kan han

# 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)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

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



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

* *For identification purpose only*

## FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") is pleased to present the audited consolidated financial statements of KanHan Technologies Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2006 together with the comparative audited figures for the year 2005, as follows:

### Consolidated Income Statement

*For the year ended 31 December 2006*

| | NOTE | **2006** | 2005 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Turnover | *3* | **6,622** | 4,472 |
| Cost of sales | | **(3,489)** | (1,888) |
| 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 | | **(7,707)** | (5,389) |
| Loss before taxation | *6* | **(6,273)** | (4,913) |
| Taxation | *7* | **–** | – |
| Loss for the year | | **(6,273)** | (4,913) |
| Attributable to: | | | |
| Equity holders of the Company | *9* | **(6,273)** | (4,913) |
| | | | (Restated) |
| Loss per share – Basic | *10* | **(1.11 cents)** | (1.13 cents) |

**Consolidated Balance Sheet**
*At 31 December 2006*

| | NOTE | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **158** | 334 |
| CURRENT ASSETS | | | |
| Inventories, at cost | | **62** | – |
| Trade and other receivables | *11* | **4,638** | 1,807 |
| Bank balances and cash | | **22,707** | 2,253 |
| | | **27,407** | 4,060 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | *12* | **3,989** | 2,305 |
| Financial assistance from government | | **236** | 166 |
| | | **4,225** | 2,471 |
| NET CURRENT ASSETS | | **23,182** | 1,589 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **23,340** | 1,923 |
| NON-CURRENT LIABILITIES | | | |
| Financial assistance from government | | **1,059** | 1,172 |
| NET ASSETS | | **22,281** | 751 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **29,498** | 7,004 |
| Reserves | | **(7,217)** | (6,253) |
| TOTAL EQUITY | | **22,281** | 751 |

## Consolidated Statement of Changes in Equity

*For the year ended 31 December 2006*

| | Share capital | Share premium | Special reserve | Warrant subscription reserve | Exchange reserve | Employee share-based compensation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* *(note a)* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'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 | 29,498 | 22,821 | 10,084 | 1,469 | (24) | 2,314 | (43,881) | 22,281 |

*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.

*Notes:*

## 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 Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited on 25 February 2003.

## 2. 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.

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

## 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** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (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 |
| | **6,622** | 4,472 |

## 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** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **585** | 27 |
| Commission income | **41** | 177 |
| Gain on exchange | **30** | – |
| | **656** | 204 |

## 6. LOSS BEFORE TAXATION

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 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 |
| Total staff costs (excluding directors' emoluments) | **4,818** | 3,687 |
| 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 |

## 7. 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.

## 8. DIVIDEND

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

## 9. 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.

## 10. 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.

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

## 11. TRADE AND OTHER RECEIVABLES

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

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 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **175** | 177 |
| 31 – 60 days | **559** | 494 |
| 61 – 90 days | **10** | – |
| Over 90 days | **31** | 348 |
| | **775** | 1,019 |

*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.

## 12. TRADE AND OTHER PAYABLES

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **269** | 499 |
| Accrued charges and other creditors | **3,720** | 1,806 |
| | **3,989** | 2,305 |

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

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **126** | 499 |
| 31 – 60 days | **31** | – |
| 61 – 90 days | **112** | – |
| | **269** | 499 |

## 13. 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 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.

14. **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.

## BUSINESS REVIEW

### Software Sales Business

Majority of sales and marketing efforts were spent in calling on potential HanPhone IVR users in the past year. We were delighted at the winning of a few pivotal IVR projects for the HanPhone web-to-speech technology. In addition to direct sales, we began to invest into Internet key word search marketing which has so far resulted in two IVR projects. Chinese JAWS (CJAWS) continued to bring steady income from the Hong Kong blind users whom succeeded in obtaining funding from the HK$7m Jockey Club funding scheme for the blind. Shipment of CJAWS to Taiwan reseller started in later part of 2006. The sales of HanWEB still lacked behind of our expectation with new sales coming primarily from the government sector. Despite of its lack-luster sales volume, HanWEB has built up a sizable installed base generating a stable stream of maintenance income to the company.

### Service Business

The secondary school PTH platform (www.teens.putonghuaonline.com) was officially released just before the summer of 2006. The teens' platform has brought about our full coverage of the Hong Kong market in terms of Putonghua e-learning serving kids in primary schools, teens in secondary schools, young adults in tertiary institutions and working adults. Since its launch, the teens' platform has attracted more than 10 secondary schools paying an annual subscription fee of HK$8,000 each. The user base of kids' platform increased to 50 more schools. We also succeeded in selling our School-IVR rental service to one secondary school that uses it to improve school/parent communication using telephone.

The adult PTH won more reputable customers including HKSAR Government's Civil Service Bureau, Housing Society, Esquel Group, Tung Wah Group of Hospitals, Moores Rowland Mazars accounting firm and Chinese University. The Institute of Professional Education and Knowledge of Vocational Training Council continued to be a key partner in reselling the adult PTH to corporations.

We have begun to offer rental base IVR service to commercial sector and succeeded in conducting a 2-month service for a major fast food store in extending its web-based e-bidding promotional campaign to telephone users. The Office of Honorable Mandy Tam Heung-man, the legislative councilor subscribed to the IVR outbound service to help her collect public opinions through automatic telephone surveys.

The retail subscription of our EFAX has been growing steadily despite the number is still relatively small in Hong Kong while the China subscribers began to surface seeing the benefit of IDD saving to overseas countries. In order to make it more versatile, the SMS function was added to EFAX platform such that subscriber can use the platform to handle both fax and SMS communications. During recent holiday seasons, the SMS service jumped up in volume as companies used it to broadcast greeting and sales promotion messages. Packaging the EFAX and the outbound call IVR services, we promoted to corporations database e-marketing service using fax, SMS, outbound call and email. The gradual build-up of the value added messaging and marketing service business not only brought in steady income but also prospects for KanHan's other products and services.

**Outlook**

Year 2006 was a year of solid growth from our early strategic investment into the IVR and PTH business. We forecast the two businesses will grow more substantially in 2007 with the momentum propelled by the major customer references established in the past two years. The EFAX subscription business has begun to take shape evolving into a small but sustainable business. More importantly, the Internet based retail service business becomes an important marketing channel generating sales leads to HanPhone IVR business. Companies can acquire HanPhone and turn it into an IVR/EFAX/SMS customer service and marketing channel of their own.

We are particularly optimistic in the growth of the PTH business with the introduction of printable extension to primary and secondary schools. Instead of collecting a school based annual subscription fee, the printable version will be provided with a PTH teaching curriculum targeting the replacement of hard copy text books that students pay on individual basis. The new business model will at least triple the revenue than the school based subscription model once the e-book concept is accepted by a school. Our sales goal is to grow the number of school users to 150 in 2007 and 350 by 2008. We will also put in more sales efforts in promoting the HanPhone based School-IVR rental service introduced in 2006 with one school using it successfully in improving school/parent communication in the past 6 months. Schools will pay rental charge for the number of IVR lines hosted by KanHan for parents' access to the latest school/student information and voice mail to email service. The School-IVR platform will also serve as the interfacing vehicle for school subscription to our SMS and fax broadcast service.

HanWEB will continue to bring in a steady service income to KanHan in Hong Kong. Because of the 2008 Olympic in Beijing, we are hopeful more China government agent and department websites will require traditional Chinese interface to attract overseas Chinese visitors. HanWEB is well positioned for the increasing market demand as one of the two dominant software providing websites instant translations from simplified Chinese to traditional Chinese and therefore will be more aggressively recruiting resellers to promote the HanWEB business in China.

We will release a new version of Chinese JAWS supporting the latest Microsoft Windows and Software towards end of the year that will no doubt trigger more sales not just in Hong Kong but to Taiwan market. Through a local reseller, the Chinese JAWS has gradually been accepted by the Taiwan visually impaired users replacing the domestic brands of screener reader software. There are more than 1000 Braille display installations in Taiwan up for potential replacement in the coming 3 years.

The Group has always been active in seeking investment opportunities whether or not within the principal line of the company business so as to increase the value of the Group. At the date of this report, the Group has announced a major transaction in acquiring a fertilizer production company in China. We are of the opinions that the organic fertilizer production industry is a fast growing industry in view of the ongoing development of the agricultural industry in China and the increasing emphasis of environmental protection by the China government. The Directors consider that the proposal acquisition represents a good opportunity for the Group diversifying the existing business into a new line of business with significant growth potential while at the same time providing a solution to the plaguing environmental problem of treating organic wastes in China.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of operation

For the year ended 31 December 2006, the Group recorded a turnover amounted to HK$6,622,000 compared with approximately HK$4,472,000 last year, representing a substantial increase of approximately 48.1%. The increase was mainly derived from the surge of revenue generated from the sales of licensed software, which customarily the Group's principal source of revenue, achieved 89.7% growth to approximately HK$4,979,000 (2005: HK$2,624,000).

The gross profit margin was approximately 47.3% in 2006 as compared to 57.8% in 2005. The reduction in profit margin was primarily due to the increase in direct costs for sales of CJAWS.

During the year, other income mainly consisted of interest income from bank deposits of approximately HK$585,000 (2005: HK$27,000).

Selling and distribution expenses for the year ended 31 December 2006 increased by 12% to approximately HK$1,189,000 as compared to approximately HK$1,062,000 for the corresponding period last year. The increase was mainly attributable to the increase in commission expenses associated with the sales of licensed software.

Administrative expenses for the year ended 31 December 2006 amounted to HK$7,707,000 (2005: HK$5,389,000), representing an increase of 43%. The increase was mainly due to the recognition of equity-settled share base payment of approximately HK$2,314,000 (2005: HK$567,000) in respect of the share options granted during the year. Adjusted for this non-cash flow expense, the administrative expenses increased by 11.8% as a result of increase in professional expenses incurred for the business operations.

Consequently, the Group recorded a net loss attributable to shareholders of approximately HK$6,273,000 representing a 27.7% increase in loss as compared to HK$4,913,000 in previous year. Such increase was due to the decrease in profit margin and increase in expenses as mentioned above.

**Liquidity and Financial Resources**

As at 31 December 2006, the Group had current assets of approximately HK$27,407,000 (2005: HK$4,060,000). The current assets comprised of cash and bank balances of HK$22,707,000 (2005: HK$2,253,000) together with trade and other receivables of HK$4,638,000 (2005: HK$1,807,000). The Group's current liabilities comprised mainly trade and other payables of approximately HK$3,989,000 (2005: HK$2,305,000). The Group had no bank borrowings at 31 December 2006 (2005: Nil) but an outstanding loan granted by government of approximately HK$1,295,000 at 31 December 2006 (2005: HK$1,338,000). As at 31 December 2006, the Group had a current ratio of approximately 6.49:1 as compared to that of 1.64:1 at 31 December 2005.

During the year ended 31 December 2006, the Group's operation was mainly financed by its internal financial resources and the net proceeds from the rights issue.

As at 31 December 2006, the Group had no charges on its assets.

**Significant Investments and Acquisitions**

(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 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.

    Details of the proposed acquisition and its extension of long-stop date were set out in the announcements of the Company dated 15 May 2006 and 1 December 2006 respectively.

(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.

**Distributable Reserves**

As at 31 December 2006, the accumulated losses of the Company exceeded the aggregate of share premium and contributed surplus, thus the Company did not have any reserves available for distribution (2005: Nil).

**Foreign Exchange Risk**

As at 31 December 2006, the Group had no significant exposure to fluctuation in foreign exchange rate.

**Capital Structure**

As at 31 December 2005, the total issued share capital of the Company was HK$7,004,584 divided into 700,458,400 ordinary shares of HK$0.01 each. On 2 February 2006, 37,000,000 share options were exercised and 37,000,000 shares were issued and allotted.

On 28 February 2006, every five shares of HK$0.01 each in the issued and un-issued share capital of the Company were consolidated into one consolidated share of HK$0.05 each. The total issued share capital was consolidated into 147,491,680 shares.

On 30 March 2006, the Company completed to issue 442,475,040 new ordinary shares 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.

As at 31 December 2006, the total issued share capital of the Company was HK$29,498,336 divided into 589,966,720 ordinary shares of HK$0.05 each.

## Warrant Placing

On 28 August 2006, a conditional warrant placing agreement was entered into among the Company, Glory Force Limited (the "Subscriber") and Mr. Yip Yung Kan (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 warrant placing was completed on 14 September 2006 and 117,800,000 warrants had been issued to the Subscriber. The net proceeds from the warrant placing of approximately HK$1.47 million will be applied as general working capital of the Group. The warrants entitle the Subscriber to subscribe for 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.

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 of the view that the proceeds from the warrant placing 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.

Details of the warrant placing were set out in the announcements of the Company dated 30 August 2006 and 14 September 2006.

## Contingent Liabilities

As at 31 December 2006, the Group had no material contingent liabilities.

## Employee Information

As at 31 December 2006, the Group had 27 (2005: 24) full-time employees. Employee costs for the year 2006, excluding Directors' emoluments, amounted to HK$4,818,000 (2005: HK$3,687,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds were also provided. In addition, training and development courses were offered throughout the Group to upgrade employee skills and knowledge.

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

## Competing Interests

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders throughout the year ended 31 December 2006.

## CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2006.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprises three members, Mr. Kwok Chi Sun Vincent, Mr. Hsu Shiu Foo William and Mr. Lee Kun Hung, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun Vincent.

The Group's audited results for the year ended 31 December 2006 have been reviewed by the audit committee, which are of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By Order of the Board
**Ma She Shing, Albert**
*Chairman*

27 March 2007

*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 will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*