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KANHANA TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

PRIVATE PLACING OF NON-LISTED WARRANTS AND RESUMPTION OF TRADING

PLACING OF WARRANTS

The Directors are pleased to announce that on 28 August 2006, the conditional Warrant Placing Agreement was entered into among the Company, the Subscriber and the Guarantor in relation to a private placing of 117,800,000 Warrants to the Subscriber, at an issue price of HK\$0.015 per Warrant.

The Warrants entitle the Subscriber to subscribe for the New Shares at an initial Subscription Price of HK\$0.155 per New Share for a period of 18 months commencing from the date of issue of the Warrants. Each Warrant carries the right to subscribe for one New Share.

Completion is subject to the fulfillment of the conditions stated in the section headed “Conditions of the Warrant Placing” in this announcement.

It is intended that the net proceeds from the Warrant Placing of approximately HK\$1.37 million will be applied as general working capital of the Group.

The New Shares will be issued under the General Mandate.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 29 August 2006 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 31 August 2006.

WARRANT PLACING AGREEMENT

Date: 28 August 2006

Parties: (i) Issuer: the Company

(ii) Subscriber: the Subscriber

(iii) Guarantor: the Guarantor, Mr. Yip Yung Kan

Information on the Subscriber and the Guarantor

Glory Force Limited, being the Subscriber, is a company incorporated in the British Virgin Islands carrying on principal business of investment holding and is wholly and beneficially owned by the Guarantor. Apart from the entering into of the Warrant Placing Agreement, Glory Force Limited has not conducted any business activity since its incorporation.

The Guarantor is a merchant and a private investor and has extensive experience in the management, operation and strategic planning in various corporations engaging in a variety of business activities in Hong Kong and the PRC. To the best knowledge of the Directors, the Guarantor has been a director of a company engaged in export trade, electronic, logistic and high technology industries for more than ten years and is not a director of any listed companies on the Stock Exchange.

As at the date of this announcement, the Subscriber and its ultimate beneficial owner, the Guarantor, are private investors. The Directors confirm that the Subscriber and its ultimate beneficial owner, the Guarantor, are third parties independent of the Company and the connected persons of the Company (as defined under the GEM Listing Rules). As at the date of this announcement, the Guarantor held 2,660,000 Shares and the spouse of the Guarantor, Ms. Lei I Si, held 100,000 Shares, which together represents approximately 0.47% of the shareholding interest of the Group. Save for the aforesaid, the Subscriber did not have any interests in the Shares or any business dealings with the Group.

According to the Warrant Placing Agreement, the Guarantor has agreed to guarantee the performance by the Subscriber of its obligations under the Warrant Placing Agreement, including but not limited to the subscription of the Warrants and the Guarantor will indemnify the Company against all liabilities, losses, damages, costs and expenses stipulated under the Warrant Placing Agreement due to any default or delay on the part of the Subscriber. The obligations and undertakings assumed by the Guarantor under the Warrant Placing Agreement shall remain in force so long as the Subscriber

shall have any liability or obligations to be discharged in full. The Directors have made reasonable enquiries in relation to the capacity of the Guarantor and believe that the Guarantor has the necessary capacity to guarantee the performance of the Subscriber under the Warrant Placing Agreement.

Number of Warrants

117,800,000 Warrants in aggregate and pursuant to the Warrant Placing Agreement, the Subscriber has agreed to subscribe for 117,800,000 Warrants representing 100% of the aggregate Warrants to be issued.

Warrant Issue Price

HK\$0.015 per Warrant.

Subscription Price

HK\$0.155 per New Share, subject to adjustment based on the prescribed formulas as set out in the instrument creating the Warrants for the happening of the following adjustment events:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution in cash or in specie other than out of distributable profits of the Company being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such);
- (iv) a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (v) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares, at a price which is less than 80 per cent. of the market price of the Shares on the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the Shareholders or other persons) being made by the Shareholders (in their capacity as such);
- (vi) an issue wholly for cash being made by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per new Share is less than 80 per cent. of the market price of the Shares on the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the Shareholders), or the conversion, exchange or subscription rights of any such issue are altered so that the said total effective consideration is less than 80 per cent. of such market price;

- (vii) an issue of Shares being made wholly for cash at a price less than 80 per cent. of the market price of the Shares on the date of the announcement of the issue (whether or not such issue is subject to the approval of the Shareholders); and
- (viii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchase made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for this purpose by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Subscription Price.

Every adjustment to the Subscription Price shall be certified either (at the option of the Company) by the auditors of the Company or by an approved merchant bank. These adjustments are standard anti-dilutive adjustments.

The Warrant Issue Price and the Subscription Price were negotiated on an arm's length basis between the Company and the Subscriber.

The Subscription Price represents (i) a discount of approximately 13.89% to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on 28 August 2006, being the date of the Warrant Placing Agreement; and (ii) a discount of approximately 13.89% to the average closing price of HK\$0.180 per Share as quoted on the Stock Exchange for the last five trading days up to and including 28 August 2006.

The aggregate of the Warrant Issue Price and the Subscription Price represents (i) a discount of approximately 5.56% to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on 28 August 2006, being the date of the Warrant Placing Agreement; and (ii) a discount of approximately 5.56% to the average closing price of HK\$0.180 per Share as quoted on the Stock Exchange for the last five trading days up to and including 28 August 2006.

The Board considers that both the Subscription Price and the aggregate of it with the Warrant Issue Price are fair and reasonable, which are determined after arm's length negotiations between the Company and the Subscriber, and are in the interests of the Company and the Shareholders as a whole.

Transferability

The Warrants are transferable only to third parties independent of the Company and connected persons of the Company (as defined under the GEM Listing Rules), in integral multiples of 5,000,000 Warrants (or if at the time of transfer, the outstanding number of Warrants are less than 5,000,000 Warrants, the whole but not part of the outstanding Warrants). Apart from the aforesaid, there are no restrictions on the transfer of the Warrants from the Subscriber to other parties, and no consent from the Company is required before such transfer is to take place.

Completion Date

Completion will take place on the third Business Day after the fulfillment of the conditions referred to in the section headed “Conditions of the Warrant Placing” below. HK\$1,767,000, being the aggregate Warrant Issue Price for the 117,800,000 Warrants, shall be payable by the Subscriber at Completion. The Subscription Price shall be payable by holder(s) of Warrants upon the exercise of the subscription rights attaching to the Warrants.

Information of the Warrants

The Warrants will be issued to the Subscriber upon Completion in registered form and constituted by a deed poll. The Warrants will rank pari passu in all respects among themselves.

Each Warrant carries the right to subscribe for one New Share at the Subscription Price and is issued at the Warrant Issue Price.

The subscription rights attaching to the Warrants may be exercised at any time during a period of 18 months commencing from the date of issue of the Warrants at integral multiples of 5,000,000 Warrants at the discretion of the holder of the Warrants, subject to the terms and conditions of the Warrant Placing Agreement and the Warrants. Where the number of the outstanding Warrants is less than 5,000,000 Warrants, the Subscriber shall have the right to exercise the whole but not part of the outstanding number of Warrants to subscribe for the New Shares in cash at the Subscription Price per New Share. The New Shares, when fully paid and allotted, will rank pari passu in all respects with the then existing issued Shares. The integral multiple of 5,000,000 Warrants is arrived at by the parties to the Warrant Placing Agreement after taking into consideration of the costs and expenses for transfer or exercise the rights under the Warrants.

Any subscription rights attaching to the Warrants which have not been exercised upon the expiration of the 18-month subscription period shall lapse.

A total of 117,800,000 Warrants are proposed to be issued. Upon full exercise of the subscription rights attaching to the Warrants, a total of 117,800,000 New Shares, representing (i) 19.97% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.64% of the issued share capital of the Company as enlarged by the allotment and issue of the New Shares from the full exercise of the subscription rights attaching to the Warrants. It is expected that the New Shares to be issued will not exceed 20% of the issued share capital of the Company. As at the date of this announcement, save for the Warrants to be issued, the Company does not have any other securities with subscription rights other than the share options granted under the share option scheme adopted by the Company. The Directors also confirm that they will exercise every caution in relation to any subsequent proposed issue of any securities to ensure compliance with Rule 21.02 of the GEM Listing Rules.

Conditions of the Warrant Placing

Completion shall be subject to and conditional upon, among other things, the following:

- (1) (if required) the Listing Committee of the Stock Exchange shall have approved the issue of the Warrants either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object and the satisfaction of such conditions; and
- (2) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the New Shares.

If the conditions of the Warrant Placing Agreement are not fulfilled on or before 11 September 2006 (or such later date as may be agreed between the Company and the Subscriber), the Warrant Placing Agreement will terminate and cease to have any effect and none of the parties shall have any claim against the other save for any antecedent breaches of the provisions thereof.

Voting rights for the holders of the Warrants

The holder of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being the holders of the Warrants. The holder of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

Mandate to issue the New Shares

The New Shares will be allotted and issued under the General Mandate granted to the Directors by the Shareholders at an annual general meeting of the Company held on 11 May 2006 to allot and issue up to 20% of the aggregate nominal amount of the issued share capital of the Company on that date, being HK\$5,899,667.2 divided into 117,993,344 Shares.

The 117,800,000 New Shares to be allotted and issued upon full exercise of the subscription rights attaching to the Warrants utilises 99.84% of the General Mandate. The General Mandate has not been previously utilised prior to the Warrant Placing.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

REASONS FOR THE WARRANT PLACING

The Group is principally engaged in development and marketing of patented server based technology for its real time on-line communication software platform for the Chinese language. In addition, the Group is also engaged in the provision of software related services.

As stated in the annual report of the Group for the financial year ended 31 December 2005, new capital will not only provide the necessary funding in more aggressively pursuing the business expansion in Hong Kong but also open up new investment opportunities that will be beneficial to the Group and the shareholders as a whole.

Net proceeds of approximately HK\$23 million was raised through a rights issue exercise completed in April 2006, which was intended to apply towards future investments. Subsequently, the Group entered into a non-legally binding memorandum of understanding on 15 May 2006 with an independent third party (as defined under the Listing Rules) in connection with the acquisition of a taxation software and hardware business in the PRC.

The Group recorded net loss of approximately HK\$1.64 million for the six months ended 30 June 2006 and a cash position of HK\$22.7 million as at 30 June 2006.

Despite such cash position, the Group needs additional funds to finance its operations and activities in view of its loss position as well as the aforesaid intended acquisition of taxation software and hardware business in the PRC should it materializes. Upon the full exercise of the subscription rights attaching to the Warrants, the Company will receive gross proceeds of approximately HK\$18.26 million. It is intended that the net proceeds from the Warrant Placing of approximately HK\$1.37 million will be applied towards the general working capital of the Group and any proceeds from the issue of New Shares upon full exercise of the subscription rights attaching to the Warrants in the future will be applied for potential future investments, which may or may not be in the principal line of business of the Group.

The Directors have always been active in seeking investment opportunities, whether within the principal line of business of the Company, in order to increase the value of the Company. The Directors consider that as long as any future investments are in the interests of the Company and the Shareholders as a whole, the Directors will look into such investments and decide whether such investments are warranted. However, up to the date of this announcement, save for disclosed above, no suitable investment has been identified nor had there been any concrete plan or arrangement made.

The Directors are of the view that additional funding will strengthen the capital position and enhance the flexibility of the Group to identify and participate in investments which are beneficial to the Group and the Shareholders as a whole. Hence, the opportunities of the Group on identifying suitable investment opportunities in the future will be enhanced.

Immediately after Completion, there will be no change to the composition of the Board and the principal business engaged by the Group. Although the Subscriber will become a substantial Shareholder upon full exercise of the subscription rights attaching to the Warrants, the Subscriber and the Guarantor have no current intention to nominate any persons (including the Guarantor himself) to the Board.

The following table summaries the fund raising activity of the Group for the 12 months immediately preceding the date of this announcement:

	Rights issue
Number of Share(s) issued	442,475,040 Shares
Completion date of issuance	3 April 2006
Subscription price per Share	HK\$0.057
Gross proceeds	Approximately HK\$25.2 million
Net proceeds	Approximately HK\$22.9 million
Places of placings/subscribing persons to the rights issue (as the case may be)	Qualifying Shareholders
Intended use of proceeds	Approximately HK\$20 million towards future investment(s) which may or may not be in the principal line of business of the Group and the balance towards general working capital of the Group
Actual use of proceeds	Approximately HK\$1.5 million was applied as the refundable earnest money in connection with the entering into of the memorandum of understanding regarding the acquisition of shareholding interest in Shantou Jinshui Technology Limited as disclosed in the announcement of the Company dated 15 May 2006. The balance of approximately HK\$21.4 million was reserved for the future investment

CHANGES OF SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 589,966,720 Shares in issue. The shareholding structure of the Company before and after the full exercise of the subscription rights attaching to the Warrants are as follows:

Shareholders	As at the date of this announcement		Immediately after full exercise of the subscription rights attached to the Warrants	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Mo Wai Ming, Lawrence (Note 1)	144,024,172	24.41%	144,024,172	20.35%
Mr. Ma She Shing, Albert (Note 2)	5,600,000	0.95%	5,600,000	0.79%
Subscriber (Note 3)	–	–	117,800,000	16.64%
Guarantor (Note 3)	2,760,000	0.47%	2,760,000	0.39%
Public	437,582,548	74.17%	437,582,548	61.83%
Total	<u>589,966,720</u>	<u>100.00%</u>	<u>707,766,720</u>	<u>100.00%</u>

- Notes:
- 1 Mr. Mo Wai Ming, Lawrence is an executive Director and a substantial Shareholder of the 144,024,172 Shares. On 13 April 2005, 129,766,892 Shares of such 144,024,172 Shares were charged in favour of Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack, Mr. Lau Kim Hung, Jack is a third party independent of the Company and not connected with the Company and its connected persons.
 - 2 Mr. Ma She Shing, Albert is an executive Director. These 5,600,000 Shares are directly held by Mr. Ma She Shing, Albert.
 - 3 Glory Force Limited, being the Subscriber, is wholly and beneficially owned by the Guarantor, who held 2,660,000 Shares and the spouse of the Guarantor, Ms. Lei I Si, held 100,000 Shares.

As shown in the table above, upon full exercise of the subscription rights attaching to the Warrants, the Subscriber and parties acting in concert with it will not come to hold 30% or more of the voting rights of the Company as stipulated in the Hong Kong Code on Takeovers and Mergers.

The Company has adopted a share option scheme prior to its shares becoming listed on GEM pursuant to a written resolution passed on 24 January 2003 by the Shareholders. As at the date of this announcement, there are an aggregate of 19,400,000 share options outstanding which had been granted to the Directors and employees of the Company under such scheme conferring them rights to subscribe for 19,400,000 Shares representing 3.29% of the issued share capital of the Company as at the date of this announcement.

The Directors confirm that, save as disclosed herein, there are no other warrants, options or similar rights outstanding that confers rights to subscribe for or purchase Shares of the Company that requires disclosure under Chapter 21 of the GEM Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 29 August 2006 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 31 August 2006.

DEFINITIONS

Terms or expressions used in this announcement shall, unless the context otherwise requires, have the meanings ascribed to them below:

“Board”	the board of Directors
“Business Day”	any day (not being a Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	KanHan Technologies Group Limited., a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“Completion”	completion of the Warrant Placing in accordance with the terms and conditions of the Warrant Placing Agreement
“Directors”	the directors of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors by the Shareholders in an annual general meeting of the Company convened and held on 11 May 2006
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Yip Yung Kan, the ultimate beneficial owner of the Subscriber
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“New Share(s)”	new Share(s) which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrant(s)
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SFO”	the Securities and Futures Ordinance
“Share(s)”	ordinary share(s) of HK\$0.05 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Glory Force Limited, the subscriber to the Warrant Placing Agreement, is a company incorporated in the British Virgin Islands and the ultimate beneficial owner of which is Mr. Yip Yung Kan
“Subscription Price”	an initial Subscription Price of HK\$0.155 per New Share (subject to adjustment) at which holder of the Warrants may subscribe for the New Shares
“Warrant(s)”	117,800,000 non-listed warrants to be issued by the Company at the Warrant Issue Price, each entitles the holder thereof to subscribe for one New Share at the Subscription Price of HK\$0.155 (subject to adjustment) at any time during a period of 18 months commencing from the date of issue of the Warrants
“Warrant Issue Price”	HK\$0.015 per unit of Warrant to be issued pursuant to the Warrant Placing
“Warrant Placing”	a private placing of the Warrants at the Warrant Issue Price pursuant to the Warrant Placing Agreement
“Warrant Placing Agreement”	the conditional subscription agreement dated 28 August 2006 and entered into among the Company, the Subscriber and the Guarantor in relation to the subscription of 117,800,000 Warrants by the Subscriber

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By order of the Board
KanHan Technologies Group Ltd.
Mo Wai Ming, Lawrence
Director

* *for identification purpose only*

Hong Kong, 30 August 2006

As at the date of this announcement, Mr. Mo Wai Ming, Lawrence and Mr. Ma She Shing, Albert are executive Directors, and Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent are independent non-executive Directors.

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

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