the section headed “Expected timetable” in this Prospectus may be affected. An announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a business day on which a storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the reasonable opinion of Partners Capital on behalf of the Underwriters, the success of the Open Offer would be materially and adversely affected by:

 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Partners Capital on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Partners Capital on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Partners Capital on behalf of the Underwriters is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Partners Capital on behalf of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

TERMINATION OF THE UNDERWRITING AGREEMENT

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

If Partners Capital on behalf of the Underwriters terminates the Underwriting Agreement, the Open Offer will not proceed.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following expressions shall have the following meanings:

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| “Agreement” | the conditional agreement dated 29 October 2007 and entered into among the Vendor, the Purchaser and Proud Dragon in respect of the acquisition of the shares of Proud Dragon and the subscription of the shares of Proud Dragon by the Purchaser |
| “Announcement” | the announcement of the Company dated 2 November 2007 in relation to the Open Offer |
| “Application Form(s)” | the form of application for use by the Qualifying Shareholders to apply for the Offer Shares |
| “associates” | has the meaning ascribed thereto in the GEM Listing Rules |
| “Board” | the board of Directors |
| “business day” | any day (other than a Saturday or Sunday or public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours |
| “CCASS” | The Central Clearing and Settlement System established and operated by HKSCC |
| “Company” | KanHan Technologies Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM |
| “Convertible Bond” | the convertible bond in the principal amount of HK\$10,000,000, to be issued by the Company to the Vendor with an initial conversion price of HK\$0.25 per Share |
| “Directors” | directors of the Company |
| “Excess Application Form(s)” | the form of application for excess Offer Shares |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Glory Force” | Glory Force Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Yip |

DEFINITIONS

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|-------------------------------|--|
| “Group” | the Company and its subsidiaries |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Latest Practicable Date” | 20 November 2007, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information contained herein |
| “Latest Time for Acceptance” | 4:00 p.m. on 11 December 2007 or such later time or date as may be agreed between the Company and Partners Capital on behalf of the Underwriters, being the latest time for acceptance of, and payment for, the Offer Shares |
| “Latest Time for Termination” | 4:00 p.m. on the third business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and Partners Capital on behalf of the Underwriters, being the latest time to terminate the Underwriting Agreement |
| “Manciple” | Manciple Enterprises Ltd., a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Lau |
| “Mr. Lau” | Mr. Lau Kim Hung, Jack |
| “Mr. Ma” | Mr. Ma She Shing, Albert, a non-executive Director |
| “Mr. Mo” | Mr. Mo Wai Ming, Lawrence, an executive Director |
| “Mr. Pang” | Mr. Pang Hong Tao, Peter, an executive Director and chairman of the Board |
| “Mr. Yang” | Mr. Yang Pei Gen, an executive Director and chief executive officer of the Company |
| “Mr. Yip” | Mr. Yip Yung Kan |
| “Ms. Au” | Ms. Au Shui Ming, Anna, an executive Director |
| “Ms. Lei” | Ms. Lei I Si, the spouse of Mr. Yip |
| “Offer Share(s)” | 443,458,360 new Shares to be offered to the Qualifying Shareholders for subscription on the terms and subject to the conditions set out in the Underwriting Agreement and in the Prospectus |

DEFINITIONS

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|-----------------------------|--|
| “Open Offer” | the offer for subscription by the Qualifying Shareholders for the Offer Shares at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents |
| “Overseas Shareholders” | Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong |
| “Partners Capital” | Partners Capital International Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| “PRC” | the People’s Republic of China, which for the purpose of this Prospectus excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “Prohibited Shareholder(s)” | those Overseas Shareholders to whom the Company considers it necessary or expedient not to offer the Offer Shares based on the enquiry regarding the legal restrictions, if any, under the laws of the relevant jurisdictions where the Overseas Shareholders reside |
| “Proposed Acquisition” | the proposed acquisition of the Proud Dragon through the purchase of the 318 shares of Proud Dragon and the subscription of 158 shares of Proud Dragon by the Purchaser as contemplated under the Agreement, the details of which is disclosed in the Announcement |
| “Prospectus” | a prospectus containing details of the Open Offer |
| “Prospectus Documents” | the Prospectus, the Application Form and the Excess Application Form |
| “Proud Dragon” | Proud Dragon Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by the Vendor as at the date of the Agreement |
| “Purchaser” | Rise Assets Limited, a company incorporated in the British Virgin Islands and is wholly and beneficially owned by the Company |
| “Qualifying Shareholders” | Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Prohibited Shareholders |

DEFINITIONS

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| “Quam Securities” | Quam Securities Company Limited, a licensed corporation to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO |
| “Record Date” | 26 November 2007 |
| “Registrar” | Tricor Standard Limited, branch share register and transfer office of the Company in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | existing ordinary share(s) of HK\$0.05 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of Shares |
| “Silky Sky” | Silky Sky Investments Limited, an indirect wholly owned subsidiary of the Group |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscription Price” | HK\$0.08 per Offer Share |
| “Takeovers Code” | The Hong Kong Code on Takeovers and Mergers |
| “Undertaking Parties” | Mr. Lau, Mr. Yang, Mr. Yip, Mr. Pang, Mr. Ma, Mr. Mo and Ms. Au |
| “Underwriters” | Quam Securities and Partners Capital |
| “Underwriting Agreement” | the underwriting agreement between the Company and the Underwriters dated 29 October 2007 in relation to the Open Offer |
| “Underwritten Shares” | not more than 247,666,974 Offer Shares |
| “Vendor” | Mr. Yip Yuk Tong, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, is a third party independent of the Company and its connected persons under the GEM Listing Rules |

DEFINITIONS

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| “Warrants” | the 97,800,000 warrants conferring rights to subscribe up to 97,800,000 Shares of approximately HK\$15.159 million in aggregate for Shares, equivalent to the aggregate subscription price for a total of 97,800,000 Shares on the basis of an initial subscription price of HK\$0.155 per Share (subject to adjustment), and have been fully exercised after the date of the Announcement and before the Latest Practicable Date |
| “HK\$” | Hong Kong dollars |
| “%” | per cent. |



KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

Executive Directors:

Mr. Pang Hong Tao, Peter

Mr. Yang Pei Gen

Mr. Mo Wai Ming, Lawrence

Ms. Au Shui Ming, Anna

Non-executive Director:

Mr. Ma She Shing, Albert

Independent non-executive Directors:

Mr. Hsu Shiu Foo, William

Mr. Lee Kun Hung

Mr. Kwok Chi Sun, Vincent

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 in Hong Kong:*

15th Floor, Sun House

181 Des Voeux Road Central

Hong Kong

26 November 2007

*To the Qualifying Shareholders and for information only,
to the Prohibited Shareholders,*

Dear Sir or Madam,

**OPEN OFFER OF 443,458,360 OFFER SHARES
AT HK\$0.08 PER OFFER SHARE
ON THE BASIS OF ONE OFFER SHARE FOR
EVERY TWO SHARES HELD ON RECORD DATE
PAYABLE IN FULL ON APPLICATION**

INTRODUCTION

The Directors announced on 2 November 2007 that the Company proposed to raise not less than approximately HK\$31.56 million and not more than HK\$35.48 million, before expenses, by an Open Offer of not less than 394,558,360 Offer Shares and not more than 443,458,360 Offer Shares at a subscription price of HK\$0.08 per Offer Share, payable in full on application, on the basis of one Offer Share for every two Shares held on the Record Date. Qualifying Shareholders are entitled to apply for excess Offer Shares not taken up in excess of their respective entitlements under the Open Offer. The Open Offer will not be extended to the Prohibited Shareholders.

* For identification purpose only

LETTER FROM THE BOARD

This prospectus sets out the details of the Open Offer, including information on dealings and application of the Offer Shares, and certain financial and other information of the Group.

OPEN OFFER

Issue Statistics

| | |
|--------------------------------------|--|
| Basis of the Open Offer: | One Offer Share for every two Shares held on the Record Date |
| Number of existing Shares in issue: | 886,916,720 Shares as at the Latest Practicable Date |
| Number of Offer Shares to be issued: | 443,458,360 Offer Shares |
| Subscription Price: | HK\$0.08 per Offer Share payable in full on application |

Subsequent to the date of the Announcement Glory Force has exercised 12,800,000 Warrants has transferred its remaining 85,000,000 Warrants to third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules), who are public Shareholders immediately after the exercise of the Warrants. As all the outstanding Warrants had been exercised, a total of 97,800,000 Shares had been allotted and issued. Accordingly, a total of 443,458,360 Offer Shares will be issued under the Open Offer. Glory Force has not indicated if it will accept any or whole of its entitlement under the Open Offer for 6,400,000 Offer Shares in relation to the exercise of the Warrants.

As at the Latest Practicable Date, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

Subscription Price

The Subscription Price of HK\$0.08 per Offer Share will be payable in full upon application for the Offer Shares and (where applicable) application for excess Offer Shares under the Open Offer. The Subscription Price represents:

1. a discount of approximately 65.96% to the closing price of HK\$0.235 per Share as quoted on the Stock Exchange on 29 October 2007, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares and the Announcement;
2. a discount of approximately 66.10% to the average of the closing prices of HK\$0.236 per Share for the five consecutive trading days up to and including 29 October 2007;

LETTER FROM THE BOARD

3. a discount of approximately 65.96% to the average of the closing prices of HK\$0.235 per Share for the 10 consecutive trading days up to and including 29 October 2007;
4. a discount of approximately 56.28% to the theoretical ex-rights price of HK\$0.183 based on the closing price of HK\$0.235 per Share as quoted on the Stock Exchange on 29 October 2007; and
5. a discount of approximately 56.76% to the closing price of HK\$0.185 on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the market price of the Shares under the prevailing market conditions.

As (i) the net proceeds to be raised from the Open Offer will serve to finance the Proposed Acquisition which will be able to synergize the Group's current business of the development, production and distribution of organic fertilizer in the PRC and provide additional channel to the Group's long run development in the agricultural industry in the PRC; (ii) the Qualifying Shareholders are offered a chance to subscribe for the Offer Shares at a relatively low price and to maintain their respective pro rata shareholdings in the Company; and (iii) the Subscription Price was determined after arm's length negotiation between the Company and the Underwriters, the Directors consider the terms of the Open Offer to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Qualifying Shareholders

The Prospectus Documents are sent to the Qualifying Shareholders only.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date, and not being a Prohibited Shareholder.

In order to be registered as members on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's share registrars and transfer office in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Tuesday, 20 November 2007.

The invitation to apply for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation and there will not be any trading of nil-paid entitlements of the Offer Shares on the Stock Exchange.

LETTER FROM THE BOARD

Closure of register of members

The register of members of the Company has been closed from Wednesday, 21 November 2007 to the date of this Prospectus, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares has been registered during this period.

Rights of Prohibited Shareholders

Having reviewed the register of members of the Company, as at the Latest Practicable Date, the details of the Overseas Shareholders are as follows:

| Country | Number of Overseas Shareholder(s) | Number of Shares held by Overseas Shareholder(s) as at the Latest Practicable Date | Approximate percentage of the existing issued Shares |
|----------------|--|---|---|
| Taiwan | <u>1</u> | <u>286,400</u> | <u>0.032%</u> |
| Total | <u><u>1</u></u> | <u><u>286,400</u></u> | <u><u>0.032%</u></u> |

The Prospectus Documents have not been and will not be registered under the applicable securities legislation of any jurisdictions other than Hong Kong. The Prohibited Shareholders will not be entitled to take part in the Open Offer. The Company will send copies of the Prospectus to the Prohibited Shareholders for their information only, but the Company will not send the Application Forms and the Excess Application Forms to the Prohibited Shareholders.

The Company has made enquiries regarding the feasibility of extending the Open Offer to the Overseas Shareholders with registered addresses in Taiwan.

The Directors have been advised by its legal advisers as to Taiwan laws that it would be lawful for the Company to offer the Offer Shares to the Shareholder with registered address in Taiwan even though the Prospectus Documents are not registered in Taiwan. Therefore, the Overseas Shareholder in Taiwan is entitled to participate in the Open Offer.

Application for excess Offer Shares

Under the Open Offer, Qualifying Shareholders may apply for any unsold entitlements of the Prohibited Shareholders and any Offer Shares not taken up by the Qualifying Shareholders. Application can be made by completing the Excess Application Form and lodging the same with a separate remittance for the excess Offer Shares being applied for.

LETTER FROM THE BOARD

The Directors will allocate the excess Offer Shares at their discretion on a fair and equitable basis based on the following principles:

- (1) preference will be given to applications for less than a board lot of Offer Shares where they appear to the Directors that such applications are made to round up odd-lots to whole board lot and that such applications are not made with intention to abuse this mechanism; and
- (2) subject to availability of excess Offer Shares after allocation under principle (1) above, the excess Offer Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Offer Shares applied by them (i.e. Qualifying Shareholders applying for smaller number of Offer Shares are allocated with a higher percentage of successful application but will receive less number of Offer Shares; whereas Qualifying Shareholders applying for larger number of Offer Shares are allocated with a smaller percentage of successful application but will receive higher number of Offer Shares) and with board lots allocations to be made on best efforts basis.

The Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Open Offer Shares will not be extended to beneficial owners individually.

Status of the Offer Shares

The Offer Shares (when allotted and fully paid) will rank *pari passu* with the then existing Shares in issue in all respects on the date of allotment and issue of the Offer Shares. Holders of fully paid Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Offer Shares.

Share Certificates for Offer Shares and refund cheques

Subject to the fulfillment of the conditions of the Open Offer as set out in the sub-section headed "Conditions of the Open Offer" below, certificates for all fully-paid Offer Shares and refund cheques in respect of unsuccessful excess applications (if any) are expected to be posted on or before 18 December 2007 to those Shareholders who have accepted and (where applicable) applied for, and paid for the Offer Shares at their own risks.

Fractions of Offer Shares

Fractional entitlements of Offer Shares will not be allotted.

Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

LETTER FROM THE BOARD

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on GEM, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date for dealings in the Offer Shares on GEM or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date: 29 October 2007

Underwriters: Quam Securities and Partners Capital

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriters and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules)

Number of Offer Shares: Not less than 394,558,360 Offer Shares and not more than 443,458,360 Offer Shares

Number of Underwritten Shares: Not less than 198,766,974 Offer Shares and not more than 247,666,974 Offer Shares, which are underwritten equally by each of the Underwriters

If the number of Underwritten Shares that are not being taken up is less than or equal to 247,666,974 Offer Shares, the Underwriters shall subscribe for, or procure subscription of all those Underwritten Shares not being taken up in proportion to their respective entitlement, namely, 50% by each of the Underwriters (subject to the adjustment in accordance with the provision of the set-off arrangements as set out in the Underwriting Agreement), as the case may be

Commission: an underwriting commission of 2.5% of the aggregate Subscription Price in respect of the number of Underwritten Shares

Undertakings by the Undertaking Parties

As at the Latest Practicable Date, Manciple, a company wholly owned by Mr. Lau, was interested in 179,005,492 Shares. Pursuant to the undertaking given by Mr. Lau, Mr. Lau has irrevocably undertaken to the Company and the Underwriters to subscribe or procure the subscription of 89,502,746 Offer Shares to which Manciple is entitled pursuant to the Open Offer.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Yang was interested in 142,750,000 Shares. Pursuant to the undertaking given by Mr. Yang, Mr. Yang has irrevocably undertaken to the Company and the Underwriters to subscribe or procure the subscription of 71,375,000 Offer Shares to which Mr. Yang is entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Mr. Yip was interested in 1,970,000 Shares and Glory Force, a company wholly owned by Mr. Yip, was interested in 32,800,000 Shares. Pursuant to the undertaking given by Mr. Yip, Mr. Yip has irrevocably undertaken to the Company and the Underwriters to subscribe and procure the subscription of the 985,000 Offer Shares and 10,000,000 Offer Shares to which Mr. Yip and Glory Force are respectively entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Mr. Pang was interested in 7,000,000 Shares. Pursuant to the undertaking given by Mr. Pang, Mr. Pang has irrevocably undertaken to the Company and the Underwriters to subscribe or procure the subscription of the 3,500,000 Offer Shares to which Mr. Pang is entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Mr. Ma was interested in 5,800,000 Shares. Pursuant to the undertaking given by Mr. Ma, Mr. Ma has irrevocably undertaken to the Company and the Underwriters to subscribe or procure the subscription of the 2,900,000 Offer Shares to which Mr. Ma is entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Mr. Mo was interested in 20,057,280 Shares. Pursuant to the undertaking given by Mr. Mo, Mr. Mo has irrevocably undertaken to the Company and the Underwriters to subscribe or procure the subscription of the 10,028,640 Offer Shares to which Mr. Mo is entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Ms. Au was interested in 15,000,000 Shares. Pursuant to the undertaking given by Ms. Au, Ms. Au has irrevocably undertaken to the Company and the Underwriters to subscribe or procure the subscription of the 7,500,000 Offer Shares to which Ms. Au is entitled pursuant to the Open Offer.

The total number of Offer Shares undertaken by the Undertaking Parties, as mentioned above are in aggregate 195,791,386 Offer Shares.

Subject to and upon the terms and conditions of the Underwriting Agreement, the Underwriters have agreed to underwrite in aggregate not more than 247,666,974 Underwritten Shares.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a business day on which a storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the reasonable opinion of Partners Capital on behalf of the Underwriters, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Partners Capital on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Partners Capital on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Partners Capital on behalf of the Underwriters is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Partners Capital on behalf of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

LETTER FROM THE BOARD

Partners Capital on behalf of the Underwriters shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

If Partners Capital on behalf of Underwriters terminates the Underwriting Agreement, the Open Offer will not proceed.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional, inter alia, upon:

- (1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance not later than the date for the despatch of the Prospectus Documents;
- (2) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the date for the despatch of the Prospectus Documents;
- (3) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares;
- (4) the performance of an irrevocable undertaking by each of Mr. Lau, Mr. Yang, Mr. Pang, Mr. Ma, Mr. Mo and Ms. Au in favour of the Company and the Underwriters to subscribe for or procure the subscription of 89,502,746 Offer Shares, 71,375,000 Offer Shares, 3,500,000 Offer Shares, 2,900,000 Offer Shares, 10,028,640 Offer Shares and 7,500,000 Offer Shares to which Manciple, Mr. Yang, Mr. Pang, Mr. Ma, Mr. Mo and Ms. Au are respectively entitled under the Open Offer;
- (5) the performance of an irrevocable undertaking by Mr. Yip in favour of the Company and the Underwriters to subscribe for and procure the subscription of 985,000 Offer Shares and 10,000,000 Offer Shares to which Mr. Yip and Glory Force are respectively entitled under the Open Offer; and
- (6) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement.

LETTER FROM THE BOARD

The Company shall use all reasonable endeavours to procure the fulfillment of all the conditions precedent by the Latest Time for Termination or such other date as the Company and Partners Capital on behalf of the Underwriters may agree and in particular shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may be necessary in connection with the listing of the Offer Shares or to give effect to the Open Offer and the arrangements contemplated in the Underwriting Agreement.

WARNING OF RISKS OF DEALING IN SHARES

If the Underwriter terminates the Underwriting Agreement or the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. **Accordingly, the Open Offer may or may not proceed and the Shareholders and potential investors are advised to exercise caution when dealing in the Shares and consult their professional advisers if they are in any doubt about their positions.**

Shareholders should note that the Shares has been dealt with on an ex-entitlement basis commencing from Monday, 19 November 2007 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on or before 4:00 p.m. on Monday, 14 December 2007), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed.

LETTER FROM THE BOARD

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE OPEN OFFER AND THE PROPOSED ACQUISITION

Subsequent to the date of the Announcement and up to the Latest Practicable Date, a total of 97,800,000 Warrants have been exercised. Set out below is the shareholding structure of the Company.

| | Latest Practicable Date | | Scenario 1 No Qualifying Shareholder takes up entitlement (except for the Undertaking Parties) Completion of the Open Offer (assuming that no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer except for the Undertaking Parties) and the subsequent full conversion of the Convertible Bond | | | | Scenario 2 All Qualifying Shareholders take up the entitlement Completion of the Open Offer (assuming that all Qualifying Shareholders have taken up their respective entitlement) and the completion of the Proposed Acquisition and the subsequent full conversion of the Convertible Bond | | | |
|-------------------------------------|-------------------------|----------------|---|----------------|----------------------|----------------|--|----------------|----------------------|----------------|
| | | | Number of Shares | % | Number of Shares | % | Number of Shares | % | Number of Shares | % |
| *Manciple (Note 1) | 179,005,492 | 20.18% | 268,508,238 | 20.18% | 268,508,238 | 19.59% | 268,508,238 | 20.18% | 268,508,238 | 19.59% |
| *Mr. Yang (Note 3) | 142,750,000 | 16.10% | 214,125,000 | 16.10% | 214,125,000 | 15.63% | 214,125,000 | 16.10% | 214,125,000 | 15.63% |
| *Glory Force (Note 2 and 4) | 32,800,000 | 3.70% | 42,800,000 | 3.22% | 42,800,000 | 3.12% | 49,200,000 | 3.70% | 49,200,000 | 3.59% |
| *Mr. Yip (Note 2) | 1,970,000 | 0.22% | 2,955,000 | 0.22% | 2,955,000 | 0.22% | 2,955,000 | 0.22% | 2,955,000 | 0.22% |
| Lei I Si (Note 2) | 100,000 | 0.01% | 100,000 | 0.01% | 100,000 | 0.01% | 150,000 | 0.01% | 150,000 | 0.01% |
| sub-total | 34,870,000 | 3.93% | 45,855,000 | 3.45% | 45,855,000 | 3.35% | 52,305,000 | 3.93% | 52,305,000 | 3.82% |
| The Vendor | - | - | - | - | 40,000,000 | 2.92% | - | - | 40,000,000 | 2.92% |
| Other Directors: (Note 3) | | | | | | | | | | |
| *Mr. Pang | 7,000,000 | 0.79% | 10,500,000 | 0.79% | 10,500,000 | 0.77% | 10,500,000 | 0.79% | 10,500,000 | 0.77% |
| *Mr. Ma | 5,800,000 | 0.65% | 8,700,000 | 0.65% | 8,700,000 | 0.63% | 8,700,000 | 0.65% | 8,700,000 | 0.63% |
| *Mr. Mo | 20,057,280 | 2.26% | 30,085,920 | 2.26% | 30,085,920 | 2.20% | 30,085,920 | 2.26% | 30,085,920 | 2.20% |
| *Ms. Au | 15,000,000 | 1.69% | 22,500,000 | 1.69% | 22,500,000 | 1.64% | 22,500,000 | 1.69% | 22,500,000 | 1.64% |
| sub-total | 47,857,280 | 5.39% | 71,785,920 | 5.39% | 71,785,920 | 5.24% | 71,785,920 | 5.39% | 71,785,920 | 5.24% |
| Public: | | | | | | | | | | |
| Quam Securities | - | - | 123,833,487 | 9.31% | 123,833,487 | 9.03% | - | - | - | - |
| Partners Capital | - | - | 123,833,487 | 9.31% | 123,833,487 | 9.03% | - | - | - | - |
| sub-total | - | - | 247,666,974 | 18.62% | 247,666,974 | 18.06% | - | - | - | - |
| Public Shareholders (Note 4) | 482,433,948 | 54.40% | 482,433,948 | 36.26% | 482,433,948 | 35.21% | 723,650,922 | 54.40% | 723,650,922 | 52.80% |
| | 886,916,720 | 100.00% | 1,330,375,080 | 100.00% | 1,370,375,080 | 100.00% | 1,330,375,080 | 100.00% | 1,370,375,080 | 100.00% |

* Undertaking Parties

LETTER FROM THE BOARD

Notes:

1. Manciple Enterprise Ltd., a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Lau.
2. Glory Force Limited, a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Yip. Ms. Lei is the spouse of Mr. Yip.
3. Mr. Yang, Mr. Pang, Mr. Mo and Ms. Au are executive Directors. Mr. Ma is a non-executive Director.
4. Subsequent to the date of the Announcement and up to the Latest Practicable Date, Glory Force and public Shareholders have exercised 12,800,000 Warrants and 85,000,000 Warrants respectively. Glory Force has not indicated if it will accept any or whole of its entitlement under the Open Offer for 6,400,000 Offer Shares in relation to the exercise of its 12,800,000 Warrants.

FUNDS RAISED DURING THE PAST 12 MONTHS

During the past 12 months immediately preceding the date of the Announcement and up to the Latest Practicable Date, the Company has not conducted any fund raising activities.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Trading and business prospect

The Group is engaged in the development and marketing of patented server based technology and the provision of software related services. The Group recorded net loss of approximately HK\$6.27 million and approximately HK\$0.99 million for the year ended 31 December 2006 and the six months ended 30 June 2007 and had cash of HK\$12.66 million as at 30 June 2007 respectively.

Since May 2007, the Company has commenced its business of the development, production and distribution of organic fertilizer in the PRC with a vision to actively participate and develop the Group business in the agricultural industry in the PRC in the long term.

Through the Proposed Acquisition, the Group will also be engaging in the provision of water supply service to the agricultural population in the rural areas of the PRC, another agricultural business.

Organic fertilizer

In May 2007, Rise Assets Limited (“Rise Assets”, a wholly-owned subsidiary of the Company) acquired from Mr. Yang the entire issued share capital of Silky Sky for a total consideration of HK\$61,000,000, payable by way of cash, promissory note and the issue and allotment of 135,750,000 Shares.

Sky Rich Investments Limited, a wholly-owned subsidiary of Silky Sky, was owned as to 51% of interests in Beijing Shiji Jiangshan Resource Recycling Technology Limited (“Shiji Jiangshan”). Shiji Jiangshan, an equity joint venture company established in the PRC, is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic wastes into organic fertilizer.

LETTER FROM THE BOARD

The Directors are of the opinion that the fertilizer production industry is in a growing trend with immense potential. According to the China Statistical Year Book 2006, to meet the increasing market demand, the fertilizer production in the PRC increase from approximately 33 million metric tones in 1999 to approximately to 52 million metric tones in 2005. The Directors consider that the organic fertilizer production business is a fast growing industry in the PRC in view of the ongoing development of the agricultural industry in the PRC and the increasing emphasis of environmental protection by the PRC Government. The Directors consider that the entering into the organic fertilizer business represents a good opportunity for the Group to enter into the agricultural industry in the PRC.

The Directors confirm that there is no variation to the remuneration or benefits in kind payable to the director of Silky Sky as a result of the acquisition of Silky Sky.

Details of which were disclosed in the announcements of the Company dated 9 February 2007, 21 March 2007 and 22 May 2007 respectively and the circular of the Company dated 20 April 2007.

Water supply service

On 29 October 2007, the Purchaser, entered into the Agreement with Proud Dragon and the Vendor for the acquisition and subscription of the entire interest in Proud Dragon at a consideration of HK\$31,800,000 payable by way of cash, convertible bonds and promissory note. The Proposed Acquisition is subject to Shareholder's approval.

Upon completion, the Group will have 70% indirect interest in Zhong Tian Water Supply. Zhong Tian Water Supply is a private enterprise established in the PRC and is principally engaged in the management of water plants and the provision of water supply in the rural areas of the PRC. It currently owns and operates three water plants in Dangtu County (當塗縣), Maanshan City (馬鞍山市), a rapidly developing major industrial region in the agricultural province, Anhui Province (安徽省). It has the exclusive right to provide water supply service to eight villages with around 280,000 inhabitants.

The Directors confirm that there is no variation to the remuneration or benefits in kind payable to the director of Proud Dragon as a result of the Proposed Acquisition. Details of the Proposed Acquisition were set out in the Announcement.

Having considered (i) the continuing development of economy in the PRC which will lead to demand of higher living standard by people including those staying in the rural areas; (ii) the long term national policy of agricultural development and improvement of living standard of farmers staying in the rural areas; and (iii) the exclusive rights granted by the PRC Government to Zhong Tian Water Supply to carry out the provision of water supply service in Dangtu County (當塗縣), Maanshan City (馬鞍山市), the Directors are of the view that the business of Zhong Tian Water Supply will grow substantially and hence, generate profitability to the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

In view of the substantial growth of provision of water supply business, the customer base of the organic fertilizer business will also be enhanced. The Directors are of the view that the provision of water supply business in the rural areas in the PRC synergize with the Group's organic fertilizer business in the PRC and most importantly, serves as a channel to further develop and consolidate the business development of the Group in the agricultural industry in the PRC.

Both the organic fertilizer business and the provision of water supply business are agricultural related and target the same group of customers, i.e. agricultural population staying in the rural areas.

In view of the development of the organic fertilizer business and the water supply business in the PRC and the synergy effect generated from these agricultural projects, the Directors are of the view that the Group is well positioned to become a market leader in the agricultural industry in the PRC and hence, generate profitability to the Group.

REASONS FOR THE OPEN OFFER

The Group is engaged in the development and marketing of patented server based technology and the provision of software related services. Since May 2007, the Company is also engaged in the development, production and distribution of organic fertilizer in the PRC with a vision to actively participate in the agricultural market in the PRC in the long run.

As stated above, the Board is of the view that the Proposed Acquisition will serve to synergise with the Group's organic fertilizer business in the PRC and provide additional channel to the Group's long term development in the agricultural industry in the PRC as a whole. The Board (including the independent non-executive Directors) considers that the Open Offer represents an opportunity for the Company to raise fund to finance the Proposed Acquisition. Furthermore, the Open Offer will also enhance the working capital position and strengthen the capital base and financial position of the Group. Upon completion of the Open Offer, while the Proposed Acquisition will be financed, the Company will also be in a good position to capture any potential business opportunity and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares. Moreover, the Board (including the independent non-executive Directors) is of the view that it is in the interests of the Company and its Shareholders as a whole to raise the capital through the Open Offer since it would allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and to participate in the future growth and development of the Group.

USE OF PROCEEDS

The net proceeds of the Open Offer (after deduction of commission and expenses) are expected to amount to approximately HK\$32.82 million, of which approximately HK\$22 million will be used to finance the Proposed Acquisition and the balance of approximately HK\$10.82 million will be applied for either the general working capital purpose of the Group or for the settlement of outstanding capital commitment in relation to the organic fertilizer business of the Group.

LETTER FROM THE BOARD

In the event that the Proposed Acquisition could not proceed, the HK\$22 million will be retained by the Company for future potential investment in the agricultural sector in the PRC.

The estimated expenses in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses, of approximately HK\$2.66 million, will be borne by the Company.

PROCEDURES FOR ACCEPTANCE OF THE OFFER SHARES

An Application Form and an Excess Application Form are enclosed with the Prospectus which entitles you to accept any number of Offer Shares allocated to you based on your shareholding as at the Record Date. Qualifying Shareholders should note that in addition to their pro rata assured allotment, Qualifying Shareholders will be able to apply for excess Offer Shares at the Subscription Price which are not taken up by other Qualifying Shareholders and any entitlements of the Prohibited Shareholders. If you are a Qualifying Shareholder and you wish to take up your entitlement of Offer Shares as specified in the enclosed Application Form or apply for excess Offer Shares as specified in Excess Application Form or you wish to take up any number less than your assured entitlement, you must complete, sign and lodge the Application Form and/or Excess Application Form in accordance with the instructions printed thereon, together with remittance for the aggregate subscription price in respect of such number of Offer Shares you have accepted with the Registrar by not later than 4:00 p.m. on Tuesday, 11 December 2007. All remittance must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Kanhan Technologies Group Limited – PAA" and crossed "Account Payee Only" for application of Offer Shares under assured allotment and if applicable, made payable to "Kanhan Technologies Group Limited – EAA" and crossed "Account Payee Only" for application of excess Offer Shares.

It should be noted that unless the Application Form and/or Excess Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Tuesday, 11 December 2007 that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions or the excess applications are unsuccessful, the (relevant part of) subscription monies will be refunded, without interest, by sending a cheque made out to the relevant Shareholders named on the Application Form (or in the case of joint Shareholders, to the first named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholder(s) to the address specified in the register of members of the Company on or before Tuesday, 18 December 2007.

The Application Form contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements under the Open Offer.

The Excess Application Form contains full information regarding the procedures to be followed if you wish to apply for excess Offer Shares in addition to your assured entitlements under the Open Offer.

LETTER FROM THE BOARD

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Any Application Form and/or Excess Application Form in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form and the Excess Application Form are for use only by the person(s) named therein and are not transferable.

No receipt will be issued in respect of any subscription monies for the Offer Shares received.

GENERAL

Your attention is drawn to the information contained in the appendices to this Prospectus.

On behalf of the Board
KanHan Technologies Group Limited
Pang Hong Tao
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

The following table summaries the results, assets and liabilities for each of the three years ended 31 December 2006 as extracted from the relevant published financial statements of the Group:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

| | 2004 | 2005 | 2006 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 4,320 | 4,472 | 6,622 |
| Cost of sales | <u>(1,645)</u> | <u>(1,888)</u> | <u>(3,489)</u> |
| Gross profit | 2,675 | 2,584 | 3,133 |
| Other income | – | 204 | 656 |
| Research and development expenses | (2,460) | (1,250) | (1,166) |
| Selling and distribution expenses | (2,348) | (1,062) | (1,189) |
| Administrative expenses | <u>(6,817)</u> | <u>(5,389)</u> | <u>(7,707)</u> |
| Loss before taxation | (8,950) | (4,913) | (6,273) |
| Taxation | <u>–</u> | <u>–</u> | <u>–</u> |
| Loss for the year | <u><u>(8,950)</u></u> | <u><u>(4,913)</u></u> | <u><u>(6,273)</u></u> |
| Attributable to: | | | |
| Equity holders of the Company | <u><u>(8,950)</u></u> | <u><u>(4,913)</u></u> | <u><u>(6,273)</u></u> |
| | (Restated) | (Restated) | |
| Loss per share – Basic | <u><u>(2.54 cents)</u></u> | <u><u>(1.13 cents)</u></u> | <u><u>(1.11 cents)</u></u> |

CONSOLIDATED BALANCE SHEET*At 31 December 2006*

| | 2004 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | <u>467</u> | <u>334</u> | <u>158</u> |
| CURRENT ASSETS | | | |
| Inventories, at cost | 200 | – | 62 |
| Trade and other receivables | 1,296 | 1,807 | 4,638 |
| Bank balances and cash | <u>4,216</u> | <u>2,253</u> | <u>22,707</u> |
| | <u>5,712</u> | <u>4,060</u> | <u>27,407</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 2,211 | 2,305 | 3,989 |
| Financial assistance from government | <u>223</u> | <u>166</u> | <u>236</u> |
| | <u>2,434</u> | <u>2,471</u> | <u>4,225</u> |
| NET CURRENT ASSETS | <u>3,278</u> | <u>1,589</u> | <u>23,182</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>3,745</u> | <u>1,923</u> | <u>23,340</u> |
| NON-CURRENT LIABILITIES | | | |
| Financial assistance from government | <u>1,196</u> | <u>1,172</u> | <u>1,059</u> |
| NET ASSETS | <u><u>2,549</u></u> | <u><u>751</u></u> | <u><u>22,281</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 5,837 | 7,004 | 29,498 |
| Reserves | <u>(3,288)</u> | <u>(6,253)</u> | <u>(7,217)</u> |
| TOTAL EQUITY | <u><u>2,549</u></u> | <u><u>751</u></u> | <u><u>22,281</u></u> |

2. AUDITED FINANCIAL STATEMENTS

Set out below is the audited financial information of the Group for the two years ended 31 December 2006 as extracted from the annual report 2006 of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

| | <i>Note</i> | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|-----------------------------------|-------------|--------------------------------|--------------------------------|
| Turnover | 3 | 6,622 | 4,472 |
| Cost of sales | | <u>(3,489)</u> | <u>(1,888)</u> |
| Gross profit | | 3,133 | 2,584 |
| Other income | 5 | 656 | 204 |
| Research and development expenses | | (1,166) | (1,250) |
| Selling and distribution expenses | | (1,189) | (1,062) |
| Administrative expenses | | <u>(7,707)</u> | <u>(5,389)</u> |
| Loss before taxation | 6 | (6,273) | (4,913) |
| Taxation | 8 | <u>–</u> | <u>–</u> |
| Loss for the year | | <u>(6,273)</u> | <u>(4,913)</u> |
| Attributable to: | | | |
| Equity holders of the Company | 10 | <u>(6,273)</u> | <u>(4,913)</u> |
| | | | (Restated) |
| Loss per share – Basic | 11 | <u>(1.11 cents)</u> | <u>(1.13 cents)</u> |

CONSOLIDATED BALANCE SHEET

At 31 December 2006

| | <i>Note</i> | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | <i>12</i> | <u>158</u> | <u>334</u> |
| CURRENT ASSETS | | | |
| Inventories, at cost | | 62 | – |
| Trade and other receivables | <i>14</i> | 4,638 | 1,807 |
| Bank balances and cash | | <u>22,707</u> | <u>2,253</u> |
| | | <u>27,407</u> | <u>4,060</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | <i>15</i> | 3,989 | 2,305 |
| Financial assistance from government | <i>16</i> | <u>236</u> | <u>166</u> |
| | | <u>4,225</u> | <u>2,471</u> |
| NET CURRENT ASSETS | | <u>23,182</u> | <u>1,589</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>23,340</u> | <u>1,923</u> |
| NON-CURRENT LIABILITIES | | | |
| Financial assistance from government | <i>16</i> | <u>1,059</u> | <u>1,172</u> |
| NET ASSETS | | <u>22,281</u> | <u>751</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | <i>17</i> | 29,498 | 7,004 |
| Reserves | <i>18</i> | <u>(7,217)</u> | <u>(6,253)</u> |
| TOTAL EQUITY | | <u><u>22,281</u></u> | <u><u>751</u></u> |

BALANCE SHEET*At 31 December 2006*

| | <i>Note</i> | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | <i>13</i> | <u>132</u> | <u>2,041</u> |
| CURRENT ASSETS | | | |
| Other receivables | | 2,804 | 181 |
| Bank balances | | <u>22,150</u> | <u>30</u> |
| | | <u>24,954</u> | <u>211</u> |
| CURRENT LIABILITIES | | | |
| Other payables | | <u>532</u> | <u>369</u> |
| NET CURRENT ASSETS (LIABILITIES) | | <u>24,422</u> | <u>(158)</u> |
| NET ASSETS | | <u><u>24,554</u></u> | <u><u>1,883</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | <i>17</i> | 29,498 | 7,004 |
| Reserves | <i>18</i> | <u>(4,944)</u> | <u>(5,121)</u> |
| TOTAL EQUITY | | <u><u>24,554</u></u> | <u><u>1,883</u></u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

| | Share capital HK\$'000 | Share premium HK\$'000 | Special reserve HK\$'000 <i>(note a)</i> | Warrant subscription reserve HK\$'000 | Exchange reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------|---|--|---------------------------------|--|-----------------------------------|-------------------|
| At 1 January 2005 | 5,837 | 19,323 | 10,084 | - | - | - | (32,695) | 2,549 |
| Issue of shares under the placing | 1,167 | 1,518 | - | - | - | - | - | 2,685 |
| Share issue expenses | - | (137) | - | - | - | - | - | (137) |
| Employee share-based compensation | - | - | - | - | - | 567 | - | 567 |
| Loss for the year | - | - | - | - | - | - | (4,913) | (4,913) |
| At 31 December 2005 | 7,004 | 20,704 | 10,084 | - | - | 567 | (37,608) | 751 |
| Issue of rights shares | 22,124 | 3,097 | - | - | - | - | - | 25,221 |
| Issue of warrants under the placing | - | - | - | 1,767 | - | - | - | 1,767 |
| Share/warrants issue expenses | - | (2,250) | - | (298) | - | - | - | (2,548) |
| Shares issued upon exercise of share options | 370 | 1,270 | - | - | - | (567) | - | 1,073 |
| Employee share-based compensation | - | - | - | - | - | 2,314 | - | 2,314 |
| Exchange differences arising from consolidation | - | - | - | - | (24) | - | - | (24) |
| Loss for the year | - | - | - | - | - | - | (6,273) | (6,273) |
| At 31 December 2006 | <u>29,498</u> | <u>22,821</u> | <u>10,084</u> | <u>1,469</u> | <u>(24)</u> | <u>2,314</u> | <u>(43,881)</u> | <u>22,281</u> |

Note:

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. ("KanHan (BVI)") at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2006*

| | <i>Note</i> | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------|--------------------------------|--------------------------------|
| NET CASH USED IN OPERATING ACTIVITIES | <i>19</i> | <u>(5,553)</u> | <u>(4,384)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (49) | (73) |
| Interest received | | <u>585</u> | <u>27</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | <u>536</u> | <u>(46)</u> |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | – | 2,685 |
| Proceeds from issue of rights shares | | 25,221 | – |
| Proceeds from exercise of share options | | 1,073 | – |
| Proceeds from issue of warrants | | 1,767 | – |
| Share/warrants issue expenses | | (2,548) | (137) |
| Repayment of financial assistance from government | | <u>(43)</u> | <u>(81)</u> |
| NET CASH FROM FINANCING ACTIVITIES | | <u>25,470</u> | <u>2,467</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 20,453 | (1,963) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 2,253 | 4,216 |
| CHANGES IN FOREIGN EXCHANGE RATE | | <u>1</u> | <u>–</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | | <u><u>22,707</u></u> | <u><u>2,253</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. CORPORATE INFORMATION

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

The shares of the Company were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 25 February 2003.

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

2. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies adopted by the Group is set out below.

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2005 financial statements. A summary of the principal accounting policies adopted by the Group is set out below.

The measurement basis used in the preparation of these financial statements is historical cost.

(b) Basis of consolidation

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

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

All inter-company transactions and balances within the Group have been eliminated on consolidation.

(c) Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

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

(e) Trade receivables and payables

Trade receivables and payables are recognised at cost which approximates to their fair values, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(f) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Sales of licensed software is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles have been passed.

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

Software rental and subscription income from software application, website development and Putonghua learning platform are derived from providing software application to customers. The income is recognised when services are provided.

(g) Foreign currency translation*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) *Overseas subsidiaries*

On consolidation, the results and financial position of all overseas subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates; and
- (c) all resulting exchange differences are recognised as a separate component of equity.

(h) Inventories

Inventories, which represent the licensed softwares for sale, are stated at lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(i) Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

(j) Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as 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.

(k) Employee benefits*(i) Defined contribution plan*

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(ii) Share-based compensation transactions

The Group operates an employee share option plan for the purpose of providing incentives and/or rewards, to eligible employees of the Group.

Employees of the Group (including Directors) receives remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value at the transaction date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using Black-Scholes option pricing model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company (“market conditions”).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the reserve within equity. When the option is exercised, the amount will be transferred to the share premium account.

(l) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(m) Related parties

A party is related to the Group if (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control with the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group; (b) the party is an associate of the Group; (c) the party is a joint venture in which the Group is a venturer; (d) the party is a member of the key management personnel of the Group or its parent; (e) the party is a close member of the family of any individual referred to in (a) or (d); (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(n) Critical accounting estimates and judgements

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the trade receivables and on management judgements. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

(o) Future changes in HKFRS

At the date of authorisation of these financial statements, the Group has not early adopted the new/revised standards and interpretations issued by HKICPA that are not effective for the current year. The directors anticipate that the adoption of these new HKFRS in the future periods will have no material impact on the results of the Group.

3. TURNOVER AND REVENUE

The Group is principally engaged in provision of server-based language technology. Turnover and revenue recognised during the year are as follows:

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> (Restated) |
|---|--------------------------------|--|
| Sales of licensed software | 4,979 | 2,624 |
| Software maintenance service | 741 | 780 |
| Software rental and subscription income | 306 | 294 |
| Website development | 308 | 384 |
| Putonghua learning platform | 288 | 390 |
| | <u>6,622</u> | <u>4,472</u> |

4. SEGMENT INFORMATION

For the years ended 31 December 2005 and 2006, more than 90% of the Group's turnover and operating assets were attributable to the development of server-based language technologies in the Special Administrative Region of Hong Kong. Accordingly, no analysis by either business or geographical segment is included in these financial statements.

5. OTHER INCOME

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|----------------------|--------------------------------|--------------------------------|
| Bank interest income | 585 | 27 |
| Commission income | 41 | 177 |
| Gain on exchange | 30 | – |
| | <u>656</u> | <u>204</u> |

6. LOSS BEFORE TAXATION

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| This is stated after charging: | | |
| Employee salaries and other benefits | 3,402 | 3,194 |
| Employee retirement benefit scheme contributions | 152 | 140 |
| Employee share-based payment | 1,264 | 353 |
| | <u>4,818</u> | <u>3,687</u> |
| Total staff costs (excluding directors' emoluments) | | |
| Auditors' remuneration | | |
| – Underprovision in prior year | 20 | – |
| – Current year | 260 | 220 |
| Cost of services and inventories | 3,489 | 1,888 |
| Depreciation | 173 | 206 |
| Operating lease payments | | |
| – director's quarter | – | 240 |
| – office premises | 395 | 355 |
| | <u>395</u> | <u>355</u> |

7. EMOLUMENTS OF THE DIRECTORS AND THE HIGHEST PAID INDIVIDUALS

(a) Directors' Emoluments

| | Directors' fees <i>HK\$'000</i> | Salaries and other allowances <i>HK\$'000</i> | Retirement benefit <i>HK\$'000</i> | Employee share-based compensation <i>HK\$'000</i> | 2006 Total <i>HK\$'000</i> |
|--|---------------------------------------|--|--|--|----------------------------------|
| <i>Executive directors</i> | | | | | |
| Mo Wai Ming, Lawrence | 120 | 1,200 | 12 | 525 | 1,857 |
| Ma She Shing, Albert | 120 | – | 6 | 525 | 651 |
| <i>Independent non-executive directors</i> | | | | | |
| Hsu Shiu Foo, William | 60 | – | – | – | 60 |
| Lee Kun Hung | 60 | – | – | – | 60 |
| Kwok Chi Sun, Vincent | 60 | – | – | – | 60 |
| | <u>420</u> | <u>1,200</u> | <u>18</u> | <u>1,050</u> | <u>2,688</u> |

| | Directors' fees <i>HK\$'000</i> | Salaries and other allowances <i>HK\$'000</i> | Retirement benefit <i>HK\$'000</i> | Employee share-based compensation <i>HK\$'000</i> | 2006 Total <i>HK\$'000</i> |
|---|---------------------------------------|--|--|--|----------------------------------|
| <i>Executive directors</i> | | | | | |
| Mo Wai Ming, Lawrence | 60 | 1,300 | 12 | 107 | 1,479 |
| Ma She Shing, Albert (appointed on 1 June 2005) | 70 | – | 4 | 107 | 181 |
| Wai Lai Yung (resigned on 1 June 2005) | 21 | – | – | – | 21 |
| Lee Chi Ming (resigned on 1 January 2005) | – | – | – | – | – |
| <i>Non-executive directors</i> | | | | | |
| Yuen Ka Lok, Ernest (resigned on 1 May 2005) | 17 | – | – | – | 17 |
| <i>Independent non-executive directors</i> | | | | | |
| Hsu Shiu Foo, William (appointed on 10 June 2005) | 34 | – | – | – | 34 |
| Lee Kun Hung (appointed on 1 June 2005) | 34 | – | – | – | 34 |
| Kwok Chi Sun, Vincent | 55 | – | – | – | 55 |
| Li Mo Ching, Joyce (resigned on 10 June 2005) | 22 | – | – | – | 22 |
| Tam Cheuk Ling, Jacqueline (resigned on 1 June 2005) | 21 | – | – | – | 21 |
| | <u>334</u> | <u>1,300</u> | <u>16</u> | <u>214</u> | <u>1,864</u> |

(b) Five Highest Paid Individuals' Emoluments

The five highest paid individuals included one (2005: one) director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2005: four) individuals, which fall within the band of nil to HK\$1,000,000 for each of the two years ended 31 December 2006 and 2005, are as follows:

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| Salaries and other benefits | 1,268 | 1,320 |
| Retirement benefit scheme contributions | <u>47</u> | <u>41</u> |
| | <u><u>1,315</u></u> | <u><u>1,361</u></u> |

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during each of the years ended 31 December 2006 and 2005.

8. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries incurred tax loss during both years.

The tax charge for the year can be reconciled to the loss before taxation as follows:

| | 2006 | | 2005 | |
|---|-----------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| Loss before taxation | <u>(6,273)</u> | | <u>(4,913)</u> | |
| Income tax at applicable tax rate of 17.5% (2005: 17.5%) | (1,098) | (17.5) | (860) | (17.5) |
| Non-deductible expenses | 705 | 11.3 | 362 | 7.3 |
| Tax exempt revenue | (23) | (0.4) | (32) | (0.7) |
| Unrecognised temporary difference | 21 | 0.3 | – | – |
| Unrecognised tax losses | <u>395</u> | <u>6.3</u> | <u>530</u> | <u>10.9</u> |
| Taxation for the year | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>–</u></u> |

9. DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2006 and 2005.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss attributable to equity holders of the Company included a loss of HK\$5,156,000 (2005: HK\$9,063,000) which has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The computation of the basic loss per share is based on the net loss attributable to shareholders for the year of HK\$6,273,000 (2005: HK\$4,913,000) and the weighted average number of 565,096,432 (2005: Restated 432,915,369) shares in issue during the year.

The weighted average number of shares for the purpose of calculating the basic loss per share for the year 2006 and 2005 have been adjusted for the effect of the share consolidation and the rights issue as described in note 17 to these financial statements.

No diluted loss per share was presented as the share options and the conversion of the outstanding warrants of the Company are anti-dilutive.

12. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements | Furniture, fixtures and office equipment | Computer equipment | Total |
|-------------------------------------|-----------------------------------|---|-------------------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| THE GROUP | | | | |
| COST | | | | |
| At 1 January 2006 | 165 | 354 | 846 | 1,365 |
| Additions | 11 | 13 | 25 | 49 |
| Disposal | – | (53) | – | (53) |
| Exchange difference | – | 1 | – | 1 |
| | <u>176</u> | <u>315</u> | <u>871</u> | <u>1,362</u> |
| At 31 December 2006 | <u>176</u> | <u>315</u> | <u>871</u> | <u>1,362</u> |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2006 | 67 | 241 | 723 | 1,031 |
| Charge for the year | 57 | 23 | 93 | 173 |
| | <u>124</u> | <u>264</u> | <u>816</u> | <u>1,204</u> |
| At 31 December 2006 | <u>124</u> | <u>264</u> | <u>816</u> | <u>1,204</u> |
| NET BOOK VALUES | | | | |
| At 31 December 2006 | <u><u>52</u></u> | <u><u>51</u></u> | <u><u>55</u></u> | <u><u>158</u></u> |

| | Leasehold improvements <i>HK\$'000</i> | Furniture, fixtures and office equipment <i>HK\$'000</i> | Computer equipment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------|--|--|--|--------------------------|
| THE GROUP | | | | |
| COST | | | | |
| At 1 January 2005 | 157 | 339 | 796 | 1,292 |
| Additions | <u>8</u> | <u>15</u> | <u>50</u> | <u>73</u> |
| At 31 December 2005 | <u>165</u> | <u>354</u> | <u>846</u> | <u>1,365</u> |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2005 | 13 | 201 | 611 | 825 |
| Charge for the year | <u>54</u> | <u>40</u> | <u>112</u> | <u>206</u> |
| At 31 December 2005 | <u>67</u> | <u>241</u> | <u>723</u> | <u>1,031</u> |
| NET BOOK VALUES | | | | |
| At 31 December 2005 | <u><u>98</u></u> | <u><u>113</u></u> | <u><u>123</u></u> | <u><u>334</u></u> |

13. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|------------------------------|--------------------------------|--------------------------------|
| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
| Unlisted shares, at cost | 3,162 | 3,162 |
| Impairment loss | <u>(3,162)</u> | <u>(3,162)</u> |
| | <u>—</u> | <u>—</u> |
| Due from subsidiaries | 22,012 | 22,236 |
| Provision for doubtful debts | <u>(21,880)</u> | <u>(20,195)</u> |
| | <u>132</u> | <u>2,041</u> |
| | <u><u>132</u></u> | <u><u>2,041</u></u> |

Details of the subsidiaries at 31 December 2006 are as follows:

| Name of subsidiary | Place of incorporation | Issued and fully paid up ordinary share capital | Proportion of ownership interest and voting power held | | Principal activity | Place of operation |
|-------------------------------------|--------------------------------|---|--|-----------------|---|--------------------------------|
| | | | Directly % | Indirectly % | | |
| KanHan Technologies Inc. | British Virgin Islands | US\$116,225 | 100 | – | Investment holding | Hong Kong |
| KanHan Technologies Limited | Hong Kong | HK\$200,000 | – | 100 | Provision of communication software platforms | Hong Kong |
| China Rise Investment Limited | Hong Kong | HK\$1 | – | 100 | Investment holding | Hong Kong |
| KanHan Technologies (China) Limited | The People's Republic of China | HK\$1,000,000 | – | 100 | Provision of communication software platforms | The People's Republic of China |
| Rise Assets Limited | British Virgin Islands | US\$1 | 100 | – | Investment holding | Hong Kong |
| Pharmanet Asia Limited | Hong Kong | HK\$1 | – | 100 | Sourcing agent | Hong Kong |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment. In the opinion of the directors, the amounts are not expected to be realised in the next twelve months from the balance sheet date.

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

14. TRADE AND OTHER RECEIVABLES

| | THE GROUP | |
|---|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Trade receivables | 775 | 1,019 |
| Deposits, prepayments and other receivables | 1,363 | 788 |
| Deposits paid under a non-legally binding memorandum of understanding (<i>note (a)</i>) | 2,500 | – |
| | <u>4,638</u> | <u>1,807</u> |

The Group has a policy of allowing a credit period from 30 to 120 days to its trade customers. The following is an ageing analysis of the trade receivables at the balance sheet date:

| | THE GROUP | |
|--------------|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 30 days | 175 | 177 |
| 31 – 60 days | 559 | 494 |
| 61 – 90 days | 10 | – |
| Over 90 days | 31 | 348 |
| | <u>775</u> | <u>1,019</u> |

Note:

- (a) On 15 May 2006, the Company entered into a non-legally binding memorandum of understanding (“MOU”) with Excel State Group Limited (“Excel State”) and Mr. Yang Shuxin in relation to the proposed acquisition of the whole or part of equity interests held by Mr. Yang Shuxin in Excel State, which holds 51% indirect interests in Shantou Jinshui Technology Limited (“Jinshui”).

Jinshui is a company established in the People’s Republic of China (“PRC”) and is principally engaged in the design, provision and distribution of software and hardware for tax control purpose and the provision of other related services in the PRC.

A refundable amount of HK\$2,500,000 was paid by the Company to Mr. Yang Shuxin as earnest money. As additional time is required for the negotiation process on the terms of the proposed acquisition, the long-stop date of the MOU has been extended from 31 August 2006 to 31 March 2007. If no legally-binding formal agreement has been entered into on or before 31 March 2007, the sum will be refunded to the Company in full.

15. TRADE AND OTHER PAYABLES

| | THE GROUP | |
|-------------------------------------|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | 269 | 499 |
| Accrued charges and other creditors | 3,720 | 1,806 |
| | <u>3,989</u> | <u>2,305</u> |

The following is an ageing analysis of the trade payables at the balance sheet date:

| | THE GROUP | |
|--------------|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 30 days | 126 | 499 |
| 31 – 60 days | 31 | – |
| 61 – 90 days | 112 | – |
| | <u>269</u> | <u>499</u> |

16. FINANCIAL ASSISTANCE FROM GOVERNMENT

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

In the opinion of the directors, HK\$236,000 (2005: HK\$166,000) will be repayable to the ITF within the next twelve months from 31 December 2006 by reference to the forecast revenue generated to be from the specific product. Accordingly, HK\$236,000 (2005: HK\$166,000) has been classified as current liabilities and the remaining balance of HK\$1,059,000 (2005: HK\$1,172,000) is classified as non-current liabilities.

17. SHARE CAPITAL

| | Number of shares | Amount HK\$'000 |
|---|-----------------------------|-----------------------|
| <i>Authorised:</i> | | |
| At 1 January 2005 and 31 December 2005, at HK\$0.01 each | 2,000,000,000 | 20,000 |
| Share consolidation on 28 February 2006 (<i>note (a)</i>) | (1,600,000,000) | – |
| Increase in authorised share capital (<i>note (a)</i>): | | |
| 1,600,000,000 ordinary shares of HK\$0.05 each | <u>1,600,000,000</u> | <u>80,000</u> |
| At 31 December 2006, at HK\$0.05 each | <u><u>2,000,000,000</u></u> | <u><u>100,000</u></u> |
| <i>Issued and fully paid:</i> | | |
| At 1 January 2005, at HK\$0.01 each | 583,718,400 | 5,837 |
| Issue of shares under the placement on 27 June 2005 | | |
| 116,740,000 ordinary shares of HK\$0.01 each | <u>116,740,000</u> | <u>1,167</u> |
| At 31 December 2005, at HK\$0.01 each | 700,458,400 | 7,004 |
| Shares issued upon exercise of share options | | |
| on 2 February 2006 (<i>note 20</i>): | | |
| 37,000,000 ordinary shares of HK\$0.01 each | <u>37,000,000</u> | <u>370</u> |
| | 737,458,400 | 7,374 |
| Share consolidation on 28 February 2006 (<i>note (a)</i>) | <u>(589,966,720)</u> | <u>–</u> |
| At 28 February 2006, at HK\$0.05 each | 147,491,680 | 7,374 |
| Issue of shares under the rights issue | | |
| on 30 March 2006 (<i>note b</i>): | | |
| 442,475,040 ordinary shares of HK\$0.05 each | <u>442,475,040</u> | <u>22,124</u> |
| At 31 December 2006, at HK\$0.05 each | <u><u>589,966,720</u></u> | <u><u>29,498</u></u> |

Notes:

- (a) Pursuant to an ordinary resolution passed by the shareholders in the extraordinary general meeting (“EGM”) held on 28 February 2006, every five shares of HK\$0.01 each in the issued and unissued ordinary share capital of the Company are consolidated into one consolidated share HK\$0.05 each (the “Share Consolidation”). Subsequently, the authorised share capital of the Company has been increased from HK\$20,000,000 divided into 400,000,000 shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each by the creation of an additional 1,600,000,000 unissued shares of HK\$0.05 each.
- (b) Pursuant to an ordinary resolution passed by the shareholders in the EGM held on 28 February 2006, 442,475,040 ordinary shares are issued by way of rights issue on the basis of three rights shares for every one consolidated share of HK\$0.05 each at a subscription price of HK\$0.057 each. The shares were allotted by the Company on 30 March 2006.

All shares issued during the year rank *pari passu* with the existing shares in all respects.

18. RESERVES**THE GROUP**

| | Share premium <i>HK\$'000</i> | Special reserve <i>HK\$'000</i> | Warrant subscription reserve <i>HK\$'000</i> <i>(note d)</i> | Exchange reserve <i>HK\$'000</i> | Employee share-based compensation reserve <i>HK\$'000</i> <i>(note c)</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|---------------------------------------|--|--|--|--|--------------------------|
| At 1 January 2005 | 19,323 | 10,084 | – | – | – | (32,695) | (3,288) |
| Issue of share under the placing | 1,518 | – | – | – | – | – | 1,518 |
| Share issue expenses | (137) | – | – | – | – | – | (137) |
| Employee share-based compensation | – | – | – | – | 567 | – | 567 |
| Loss for the year | – | – | – | – | – | (4,913) | (4,913) |
| At 31 December 2005 | 20,704 | 10,084 | – | – | 567 | (37,608) | (6,253) |
| Issue of rights shares | 3,097 | – | – | – | – | – | 3,097 |
| Issue of warrants under the placing | – | – | 1,767 | – | – | – | 1,767 |
| Share/warrants issue expenses | (2,250) | – | (298) | – | – | – | (2,548) |
| Shares issued upon exercise of share options | 1,270 | – | – | – | (567) | – | 703 |
| Employee share-based compensation | – | – | – | – | 2,314 | – | 2,314 |
| Exchange differences arising from consolidation | – | – | – | (24) | – | – | (24) |
| Loss for the year | – | – | – | – | – | (6,273) | (6,273) |
| At 31 December 2006 | <u>22,821</u> | <u>10,084</u> | <u>1,469</u> | <u>(24)</u> | <u>2,314</u> | <u>(43,881)</u> | <u>(7,217)</u> |

THE COMPANY

| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> <i>(note a)</i> | Warrant subscription reserve <i>HK\$'000</i> <i>(note d)</i> | Employee share-based compensation reserve <i>HK\$'000</i> <i>(note c)</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|--|--|--|--|--------------------------|
| At 1 January 2005 | 19,323 | 3,047 | - | - | (20,376) | 1,994 |
| Issue of shares under the placing | 1,518 | - | - | - | - | 1,518 |
| Share issue expenses | (137) | - | - | - | - | (137) |
| Employee share-based compensation | - | - | - | 567 | - | 567 |
| Loss for the year | - | - | - | - | (9,063) | (9,063) |
| At 31 December 2005 | 20,704 | 3,047 | - | 567 | (29,439) | (5,121) |
| Issue of rights shares | 3,097 | - | - | - | - | 3,097 |
| Issue of warrants under the placing | - | - | 1,767 | - | - | 1,767 |
| Share/warrants issue expenses | (2,250) | - | (298) | - | - | (2,548) |
| Share issued upon exercise of share options | 1,270 | - | - | (567) | - | 703 |
| Employee share-based compensation | - | - | - | 2,314 | - | 2,314 |
| Loss for the year | - | - | - | - | (5,156) | (5,156) |
| At 31 December 2006 | <u>22,821</u> | <u>3,047</u> | <u>1,469</u> | <u>2,314</u> | <u>(34,595)</u> | <u>(4,944)</u> |

- (a) The contributed surplus of the Company arose from the Group Reorganisation took place on 15 January 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of KanHan (BVI).
- (b) The Company did not have reserves available for distribution to shareholders as at 31 December 2006 (2005: Nil).
- (c) Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 2(k)(ii) to the financial statements.
- (d) On 28 August 2006, the Company entered into a conditional placing agreement in relation to a private placing of 117,800,000 warrants granted to a subscriber at an issued price of HK\$0.015 per warrant. The warrants entitle the subscriber to subscribe for new 117,800,000 ordinary shares of par value HK\$0.05 at an initial price of HK\$0.155 per new share for a period of 18 months commencing from the issue date of the warrants. Each warrant carries the right to subscribe for one new share.

19. NET CASH USED IN OPERATING ACTIVITIES

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|-----------------------|-----------------------|
| OPERATING ACTIVITIES | | |
| Loss before taxation | (6,273) | (4,913) |
| Adjustments for: | | |
| Depreciation | 173 | 206 |
| Exchange difference | (25) | – |
| Loss on disposal of property, plant and equipment | 53 | – |
| Employee share-based compensation | 2,314 | 567 |
| Interest income | (585) | (27) |
| Changes in working capital: | | |
| Increase in trade and other receivables | (2,829) | (511) |
| (Increase)Decrease in inventories | (62) | 200 |
| Increase in trade and other payables | 1,681 | 94 |
| | <u> </u> | <u> </u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u><u>(5,553)</u></u> | <u><u>(4,384)</u></u> |

20. EMPLOYEE SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the “Scheme”).

The purpose of the 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 total number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board of Directors to each participant. Options might be granted at a consideration of HK\$1. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

The subscription price for the shares of the Company will be a price determined by the Board of Directors and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange’s daily quotation 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.

On 2 February 2006, all 37,000,000 share options granted on 8 July 2005 were exercised by the option holders at an exercise price of HK\$0.029 each.

On 5 June 2006, the Company granted share options to certain of its directors and employees at a nominal consideration of HK\$1 for each lot of share option to subscribe for an aggregate of 19,400,000 shares under the Scheme at an exercise price of HK\$0.21 per share.

- (a) Movement in the number of share options outstanding during the year is as follows:

| | Number of options | |
|--------------------------------------|--------------------------|--------------------------|
| | 2006 | 2005 |
| At 1 January | 37,000,000 | – |
| Exercised on 2 February 2006 | (37,000,000) | – |
| Granted on 5 June 2006 (8 July 2005) | <u>19,400,000</u> | <u>37,000,000</u> |
| At 31 December | <u><u>19,400,000</u></u> | <u><u>37,000,000</u></u> |

- (b) Details of share options granted

| Categories of grantees | Date of grant | Exercise period | Exercise price per share HK\$ | 2006 Number of options | 2005 Number of options |
|------------------------|---------------|---------------------|----------------------------------|---------------------------|---------------------------|
| Directors | 8/7/2005 | 8/7/2005 - 7/7/2015 | 0.029 | – | 14,000,000 |
| | 5/6/2006 | 5/6/2006 - 4/6/2016 | 0.210 | 8,800,000 | – |
| Employees | 8/7/2005 | 8/7/2005 - 7/7/2015 | 0.029 | – | 23,000,000 |
| | 5/6/2006 | 5/6/2006 - 4/6/2016 | 0.210 | <u>10,600,000</u> | – |
| | | | | <u><u>19,400,000</u></u> | <u><u>37,000,000</u></u> |

- (c) The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option pricing model. The expected life of the option is used as an input into this model.

| Fair value of share options and assumptions | 2006 | 2005 |
|--|-------------------|-------------------|
| Fair value at measurement date | <u>HK\$0.1193</u> | <u>HK\$0.0153</u> |
| Share price at grant date | HK\$0.210 | HK\$0.027 |
| Exercise price | HK\$0.210 | HK\$0.029 |
| Expected option life | 3 years | 5 years |
| Expected volatility | 84.66% | 41.76% |
| Expected dividends | – | – |
| Risk-free interest rate (based on Exchange Fund Notes) | 4.6% | 3.78% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

21. 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. Both the Group and each eligible employee contribute the lower of 5% or HK\$1,000 of the relevant payroll costs to the Scheme.

22. DEFERRED TAX

Recognised deferred tax (assets) liabilities

| | Depreciation allowances <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------|---|--|---------------------------------|
| At 1 January 2005 | 33 | (33) | – |
| (Credit) Charge to income | <u>(21)</u> | <u>21</u> | <u>–</u> |
| At 31 December 2005 | 12 | (12) | – |
| Charge (Credit) to income | <u>(12)</u> | <u>12</u> | <u>–</u> |
| At 31 December 2006 | <u>–</u> | <u>–</u> | <u>–</u> |

Unrecognised deferred tax assets arising from

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|----------------------------------|--------------------------------|--------------------------------|
| Deductible temporary differences | 47 | – |
| Tax losses | <u>32,267</u> | <u>29,887</u> |
| At the balance sheet date | <u>32,314</u> | <u>29,887</u> |

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

23. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had total future minimum lease payments in respect of office premises under non-cancellable operating lease which are payable as follows:

| | THE GROUP | |
|--|--------------------------------|--------------------------------|
| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
| Within one year | 543 | 281 |
| In the second to fifth years inclusive | <u>430</u> | <u>–</u> |
| | <u>973</u> | <u>281</u> |

24. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise bank balances and cash, trade receivables and trade payables, which arise directly from its business activities.

The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on its risk management and limit the Group's exposure to these risks to a minimum.

The main risks arising from the Group's financial instruments are credit risks. The credit risks are managed via the following policies so as to minimise their exposure:

- (a) The Group trades only with creditworthy third parties; and
- (b) Receivables balances are monitored closely for objective evidence of any potential/existence of loss event.

25. POST BALANCE SHEET EVENTS

- (a) On 13 February 2007, the Company granted further share options to certain of its directors and employees to subscribe for an aggregate 4,000,000 shares at a nominal consideration of HK\$1 for each lot of share option under the Scheme at the exercise price of HK\$0.19 per share.
- (b) On 2 February 2007, Rise Assets Limited ("Rise Assets", a wholly-owned subsidiary of the Company) entered into a conditional legally binding memorandum of understanding ("MOU") with Mr. Yang Pei Gen ("Mr. Yang"), in which Rise Assets has agreed to acquire and Mr. Yang has agreed to sell: (i) the Sale Share, representing the entire issued share capital of Silky Sky Investments Limited ("Silky Sky"); and (ii) the Sale Loan, representing all obligation, indebtedness and liabilities due by Silky Sky to Mr. Yang, for a total consideration of HK\$61,000,000. On 21 March 2007, a formal agreement ("Formal Agreement") was entered into between Rise Assets and Mr. Yang. Details of the MOU and the Formal Agreement were disclosed in the announcements of the Company dated 9 February 2007 and 21 March 2007 respectively.

Sky Rich Investments Limited, a wholly-owned subsidiary of Silky Sky, will be owned as to 51% of interests in Beijing Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan"). Shiji Jiangshan, an equity joint venture company established in the PRC, is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic wastes into organic fertilizer.

Deposits HK\$20,000,000 were paid by the Company to Mr. Yang as of the date of these financial statements.

26. COMPARATIVE FIGURES

Classification of certain revenue has been changed in order to better reflect their significance and nature in the financial statements as follows:

- Revenue from website development of HK\$384,000 that was included in revenue from sales of licensed software in the 2005 financial statements has been separately disclosed to conform with the current year's presentation.
- Subscription income of HK\$45,000 that was included in revenue from sales of licensed software in the 2005 financial statements has been reclassified to software rental and subscription income to conform with the current year's presentation.

3. INTERIM RESULTS

Set out below is the unaudited financial information of the Group for the three months and six months ended 30 June 2007, together with comparative amounts, as extracted from the interim report 2007 of the Company respectively.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2007

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|--------------------------------------|-------|-------------------------------|----------------------------|-----------------------------|----------------------------|
| | | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Turnover | 3 | 2,385 | 1,651 | 3,777 | 3,066 |
| Cost of sales | | <u>(1,204)</u> | <u>(768)</u> | <u>(1,841)</u> | <u>(1,539)</u> |
| Gross profit | | 1,181 | 883 | 1,936 | 1,527 |
| Other income/(expenses) | | (70) | 250 | 338 | 342 |
| Research and development expenses | | (269) | (287) | (625) | (567) |
| Selling and distribution expenses | | (322) | (290) | (626) | (569) |
| Administrative expenses | | <u>(1,625)</u> | <u>(1,281)</u> | <u>(3,131)</u> | <u>(2,376)</u> |
| Loss before taxation | 5 | (1,105) | (725) | (2,108) | (1,643) |
| Taxation | 6 | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Loss for the period | | <u>(1,105)</u> | <u>(725)</u> | <u>(2,108)</u> | <u>(1,643)</u> |
| Attributable to: | | | | | |
| Equity holders of the Company | | (990) | (725) | (1,993) | (1,643) |
| Minority interests | | <u>(115)</u> | <u>–</u> | <u>(115)</u> | <u>–</u> |
| Loss per share – Basic | 8 | <u><u>(0.15 cents)</u></u> | <u><u>(0.12 cents)</u></u> | <u><u>(0.32 cents)</u></u> | <u><u>(0.30 cents)</u></u> |

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

| | | 30 June 2007 | (Audited) 31 December 2006 |
|--|--------------|-------------------------|---|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | 762 | 158 |
| Intangible assets | 9 | <u>53,572</u> | <u>–</u> |
| | | <u>54,334</u> | <u>158</u> |
| CURRENT ASSETS | | | |
| Inventories | 10 | 153 | 62 |
| Trade and other receivables | 11 | 12,395 | 4,638 |
| Bank balances, deposits and cash | | <u>12,659</u> | <u>22,707</u> |
| | | <u>25,207</u> | <u>27,407</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | 7,401 | 3,989 |
| Financial assistance from government | | <u>336</u> | <u>236</u> |
| | | <u>7,737</u> | <u>4,225</u> |
| NET CURRENT ASSETS | | <u>17,470</u> | <u>23,182</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>71,804</u> | <u>23,340</u> |
| NON-CURRENT LIABILITIES | | | |
| Promissory note | 13 | 24,031 | – |
| Financial assistance from government | | <u>959</u> | <u>1,059</u> |
| | | <u>24,990</u> | <u>1,059</u> |
| NET ASSETS | | <u><u>46,814</u></u> | <u><u>22,281</u></u> |
| EQUITY AND RESERVES | | | |
| Share capital | | 37,436 | 29,498 |
| Reserves | | <u>2,815</u> | <u>(7,217)</u> |
| | | <u>40,251</u> | <u>22,281</u> |
| MINORITY INTERESTS | | <u>6,563</u> | <u>–</u> |
| | | <u><u>46,814</u></u> | <u><u>22,281</u></u> |

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

| | Share capital | Share premium | Special reserve | Warrant subscription reserve | Exchange reserve | Employee share-based compensation reserve | Accumulated losses | Total | Minority interests | Total |
|---------------------------|---------------|---------------|-----------------|------------------------------|------------------|---|--------------------|---------------|--------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | (Note a) | | | | | | | |
| 2006 | | | | | | | | | | |
| At 1 January 2006 | 7,004 | 20,704 | 10,084 | - | - | 567 | (37,608) | 751 | - | 751 |
| Exercise of share options | 370 | 1,270 | - | - | - | (567) | - | 1,073 | - | 1,073 |
| Issue of rights shares | 22,124 | 3,097 | - | - | - | - | - | 25,221 | - | 25,221 |
| Share issue expenses | - | (2,250) | - | - | - | - | - | (2,250) | - | (2,250) |
| Loss for the period | - | - | - | - | - | - | (1,643) | (1,643) | - | (1,643) |
| At 30 June 2006 | <u>29,498</u> | <u>22,821</u> | <u>10,084</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(39,251)</u> | <u>23,152</u> | <u>-</u> | <u>23,152</u> |

| | Share capital | Share premium | Special reserve | Warrant subscription reserve | Exchange reserve | Employee share-based compensation reserve | Accumulated losses | Total | Minority interests | Total |
|---|---------------|---------------|-----------------|------------------------------|------------------|---|--------------------|---------------|--------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | (Note a) | | | | | | | |
| 2007 | | | | | | | | | | |
| At 1 January 2007 | 29,498 | 22,821 | 10,084 | 1,469 | (24) | 2,314 | (43,881) | 22,281 | - | 22,281 |
| Exercise of share options | 150 | 837 | - | - | - | (357) | - | 630 | - | 630 |
| Exercise of warrants | 1,000 | 2,349 | - | (249) | - | - | - | 3,100 | - | 3,100 |
| Issue of consideration shares | 6,788 | 10,181 | - | - | - | - | - | 16,969 | - | 16,969 |
| (Note b) | | | | | | | | | | |
| Share issue expenses | - | (744) | - | - | - | - | - | (744) | - | (744) |
| Exchange differences arising from consolidation | - | - | - | - | 8 | - | - | 8 | - | 8 |
| Acquisition of subsidiary | - | - | - | - | - | - | - | - | 6,678 | 6,678 |
| Loss for the period | - | - | - | - | - | - | (1,993) | (1,993) | (115) | (2,108) |
| At 30 June 2007 | <u>37,436</u> | <u>35,444</u> | <u>10,084</u> | <u>1,220</u> | <u>(16)</u> | <u>1,957</u> | <u>(45,874)</u> | <u>40,251</u> | <u>6,563</u> | <u>46,814</u> |

Notes:

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.
- (b) The Company issued 135,750,000 shares of HK\$0.125 each and credited as fully paid in consideration for acquisition of the entire equity interest in Silky Sky Investments Limited.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2007*

| | Six months ended 30 June 2007 <i>HK\$'000</i> | Six months ended 30 June 2006 <i>HK\$'000</i> |
|--|--|--|
| Net cash used in operating activities | (6,472) | (3,595) |
| Net cash used in investing activities | <u>(6,562)</u> | <u>(24)</u> |
| Net cash outflow before financing activities | (13,034) | (3,619) |
| Net cash inflow from financing activities | <u>2,986</u> | <u>24,029</u> |
| Net increase/(decrease) in cash and cash equivalents | (10,048) | 20,410 |
| Cash and cash equivalents at beginning of the period | <u>22,707</u> | <u>2,253</u> |
| Cash and cash equivalents at end of the period | <u><u>12,659</u></u> | <u><u>22,663</u></u> |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 10 October 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company were listed on the GEM of the Stock Exchange on 25 February 2003.

The Company and its subsidiaries are principally engaged in developing and marketing patented server based technology for its real time on-line communication software platform for the Chinese language. The Company is also engaged in the provision of software related services. In addition, the Group is engaged in the production and distribution of organic fertilizer through a technology which converts organic waste into organic fertilizer.

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The measurement basis used in the preparation of these unaudited consolidated results is historical cost.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2006.

3. TURNOVER

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

| | Three months ended | | Six months ended | |
|--|--------------------|--------------|------------------|--------------|
| | 30 June | | 30 June | |
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sales of licensed software | 1,617 | 1,280 | 2,604 | 2,263 |
| Software maintenance | 181 | 191 | 367 | 375 |
| Software rental and subscription income | 112 | 60 | 160 | 124 |
| Website development | 329 | – | 329 | 148 |
| Putonghua learning platform | 146 | 120 | 317 | 156 |
| | <u>2,385</u> | <u>1,651</u> | <u>3,777</u> | <u>3,066</u> |

4. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

| | Six months ended 30 June, | | | | | |
|-------------------------|--|-------------------------|---|-------------------------|-------------------------|-------------------------|
| | Server-based technology and related products | | Production and distribution of organic fertilizer | | Consolidated | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 |
| Turnover | <u>3,777</u> | <u>3,066</u> | <u>–</u> | <u>–</u> | <u>3,777</u> | <u>3,066</u> |
| Segment results | <u>(934)</u> | <u>(1,121)</u> | <u>(235)</u> | <u>–</u> | <u>(1,169)</u> | <u>(1,121)</u> |
| Other income | | | | | 255 | 342 |
| Unallocated expenses | | | | | <u>(1,194)</u> | <u>(864)</u> |
| Loss before taxation | | | | | (2,108) | (1,643) |
| Taxation | | | | | <u>–</u> | <u>–</u> |
| Loss for the period | | | | | <u>(2,108)</u> | <u>(1,643)</u> |
| | | | | | | |
| | As at 30 June, | | | | | |
| | Server-based technology and related products | | Production and distribution of organic fertilizer | | Consolidated | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 |
| Assets | | | | | | |
| Segment assets | 1,775 | 1,409 | 17,583 | – | 19,358 | 1,409 |
| Unallocated assets | | | | | <u>60,183</u> | <u>25,120</u> |
| Total assets | | | | | <u>79,541</u> | <u>26,529</u> |
| Liabilities | | | | | | |
| Segment liabilities | 4,744 | 3,082 | 3,712 | – | 8,456 | 3,082 |
| Unallocated liabilities | | | | | <u>24,271</u> | <u>295</u> |
| Total liabilities | | | | | <u>32,727</u> | <u>3,377</u> |

(b) Geographical segments

For the six months ended 30 June 2007, the Group's turnover and operating assets are located in the Special Administrative Region of Hong Kong and other regions in the People's Republic of China ("PRC"). Accordingly, no analysis by geographical segments is included in these financial statements.

5. LOSS BEFORE TAXATION

This is stated after charging:

| | Three months ended | | Six months ended | |
|--------------|--------------------|-----------|------------------|-----------|
| | 30 June | | 30 June | |
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Depreciation | <u>33</u> | <u>45</u> | <u>64</u> | <u>95</u> |

6. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the six months ended 30 June 2007 (2006: Nil).

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 June 2007 respectively (2006: Nil).

8. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 30 June 2007 is based on the loss for the period of approximately HK\$990,000 (2006: HK\$725,000) and on the weighted average number of 663,738,698 shares (2006: 589,966,720 shares).

The computation of the basic loss per share for the six months ended 30 June 2007 is based on the loss for the period of approximately HK\$1,993,000 (2006: HK\$1,643,000) and on the weighted average number of 627,056,499 shares (2006: 551,293,393 shares).

No diluted loss per share was presented as the exercise of the outstanding share options and the conversion of the outstanding warrants of the Company are anti-dilutive.

9. INTANGIBLE ASSETS

Intangible assets represent the goodwill arising on the acquisition of the entire equity interest in Silky Sky Investments Limited and its subsidiaries.

10. INVENTORIES

Inventories comprise finished goods and are stated at cost.

11. TRADE AND OTHER RECEIVABLES

| | The Group | |
|---|------------------------------------|--|
| | 30 June 2007 <i>HK\$'000</i> | 31 December 2006 <i>HK\$'000</i> |
| Trade receivables | 1,414 | 775 |
| Deposits, prepayments and other receivables | 10,981 | 3,863 |
| | <u>12,395</u> | <u>4,638</u> |

The Group has a policy of allowing a credit period from 30 to 120 days to its trade customers. The aging analysis of the trade receivables is as follows:

| | The Group | |
|--------------|------------------------------------|--|
| | 30 June 2007 <i>HK\$'000</i> | 31 December 2006 <i>HK\$'000</i> |
| 0-30 days | 361 | 175 |
| 31-60 days | 791 | 559 |
| 61-90 days | 83 | 10 |
| Over 90 days | 179 | 31 |
| | <u>1,414</u> | <u>775</u> |

12. TRADE AND OTHER PAYABLES

| | The Group | |
|-------------------------------------|------------------------------------|--|
| | 30 June 2007 <i>HK\$'000</i> | 31 December 2006 <i>HK\$'000</i> |
| Trade payables | 273 | 269 |
| Accrued charges and other creditors | 7,128 | 3,720 |
| | <u>7,401</u> | <u>3,989</u> |

The Group has an average credit period ranging from 30 to 90 days from its trade creditors. The aging analysis of the trade payables is as follows:

| | The Group | |
|--------------|-------------------------|-----------------------------|
| | 30 June 2007 | 31 December 2006 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0-30 days | 152 | 126 |
| 31-60 days | 55 | 31 |
| 61-90 days | 53 | 112 |
| Over 90 days | 13 | – |
| | <u>273</u> | <u>269</u> |

13. PROMISSORY NOTE

On 21 May 2007, the Company issued a promissory note with a face amount of HK\$24,031,250 to Mr. Yang Pei Gen in respect of the acquisition of the entire equity interest in Silky Sky Investments Limited. The promissory note is interest bearing at 2% per annum and is repayable within two years from the date of issuance.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2007, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Prospectus, the Group had outstanding borrowings of approximately HK\$25,527,000, details of which are set out below:

| | <i>HK\$'000</i> |
|--|-----------------|
| Financial assistance from government (unsecured) | 1,295 |
| Promissory notes | <u>24,232</u> |
| | <u>25,527</u> |

As at 31 October 2007, the Group had outstanding borrowings and debts of other loan of approximately HK\$1,295,000 due to the HKSAR 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 Company issued a promissory note with a face amount of HK\$24,031,250 which is interest bearing at 2% per annum and matures on 20 May 2009. As at 31 October 2007, the Company had outstanding promissory note of approximately HK\$24,231,510 of which a total of approximately HK\$200,260 was the accrued interest.

Commitments

As at 31 October 2007, the Group had operating lease commitments and capital commitments of approximately HK\$520,030 and RMB7,154,587 respectively.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 October 2007, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

6. WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, taking into account the Group's internal resources, the existing banking facilities available and the estimated net proceeds of the Open Offer, the Group has sufficient working capital for its present requirements in the next twelve months from the date of this Prospectus.

A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 7.31(1) of the GEM Listing Rules is set out below to illustrate the effect of the Open Offer on the net tangible assets of the Group as if the Open Offer had taken place on 30 June 2007.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Open Offer.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 June 2007, adjusted as described below:

| | Unaudited consolidated net tangible assets/ (liabilities) of the Group as at 30 June 2007 HK\$'000 (Note a) | Estimated net proceeds from the Open Offer HK\$'000 (Note b) | Unaudited pro forma adjusted consolidated net tangible assets of the Group HK\$'000 | Unaudited pro forma adjusted consolidated net tangible assets/ (liabilities) of the Group per Share |
|---|--|---|--|--|
| Immediately before completion of the Open Offer | <u>(13,321)</u> | | | (HK\$0.0150) <u>(Note c)</u> |
| Immediately after completion of the Open Offer | <u>(13,321)</u> | <u>32,817</u> | <u>19,496</u> | HK\$0.0147 <u>(Note d)</u> |

Notes:

- (a) The unaudited consolidated net tangible liabilities of the Group as at 30 June 2007 of approximately HK\$13,321,000 is calculated based on the unaudited consolidated net assets of the Group as at 30 June 2007 less intangible assets at 30 June 2007 as extracted from the interim report 2007 of the Group.
- (b) The estimated net proceeds from the issue of 443,458,360 Offer Shares are based on the Subscription Price of HK\$0.08 per Offer Share after deducting the related expenses of approximately HK\$2.66 million.
- (c) The calculation is based on 886,916,720 Shares immediately as at the Latest Practicable Date.
- (d) The calculation is based on 1,330,375,080 Shares comprising 886,916,720 Shares in issue and 443,458,360 Offer Shares to be issued and allotted upon completion of the Open Offer.

B) LETTER FROM VISION A. S. LIMITED

Set out below is the text of a letter in connection with the Open Offer received from Vision A. S. Limited, which has been prepared for the purpose of incorporation in this Prospectus:

Vision A. S. Limited Certified Public Accountants

泓信會計師行有限公司

26 November 2007

The Board of Directors
KanHan Technologies Group Limited
15/F., Sun House
181 Des Voeux Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of KanHan Technologies Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on page 58 under the heading of unaudited pro forma adjusted consolidated net tangible assets of the Group in Appendix II of the Company’s prospectus dated 26 November 2007 (the “Prospectus”) in connection with the proposed open offer of new shares on the basis of one share for every two existing share held (the “Open Offer”) of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The Unaudited Pro Forma Financial Information relating to the Open Offer has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the net tangible assets of the Group as at 30 June 2007. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 58 to the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Vision A. S. Limited
Certified Public Accountants
Hong Kong

The following is the accountant's report on Silky Sky received from Cheung & Siu as extracted from the circular of the Company dated 20 April 2007.

Cheung & Siu Certified Public Accountants

張、蕭會計師事務所

20 April 2007

The Board of Directors
KanHan Technologies Group Limited
15/F., Sun House
181 Des Voeux Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Silky Sky Investments Limited (“Silky Sky”) and its subsidiaries (hereinafter collectively referred to as the “Silky Sky Group”) for the period from 18 August 2006 (date of incorporation of Silky Sky) to 31 December 2006 and for the two months ended 28 February 2007 (the “Relevant Periods”) for inclusion in the circular of KanHan Technologies Group Limited (the “Company”) dated 20 April 2007 (the “Circular”) in connection with the proposed acquisition of the entire issued share capital of Silky Sky (the “Acquisition”) by Rise Assets Limited, a wholly-owned subsidiary of the Company.

Silky Sky was incorporated in the British Virgin Islands on 18 August 2006 with limited liability and acts as an investment holding company. The registered office of Silky Sky is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. As at the date of this report, Silky Sky is wholly and beneficially owned by Mr. Yang Pei Gen.

Sky Rich Limited (“Sky Rich”) was incorporated in Hong Kong on 16 May 2006 with limited liability and with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. Silky Sky has become the holding company of Sky Rich since Silky Sky acquired one share, representing the entire issued share capital, of Sky Rich on 10 October 2006. The principal activity of Sky Rich is investment holding.

On 23 November 2006, Sky Rich entered into an agreement with 渭南豐光科技有限責任公司 (Wei Nan Feng Guang Science and Technology Limited Liability Company[#]) (“Wei Nan”), to form an equity joint venture company named Beijing Shiji Jiangshan Resource Recycling Technology Ltd (“Beijing Shiji”) in the People’s Republic of China (“PRC”). Beijing Shiji was established on 25 December 2006 with a registered capital of RMB30 million. Pursuant to the joint venture agreement, Sky Rich agreed to invest RMB22.5 million, representing 75% of the registered capital whereas Wei Nan agreed to invest RMB7.5 million, representing 25% of the registered capital. As at the date of this report, Sky Rich has made capital contribution of HK\$9,530,000 to Beijing Shiji.

[#] English translation of company names are for identification purpose only

On 22 January 2007, Sky Rich entered into a share transfer agreement with Fortune Pacific Limited ("Fortune Pacific"). Pursuant to the agreement, Sky Rich agreed to sell and transfer 24% equity interest of Beijing Shiji to Fortune Pacific at a consideration of RMB7.2 million of which RMB1.44 million will be paid to Sky Rich and RMB5.76 million will be contributed to Beijing Shiji directly as further capital investment. Sky Rich's equity interest in Beijing Shiji will be decreased from 75% to 51% upon the completion of the share transfer. The share transfer was completed on 21 March 2007.

As at the date of this report, Silky Sky has interests in the following subsidiaries:

| Name of subsidiaries | Place and date of incorporation/ registration | Nominal value of issued/ registered capital | Attributable equity interest held by Silky Sky | Principal activities |
|--|---|---|--|---|
| Sky Rich Limited | Hong Kong 16 May 2006 | HK\$1 | 100% (directly) | Investment holding |
| Beijing Shiji Jiangshan Resource Recycling Technology Ltd* | PRC 25 December 2006 | RMB30,000,000 | 51% (indirectly) | Waste recycling and production and distribution of organic fertilizer |

* *This subsidiary is a joint venture company with a registered capital of RMB30 million. Sky Rich had injected a capital of RMB9.5 million as at the date of this report.*

All companies of Silky Sky Group have adopted 31 December as their financial year end date.

Up to the date of this report, no audited financial statements have been prepared for the companies comprising the Silky Sky Group as they were either incorporated/established shortly before 28 February 2007 or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

For the purpose of this report, the directors of Silky Sky have prepared the consolidated financial statements of the Silky Sky Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). For the purpose of this report, we have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information for the Relevant Periods (the “Financial Information”) set out in Sections A to B below has been prepared by the directors of Silky Sky based on the Underlying Financial Statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view is the responsibility of the directors of Silky Sky. In preparing the Underlying Financial Statements and the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Silky Sky and of Silky Sky Group as at 31 December 2006 and 28 February 2007 and of the consolidated results and cash flows of Silky Sky Group for each of the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

| | | Period from 18 August 2006 (date of incorporation) to 31 December 2006 HK\$ | Two months ended 28 February 2007 HK\$ |
|-----------------------------|--------------|---|--|
| | <i>Notes</i> | | |
| TURNOVER | 5 | – | – |
| Cost of sales | | – | – |
| Gross profit | | – | – |
| Other revenue | 5 | 6,059 | 770 |
| Administrative expenses | | (22,853) | (886,803) |
| LOSS BEFORE TAXATION | 6 | (16,794) | (886,033) |
| Tax | 8 | – | – |
| LOSS FOR THE PERIOD | | <u>(16,794)</u> | <u>(886,033)</u> |
| Attributable to: | | | |
| Equity holders of Silky Sky | | (16,794) | (664,482) |
| Minority interest | | – | (221,551) |
| | | <u>(16,794)</u> | <u>(886,033)</u> |

CONSOLIDATED BALANCE SHEETS

| | <i>Notes</i> | As at 31 December 2006 <i>HK\$</i> | As at 28 February 2007 <i>HK\$</i> |
|---|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | — | 228,618 |
| Total non-current assets | | — | 228,618 |
| CURRENT ASSETS | | | |
| Prepayments | 11 | — | 2,061,360 |
| Other receivables | 12 | — | 960,075 |
| Cash and bank balances | 13 | 5,557 | 5,206,524 |
| Total current assets | | 5,557 | 8,227,959 |
| CURRENT LIABILITIES | | | |
| Accrued liabilities and other payables | | 22,343 | 22,343 |
| Due to the shareholder | 14 | — | 9,256,721 |
| Total current liabilities | | 22,343 | 9,279,064 |
| NET CURRENT LIABILITIES | | <u>(16,786)</u> | <u>(1,051,105)</u> |
| Net liabilities | | <u>(16,786)</u> | <u>(822,487)</u> |
| EQUITY | | | |
| Issued capital | 15 | 8 | 8 |
| Reserves | | (16,794) | (600,944) |
| Equity attributable to equity holders of Silky Sky | | (16,786) | (600,936) |
| Minority interest | | — | (221,551) |
| Total equity | | <u>(16,786)</u> | <u>(822,487)</u> |

BALANCE SHEETS

| | <i>Notes</i> | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ |
|--|--------------|--|--|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | <i>10</i> | <u>1</u> | <u>1</u> |
| CURRENT ASSETS | | | |
| Due from a subsidiary | <i>10</i> | – | 9,530,000 |
| Cash and bank balances | <i>13</i> | <u>7</u> | <u>7</u> |
| | | <u>7</u> | <u>9,530,007</u> |
| CURRENT LIABILITIES | | | |
| Accrued liabilities and other payables | | 7,500 | 7,500 |
| Due to the shareholder | <i>14</i> | <u>–</u> | <u>9,530,000</u> |
| | | <u>7,500</u> | <u>9,537,500</u> |
| NET CURRENT LIABILITIES | | | |
| | | <u>(7,493)</u> | <u>(7,493)</u> |
| Net liabilities | | <u><u>(7,492)</u></u> | <u><u>(7,492)</u></u> |
| EQUITY | | | |
| Issued capital | <i>15</i> | 8 | 8 |
| Reserves | <i>16</i> | <u>(7,500)</u> | <u>(7,500)</u> |
| Total equity | | <u><u>(7,492)</u></u> | <u><u>(7,492)</u></u> |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Issued capital <i>HK\$</i> | Exchange reserve <i>HK\$</i> | Accumulated losses <i>HK\$</i> | Minority interest <i>HK\$</i> | Total <i>HK\$</i> |
|--|----------------------------------|------------------------------------|--------------------------------------|-------------------------------------|-------------------------|
| Issue of shares upon incorporation | 8 | - | - | - | 8 |
| Loss for the period | <u>-</u> | <u>-</u> | <u>(16,794)</u> | <u>-</u> | <u>(16,794)</u> |
| At 31 December 2006 and at 1 January 2007 | 8 | - | (16,794) | - | (16,786) |
| Exchange realignment | - | 80,332 | - | - | 80,332 |
| Loss for the period | <u>-</u> | <u>-</u> | <u>(664,482)</u> | <u>(221,551)</u> | <u>(886,033)</u> |
| At 28 February 2007 | <u><u>8</u></u> | <u><u>80,332</u></u> | <u><u>(681,276)</u></u> | <u><u>(221,551)</u></u> | <u><u>(822,487)</u></u> |

CONSOLIDATED CASH FLOW STATEMENTS

| | Period from 18 August 2006 (date of incorporation) to 31 December 2006 HK\$ | Two months ended 28 February 2007 HK\$ |
|--|---|--|
| OPERATING ACTIVITIES | | |
| Loss before tax | (16,794) | (886,033) |
| Adjustments for: | | |
| Depreciation | – | 7,071 |
| Interest income | (6,059) | (770) |
| Operating cash flows before movements in working capital | (22,853) | (879,732) |
| Increase in prepayments | – | (2,061,360) |
| Increase in other receivables | – | (960,075) |
| Increase in accrued liabilities and other payables | 22,343 | – |
| Cash used in operations | (510) | (3,901,167) |
| Interest paid | – | – |
| NET CASH USED IN OPERATING ACTIVITIES | (510) | (3,901,167) |
| INVESTING ACTIVITIES | | |
| Interest received | 6,059 | 770 |
| Purchases of items of property, plant and equipment | – | (235,689) |
| Increase in amount due to the shareholder | – | 9,256,721 |
| NET CASH FROM INVESTING ACTIVITIES | 6,059 | 9,021,802 |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | 8 | – |
| NET CASH FROM FINANCING ACTIVITIES | 8 | – |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,557 | 5,120,635 |
| Cash and cash equivalents at beginning of period | – | 5,557 |
| Effect of foreign exchange rate changes, net | – | 80,332 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>5,557</u> | <u>5,206,524</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| – Cash and bank balances | <u>5,557</u> | <u>5,206,524</u> |

B. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

Silky Sky is a limited liability company incorporated in the British Virgin Islands. The registered office of Silky Sky is located at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.

Silky Sky and its subsidiaries are engaged in investment holding, waste recycling and production and distribution of organic fertilizer during the Relevant Periods.

The Financial Information has been prepared on a going concern basis because Rise Assets Limited (a wholly-owned subsidiary of the Company) who will become the controlling shareholder of Silky Sky upon completion of the Acquisition, will provide adequate funds to ensure Silky Sky to meet its financial obligations as they fall due for the foreseeable future.

2. ADOPTION OF NEW OR REVISED STANDARDS

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information has been prepared under the historical cost convention.

New HKFRSs issued but not yet effective are not early adopted. The directors of Silky Sky Group anticipate that the application of these new HKFRSs will have no material impact on the Financial Information.

3. PRINCIPAL ACCOUNTING POLICIES**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Silky Sky and its subsidiaries for the Relevant Periods. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Silky Sky Group obtains control, and continue to be consolidated until the date that such control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Silky Sky Group.

All significant inter-company transactions and balances within the Silky Sky Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Silky Sky Group's equity therein. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Silky Sky Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Subsidiaries

A subsidiary is an entity over which Silky Sky has the power to control the financial and operating policies, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in Silky Sky's income statement to the extent of dividends received and receivable. Silky Sky's investments in subsidiaries are stated at cost less any impairment losses.

(c) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined net of any depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(d) Related parties

A party is considered to be related to the Silky Sky Group if:

- (i) directly, or indirectly through one or more intermediaries, the party
 - controls, is controlled by, or is under common control with, the Silky Sky Group;
 - has an interest in the Silky Sky Group that gives it significant influence over the Silky Sky Group; or
 - has joint control over the Silky Sky Group;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is a member of the key management personnel of the Silky Sky Group;
- (iv) the party is a close member of the family of any individual referred to in (i) or (iii) above;

- (v) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) or (iv) above; or
- (vi) the party is a post-employment benefit plan for the benefit of the employees of the Silky Sky Group, or of any entity that is a related party of the Silky Sky Group.

(e) Property, plant and equipment and depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|------------------------|-----|
| Furniture and fixtures | 20% |
| Office equipment | 20% |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Gain or loss on derecognition of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

(f) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(g) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Silky Sky Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(h) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(i) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Silky Sky Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Silky Sky Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(j) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements of the overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the Relevant Periods, and its balance sheet is translated into Hong Kong dollars at the exchange rates ruling at the balance sheet dates. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statements, the cash flows of the overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the Relevant Periods are translated into Hong Kong dollars at the weighted average exchange rates for the Relevant Periods.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**Judgements**

In the process of applying Silky Sky Group's accounting policies, the management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

5. TURNOVER AND OTHER REVENUE

Silky Sky Group did not generate any turnover during the Relevant Periods. An analysis of the Silky Sky Group's other revenue is shown as follows:

| | Period from 18 August 2006 (date of incorporation) to 31 December 2006 HK\$ | Two months ended 28 February 2007 HK\$ |
|-----------------|---|--|
| Turnover | — | — |
| Other revenue | | |
| Interest income | 6,059 | 770 |
| | <u>6,059</u> | <u>770</u> |

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | Period from 18 August 2006 (date of incorporation) to 31 December 2006 HK\$ | Two months ended 28 February 2007 HK\$ |
|---|---|--|
| Depreciation | — | 7,071 |
| Auditors' remuneration | — | — |
| Minimum lease payments under operating leases on: | | |
| Land and buildings | — | 133,097 |
| Exchange losses, net | — | 16,532 |
| Preliminary expenses | 14,000 | 33,552 |
| Staff cost (excluding directors' remuneration – note 7) | | |
| Salaries and allowances | — | 371,499 |
| | <u>—</u> | <u>371,499</u> |

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

During the Relevant Periods, no remuneration was paid or payable to the directors of Silky Sky Group.

There was no arrangement under which a director of Silky Sky Group waived or agreed to waive any remuneration during the Relevant Periods.

The details of the remuneration of the five highest paid individuals excluding directors of Silky Sky Group for the Relevant Periods are as follows:

| | Period from 18 August 2006 (date of incorporation) to 31 December 2006 HK\$ | Two months ended 28 February 2007 HK\$ |
|--------------------|--|---|
| Wages and salaries | <u> -</u> | <u> 164,980</u> |

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

| | Number of individuals Period from 18 August 2006 (date of incorporation) to 31 December 2006 | Two months ended 28 February 2007 |
|--------------------------|---|--|
| HK\$Nil to HK\$1,000,000 | <u> -</u> | <u> 5</u> |

During the Relevant Periods, no remuneration was paid by the Silky Sky Group to the directors or five highest paid individuals as an inducement to join or upon joining the Silky Sky Group or as compensation for loss of office.

8. TAX

No provision for Hong Kong and overseas profits tax has been made as the Silky Sky Group did not generate any assessable profits arising from its operations during the Relevant Periods.

There are no material unprovided deferred tax assets and liabilities at the respective balance sheet dates.

9. PROPERTY, PLANT AND EQUIPMENT

Silky Sky Group

| | Furniture and fixtures <i>HK\$</i> | Office equipment <i>HK\$</i> | Total <i>HK\$</i> |
|---|---|------------------------------------|----------------------|
| Cost: | | | |
| At 18 August 2006 | – | – | – |
| Additions during the period | – | – | – |
| At 31 December 2006 and 1 January 2007 | – | – | – |
| Additions during the period | 91,991 | 143,698 | 235,689 |
| At 28 February 2007 | 91,991 | 143,698 | 235,689 |
| Accumulated depreciation: | | | |
| At 18 August 2006 | – | – | – |
| Charge for the period | – | – | – |
| At 31 December 2006 and 1 January 2007 | – | – | – |
| Charge for the period | 2,760 | 4,311 | 7,071 |
| At 28 February 2007 | 2,760 | 4,311 | 7,071 |
| Net book value: | | | |
| At 28 February 2007 | 89,231 | 139,387 | 228,618 |
| At 31 December 2006 | – | – | – |

10. INTERESTS IN SUBSIDIARIES

| | As at 31 December 2006 <i>HK\$</i> | As at 28 February 2007 <i>HK\$</i> |
|--------------------------|---|---|
| Unlisted shares, at cost | 1 | 1 |
| Due from a subsidiary | – | 9,530,000 |
| | 1 | 9,530,001 |

The amount due from a subsidiary was unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from a subsidiary approximates its fair value.

Particulars of the subsidiaries are as follows:

| Name of subsidiaries | Place and date of incorporation/ registration | Nominal value of issued/ registered capital | Attributable equity interest held by Silky Sky | Principal activities |
|--|---|---|--|---|
| Sky Rich Limited | Hong Kong 16 May 2006 | HK\$1 | 100% (directly) | Investment holding |
| Beijing Shiji Jiangshan Resource Recycling Technology Ltd* | PRC 25 December 2006 | RMB30,000,000 | 75% (indirectly) | Waste recycling and production and distribution of organic fertilizer |

* *This subsidiary is a joint venture company with a registered capital of RMB30 million. Sky Rich had injected a capital of RMB9.5 million as at 28 February 2007.*

11. PREPAYMENTS

Prepayments of Silky Sky Group as at 28 February 2007 are amounts prepaid for the acquisition of production machinery and technology.

12. OTHER RECEIVABLES

| | Silky Sky Group | |
|---|--------------------------------------|--------------------------------------|
| | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ |
| Prepayment to staff for business purposes | – | 849,346 |
| Rental deposit | – | 35,425 |
| Rent prepayment | – | 5,365 |
| Other receivables | – | 69,939 |
| | – | 960,075 |
| | – | 960,075 |

13. CASH AND CASH EQUIVALENTS

| | Silky Sky Group | | Silky Sky | |
|------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ |
| Cash and bank balances | <u>5,557</u> | <u>5,206,524</u> | <u>7</u> | <u>7</u> |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The cash and bank balances of Silky Sky Group amounting to HK\$Nil and HK\$2,676,151 as at 31 December 2006 and 28 February 2007 respectively are denominated in Renminbi. RMB is not freely convertible into other currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Silky Sky Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

14. DUE TO THE SHAREHOLDER

The amount due to the shareholder is unsecured, interest-free and has no fixed terms of repayment.

15. SHARE CAPITAL

| | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Authorised: | | |
| 50,000 ordinary shares of US\$1 each | <u>390,000</u> | <u>390,000</u> |
| Issued and fully paid: | | |
| 1 ordinary share of US\$1 each | <u>8</u> | <u>8</u> |

Silky Sky was incorporated on 18 August 2006 with authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. Upon incorporation, 1 ordinary share was issued at par for cash as subscriber's share.

16. RESERVES

| Silky Sky | Accumulated losses HK\$ |
|--|-------------------------------|
| Loss for the period | <u>(7,500)</u> |
| At 31 December 2006 and 1 January 2007 | (7,500) |
| Loss for the period | <u>—</u> |
| At 28 February 2007 | <u>(7,500)</u> |

17. RELATED PARTY TRANSACTIONS

Other than the transactions and balances detailed elsewhere in the Financial Information, the Silky Sky Group had no significant transactions with related parties during the Relevant Periods.

18. OPERATING LEASE ARRANGEMENTS

The Silky Sky Group leases an office premise and two quarters under operating lease arrangements. The lease for the office premise is negotiated for a term of three years and the lease for the two quarters is negotiated for a term of one year.

At the balance sheet dates, Silky Sky Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ |
|---|--------------------------------------|--------------------------------------|
| Within one year | – | 457,287 |
| In the second to fifth years, inclusive | – | 708,502 |
| | <u>–</u> | <u>1,165,789</u> |

19. CAPITAL COMMITMENTS

In addition to the operating lease arrangements detailed in note 18 above, the Silky Sky Group had the following capital commitments at each of the balance sheet dates:

| | As at 31 December 2006 HK\$ | As at 28 February 2007 HK\$ |
|---|--------------------------------------|--------------------------------------|
| Contracted but not provided for in the financial statements | | |
| – Acquisition of production machinery | <u>–</u> | <u>2,991,700</u> |
| – Acquisition of production technology (note) | <u>–</u> | <u>253,036</u> |
| – Further capital contribution to Beijing Shiji | <u>22,773,279</u> | <u>13,243,279</u> |

Note

During the Relevant Periods, the Silky Sky Group entered into an agreement to acquire production technology from a company in which a director of Beijing Shiji has beneficial interest. The contract sum was RMB1,250,000 of which a deposit of RMB1 million has been paid during the Relevant Periods resulting in a commitment of RMB250,000 (equivalent to HK\$253,036) as at 28 February 2007.

Other than those disclosed above, the Silky Sky Group had no significant commitments or contingent liabilities as at each of the balance sheet dates.

20. FINANCIAL RISK AND MANAGEMENT

The Silky Sky Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Silky Sky Group.

(i) Interest rate risk

The Silky Sky Group has no interest bearing borrowing. The Silky Sky Group's income and cash flows are substantially independent of changes in market interest rates. Currently, the Silky Sky Group does not have a hedging policy. However, the management monitors interest rate exposure and will consider hedging significant bank borrowings should the need arises.

(ii) Foreign currency risk

The Silky Sky Group incurs foreign currency risk on transactions and balances that are denominated in currencies other than Hong Kong dollars. The currencies giving rise to this risk are primarily Renminbi and United States Dollar. The Silky Sky Group currently does not have a foreign currency hedging policy.

(iii) Credit risk

The Silky Sky Group has no concentration of credit risk.

(iv) Liquidity risk

The Silky Sky Group actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Silky Sky Group maintains sufficient level of cash to meet its working capital requirements.

(v) Fair values

The carrying amounts of the financial assets and liabilities in the Financial Information approximate their fair values.

21. SUBSEQUENT EVENTS

A share transfer agreement dated 22 January 2007 was entered into between Sky Rich and Fortune Pacific Limited ("Fortune Pacific"), pursuant to which Sky Rich agreed to transfer 24% equity interest in Beijing Shiji to Fortune Pacific for a consideration of RMB7.2 million of which RMB1.44 million will be paid to Sky Rich and RMB5.76 million will be contributed to Beijing Shiji directly as further capital investment. Upon the completion of share transfer on 21 March 2007, Sky Rich retains 51% equity interest in Beijing Shiji and Sky Rich's commitment for further capital contribution to Beijing Shiji is reduced to RMB7.245 million.

22. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Silky Sky Group in respect of any period subsequent to 28 February 2007.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
(Practising)
Hong Kong

The following are the unaudited pro forma financial information on the Group as enlarged by the acquisition of Silky Sky and its subsidiary, received from Cheung & Siu as extracted from the circular of the Company dated 20 April 2007.

Cheung & Siu Certified Public Accountants

張、蕭會計師事務所

20 April 2007

The Board of Directors
KanHan Technologies Group Limited
15/F., Sun House
181 Des Voeux Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the “Unaudited Pro Forma Financial Information”) of KanHan Technologies Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and Silky Sky Investments Limited (the “Target”) and its subsidiaries (the “Target Group”) (together with the Group hereinafter referred to as the “Enlarged Group”) which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the Target might have affected the financial information presented, for inclusion as Appendix III to the circular of the Company dated 20 April 2007 (the “Circular”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 73 to 76 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
(Practising)
Hong Kong

**INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE
ENLARGED GROUP**

The following unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited financial statements of the Group for the year ended 31 December 2006 and the financial information of the Target Group for the period ended 28 February 2007. The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the Target and the Sale Loan at a consideration of HK61,000,000 which shall be satisfied by deposit already paid, cash and allotment and issue of the shares of the Company and issue of promissory note by the Company.

The accompanying unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Proposed Acquisition actually occurred on 31 December 2006 or any future period. Further, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the Accountants' Report on the Target Group as set out in Appendix I and other financial information included elsewhere in this Circular.

| | The Group As at 31 December 2006 <i>HK\$'000</i> | The Target Group As at 28 February 2007 <i>HK\$'000</i> | Pro-forma adjustments <i>HK\$'000</i> | <i>Notes</i> | Total <i>HK\$'000</i> |
|--|---|---|---|---------------|--------------------------|
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 158 | 229 | – | | 387 |
| Goodwill | – | – | 52,131 | <i>(iv)</i> | 52,131 |
| Total non-current assets | <u>158</u> | <u>229</u> | <u>52,131</u> | | <u>52,518</u> |
| CURRENT ASSETS | | | | | |
| Inventories | 62 | – | – | | 62 |
| Trade and other receivables | 4,638 | 3,021 | – | | 7,659 |
| Cash and bank balances | <u>22,707</u> | <u>5,207</u> | <u>(20,000)</u> | <i>(vii)</i> | <u>7,914</u> |
| Total current assets | <u>27,407</u> | <u>8,228</u> | <u>(20,000)</u> | | <u>15,635</u> |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 3,989 | 22 | – | | 4,011 |
| Financial assistance from government | 236 | – | – | | 236 |
| Due to a shareholder | <u>–</u> | <u>9,257</u> | <u>(9,257)</u> | <i>(vi)</i> | <u>–</u> |
| Total current liabilities | <u>4,225</u> | <u>9,279</u> | <u>(9,257)</u> | | <u>4,247</u> |
| NET CURRENT ASSETS/ (LIABILITIES) | <u>23,182</u> | <u>(1,051)</u> | <u>(10,470)</u> | | <u>11,388</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>23,340</u> | <u>(822)</u> | <u>41,388</u> | | <u>63,906</u> |
| NON-CURRENT LIABILITIES | | | | | |
| Financial assistance from government | 1,059 | – | – | | 1,059 |
| Promissory note | <u>–</u> | <u>–</u> | <u>24,031</u> | <i>(viii)</i> | <u>24,031</u> |
| Total non-current liabilities | <u>1,059</u> | <u>–</u> | <u>24,031</u> | | <u>25,090</u> |
| Net assets/(liabilities) | <u>22,281</u> | <u>(822)</u> | <u>17,357</u> | | <u>38,816</u> |
| EQUITY | | | | | |
| Issued capital | 29,498 | – | 6,788 | <i>(ii)</i> | 36,286 |
| Reserves | <u>(7,217)</u> | <u>(601)</u> | <u>10,782</u> | <i>(iii)</i> | <u>2,964</u> |
| Minority interests | <u>–</u> | <u>(221)</u> | <u>(213)</u> | <i>(v)</i> | <u>(434)</u> |
| Total equity | <u>22,281</u> | <u>(822)</u> | <u>17,357</u> | | <u>38,816</u> |

Notes:

Under HKFRS 3 Business Combinations (“HKFRS 3”), the Group shall apply the purchase method to account for the acquisition of the Target Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the acquisition shall be determined as the excess or deficit of the purchase price to be incurred by the group over the Group’s interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Target Group at the date of completion. Negative goodwill resulting from the business combinations should be recognized immediately in the consolidated income statement.

Details of the acquisition and their effects on the pro forma financial information are as follows:

- (i) the total consideration for the Sale Share and the Sale Loan is HK\$61,000,000 which shall be settled in the following manner:
 - (a) HK\$20,000,000 as deposits which have already been paid by the Purchaser to the Vendor at of the date of this circular;
 - (b) HK\$16,968,750 by procuring the Company to allot and issue 135,750,000 Consideration Shares at an issue price of HK\$0.125 per Consideration Share; and
 - (c) HK\$24,031,250 by issuing the Promissory Note to the Vendor.
- (ii) the pro forma adjustment of approximately HK\$6,788,000 represents the nominal value of 135,750,000 Consideration Shares at HK\$0.05 per share of the Company amounting to HK\$6,787,500 arising from issuance of the said Shares as described in note (i)(b) above and the elimination of share capital of the Target Group on consolidation.
- (iii) the pro forma adjustment of approximately HK\$10,782,000 represents the share premium arising from issuance of the Consideration Shares amounting to approximately HK\$10,181,000, and the elimination of the pre-acquisition reserves of the Target Group on consolidation of approximately HK\$601,000 (note (iv)).

- (iv) the pro forma adjustment of approximately HK\$52,131,000 represents goodwill arising from the acquisition of the Target Group which is arrived as follows:

| | <i>HK\$'000</i> |
|---|----------------------|
| Consideration for the acquisition of the Target Group | 61,000 |
| Add: share of net identifiable liabilities of the Target Group (note (iii)) | <u>601</u> |
| | 61,601 |
| Less: Sale Loan acquired of HK\$9,257,000 as described in note (vi) below | (9,257) |
| Pro forma adjustment of minority interest as described in note (v) below | <u>(213)</u> |
| | <u><u>52,131</u></u> |

- (v) the pro forma adjustment of minority interest represents the minority shareholder's share of 24% of the net losses of approximately HK\$886,000 of the Subsidiary upon the completion of the share transfer agreement dated 22 January 2007 entered into between Sky Rich and Fortune Pacific Limited.
- (vi) the pro forma adjustment of HK\$9,257,000 represents the Sale Loan to be assigned to the Group according to the Formal Agreement.
- (vii) the pro forma adjustment of HK\$20,000,000 represents the payment of the consideration as described in note (i)(a) above.
- (viii) the pro forma adjustment of approximately HK\$24,031,000 represents the payment of the consideration by issuing the Promissory Note to the Vendor as described in note (i)(c) above.

1. RESPONSIBILITY STATEMENT

This prospectus, 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:– (1) the information contained in this Prospectus 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 Prospectus misleading; and (3) all opinions expressed in this Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after the Open Offer were as follows:

| <i>Authorized</i> | <i>HK\$</i> |
|---|-------------|
| 2,000,000,000 Shares | 100,000,000 |
| <i>Issued and to be issued, fully paid or credited as fully paid</i> | |
| 886,916,720 Shares in issue as at the Latest Practicable Date | 44,345,836 |
| 443,458,360 Offer Shares to be issued pursuant to the Open Offer | 22,172,918 |
| 1,330,375,080 Shares in issue immediately after completion of the Open Offer | 66,518,754 |
| | |

All the Shares in issue and the Offer Shares to be issued rank pari passu in all respects including all rights as to dividends, voting and return of capital.

As at the Latest Practicable Date, the Company does not have any outstanding derivatives, share options, warrants or securities in issue which are convertible or exchangeable into Shares and has no intention to issue any new Shares or any of the above securities before the Latest Time for Acceptance.

All of the Offer Shares will be listed on GEM. No part of the Share or loan capital of the Company is listed or dealt in, nor is listing of or permission to deal in the Share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

There are no arrangement under which future dividends are waived or agreed to be waived.

3. DISCLOSURE OF INTERESTS

(A) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows.

(i) Long positions in the Shares

| Name of Director | Nature of interest | Number of Shares held | Approximate percentage of issued share capital of the Company |
|---------------------------|---------------------|-----------------------|---|
| Mr. Yang Pei Gan | Beneficial (Note 1) | 214,125,000 | 24.14% |
| Mr. Pang Hong Tao | Beneficial (Note 2) | 10,500,000 | 1.18% |
| Mr. Ma She Shing, Albert | Beneficial (Note 3) | 8,700,000 | 0.98% |
| Mr. Mo Wai Ming, Lawrence | Beneficial (Note 4) | 30,085,920 | 3.39% |
| Ms. Au Shui Ming, Anna | Beneficial (Note 5) | 22,500,000 | 2.54% |

Notes:

1. Mr. Yang beneficially owns 142,750,000 Shares and has undertaken to subscribe or procure the subscription of the 71,375,000 Offer Shares to which Mr. Yang is entitled pursuant to the Open Offer.
2. Mr. Pang beneficially owns 7,000,000 Shares and has undertaken to subscribe or procure the subscription of the 3,500,000 Offer Shares to which Mr. Pang is entitled pursuant to the Open Offer.
3. Mr. Ma beneficially owns 5,800,000 Shares and has undertaken to subscribe or procure the subscription of the 2,900,000 Offer Shares to which Mr. Ma is entitled pursuant to the Open Offer.
4. Mr. Mo beneficially owns 20,057,280 Shares and has undertaken to subscribe or procure the subscription of the 10,028,640 Offer Shares to which Mr. Mo is entitled pursuant to the Open Offer.
5. Ms. Au beneficially owns 15,000,000 Shares and has undertaken to subscribe or procure the subscription of the 7,500,000 Offer Shares to which Ms. Au is entitled pursuant to the Open Offer.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors to be notified to the Company and the Stock Exchange.

(ii) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(iii) Service contracts

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

(iv) *Interest in contract or arrangement*

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting entered into by any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

(v) *Competing business or interest*

As at the Latest Practicable Date, the Directors were not aware of any business or interest of the Directors or any management shareholder (as defined under the GEM Listing Rules) of the Company and their respective associates that had completed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

(B) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company; or are required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

| Name of Shareholder | Nature of interest | Number of Shares held | Position | Approximate percentage of issued share capital of the Company |
|--|-----------------------|-----------------------|----------|---|
| Mr. Lau Kim Hung, Jack (Note 1) | Through a corporation | 268,508,238 | Long | 30.27% |
| Ms. Chan Yiu Kan Katie (Note 1) | Interest of spouse | 268,508,238 | Long | 30.27% |
| Manciple Enterprises Limited (Note 1) | Beneficial | 268,508,238 | Long | 30.27% |
| Quam Securities Company Limited (Note 2) | Beneficial | 123,883,487 | Long | 13.97% |
| Partners Capital International Limited (Note 3) | Beneficial | 123,883,487 | Long | 13.97% |
| Mr. Yip Yung Kan (Note 4) | Through a corporation | 42,800,000 | Long | 4.83% |
| | Beneficial | 2,955,000 | | 0.33% |
| | Interest of spouse | 100,000 | | 0.01% |
| Ms. Lei I Si (Note 4) | Interest of spouse | 45,855,000 | Long | 5.16% |
| | Beneficial | 100,000 | | 0.01% |
| Glory Force Limited (Note 4) | Beneficial | 42,800,000 | Long | 4.83% |

Note:

- Manciple is wholly and beneficially owned by Mr. Lau. Manciple beneficially owns 179,005,492 Shares. Mr. Lau has undertaken to subscribe or procure the subscription of the 89,502,746 Offer Shares to which Manciple is entitled pursuant to the Open Offer. Under the SFO, Mr. Lau is deemed to be interested in 268,508,238 Shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 268,508,238 Shares.

2. The 123,883,487 Shares represent the number of Shares underwritten by Quam Securities Company Limited in connection with the Open Offer.
3. The 123,883,487 Shares represent the number of Shares underwritten by Partners Capital International Limited in connection with the Open Offer.
4. Glory Force is wholly and beneficially owned by Mr. Yip. Glory Force beneficially owns 32,800,000 Shares. Mr. Yip beneficially owns 1,970,000 Shares and his wife, Ms. Lei I Si beneficially owns 100,000 Shares. Mr. Yip has undertaken to subscribe and procure the subscription of the 985,000 Offer Shares and 10,000,000 Offer Shares to which Mr. Yip and Glory Force are respectively entitled pursuant to the Open Offer. Under the SFO, Mr. Yip is deemed to be interests in Shares or underlying Shares that Glory Force and his wife, Ms. Lei have interests in while Ms. Lei is deemed to be interested in Shares or underlying Shares that Mr. Yip has interest in.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, there is no other person (other than the Director or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and/or any subsidiaries of the Company; or are required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

4. CORPORATE INFORMATION

| | |
|---|---|
| Registered address | Caledonian Bank & Trust Limited Caledonian House P.O. Box 1043 George Town Grand Cayman Cayman Islands |
| Head office and principal place of business in Hong Kong | 15/F., Sun House 181 Des Voeux Road Central Hong Kong |
| Company secretary and qualified accountant | Au Shui Ming, Anna CPA (Aust), FHKICPA |
| Authorised representatives | Au Shui Ming, Anna CPA (Aust), FHKICPA 15/F., Sun House 181 Des Voeux Road Central Hong Kong Mo Wai Ming, Lawrence 15/F., Sun House 181 Des Voeux Road Central Hong Kong |

| | |
|---|--|
| Compliance officer | Mo Wai Ming, Lawrence 15/F., Sun House 181 Des Voeux Road Central Hong Kong |
| Financial adviser to the Company in relation to the Open Offer | INCU Corporate Finance Limited Unit 1602, Ruttonjee House Ruttonjee Centre, 11 Duddell Street Central, Hong Kong |
| Underwriters | Partners Capital International Limited Room 3906 39th Floor, COSCO Tower 183 Queen's Road Central Hong Kong Quam Securities Company Limited 32nd Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong |
| Auditors | Vision A. S. Limited <i>Certified Public Accountants</i> Units 1-3, 5/F. Far East Consortium Building 121 Des Voeux Road Central, Hong Kong |
| Legal adviser to the Company in relation to the Open Offer | <i>As to Hong Kong law:</i> Michael Li & Co. 14th Floor, Printing House 6 Duddell Street Central Hong Kong |
| Hong Kong branch share registrar and transfer office | Tricor Standard Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |

Principal share registrar

Butterfield Fund Services
 (Cayman) Limited
 Butterfield House
 68 Fort Street
 P.O. Box 705
 Grand Cayman
 KY1-1107
 Cayman Islands

Principal banker

Standard Chartered Bank
 (Hong Kong) Limited
 13/F., Standard Chartered Bank Building
 4-4A, Des Voeux Road
 Central, Hong Kong

5. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT**(a) Name and business address of the Directors and senior management****Name****Business address***Executive Directors*

| | |
|---------------------------|--------------------|
| Mr. Pang Hong Tao, Peter | 15th Floor |
| Mr. Yang Pei Gan | Sun House |
| Mr. Mo Wai Ming, Lawrence | 181 Des Voeux Road |
| Ms. Au Shui Ming, Anna | Central, Hong Kong |

Non-executive Director

| | |
|--------------------------|--------------------|
| Mr. Ma She Shing, Albert | 15th Floor |
| | Sun House |
| | 181 Des Voeux Road |
| | Central, Hong Kong |

Independent non-executive Director

| | |
|-----------------------|--------------------|
| Hsu Shiu Foo, William | 15th Floor |
| Lee Kun Hung | Sun House |
| Kwok Chi Sun, Vincent | 181 Des Voeux Road |
| | Central, Hong Kong |

(b) Qualification of the Directors*Executive Directors***Mr. Pang Hong Tao, Peter**

Mr. Pang Hong Tao, Peter, aged 38, an executive Director and the Chairman of the Board, holds a bachelor's degree in economics from Nankai University, the PRC and a master degree in economics from Renmin University of China. Mr. Pang is the chairman of Finance Committee of ShanDong-HongKong SME Association. He is a member of Chinese Institute of Certified Public Accountants, China Appraisal Society, Shan Dong Certified Consultant Expert Society and China Enterprise Risk Management Society. Mr. Pang has over ten years of experience in financial management, risk management, financial budgeting and corporate finance. He has worked as a chief accountant in an international five-star hotel, the deputy general manager in a management consultancy company and the partner in a Certified Public Accountants firm. Mr. Pang is currently the partner and deputy general manager of a Certified Public Accountants firm in the PRC.

Mr. Yang Pei Gen

Mr. Yang Pei Gen, aged 52, an executive Director and chief executive officer of the Company. He is a graduate of 蕪湖市皖南醫學院 (Wuhu Wan Nan Medical College) where he majored in clinical medicine. He has over ten years experience in corporate management, marketing and innovation of new products. He is the managing director of the 北京世紀江山再生資源技術開發有限公司 (Beijing Shiji Jiangshan Resource Recycling Technology Ltd.) ("Shiji Jiangshan"), an indirect non-wholly owned subsidiary of the Company. Mr. Yang is involved in the supervision of the daily operation of and the formation of strategic direction of Shiji Jiangshan.

Mr. Mo Wai Ming, Lawrence

Mr. Mo, aged 48, is an executive Director. Prior to founding KanHan Technologies Inc. in 1999, Mr. Mo has over 10 years experience in the development and sales of solutions on local language computing for Asian languages and for electronic and Internet publishing. Being 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 has overall responsibility for the operations and performances 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. The company was acquired in 1991 by a Taiwan company. Mr. Mo spent the subsequent 9 years working for the Taiwan company in the strategic planning and new business development areas in the Japan, China and International market.

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

Ms. Au Shui Ming, Anna

Ms. Au Shui Ming, Anna, aged 43, Ms. Au holds a bachelor degree in Commerce, majoring in Accounting, from the University of Wollongong in Australia. She is a Certified Practising Accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Au has extensive experience in the finance and accounting fields. She is currently the Qualified Accountant and Company Secretary of the Company.

Non-Executive Directors

Mr. Ma She Shing, Albert

Mr. Ma She Shing, Albert, aged 46, a non-executive Director. Mr. Ma graduated from Pomona College, California, USA with a Bachelor of Arts degree in Economics. He has over 19 years of corporate banking and private banking experience in major US and European institutions. Mr. Ma was previously a vice president in a renowned US investment bank in Hong Kong.

Independent non-executive Directors

Mr. Hsu Shiu Foo, William

Mr. Hsu Shiu Foo, William, aged 57, was appointed as an independent non-executive Director and audit committee member of the Company on 10th June, 2005. Mr. Hsu has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. He was a visiting fellow at the Faculty of Business of the City University of Hong Kong. Mr. Hsu holds a Bachelor's degree in Arts from Brigham Young University, Hawaii and a Master's degree in Hotel Administration from Cornell University, New York. He was appointed as a visiting professor in the faculty of tourism at the Zhejiang University in 2001.

Mr. Kwok Chi Sun, Vincent

Mr. Kwok Chi Sun, Vincent, aged 45, was appointed as an independent non-executive director and a member of the audit committee of the Company on 1 October 2004 for 1 year. Mr. Kwok is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is an independent non-executive director of other listed companies.

Mr. Lee Kun Hung

Mr. Lee Kun Hung, aged 41, was appointed as an independent non-executive Director and audit committee member of the Company on 1st June, 2005. Mr. Lee graduated from Boston College, Massachusetts, USA with a Bachelor of Arts degree. He has over 15 years of manufacturing experience in the watch industry.

(c) Audit committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group and provide advice and comments on the Company's annual reports and accounts, half year reports and quarterly reports to Directors. The Committee comprises three independent non-executive Directors, namely Mr. Kwok Chi Sun, Vincent, Mr. Lee Kun Hung and Mr. Hsu Shiu Foo William. Further details of whom are set out in the paragraph headed "Qualification of the Directors" above.

6. EXPERT

The following is the qualification of the expert who has been named in this Prospectus or has given opinion, letter or advice which are contained in this Prospectus:

| Name | Qualification |
|----------------------|------------------------------|
| Vision A. S. Limited | Certified Public Accountants |

As at the Latest Practicable Date, Vision A. S. Limited has not had any beneficial interest in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and have any interest, either directly or indirectly, in any assets which have been, since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Vision A. S. Limited has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its letter and/or references to its names, in the form and context in which it respectively appears.

7. LITIGATION

Neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is at present known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

8. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group within the two years preceding the date of this Prospectus and are or may be material:

- (a) the underwriting agreement dated 20 January 2006 and entered into with the Company, Mr. Mo, Kingston Securities Limited, Quam Securities and Hantec Capital Limited in relation to the rights issue of 442,475,040 rights Shares at HK\$0.057 per rights Share;
- (b) the warrant placing agreement dated 28 August 2006 and entered into among the Company as the issuer, Glory Force as the subscriber and Mr. Yip as the guarantor in relation to the subscription of 117,800,000 unlisted warrants of the Company by Glory Force at an issue price of HK\$0.015 per warrant and subscription price of HK\$0.155 per Share;
- (c) the conditional legally binding memorandum of understanding dated 2 February 2007 and the formal sale and purchase agreement dated 21 March 2007 and entered into between Mr. Yang and Rise Assets Limited, a wholly owned subsidiary of the Company in respect of the acquisition of Silky Sky for a total consideration of HK\$61 million;
- (d) the memorandum of understanding dated 4 October 2007 and the Agreement; and
- (e) the Underwriting Agreement.

Save as disclosed above, there are no other contracts (not being contracts in the ordinary course of business) being entered into by the members of the Group within the two years preceding the date of this Prospectus, which are or may be material.

9. MISCELLANEOUS

The English text of this Prospectus shall prevail over the Chinese text in the case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on any business day at the head office and principal place of business of the Company in Hong Kong at 15th Floor, Sun House, 181 Des Voeux Road Central, Hong Kong, from the date of this Prospectus up to and including Tuesday, 11 December 2007:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2006;

- (c) the interim report of the Company for the six months ended 30 June 2007;
- (d) the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out in Appendix II to this Prospectus;
- (e) the letter from Vision A. S. Limited, the text of which are reproduced in Appendix II to this Prospectus;
- (f) the letter from Cheung & Siu Certified Public Accountant (now known as Vision A. S. Limited), the text of which are reproduced in Appendix III to this Prospectus;
- (g) the unaudited pro forma financial information of the Group as enlarged by the acquisition of Silky Sky, the text of which is set out in Appendix IV to this Prospectus;
- (h) the written consent of the expert referred to in the section headed “Expert” in this appendix;
- (i) the material contracts referred to the section headed “Material Contracts” in this appendix;
- (j) circular dated 20 April 2007 in relation to the acquisition of the entire interest in Silky Sky; and
- (k) this Prospectus.